Pension Plan

Annual Report 2021

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CMHC SCHL

Our mission

The mission of the Canada Mortgage and Housing Corporation (CMHC) Pension Plan is to provide its members and beneficiaries with pension benefits in accordance with the provisions of the CMHC Pension Plan Rules. This is accomplished through efficient administration and prudent investment of the Pension Plan's assets to maximize returns while safeguarding assets.

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Message from the Chair

In 2021, CMHC celebrated 75 years of housing Canadians. This achievement wouldn't be possible without the dedication of current and past employees like yourselves. We recognize your contributions and we are committed to providing you with a competitive and sustainable defined benefits Pension Plan. As such, on behalf of the Trustees of the Pension Fund, it is my pleasure to present the Pension Plan Annual Report for 2021.

I am pleased to report that, as at December 31, 2021, your Pension Plan was fully funded on a going concern basis at 124.6%, as reported in the latest actuarial valuation. Economic uncertainty continued to be a factor in 2021 due to the ongoing COVID-19 pandemic. The first part of the year saw a strong recovery due to loosening restrictions and a global vaccination program, which was later tempered by global supply chain problems, the emergence of new COVID-19 variants and multi-decade high inflation. Despite this, your pension portfolio generated a return of 9.1% in 2021.

In 2021, we reviewed the Pension Fund's Strategic Asset Allocation, a key driver of Fund returns and contribution requirements that is reviewed every five years. This year, for the first time, we looked at it with a climate lens to ensure that we're managing risks to investments posed by climate change and investing in opportunities created by a transition to a lower carbon economy.

Each year, the Board of Directors determines the level of contributions required to sustain the Pension Plan in light of the Plan's financial position. In 2021, CMHC contributed 13.5% of total employee base salaries to the Plan, while employees contributed 10.5% of total employee base salaries.

As part of its annual review of the level of conditional indexation of benefits for post-2017 service, and based on the actuarial valuation results, the Board decided that, as at January 1, 2023, these benefits would be indexed at 100% of the increase in the Consumer Price Index.

In 2021, we continued to offer a series of webinars to help employees create plans to reach retirement and other financial goals. Your Pension Plan is designed to help you plan for retirement while also giving you the flexibility to make decisions you believe will best meet your financial needs. Under the Plan's governance framework, we make investment decisions to fulfil Plan obligations and prioritize the long-term interests of our 5,245 members.

Sound management of the Pension Plan is a team effort, especially in these uncertain times. As such, I would like to recognize the contributions of my fellow Trustees and the members of the Pension Plan Investment Committee, as well as the support provided by CMHC's Board of Directors, Executive Committee and staff.

You have played a key role in CMHC's 75 years of achievements – and we are committed to ensuring a healthy plan that you can count on.

Anne Giardini

Chair, Pension Fund Trustees

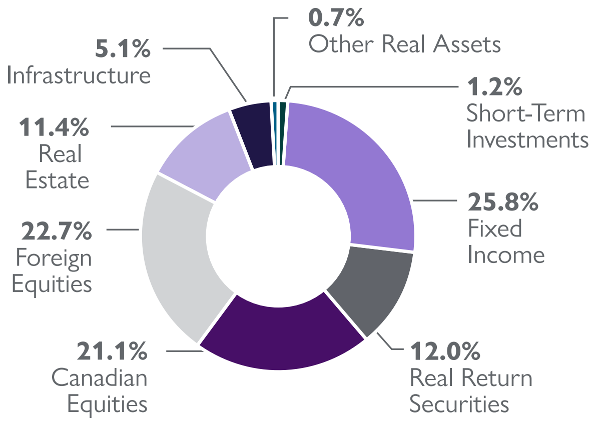
2021 Financial Highlights

$2,619 MILLION
Net assets available for benefits
(2020 - $2,404 million)

124.6%
Fully funded on a going-concern basis
(2020 – 107.7%)

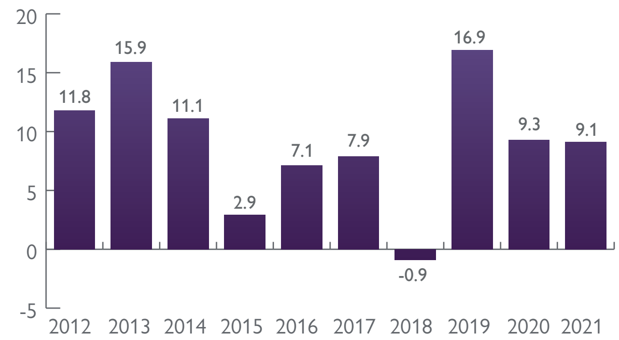
94.7%
Solvency ratio
(2020 – 88.4%)

ASSET MIX



RATE OF RETURN

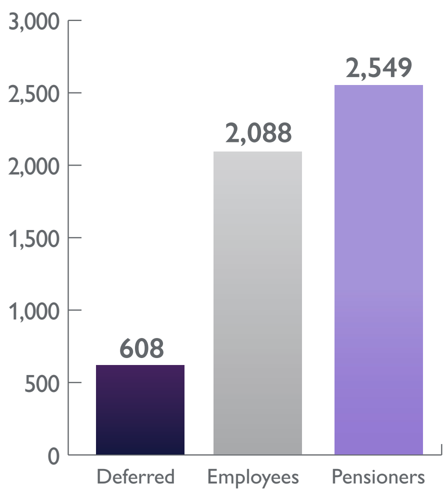
for the year ended December 31 (%)



Annualized rate of return (gross, nominal)
Four-year: 8.6% Ten-year: 9.1%

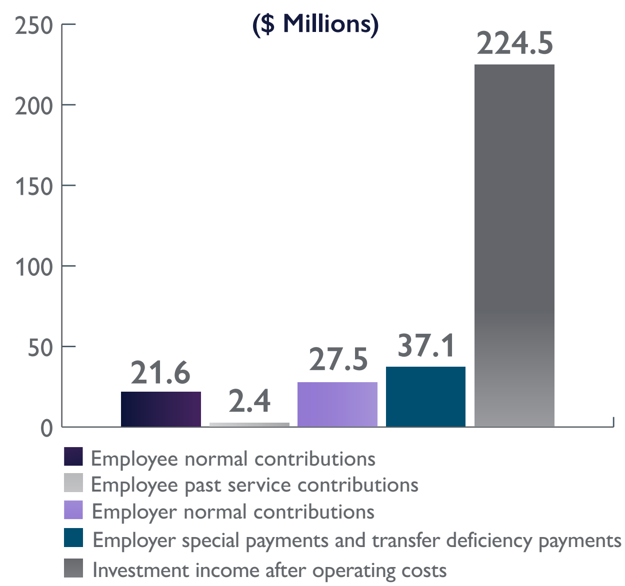
PLAN MEMBERSHIP

(Number of persons)



FUNDING MIX

($ Millions)



Your Plan

The CMHC Pension Plan ("the Plan") is a defined benefit pension plan. This means that retirement income from the Plan is calculated using a specific formula that takes into account earnings history, pension benefit options, age, credited service and benefit service. The Plan includes provisions, among others, on early retirement, unreduced pension, survivor benefits and indexation.

The Plan provides employees the opportunity to choose between two options. Option A provides a higher pension benefit at retirement but is subject to higher contribution rates than Option B. Option B provides lower benefits at retirement and is subject to lower contribution rates. Every year, members must elect the option they wish to participate in for the following year. If no election is made for existing members, the previous option elected is maintained. For new members, if no election is made, Option A is assigned to the member as the default option.

Pension benefits associated with service accrued prior to January 1, 2018, including deferred pensions, are automatically indexed in accordance with Plan rules, to help offset changes in the cost of living as measured by the Consumer Price Index (CPI) published by Statistics Canada.

Indexation of pension payments and deferred pensions associated with service accrued after December 31, 2017, is conditional. This means indexation on the portion of pensions accrued post-2017 is not guaranteed. It will only be applied depending on the financial health of the plan and at the discretion of the Board of Directors. Conditional indexation is a way for the employer and Plan members to share the risks of the Plan while ensuring its long-term financial health and sustainability.

On January 1, 2022, pensions were increased by:

- 2.4% (100% of the 2021 CPI) on pension benefits earned for pre-2018 service
- 1.03% (43% of the 2021 CPI) on pension benefits earned for post-2017 service

Contributions

In 2021, the employee contribution rate was:

Option A: 8.75% of earnings up to $61,600 (Yearly Maximum Pensionable Earnings or YMPE), and 11.50% of earnings above this level.

Option B: 6.00% up to the YMPE, and 8.75% of earnings above this level.

In total, employees contributed $24.0 million to the Plan. This included normal contributions of $21.6 million as well as past service contributions of $2.4 million.

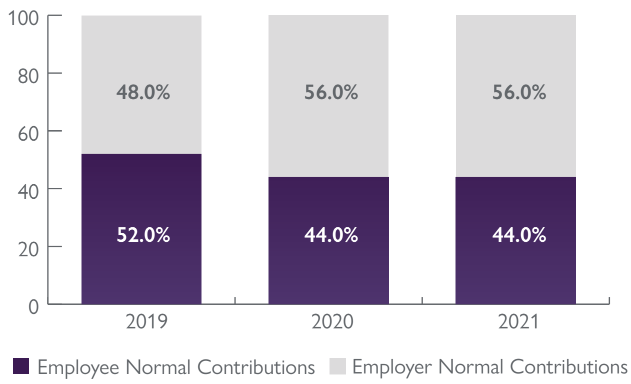
CMHC's total contributions to the Plan in 2021 were $64.6 million. This included full normal contributions of $27.5 million as well as solvency special payments of $37.1 million related to the solvency deficit reported by the actuarial valuation as at December 31, 2020.

Employee and Employer Contributions ($ millions)

	2017	2018	2019	2020	**2021**
Employee Normal Contributions	10.9	15.5	17.2	17.8	**21.6**
Employee Past Service Contributions	0.2	0.3	8.7	2.0	**2.4**
Employer Normal Contributions	16.1	22.4	15.8	22.7	**27.5**
Employer Special Payments	78.5	23.9	13.7	0.6	**37.1**

On an annual basis, CMHC reviews the level of employer and employee contributions to the Plan with regard to the financial status of the Plan. The goal is to maintain a 50:50 cost-sharing ratio between employer and employee as outlined by Government of Canada directive (P.C. 2014-1380) pursuant to Section 89 of the Financial Administration Act, to align Crown corporation pension plans with those available to federal employees.

Employee and Employer Normal Contributions Cost Sharing

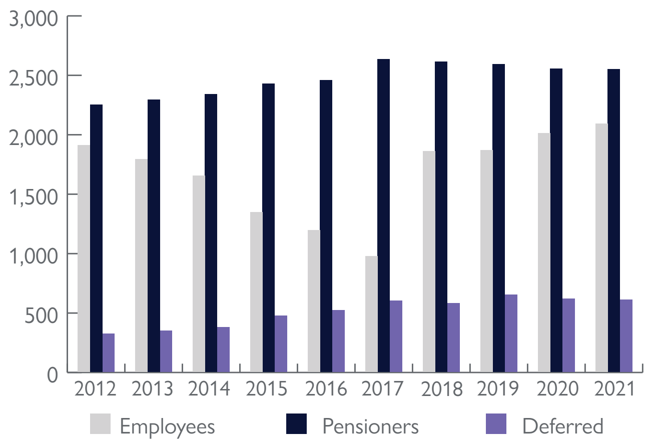


Based on the 2020 valuation, as of 1 January 2022, employee contribution rates increased in order to bring us closer to our goal of maintaining a 50:50 cost-sharing ratio. In March 2022, the Board approved the results of the actuarial valuation as at December 31, 2021, as well as the recommendations for employer contributions in 2022 and for future employee contributions. The actuarial valuation reported that the Plan was fully funded on a going concern basis, and CMHC intends to make full normal contributions in 2022. The valuation also reported that the Plan continues to have a deficit on a solvency basis, and CMHC is required to make special solvency payments to the Plan. As permitted under Section 9.16 of the *Pensions Benefits Standards Act 1985* (PBSA) and its Regulation, CMHC has received approval from the relevant Ministers to reduce its required solvency special payments.

Membership

At year-end, the Plan had 5,245 members including 2,088 active employees, 2,549 pensioners and beneficiaries, and 608 members with deferred vested benefits.

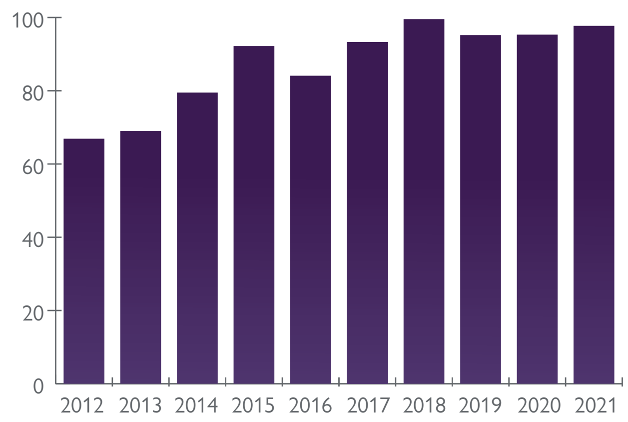
Plan Membership (Number of Persons)



Total Benefits Paid in 2021

A total of $98.3 million in pension benefits was paid to Plan members in 2021.

Benefits Paid and Net Contributions Transferred or Refunded ($ Millions)



General Information

Regulatory Authorities

As a federally registered pension plan, the CMHC Pension Plan is subject to the federal *Pension Benefits Standards Act*, 1985 (PBSA) and its regulations, and to the *Income Tax Act* (ITA). The Plan is registered with the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Revenue Agency (CRA). The Plan rules, as well as the Plan's funding and operations, must comply with the standards prescribed by the PBSA and ITA.

Communications

One of CMHC's key objectives is to promote increased awareness and understanding of the Plan and the benefits it provides, while facilitating opportunities for member feedback.

Aon, CMHC's Pension Plan administration provider, delivered lunch-and-learn sessions to present an overview of the Plan and the two pension benefit options in order to assist members in making an informed decision in preparation for the pension benefit election period.

Eckler, CMHC's provider of financial wellness education, has facilitated a series of webinars to give employees the information and tools they need on their path to financial wellness. The six webinars that were delivered in 2020 were repeated in 2021 with the addition of two new webinars.

These webinars are specifically designed to help employees learn how to prioritize their spending, create a plan for achieving their retirement and other financial goals, and learn ways to manage the financial impacts of unexpected life events. They are intended to be fun and interactive and provide opportunities to ask questions.

CMHC's other communication activities included the annual statement of pension benefits that is sent to each Plan member and the annual CMHC Pension Council meetings highlights.

Plan Documents

Information related to the Plan is available on CMHC's website, including a description of the governance of the Plan and key roles and responsibilities under its governance structure.

Additional information can be obtained by contacting the CMHC Pay and Benefits Centre at 1-800-465-9932 and following the instructions to be connected to Aon.

Plan Governance

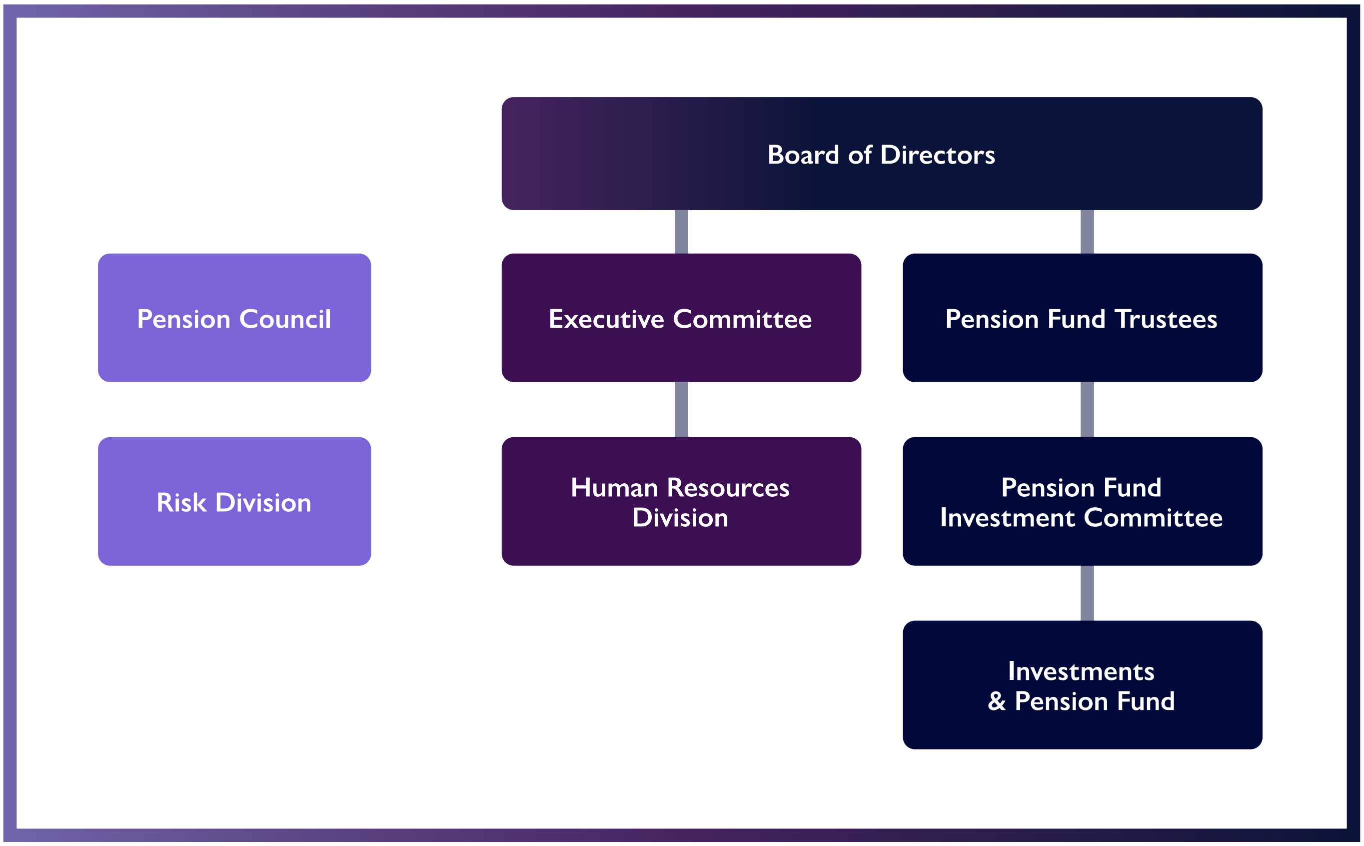
The concept of pension plan governance is commonly defined by pension authorities as the structures and processes for overseeing, managing and administering a pension plan to ensure all obligations of the Plan are met.

Good corporate governance is at the heart of all of CMHC's activities and successes and is included in the governance framework for the Pension Plan. A sound framework ensures that the ongoing obligations of the Pension Plan to its stakeholders can be met, with effective decision-making processes, prudent and efficient management of resources, and regular communication. The governance structure of the Plan is outlined below. More information regarding the roles and responsibilities of the key governance components of the Plan can be found in the Pension Governance section on CMHC's website.

The governance structure of CMHC's Pension Plan is as follows:

The Board of Directors established the Pension Fund to manage the assets of the Pension Plan and appointed the Pension Fund Trustees to oversee the management and administration of the Pension Fund. Our Risk Division provides independent oversight over the Pension Plan's risk and reports quarterly to the Board, Trustees and Investment Committee.

The Pension Council comprises elected employee and retired members of the Pension Plan. Its functions are to promote awareness and understanding of the Plan among members, and to receive information on the financial, actuarial and administrative aspects of the Plan annually.



Trustees of the CMHC Pension Plan

Pension Council

Pension Fund Investment Committee

Investments and Asset Performance

Investment Framework

The overall long-term investment objective of the fund maintained for the Pension Plan ("the Fund") is to achieve a total rate of return that will provide for pension benefit obligations with an acceptable level of volatility of expected contribution requirements. In pursuing this long-term objective, the Fund strives to maximize returns on investments within approved policies, which specify the limits and parameters within which risk may be taken.

The Statement of Investment Policies and Procedures (SIP&P) defines the investment framework of the Fund. The SIP&P established by the Trustees for the Fund sets out the policies necessary for the management and administration of the Fund. It includes further definition of permitted investments as well as requirements for diversifying investments and managing risks. The SIP&P also includes policies for measuring, monitoring, and reporting on the performance of the Fund.

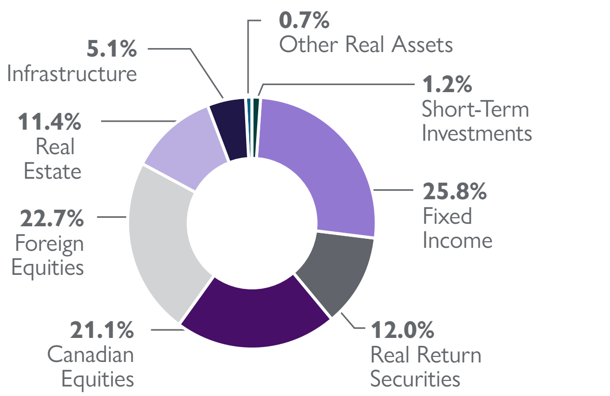
The SIP&P is reviewed annually and was last updated and approved by the Trustees in 2021.

The Fund's strategic asset allocation, recommended by the Trustees and approved by the Board, is a key driver of Fund returns and contribution requirements. The asset allocation is based on the principle of diversification of investments among various asset classes relative to the liabilities of the Plan and is reviewed at least every five years.

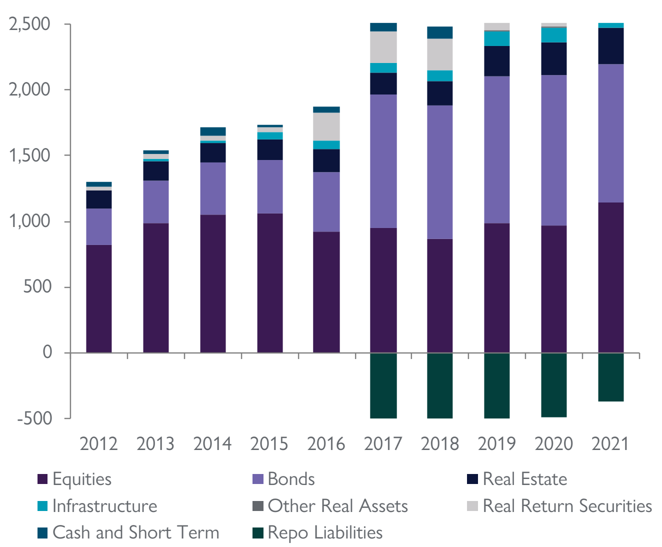
In 2021, the Board of Directors reviewed and approved a new strategic asset allocation policy, which we expect to fully adhere to by 2026.

The asset allocation policy has been established at 37% public equity investments (2020- 40%), 29% fixed income securities (2020-41%), 21% real estate and infrastructure (2020-19%), 5% private equity (2020- nil), 3% private debt (2020- nil), and 5% US dollar-denominated emerging market debt (2020- nil), on a net asset basis. The asset allocation policy includes a permissible range around these percentage weights.

Asset Mix



Net Assets of the Fund ($ Millions)



Risk Management

The risk parameters under which the Fund is managed are established by the Fund's Risk Appetite statement and asset allocation policy.

The Board of Directors' specific requirements for managing these risks are addressed by a range of established policies and practices.

More information relating to financial risks is provided in the notes to the financial statements.

Regular measurement and reporting of Fund performance is also vital. Processes are in place to monitor and evaluate the investment performance of the Fund (including performance measures for the overall Fund and for individual asset classes net of liabilities). An extensive set of risk and return indicators are used to measure the Fund's ongoing performance. The Investment Committee and Trustees review indicators of the Fund's performance as well as its compliance against investment and risk management policies.

Climate Change

The Financial Stability Board created the Task Force on Climate-related Financial Disclosures (TCFD) in 2015. In 2017, the TCFD published a climate-related risk management and disclosure framework including four main themes: Governance, Strategy, Risk Management, and Metrics and Targets. We voluntarily refer to the framework to help guide the structure and content of our climate-related disclosures.

Climate change carries risks for the Pension Plan, both in terms of physical risk and transition risk. Physical risk refers to the effect of uncertainties related to severe and frequent extreme weather events, as well as chronic changes to the environment due to climate change (e.g., temperature increase, sea level rise) on our financial performance. Transition risk refers to the effect of uncertainties associated with efforts to move to a low-carbon economy, including changes to current or future government policies, technological innovations, and/or consumer and investor preferences, and their impacts on our financial performance.

Our goal is to manage the risks facing the Pension Plan and to invest in opportunities created by the transition to a lower carbon economy. Although this work continues to evolve, we have not identified any resulting material impacts to our financial statements to date.

Governance

Although the Board has ultimate responsibility for oversight over a broad range of risks related to the Pension Plan, including climate risk, the primary role of providing oversight of the Pension Plan's climate-related risks and opportunities resides with the Trustees, Investment Committee and the Investment and Risk teams. The governance structure related to climate risks and opportunities continues to evolve, but includes the following key responsibilities:

The Pension Fund Trustees and Investment Committee:

- Oversee management of climate-related risks and opportunities
- Review the results of a climate risk assessment conducted once every three years
- Constructively challenge the investment team on environmental, social and governance matters in relation to the investment portfolio, and investment decisions
- Ensure that the practices and processes are in place to manage all risks, including climate risks
- Approve all investment strategies, including those intended to invest in opportunities created by the transition to a lower carbon economy

The Investment Team:

- Oversees day-to-day integration of climate related considerations into investment decision making
- Assesses and manages climate-related risks through asset allocation and through integration into the investment process
- Reports and highlights climate risk concerns and effects to the Trustees and Investment Committee
- Conducts a climate risk assessment once every three years
- Assesses and recommends for approval by the Trustees and Investment Committee investment opportunities created by the transition to a low-carbon economy

The Risk Team:

- Provides independent oversight over the Pension Plan's risks, including those related to climate
- Reports quarterly on the key risks to the Board, Trustees and Investment Committee

Strategy and Risk Management

The transition to a lower carbon economy and the related policy and technology transitions will impact sectors of the economy differently. We know that certain sectors will be adversely impacted by climate change, and we will seek to manage our exposures to those sectors. However, the transition to a low-carbon economy will also mean that other sectors will benefit from that transition, and we will seek investment opportunities in those sectors.

Similar to how we manage other risks, the initial step is to identify and assess the key risks related to climate change. We conducted a scenario-based climate risk assessment in 2020 to evaluate the impacts on the Pension Plan. The key conclusion of that study was that the Pension Fund is more susceptible to transition risk to a lower carbon economy, compared to the physical risks of climate change, particularly if the policy path to the Paris Climate Accord commitments is disorderly. Moreover, the study also concluded that the impact of a disorderly policy transition, and the resulting market repricing of policy risk and technological disruption, could be meaningful on the value of the portfolio, and was estimated to result in a 2% lower portfolio value over the next five years. While the estimate is based on several key assumptions in terms of the timing and progression of policy changes and the market impacts of those changes, in a low return environment, it is a significant risk that we are planning to mitigate.

We plan to manage those risks by:

- Incorporating climate considerations when constructing investment portfolios
- Integrating climate risk considerations into our investment decision making

To that end, we applied a climate lens for the first time to our strategic asset allocation review that was completed in 2021. Specifically, we considered climate among the key risks against which we evaluated the possible performance of various policy mixes that we considered. We analyzed performance under three different climate risk scenarios:

- Orderly Paris Accord Transition: smooth and orderly transition toward a low-carbon, climate-resilient economy in line with the goals of the Paris Climate Accord commitments
- Disorderly Paris Accord Transition: more severe financial impacts as a result of abrupt and disorderly pricing-in of climate risks to achieve the goals of the Paris Climate Accord commitments
- Failed Transition: severe physical impacts of not achieving the Paris Climate Accord commitments and global temperature increases well beyond 2 degrees Celsius

Based on our analysis, the possible impact of these scenarios on the new strategic asset allocation is as follows:

Impact on Annual Returns Relative to Baseline

	2021–2030	2021–2060
Orderly Paris Accord Transition	(0.2%)	(0.3%)
Disorderly Paris Accord Transition	(0.7%)	(0.3%)
Failed Transition	(0.3%)	(0.7%)

Since the main risk under the Disorderly Paris Accord Transition pathway is transition risk, the larger impact on asset return is during 2021–2030. Conversely, since the main risk under the Failed Transition pathway is physical risk, the larger impact on asset return is over a longer time horizon, namely 2021–2060.

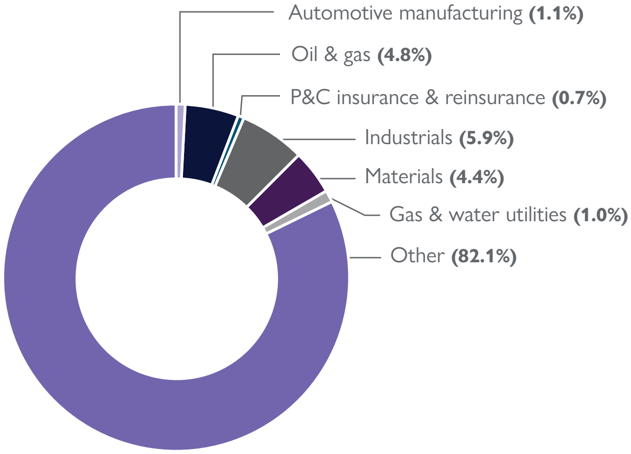
Metrics and Targets

Given that climate-related risks primarily impact the valuations of assets, we assess these risks by evaluating how they will affect investment returns and funding ratios. Refer to Strategy and Risk Management above for analysis performed on our new strategic asset allocation.

As another example of climate risk assessment, the chart below illustrates the exposure of our investment portfolio to sectors, some of which may be more vulnerable to climate risks; the "Other" category represents sectors that are less vulnerable to such risks, including government bonds.

We continue to monitor climate-related risks and opportunities and expect to develop more tools and metrics in the future to facilitate risk monitoring and mitigation, including developing processes to report on the carbon footprint of the investment portfolio in terms of greenhouse gas emissions.

Investment Portfolio by Sector



OSFI Consultation on Climate-Related Risks in the Financial Sector

On January 11, 2021, OSFI launched an industry consultation with a discussion paper, *Navigating Uncertainty in Climate Change: Promoting Preparedness and Resilience to Climate-Related Risks*. The discussion paper focuses on risks arising from climate change that can affect the safety and soundness of federally regulated financial institutions and federally regulated pension plans.

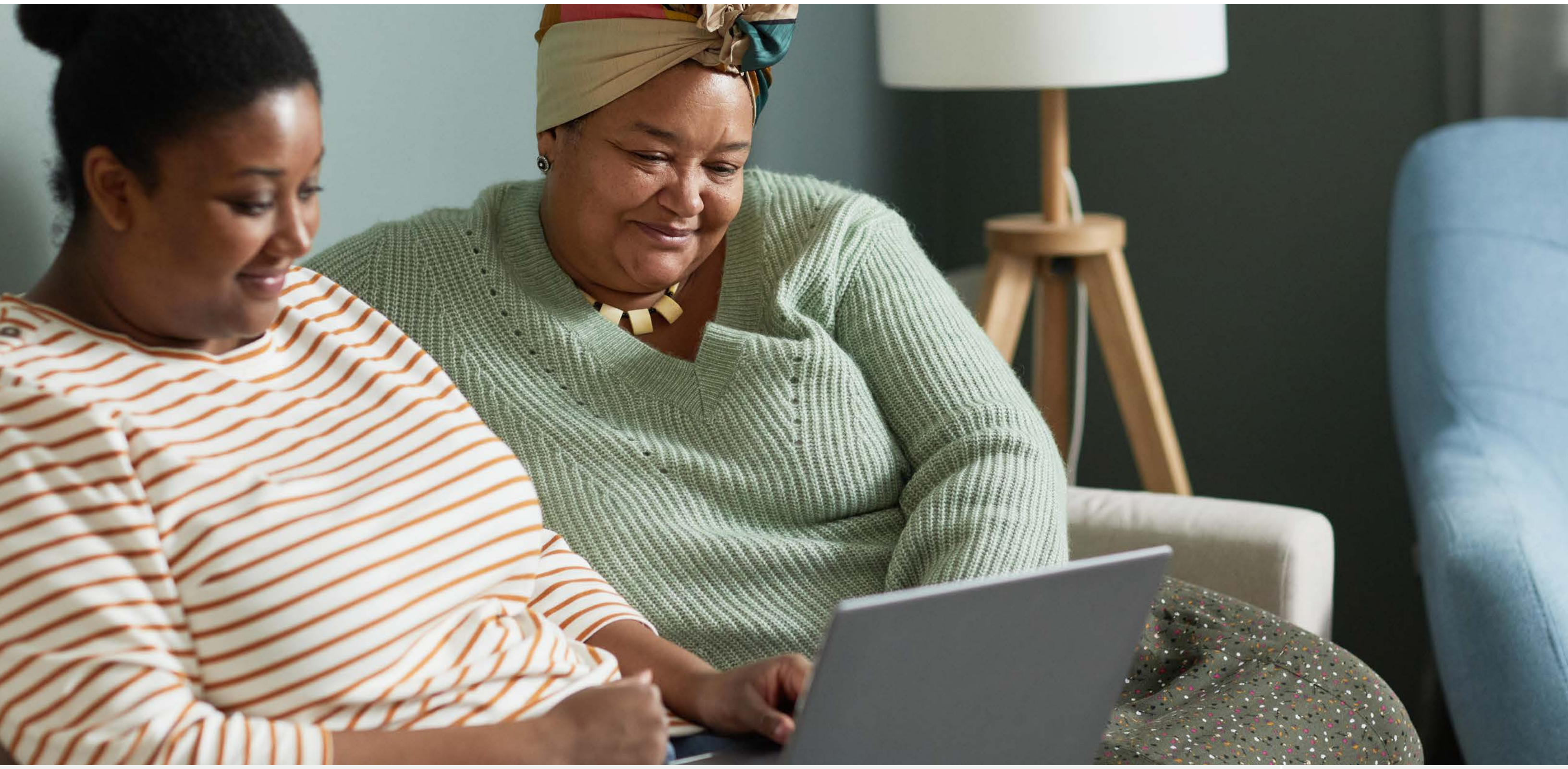
On October 12, 2021, OSFI issued a brief summary of the responses to the consultation. For federally regulated pension plans, OSFI will continue collaborating with the Canadian Association of Pension Supervisory Authorities to develop guidance on integrating environmental, social and governance factors in pension investment decisions where they are relevant to the financial performance of an investment. OSFI will assess the need for additional guidance thereafter.

Economic Environment

In 2021, global gross domestic product (GDP) is estimated to have grown by 5.9%, a rapid recovery following a decline in the preceding year. This growth reflected strong consumer demand supported by unprecedented fiscal and monetary stimulus, which began in 2020 and continued through to 2021. Early 2021 saw the rollback of COVID-19 restrictions and was followed by global vaccination programs, which spurred a further rebound in economic activity.

However, global supply chains struggled to keep pace with rapid recovery in demand, leading to supply shortages and rising prices. These issues were further exacerbated by new COVID-19 variants in the second half of 2021. In the latter part of the year, inflation reached a multi-decade high, leading many, including central banks, to question current monetary policies and to plan for interest rate increases in 2022. This led to a rally in bond yields and broadening downward equity market pressure in late 2021 and early 2022, particularly for riskier equities. In their World Economic Outlook for 2022, the International Monetary Fund (IMF) expects GDP to decelerate to 4.9%; however, the organization noted that the overall balance of risk for growth has tilted to the downside.

In early 2022, the escalating conflict between Ukraine and the Russian Federation has resulted in significant volatility and uncertainty in financial markets. The North Atlantic Treaty Organization (NATO), European Union (EU) and G7 member countries, including Canada, have imposed severe and coordinated sanctions against Russia. While we do not hold Ukraine or Russian Federation securities in our portfolio, the escalating conflict has impacted market volatility in the short term. The longer-term impact to geopolitical norms, supply chains and investment valuations is uncertain. We will closely monitor the situation and resulting impact on our future financial results.



Performance of the Fund

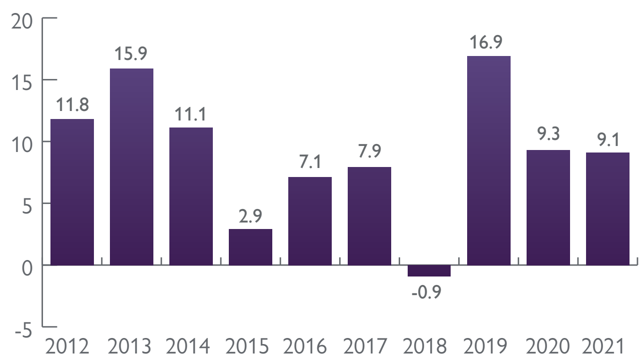
Internal investment managers actively manage the majority of the Fund's investments. Trustees also appoint external investment managers with a range of active and passive investment mandates. Portfolio managers are responsible for individual security selection within their mandates.

The Fund's net assets available for benefits at December 31, 2021 were $2,619 million, compared to $2,404 million at the end of 2020. The increase in net assets was mainly attributable to strong performance in the equity and real asset portfolios.

The Fund's performance is measured against a passive benchmark portfolio that is based on the strategic asset allocation. The total investment return for the Fund in 2021 was 9.1%, compared to its benchmark of 8.0%.

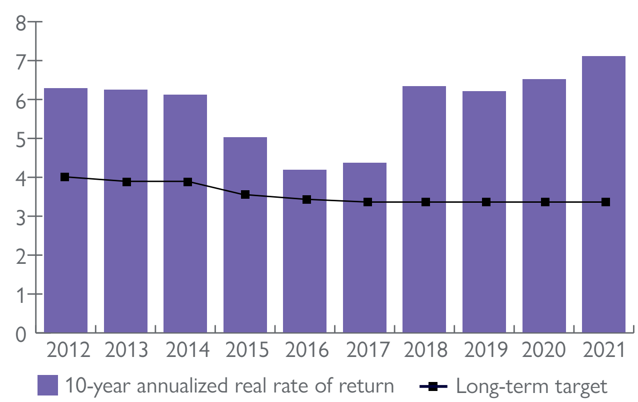
Over the past 10 years, the Fund's performance has exceeded its benchmark by about 0.4% on an annualized basis.

Rate of Return for the Year Ended December 31 (%)



The real rate of return is the nominal rate of return less inflation. The Fund's 10-year annualized real rate of return was 7.1%, which is higher than the long-term real rate of return objective and actuarial assumption of 3.2%.

Long-Term Real Rate of Return



Performance by Asset Class

The Fund is well-diversified with exposure to a broad range of asset classes. Each asset class is assigned a benchmark to measure the effectiveness of individual investment strategies, to carefully monitor investment activities, and to evaluate whether those objectives are being met.

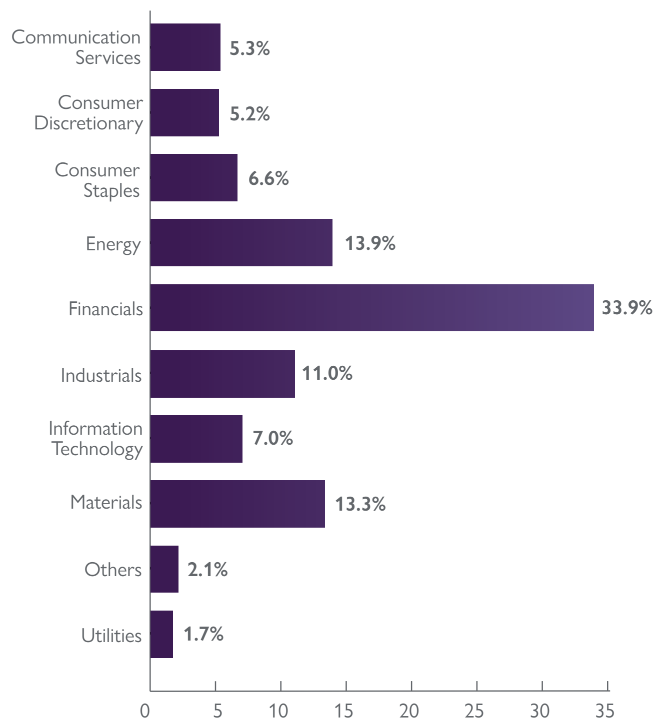
Canadian Equities

The investment managers invest in equities based on fundamental factors, striving to select companies with long-term growth potential and reasonable valuations. The portfolio is intended to be well balanced across sectors and provide predictable dividend distributions.

The portfolio generated a return of 28.2% in 2021 compared to the benchmark return of 25.1%. Canadian equities in the Fund posted double-digit returns across all sectors, with Energy being the best performer, followed by Financials and Consumer Discretionary. The first half of the year was strong for Canadian equities, with both quarters achieving high single digit returns. This performance was followed by a strong fourth quarter, leading to double-digit returns for the year.

The portfolio remains weighted toward companies with attractive and sustainable growth prospects. This allocation has benefited the portfolio's performance relative to the index over a long-term horizon.

Canadian Equities



Foreign Equities

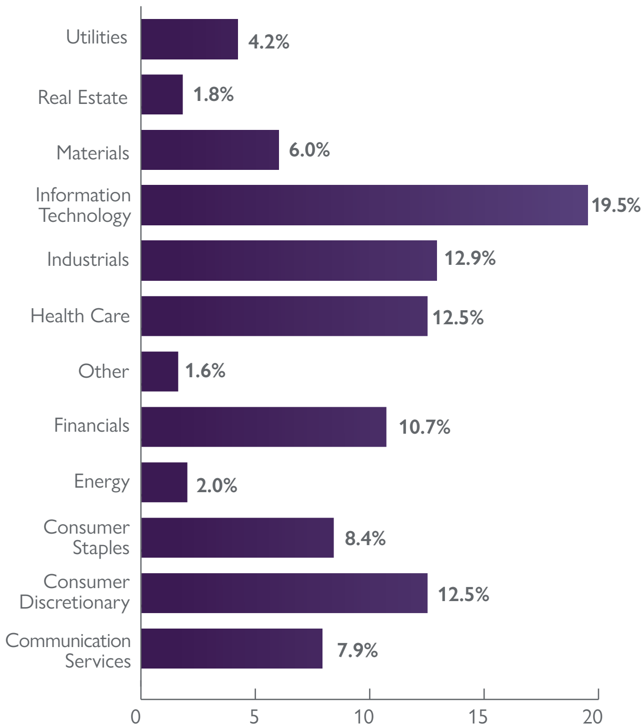
Foreign equities broaden exposures beyond what is available in the Canadian market. US equity investments are managed passively, while non-U.S. foreign equity investments are managed passively and actively.

Equity markets in general performed strongly in 2021, including international markets. The US equity portfolio returned 23.4% in 2021 compared to the benchmark of 23.8%.

The hedged return of the developed market Europe, Australasia and Far East (EAFE) was 12.6% in 2021 compared to the benchmark hedged return of 13.3%.

In 2021, the actively managed All Country World Index (ACWI) equity investment underperformed, primarily due to unfavourable stock selection and sector allocation. This investment returned 0.6% in 2021, compared to the benchmark return of 17.5%. The ACWI investment represents 2% of the Fund.

Foreign Equities



Real Estate, Infrastructure and Other Real Assets

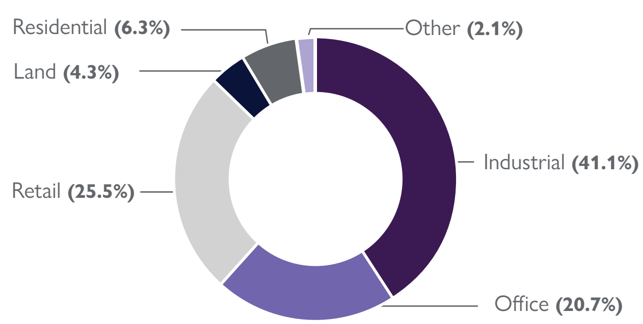
Portfolio managers invest in a portfolio of real estate assets, which are partially financed through mortgages. The process of selecting real estate investment opportunities involves analysis of markets, property locations, legal and financial implications, environmental conditions, climate risk and potential returns. Real estate holdings are diversified by commercial property type and geography.

The Fund continued to expand its allocation to global real estate and infrastructure investments in 2021 as additional opportunities arose. Infrastructure investments are considered after an extensive due diligence process and are largely focused on industries that operate within predictable regulatory environments and provide stable cash flows. Infrastructure investments are well diversified across markets and sectors.

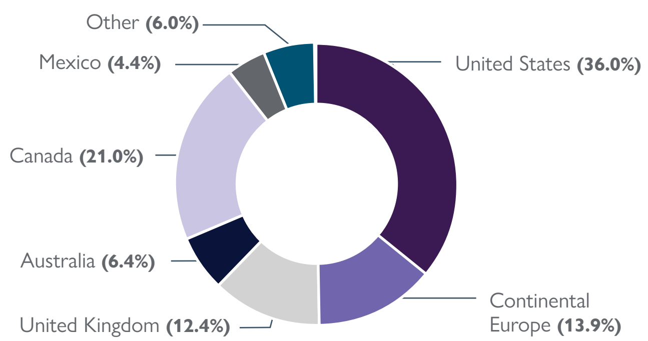
Other real assets include underlying investments and related activities where exposure to land, natural resources, and/or commodities is gained.

The real assets portfolio returned 11.4% in 2021 compared to the benchmark return of 4.5%. The outperformance can be significantly attributed to the real estate portfolio's exposure to the industrial sector, which is benefiting from the growing e-commerce demand.

Real Estate Investment by Sector



Infrastructure Geographic Location

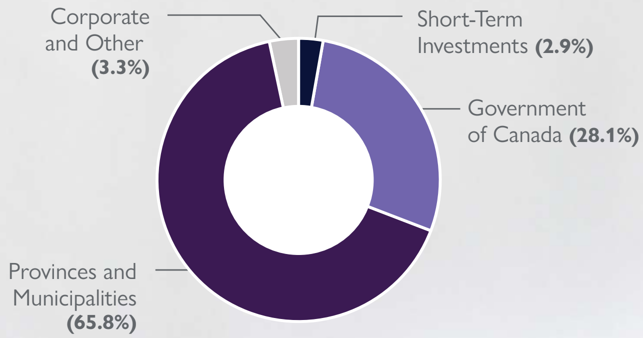


Fixed Income

The fixed income portfolio comprises nominal and real return bonds. Whereas a nominal bond pays a fixed coupon over time, real return bonds pay a coupon that is periodically adjusted for inflation and therefore provides better protection against the risk of inflation. The Fund's allocation to fixed income reduces overall portfolio volatility, provides investment income, and limits the interest rate risk inherent in the Plan's liabilities. The Fund invests in securities issued by the Government of Canada, Provincial governments and Canadian corporations.

The nominal universe, long bond government and real return portions of the Fund's fixed income portfolio returned -2.5%, -6.2% and 0.5% respectively, all relatively in line with their benchmarks

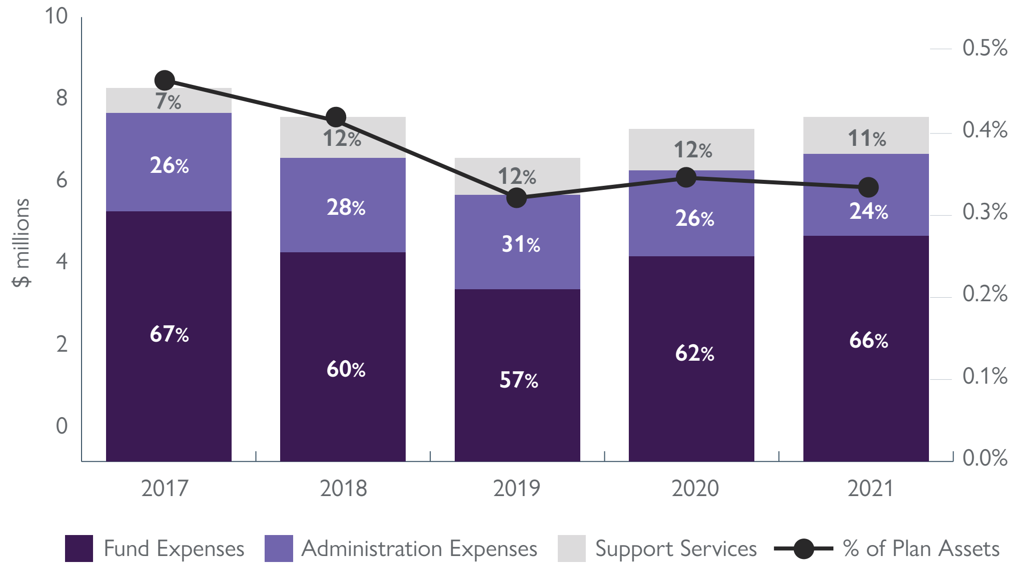
Fixed Income Nominal Bonds



Operations Management

Expenses as a percentage of total Plan assets remained consistent with the prior year.

Operating Expenses



Fund expenses include costs to manage the Fund's assets, which include internal salaries and investment management fees, support services include legal, finance and operating services, and administration expenses include pension plan administrative costs, such as third-party service providers and internal salaries. Our operating costs remain stable as a percentage of Plan assets from the prior year.

Employee and employer contributions play an important role in the funding of the Plan and add to the growth of the Plan's assets. In 2021, the total contributions to the Plan totaled $88.6 million (2020 - $43.1 million). The increase is primarily due to $36.2 million (2020 – nil) of solvency special payments made in 2021. The employer contribution rates are determined on the basis of our actuarial valuation results, with the goal of maintaining a 50:50 cost-sharing ratio.

A total of $98.3 million (2020 - $95.3 million) in pension benefits was paid to Plan members in 2021.

Actuarial Valuation

All federally registered pension plans are required to undertake an actuarial valuation annually for regulatory purposes unless the solvency ratio is greater than 120%. The principal purposes of an actuarial valuation include determining the financial position of a plan and providing the basis for contributions from the employer.

An independent external actuary completes an actuarial valuation that must meet stringent legislative standards. It addresses long-term demographic trends, retirement experience and a wide variety of other factors that are analyzed in depth to determine whether changes in the Plan's basic assumptions are needed. Management reviews the valuation report, which is then approved by the Board of Directors and filed with OSFI and CRA.

Any differences between actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan and the contributions required to fund it at that time.

The actuarial valuation focuses on two fundamental aspects of the funded status of CMHC's registered defined benefit plan: going concern and solvency. These measure the sufficiency of the Fund's assets to meet the Plan's liabilities from two different perspectives.

The going concern valuation assumes that the Plan continues indefinitely. This valuation uses the expected long-term investment return associated with the Fund's diversified mix of assets at the valuation date to value the Plan.

The solvency valuation assumes a hypothetical immediate termination of the Plan and that no further contributions are made. This valuation uses the interest rates prevailing at the valuation date to value the Plan based on an assumption that all assets are invested only in high quality fixed income-related investments.

The December 31, 2021 valuation reported that the Plan had a surplus on a going concern basis, with an actuarial surplus of $468 million and a going concern funded ratio of 124.6%. As at December 31, 2021, the actuarial value of net assets was $2,371 million, and the actuarial value of liabilities was $1,903 million.

As permitted by the PBSA, the actuarial value of assets used for the determination of the going concern funded position is determined through a method that smooths fluctuations in actual investment returns relative to expected investment returns over five years. The going concern funded ratio increased from last year's valuation as a result of a higher discount rate.

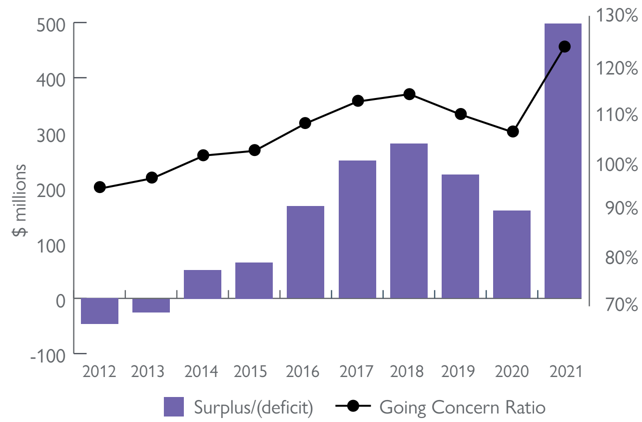
The funded position of the Plan on a going concern and solvency basis, as determined by the actuarial valuations filed with regulators, is shown in the charts.

The December 31, 2021 valuation also reported that the Plan continued to have a deficit on a solvency basis, with an actuarial deficit of $146 million and a solvency funded ratio of 94.7%. The solvency funded ratio improved from 2020 as a result of a higher discount rate and strong investment performance. The actuarial value of net assets in this valuation is based on the Fund's market value of net assets at December 31, 2021 and was $2,615 million (net of termination costs of $4 million). The actuarial value of liabilities on a solvency basis was $2,761 million.

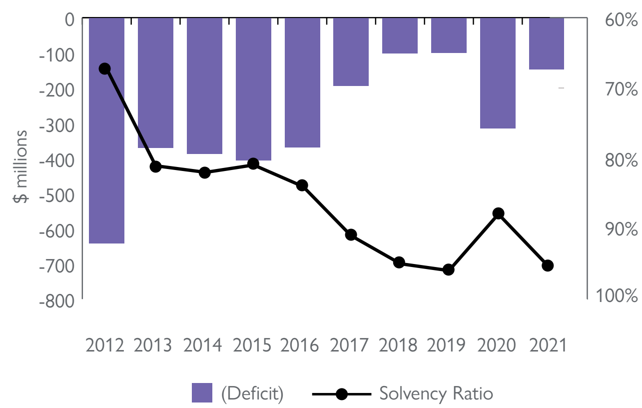
OSFI Instruction Guide on the Preparation of Actuarial Reports for Defined Benefit Pension Plans ("Revised Guide")

OSFI released its Revised Guide that will be applicable for actuarial valuations on and after December 31, 2021. The Revised Guide reflects revisions made to Section 2.7.4 on Alternative Settlement Methods (i.e. Replicating Portfolio). The revised guidance prescribes additional margins used in the valuation of the solvency liabilities for pension plans currently using the replicating portfolio approach. We have determined that the changes prescribed by OSFI do not have a material impact on the solvency liability of CMHC's Plan.

Net Actuarial Position on a Going Concern Basis



Net Actuarial Position on a Solvency Basis



Actuarial Opinion

Mercer (Canada) Limited was retained by Canada Mortgage and Housing Corporation to perform an actuarial valuation of the CMHC Pension Plan for purposes of determining the pension obligations of the Plan, and changes therein, for the year ended 31 December 2021, for inclusion in the Plan's financial statements prepared in accordance with Section 4600 of the Chartered Professional Accountant Handbook. The objective of the Plan's financial statements is to fairly present the financial position of the Plan as at 31 December 2021 on a going concern basis. The results of our valuation might not be appropriate for and should not be relied upon or used for any other purposes.

We have reviewed the net assets available for benefits as of 31 December 2021 for internal consistency and we have no reason to doubt its substantial accuracy. We have also tested the membership data received from CMHC for the year ended 31 December 2021 and found the results of these tests to be satisfactory.

To our knowledge, the actuarial valuation as at 31 December 2021 reflects the Plan's provisions at that date. The actuarial method prescribed by the Chartered Professional Accountant Handbook was used. The actuarial assumptions were selected by CMHC as their best long-term estimates of future events, in consultation with Mercer. Nonetheless, the future experience of the Plan will inevitably differ, perhaps significantly, from the assumptions and will result in gains or losses which will be revealed in future valuations.

In our opinion, the data on which the valuation is based is sufficient and reliable for the purposes of the valuation and the actuarial assumptions are in accordance with accepted actuarial practice in Canada.

Our valuation and related report were prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Mercer

Actuaries of the CMHC Pension Plan
Ottawa, Ontario
February 25, 2022

Pascal Berger, FCIA, FSA
Principal

Nicolas Lafontaine, FCIA, FSA
Senior Associate

Additional Information

Plan and Fund Administration

Human Resources

Sylvie Bourdon
General Counsel and VP, People and Culture

Investments and Pension

Mark Chamie
Vice-President, Investments and Treasury

Legal Advisor

Louise Michel
Director, Legal Services

Pension Consultant and Actuary

Mercer (Canada) Limited
Ottawa, Ontario

Auditors

Ernst & Young LLP
Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Ontario

Benefits Administrator

Aon Hewitt

For Answers to Your Pension Questions

For information regarding your pension, please contact the CMHC Pay and Benefits Centre at 1-800-465-9932 or visit the CMHC Pay and Benefits Centre Web Portal by typing the following address into your browser's address bar: https://cmhc-schl.penproplus.com/login

To Provide Feedback on This Report

The CMHC Pension Plan Annual Report provides all members with financial and operational information on the Plan and Fund. Your feedback on this Report would be welcomed. Please address your comments or suggestions to:

Senior Manager, Financial Reporting
Canada Mortgage and Housing Corporation
700 Montreal Road
Ottawa, ON K1A 0P7

Management's Responsibility For Financial Reporting

Year ended 31 December 2021

Management is responsible for the integrity and objectivity of the financial statements and related financial information presented in this Annual Report. The financial statements have been prepared in accordance with Canadian accounting standards for pension plans and, consequently, include amounts that are based on the best estimates and judgment of Management. The financial information contained elsewhere in this Annual Report is consistent with that in the financial statements.

In carrying out its responsibilities, Management maintains appropriate financial systems and related internal controls to provide reasonable assurance that financial information is reliable; assets are safeguarded; transactions are properly authorized and are in accordance with the relevant legislation and Government directives; resources are managed efficiently and economically; and operations are carried out effectively.

Pursuant to a Trust Agreement, the Board of Directors of Canada Mortgage and Housing Corporation (CMHC) has delegated the management and administration of the Pension Fund to the Trustees of CMHC's Pension Fund (the Trustees). The Trustees have approved these audited financial statements and the CMHC Board of Directors has approved this Annual Report. In addition, Mercer (Canada) Limited performs an actuarial valuation of the Pension Plan's assets and going-concern obligation in accordance with regulatory requirements.

Ernst & Young LLP has audited the financial statements in accordance with Canadian generally accepted auditing standards. The auditors have full access to the Trustees to discuss their audit and related matters.

Anne Giardini	Michel Tremblay, CPA, CA
Chair, Pension Fund Trustees	Chief Financial Officer & Senior Vice President, Corporate Services

Independent Auditor's Report

To the Trustees of Canada Mortgage and Housing Corporation Pension Fund

Opinion

We have audited the financial statements of the Canada Mortgage and Housing Corporation Pension Plan (the "Plan"), which comprise the statement of financial position as at 31 December 2021, and the statement of changes in net assets available for benefits and statement of changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the Plan as at 31 December 2021, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

— Evaluate the overall presentation, structure, and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants
Ottawa, Canada
March 17, 2022

Financial Statements

STATEMENT OF FINANCIAL POSITION

As at 31 December (in thousands of Canadian dollars)	**2021**	2020
ASSETS		
Investments *(note 3)*	**2,997,451**	2,900,506
Accrued interest and dividends receivable	**6,111**	4,291
Cash	**699**	138
Accounts receivable and other assets	**-**	287
	3,004,261	2,905,222
LIABILITIES		
Securities sold under repurchase agreements	**375,223**	489,458
Mortgages payable *(note 6)*	**8,536**	8,844
Accounts payable and accrued liabilities	**1,775**	3,013
	385,534	501,315
Commitments and contingent liabilities *(note 13)*		
NET ASSETS AVAILABLE FOR BENEFITS	**2,618,727**	2,403,907
PENSION OBLIGATIONS *(note 7)*	**1,902,747**	2,063,441
SURPLUS	**715,980**	340,466

The accompanying notes are an integral part of these financial statements.

On behalf of the Trustees:

Anne Giardini
Chair, Pension Fund Trustees

Romy Bowers
Trustee of the Pension Fund
President and Chief Executive Officer of CMHC

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended 31 December (in thousands of Canadian dollars)	**2021**	2020
NET ASSETS AVAILABLE FOR BENEFITS		
Beginning of year	**2,403,907**	2,254,931
INCREASE IN NET ASSETS		
Investment earnings *(note 4)*		
Change in fair value of investments	**153,132**	145,442
Investment income	**79,792**	63,784
	232,924	209,226
Contributions *(note 8)*		
Employer	**64,580**	23,295
Employees	**24,023**	19,835
	88,603	43,130
	321,527	252,356
DECREASE IN NET ASSETS		
Retirement benefit payments *(note 9)*	**87,418**	84,417
Termination benefit payments	**10,899**	10,903
Operating expenses *(note 10)*	**8,390**	8,060
	106,707	103,380
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	**214,820**	148,976
NET ASSETS AVAILABLE FOR BENEFITS		
End of year	**2,618,727**	2,403,907

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended 31 December (in thousands of Canadian dollars)	**2021**	2020
Pension obligations, beginning of year	**2,063,441**	1,910,491
Increase (decrease) in pension obligations		
Interest accrued on benefits	**88,798**	90,484
Changes in actuarial assumptions (gain) loss	**(220,688)**	129,160
Benefits accrued	**54,090**	44,496
Retirement benefit payments *(note 9)*	**(87,418)**	(84,417)
Termination benefit payments	**(10,899)**	(10,903)
Experience (gain) loss	**15,423**	(15,870)
Net increase (decrease) in pension obligations	**(160,694)**	152,950
Total pension obligations, end of year *(note 7)*	**1,902,747**	2,063,441

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

Year ended 31 December 2021

1.DESCRIPTION OF PLAN

a) General

The Canada Mortgage and Housing Corporation Pension Plan (the Plan or the Fund) is a compulsory contributory pension plan for all employees who satisfy certain eligibility conditions. Under the Plan, contributions are made by Plan members and the Plan Sponsor, Canada Mortgage and Housing Corporation (CMHC or the Corporation). The Plan's registration number with the Office of the Superintendent of Financial Institutions (OSFI) is 55086 and it is subject to the *Pension Benefits Standards Act, 1985* (PBSA).

b) Benefits

The following is a summary of the Plan as at 31 December 2021. For more complete information, reference should be made to the Pension Plan Rules.

Under the Pension Plan Rules, pension benefits are determined by a formula based on a percentage of the average salary of the member's best five consecutive years multiplied by the number of years of benefit service. The pension is payable at the normal retirement date of a member or at an earlier date allowing for certain early retirement provisions in accordance with the Pension Plan Rules. The Plan provides survivor benefits for a member's eligible spouse or common-law partner. For service accrued before 1 January 2018, benefits are indexed to the Consumer Price Index (CPI) in accordance with the Pension Plan rules. For service accrued on or after 1 January 2018, indexation of the benefits to the CPI are conditional in accordance with the Pension Plan Rules and approval from the Board of Directors. Benefits are integrated with the Quebec/Canada Pension Plan from age 65.

c) Funding policy

The PBSA and its regulations require an actuarial valuation to be performed annually, unless the solvency ratio is greater than 120%, to estimate the Plan's surplus or deficit on a going-concern and solvency basis. These valuations are prepared in line with the *Standards of Practice – Pension Plans* as prescribed by the Canadian Institute of Actuaries. The PBSA requires that the Pension Plan be funded in accordance with the actuarial valuation prepared by the designated actuary. The PBSA also requires the Plan Sponsor, CMHC, to pay into the Plan all amounts required to meet the prescribed tests and standards for solvency.

Plan benefits are funded through a combination of contributions and investment returns. Contributions are required from both the Corporation and the employee. The Plan's funding policy is reviewed every three years and aims to ensure the long-term financial health of the Plan and sustain funding at a level that is adequate to provide for member benefits. Contribution rates are established through actuarial funding valuations to determine the funded position of the Plan. Employees who are members of the Plan are required to contribute a percentage of their pensionable earnings to the Plan at rates set by the Board of Directors. Employee contribution rates for each of the Plan's options are periodically updated to maintain a 50:50 cost sharing of the Plan's current service cost between employees and the Corporation.

Employee contribution rates to the Plan are as follows:

	2021[1]	
Contribution rates by members	**Salary up to YMPE[2]**	**Salary above the YMPE[2]**
Option A	8.75%	11.50%
Option B	6.00%	8.75%

[1] *For option A, rates increased by 1.00% and 1.25%, from prior year, for salaries up to the yearly maximum pensionable earnings (YMPE) and salaries above YMPE respectively. For option B, rates increased by 0.75% and 1.00%, from prior year, for salaries up to YMPE and salaries above YMPE, respectively.*

[2] *YMPE was $61,600 in 2021 and $58,700 in 2020.*

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements have been prepared on a going concern basis in accordance with the Canadian accounting standards for pension plans as set out in Section 4600, *Pension Plans* (Section 4600), in Part IV of the *CPA Canada Handbook – Accounting*, which prescribes accounting policies specific to pension plans including investments and pension obligations. These financial statements present the information of the Plan as a separate reporting entity independent of the Plan Sponsor and Plan members.

For accounting policies that do not relate to investments or pension obligations, International Financial Reporting Standards (IFRS) are applied. To the extent that IFRS is inconsistent with Section 4600, Section 4600 takes precedence.

In accordance with Section 4600, investments, including those in which the Plan has a controlling interest, are presented on a non-consolidated basis.

The objective of these financial statements is to assist Plan members and other users in reviewing the activities of the Plan or the benefit security of an individual Plan member's benefits. The financial statements do not purport to reflect the financial status of the Plan if terminated on the date of the financial statements, the funding requirements of the Plan, or the pension expense that should be included in the financial statements of the Plan Sponsor. Because the financial statements pertain to the Plan as a whole, they provide no information about the portion of assets attributable to any individual member or group of members.

b) Accounting estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements, the reported amounts of changes in net assets available for benefits during the year and the reported amount of the actuarial present value of accrued pension benefits and net assets available for benefits at the date of the financial statements. These estimates are based on management's best knowledge of current events and actions that the Plan may undertake in the future. Significant judgment, estimates and assumptions are used primarily in the valuation of real assets (Note 3) and in the calculation of the pension obligations (Note 7).

The COVID-19 pandemic continues to affect economies globally, and its impacts on the Plan's financial results have become clearer. This has reduced the uncertainty with respect to making judgments and the assumptions used in making estimates, as well as their impact on the Plan's financial results. Except for the valuation of real assets and in the calculation of the pension obligations, there are no impacts to the financial statements due to COVID-19.

c) Investments

Investments consist of short-term investments, bonds and debentures, real return securities, equities, foreign currency forward contracts, real estate, infrastructure and other real assets.

Valuation of investments

Purchases and sales of investments are recorded on the settlement date. Investments are measured at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions.

The following describes how the fair value of investments is determined:

i. Short-term investments consist of bankers' acceptances and Government of Canada Treasury Bills and are valued based on quoted market yields.

ii. Bonds, debentures and real return securities are valued based on a third-party pricing provider, which uses market data from a variety of sources. Actively traded instruments are valued based on market data such as indicative quotes or trade prices for identical securities. Instruments that are not sufficiently actively traded are valued based on techniques using other observable inputs, such as spread differentials of similar actively traded securities.

iii. Canadian equities' fair values are based on closing bid price quotes from active markets. United States (U.S.) and other foreign equities are held through the investment funds. The fair value of these funds is the net asset value per unit, as reported by the investment fund managers. The net asset value is calculated based on the quoted market prices of the Fund's assets less the Fund's liabilities, divided by the total number of outstanding units.

iv. Foreign currency forward contracts, which the Fund enters into to manage its exposure to foreign currencies, are valued by discounting estimated future cash flows using observable discount rate curves constructed using foreign exchange and interest rates.

v. Real estate comprises direct investments in real estate (properties held to earn rental income or for capital appreciation, or both), investments in wholly owned real estate corporations established under Section 149 of the *Income Tax Act*, and investments in real estate pooled funds. Direct investments in real estate are valued at estimated fair values based on independent appraisals completed at least once every three years plus net working capital. Investments in pooled funds are valued at year-end net asset values, as provided by the investment fund managers.

vi. Infrastructure and other real assets comprise investments in infrastructure and other real asset funds, respectively. The fair value is the net asset value reported by the investment fund managers. The net asset value is based on independent appraisals of the underlying infrastructure, infrastructure-related assets and other real assets held by these funds

Investment earnings

Investment earnings consist of changes in the fair value of investments and investment income.

The change in the fair value of investments comprises unrealized gains and losses from changes in fair value in the period, including appraisal adjustments on real estate valuations, as well as realized gains and losses on the sale of investments.

Investment income is recorded on an accrual basis. Interest income is recognized using the effective interest method. Infrastructure fund income represents cash distribution entitlements of the Fund, and real estate income represents net rental revenue after expenses. Dividend income is recognized on the ex-dividend date when the right to the dividend is established.

Investment transaction costs

Transaction costs, which are incremental costs incurred on the purchase and sale of investments, are expensed as incurred in operating expenses.

d) Short-term assets and liabilities

Due to their short-term nature, cash, contributions receivable, accounts receivable, accrued interest and dividends receivable, and accounts payable and accrued liabilities are measured at cost, which approximates fair value.

e) Securities sold under repurchase agreements

Repurchase agreements consist of the sale of securities with the commitment to repurchase the securities from the original buyer at a specified price and future date in the near term. These are measured at fair value. Proceeds received from these agreements are generally invested in short-term investments.

f) Mortgages payable

Mortgages are measured at amortized cost, which approximates fair value. Mortgages associated with real estate are made at commercial mortgage rates.

g) Pension obligations

Pension obligations for the Plan are determined based on an actuarial valuation for funding purposes prepared by an independent firm of actuaries. The valuation is prepared in accordance with regulatory requirements and uses management's best estimate assumptions.

h) Contributions

Contributions for current service are recorded in the year in which the related services are performed. Contributions for past service and special payments are recorded in the year they are made. Transfer deficiency payments are recorded in the year to which they relate.

i) Benefits paid

Benefits are recorded in the period in which they are paid. Benefit payments that are due as at year-end are recorded in accounts payable and accrued liabilities.

j) Foreign currency translation

Foreign currency transactions are translated into Canadian dollars at the rate of exchange prevailing at the dates of the transactions. The fair values of the investments and cash balances denominated in foreign currencies are translated at the rates in effect at year-end. The realized and unrealized gains and losses arising from these translations are included in the change in fair value of investments.

k) Current and future changes in accounting policies

Amendments to International Accounting Standard (IAS) 1 Presentation of financial statements, IFRS Practice Statement 2 Making Materiality Judgements, and IAS 8 Accounting policies, changes in accounting estimates and errors – effective date of 1 January 2023.

In February 2021, the IASB issued amendments to IAS 1, IFRS Practice Statement 2 and IAS 8 to improve accounting policy disclosures and clarify the distinction between a change in accounting policy and a change in accounting estimates.

Under the amended IAS 1, entities will disclose their material accounting policies rather than their significant accounting policies. IAS 1 will provide guidance on how to identify material accounting policies stating that an accounting policy is considered material if, when combined with other information within the financial statements, it can reasonably be expected to influence the decisions of the primary users of the financial statements. IFRS Practice Statement 2 has been amended to include guidance on how to apply materiality to accounting policy disclosures. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted, and are applied prospectively. We intend to apply the amendments to IFRS Practice Statement 2, which do not contain an effective date, at the same time as IAS 1.

Under the amended IAS 8, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty." The amendment also clarifies that a change in an accounting estimate as a result of new information or developments is not a correction of an error. The amendments to IAS 8 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted, and are applied prospectively.

We have not yet determined the full impact of these amended standards on the Plan's financial statements.

3. INVESTMENTS

a) General

The following table shows the cost and fair value of the Fund's investments.

	2021		2020	
(in thousands)	Cost[1]	Fair value	Cost[1]	Fair value
Liability hedging assets				
Fixed income				
Short-term investments	**31,685**	**31,683**	68,162	68,156
Bonds and debentures				
Government of Canada	**303,310**	**303,767**	270,601	279,408
Provinces/municipalities	**698,955**	**710,476**	787,260	833,211
Corporate/other	**37,153**	**35,140**	36,944	36,738
Total bonds and debentures	**1,039,418**	**1,049,383**	1,094,805	1,149,357
Real return securities	**248,639**	**314,174**	244,224	310,119
	1,319,742	**1,395,240**	1,407,191	1,527,632
Growth assets				
Equity				
Canadian	**249,369**	**552,143**	226,837	443,523
U.S.	**222,877**	**321,532**	213,555	269,255
Other foreign[2]	**288,143**	**272,028**	268,198	251,090
Total equity	**760,389**	**1,145,703**	708,590	963,868
Real assets				
Real estate[3]	**197,147**	**305,849**	195,240	284,840
Infrastructure[2]	**116,843**	**132,304**	102,152	111,735
Other	**16,080**	**18,355**	11,659	12,431
Total real assets	**330,070**	**456,508**	309,051	409,006
	1,090,459	**1,602,211**	1,017,641	1,372,874
Total	**2,410,201**	**2,997,451**	2,424,832	2,900,506

[1] *Represents amortized cost for fixed income.*

[2] *Other foreign equity and infrastructure include foreign currency forward contracts with negative fair values of $0.4 million and $0.5 million, respectively (2020 – positive fair values of $0.1 million and $1.1 million, respectively).*

[3] *Real estate includes $103.6 million held by the Fund's subsidiaries (2020 – $103.1 million), which is reported net of the subsidiaries' mortgage liabilities of $87.4 million (2020 – $99.6 million) and net working capital of $0.1 million (2020 – $0.2 million).*

The Fund has investments of $389.9 million (2020 – $493.7 million), included in bonds and debentures in the table above, that are part of securities sold under repurchase agreements. The Fund continues to earn investment income and recognize changes in fair value on these investments in the statement of changes in net assets available for benefits.

b) Fair value hierarchy

Investments recorded at fair value are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements:

— Level 1:
Assets and liabilities that are measured based on unadjusted quoted prices in active markets for identical assets or liabilities.

— Level 2:
Assets and liabilities that are measured based on observable inputs other than Level 1 prices. Level 2 inputs include prices obtained from markets that are not considered sufficiently active, and fair values obtained by discounting expected future cash flows, making maximum use of directly or indirectly observable market data.

— Level 3:
Assets and liabilities not quoted in active markets that are measured using valuation techniques. Where observable inputs are not available, unobservable inputs are used. For Level 3 assets and liabilities, unobservable inputs are significant to the overall measurement of fair value.

The following table presents the fair value hierarchy for the Fund's investments.

	2021				2020			
(in thousands)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Liability hedging assets								
Fixed income								
Short-term investments	**-**	**31,683**	**-**	**31,683**	16,104	52,052	-	68,156
Bonds and debentures								
Government of Canada	**273,957**	**29,810**	**-**	**303,767**	278,461	947	-	279,408
Provinces/municipalities	**636,351**	**74,125**	**-**	**710,476**	778,684	54,527	-	833,211
Corporate/other	**1,827**	**33,313**	**-**	**35,140**	688	36,050	-	36,738
Total bonds and debentures	**912,135**	**137,248**	**-**	**1,049,383**	1,057,833	91,524	-	1,149,357
Real return securities	**28,658**	**285,516**	**-**	**314,174**	301,471	8,648	-	310,119
	940,793	**454,447**	**-**	**1,395,240**	1,375,408	152,224	-	1,527,632
Growth assets								
Equity								
Canadian	**552,143**	**-**	**-**	**552,143**	443,523	-	-	443,523
U.S.	**321,532**	**-**	**-**	**321,532**	269,255	-	-	269,255
Other foreign	**272,448**	**(420)**	**-**	**272,028**	250,980	110	-	251,090
Total equity	**1,146,123**	**(420)**	**-**	**1,145,703**	963,758	110	-	963,868
Real assets								
Real estate	**-**	**-**	**305,849**	**305,849**	-	-	284,840	284,840
Infrastructure	**-**	**(463)**	**132,767**	**132,304**	-	1,112	110,623	111,735
Other	**-**	**-**	**18,355**	**18,355**	-	-	12,431	12,431
Total real assets	**-**	**(463)**	**456,971**	**456,508**	-	1,112	407,894	409,006
	1,146,123	**(883)**	**456,971**	**1,602,211**	963,758	1,222	407,894	1,372,874
Total	**2,086,916**	**453,564**	**456,971**	**2,997,451**	2,339,166	153,446	407,894	2,900,506

Transfers between fair value hierarchy levels

For assets and liabilities measured at fair value in the financial statements, the Fund determines whether transfers have occurred between levels in the hierarchy by reassessing categorization at the end of each reporting period. Transfers are dependent on internal classification criteria that are based on variables such as observability of prices and market trading volumes considered as at each balance sheet date. Transfers between levels are deemed to occur at the beginning of the year in which the transfer occurs. During the year, the Fund reclassified no securities from Level 2 to Level 1 (2020 – $507.0 million) and $284.7 million of securities from Level 1 to Level 2 (2020 – nil). The decrease in transfers for 2021 is mainly the result of an increase in the number of days included in our analysis of market trading volumes. We are now using an average of market trading volumes in the final month of each period instead of only in the final trading day of each period.

The following table presents the change in the fair value of Level 3 investments:

(in thousands)	Real estate	Infrastructure	Other	Total
2021				
Fair value as at 1 January 2021	**284,840**	**110,623**	**12,431**	**407,894**
Additions	**28,293**	**16,130**	**5,516**	**49,939**
Disposals	**(34,956)**	**(254)**	**-**	**(35,210)**
Realized and unrealized gains[1]	**27,672**	**6,268**	**408**	**34,348**
Fair value as at 31 December 2021	**305,849**	**132,767**	**18,355**	**456,971**
2020				
Fair value as at 1 January 2020	263,200	108,624	9,979	381,803
Additions	40,085	3,862	809	44,756
Disposals	(13,593)	(311)	-	(13,904)
Realized and unrealized gains (losses)[1]	(4,852)	(1,552)	1,643	(4,761)
Fair value as at 31 December 2020	284,840	110,623	12,431	407,894

[1] *Included in change in fair value of investments on the statement of changes in net assets available for benefits.*

Level 3 unobservable inputs and sensitivity analysis

Level 3 investments include real estate, infrastructure and other real assets. For these investments, trading activity is infrequent and fair values are based on independent appraisals that consider comparable transactions and/or discounted cash flow. The valuations include significant inputs such as occupancy rates, capitalization rates and discount rates that are unobservable and may significantly affect the measurement of fair value. The valuations were based on the independent appraisers' assessments of the prevailing conditions as at 31 December 2021, which may change materially in subsequent periods.

The only significant unobservable inputs used in these valuations that are reasonably available are capitalization rates on direct real estate investments. At 31 December 2021, these investments had a fair value of $230.3 million (2020 – $218.5 million) and their capitalization rates ranged from 4.7% to 10.0% (2020 – 5.3% to 10.0%).

Significant increases (decreases) in inputs such as occupancy rates could result in significantly higher (lower) fair values. Significant increases (decreases) in inputs such as discount rates and capitalization rates could result in significantly lower (higher) fair values.

The fair value of investments in real assets through investment funds is based on the net asset values reported by the investment fund managers. In determining net asset values, fund managers obtain independent appraisals of the individual real assets.

4. INVESTMENT EARNINGS

The following is a summary of investment earnings (losses) for the Fund by asset class:

	2021			2020		
(in thousands)	Change in fair value[1]	Investment income	Total	Change in fair value[1]	Investment income	Total
Liability hedging assets						
Fixed income						
Short-term investments	9	265	274	(2)	698	696
Bonds and debentures	(57,574)	24,005	(33,569)	96,052	25,984	122,036
Real return securities	91	1,909	2,000	44,579	1,810	46,389
	(57,474)	26,179	(31,295)	140,629	28,492	169,121
Interest expense on repurchase agreements	-	(1,130)	(1,130)	-	(3,988)	(3,988)
	(57,474)	25,049	(32,425)	140,629	24,504	165,133
Growth assets						
Equity						
Canadian	108,575	15,098	123,673	(8,704)	14,266	5,562
U.S.	49,573	4,045	53,618	20,108	5,070	25,178
Other foreign	23,237	6,955	30,192	(3,558)	5,918	2,360
Total equity	181,385	26,098	207,483	7,846	25,254	33,100
Real assets						
Real estate	16,771	20,999	37,770	(352)	7,546	7,194
Infrastructure	12,041	7,427	19,468	(4,322)	6,422	2,100
Other	409	219	628	1,641	58	1,699
Total real assets	29,221	28,645	57,866	(3,033)	14,026	10,993
	210,606	54,743	265,349	4,813	39,280	44,093
Total	153,132	79,792	232,924	145,442	63,784	209,226

[1] *Change in fair value includes a realized net gain of $53.4 million (2020 – $96.8 million) and an unrealized net gain of $99.7 million (2020 – $48.6 million).*

5. RISK EXPOSURE AND MANAGEMENT

The key financial risks related to the Fund's assets are market risk, credit risk and liquidity risk. These are mitigated by policies that define the Fund's overall objective and circumscribe investments in terms of what is permitted, how investments may be made, and minimum standards for diversification, quality, and liquidity. Policies also describe the management structure and monitoring procedures adopted for the ongoing operation of the Fund.

a) Market risk

Market risk is the risk of adverse financial impact arising from changes in underlying market factors, including interest rates, foreign exchange rates and equity prices. The Fund is able to partially mitigate this risk by incorporating diversification requirements in its investment policies and guidelines. Diversification reduces the risk of market value decreases and helps protect the Fund from potential negative impacts within one asset class or sector.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Pension obligations are also subject to interest rate risk. The Fund's interest rate exposure arises from mismatches in the timing and amount of cash flows of its assets and liabilities.

The Fund's interest rate risk is managed through its asset allocation policy, which takes into account the liability profile of the Fund and diversifies its assets, and other policies that limit the price sensitivity of fixed income assets to interest rate changes relative to established benchmark indices.

The impact of a 100 basis points (bps) increase or decrease in interest rates on the fair value of fixed income securities, real return securities and securities sold under repurchase agreements would be:

	2021		2020	
(in thousands)	Increase	Decrease	Increase	Decrease
Short-term investments	**(124)**	**124**	(69)	69
Bonds and debentures	**(165,889)**	**212,113**	(130,126)	158,724
Real return securities	**(60,577)**	**77,767**	(60,364)	78,100
Securities sold under repurchase agreements	**252**	**(252)**	(215)	215
	(226,338)	**289,752**	(190,774)	237,108

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate as a result of changes in foreign exchange rates and is associated with the Fund's foreign investments. At 31 December 2021, the Plan's exposure to foreign currencies expressed in Canadian dollars, before considering the effects of hedging, was $434.3 million to U.S. dollars and $366.3 million to Europe, Australasia and Far East (EAFE) currencies (31 December 2020 – $354.9 million and $331.1 million, respectively). Currency exposures arising from investments in EAFE equities and infrastructure investments are hedged through foreign currency forward contracts. The current policy is to hedge 50% of the currency exposure arising from EAFE equity holdings and 100% of the currency exposure arising from EAFE and U.S. real assets, with a tolerance band of ±10 percentage points of the approved total percentage of assets to be hedged.

Fluctuation in foreign exchange rates will have a negative or positive impact on the value of the unhedged portion of investments in foreign denominations. The following table demonstrates the impact of a 100 bps increase or decrease in foreign exchange rates on the fair value of the investments net of foreign currency contracts:

	2021		2020	
(in thousands)	Increase	Decrease	Increase	Decrease
U.S.	**3,215**	**(3,215)**	2,693	(2,693)
Other foreign[1]	**1,406**	**(1,406)**	1,268	(1,268)
Total	**4,621**	**4,621**	3,961	(3,961)

[1] *Represents EAFE investments.*

Equity price risk

Equity price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual investment or its issuer, or factors affecting all securities traded in the market. The Fund's exposure to equity price risk arises primarily from investments in equities and, to a lesser extent, investments in real estate, infrastructure and other real assets. Policies set minimum standards for diversification of assets at the total Fund level and within individual portfolios.

A concentration of equity price risk exists when a significant portion of an equity portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions. The following table outlines the sectors in which the equity portfolios are invested:

	2021		2020	
(in thousands, unless otherwise indicated)	$	%	$	%
Financials	**250,578**	**21.9**	202,848	21.1
Information technology	**154,781**	**13.5**	95,938	10.0
Industrials	**137,190**	**12.0**	126,538	13.1
Materials	**109,337**	**9.6**	68,318	7.1
Consumer discretionary	**102,924**	**9.0**	76,454	7.9
Energy	**88,558**	**7.7**	125,423	13.0
Consumer staples	**86,280**	**7.5**	86,978	9.0
Telecommunication services	**76,011**	**6.6**	64,242	6.7
Health care	**74,037**	**6.5**	64,034	6.7
Utilities	**34,649**	**3.0**	36,103	3.7
Other	**20,794**	**1.8**	7,193	0.7
Real estate	**10,564**	**0.9**	9,799	1.0
Total	**1,145,703**	**100.0**	963,868	100.0

As at 31 December 2021, 43.8% (2020 – 40.1%) of the Fund's investments, net of securities sold under repurchase agreements and mortgages payable, were in equities. The impact of an increase or decrease of 10% in equity prices, with all other factors held constant, would be an increase or decrease, respectively, in net assets available for benefits of $114.6 million (2020 – $96.4 million).

b) Credit risk

Credit risk is the risk of loss arising from a counterparty's inability to fulfil its contractual obligations. Credit risk includes the risk of default and encompasses both the probability of loss and the probable size of the loss, net of recoveries and collateral, over time.

The Fund's credit risk associated with investments is managed through policies that include minimum credit rating requirements and limits by sector, counterparty, and credit rating. In the event that a credit change renders an approved investment holding ineligible, the Fund will take the necessary actions to restructure holdings while minimizing losses. The credit quality of issuers of debt securities is assessed by reference to published credit ratings and investment management analysis.

Credit risk exposure on fixed income and real return securities is divided into short-term (less than one year) and long-term (greater than one year). All short-term exposure must be rated R-1 high, or equivalent, unless issued or fully guaranteed by the Government of Canada or a Canadian province. The maximum exposure to credit risk for fixed income and real return securities is the carrying amount of these investments.

A concentration of credit risk exists when a significant portion of a credit portfolio is invested in entities that operate in the same industry or engage in similar activities and are affected similarly by changes in economic or other conditions.

There has been no significant impact of COVID-19 on the Plan's exposure to credit risk, as the Plan's existing mitigation strategies have been effective at maintaining the Plan's exposure at consistent levels.

The following table indicates the credit risk exposure and concentration of credit risk of fixed income and real return securities:

	2021		2020	
(in thousands, unless otherwise indicated)	$	%	$	%
Securities issued or guaranteed by:				
Government of Canada	**641,340**	**46.0**	604,759	39.6
Provinces/municipalities	**714,602**	**51.2**	837,354	54.8
Corporate/other	**39,298**	**2.8**	85,519	5.6
	1,395,240	**100.0**	1,527,632	100.0
Credit rating:				
AAA	**644,869**	**46.2**	656,130	42.9
A- to AA+	**735,636**	**52.7**	856,577	56.1
BBB	**14,735**	**1.1**	14,925	1.0
	1,395,240	**100.0**	1,527,632	100.0

Credit risk arising from foreign currency forward contracts is managed by entering into contracts with creditworthy counterparties subject to minimum credit rating requirements and by setting limits on the allowable amount of exposure to each of these counterparties. Specifically, all such counterparties must have a minimum credit rating of AA-, or its equivalent, from at least two rating agencies. Furthermore, no one counterparty may comprise more than 50% of the total value of counterparty hedge volume outstanding with all counterparties.

c) Liquidity risk

Liquidity risk is the risk that the Plan would not be able to meet its financial obligations as they come due. The Plan is exposed to liquidity risk through its pension obligations (Note 7), investment commitments (Note 13) and financial liabilities.

The Plan's financial liabilities consist of securities sold under repurchase agreements, mortgages payable, and accounts payable and accrued liabilities. The maturity analysis for mortgages payable is provided in Note 6. All securities sold under repurchase agreements have remaining terms that do not exceed 60 days. The term to maturity of accounts payable and accrued liabilities is within one year, and the net amount payable is $1.8 million (2020 – $3.0 million). Foreign currency forward contracts in liability positions have original terms that do not exceed 50 days.

Liquidity risk is managed through holdings of highly liquid short-term investments, forecasting of cash flow requirements, and daily monitoring. Cash sources include investment income, proceeds from the sale of investments, and employee and employer contributions.

6. MORTGAGES PAYABLE

Mortgages mature in November 2022 and November 2025. Mortgages are secured by land and specific rental properties and bear interest at fixed rates of 3.45% and 3.81%. The estimated payments of principal and interest are as follows:

	2021	
(in thousands)	Principal	Interest
2022	**3,708**	**295**
2023	**192**	**179**
2024	**200**	**172**
2025	**4,436**	**151**
Total[1]	**8,536**	**797**

[1] *During 2021, interest paid on these mortgages amounted to $0.3 million (2020 – $0.3 million).*

7. PENSION OBLIGATION

The actuarial present value of the pension obligation is an estimate of the value of accrued pension benefits of the Plan to date for all active and inactive members. The Plan's pension obligation is calculated using the same actuarial assumptions and methodology as the Plan's going-concern funding valuation as required by OSFI and the PBSA. As at 31 December 2021, an actuarial valuation of the Plan was conducted by Mercer (Canada) Limited, and a copy of this valuation will be filed with OSFI and the CRA.

The valuation was prepared using the projected unit credit method and reflects management's best estimate of future economic events, involving both demographic and economic assumptions. The demographic assumptions include considerations such as mortality, withdrawals, and retirement rates. The primary economic assumptions include the discount rate, inflation rate and the rate of compensation increase. The discount rate is determined by the long-term expected fund return based on the Plan's target asset mix and market expectations, less a margin for adverse deviations. The inflation rate is based on the Bank of Canada's long-term inflation target range of 1% – 3%, and the rate of compensation increase is based on the inflation rate and the long-term expectation of growth in wages.

The significant economic actuarial assumptions used in the valuation are as follows:

	2021	**2020**
Real discount rate	**3.20%**	2.35%
Inflation rate	**2.00%**	2.00%
Rate of compensation increase	**3.25%** **+ age based promotional scale**	3.25% + age based promotional scale
Mortality table (issued by the Canadian Institute of Actuaries)	**CPM2014 (CPM-B scale)**	CPM2014 (CPM-B scale)

Variances between such estimates and actual experience, which may be material, will emerge as gains and losses in future valuations. The changes in the demographic and economic assumptions resulted in a net decrease in the actuarial present value of pension benefits on a going-concern basis of $160.7 million (2020 – net increase of $153.0 million). Based on the 31 December 2021 valuation, the actuarial present value of accrued pension benefits on a going concern basis is $1.9 billion (2020 – $2.1 billion).

As is standard for actuarial valuations, it is reasonably possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. It is not possible to determine the magnitude of any such changes. CMHC bears the risk of experience loss against the long-term assumptions and credit risk associated with the Plan asset portfolio and is responsible for the liability associated with the ongoing operations of the Plan.

In accordance with the PBSA, the next required actuarial valuation will be as at 31 December 2022.

8. CONTRIBUTIONS

Contributions comprise the following:

(in thousands)	2021	2020
Defined benefit		
Employer		
Current service	**27,483**	22,704
Special payments	**37,097**	591
Total employer	**64,580**	23,295
Employees		
Current service	**21,630**	17,780
Past service	**2,393**	2,055
Total employees	**24,023**	19,835
Total contributions	**88,603**	43,130

As a result of the solvency deficit reported in the December 31, 2020 actuarial valuation report, $36.2 (2020 - nil) in solvency payments were made. Special payments also included $0.9 million (2020 – $0.6 million) to fund transfer deficiencies for members electing to transfer out of the Plan in 2021.

9. BENEFITS PAID

(in thousands)	2021	2020
Retirement	**79,083**	76,202
Survivor	**7,786**	7,647
Disability	**233**	113
Transfer restriction annuity	**316**	455
Total	**87,418**	84,417

10. OPERATING EXPENSES

Operating expenses include the administrative costs related to the management of the Plan. The following table outlines the operating expenses for the year:

(in thousands)	2021	2020
Investment personnel and support services	**2,924**	3,342
Pension benefits administration	**1,983**	2,126
Investment management fees	**1,982**	1,471
Other administration costs	**614**	355
Software and information technology costs	**590**	487
Audit and actuarial fees	**297**	279
Total	**8,390**	8,060

11. RELATED PARTY TRANSACTIONS

The Fund's related parties include key management personnel and CMHC and its related parties. CMHC, the Plan Sponsor, is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations.

The following table summarizes the amount invested in instruments issued by CMHC (namely, Canada Mortgage Bonds) or its related parties and amounts owed by related parties:

(in thousands)	2021	2020
Short-term investments[1]	**27,570**	19,375
Bonds and debentures[2]	**303,767**	279,408
Real return securities[1]	**310,003**	305,925
Total	**641,340**	604,759

[1] *This is invested in related parties other than the Plan Sponsor.*
[2] *$72.0 million (2020 – $73.2 million) in CMHC and $231.7 million (2020 – $206.2 million) in related parties other than the Plan Sponsor.*

Transactions with the Plan Sponsor were conducted in the normal course of operations and measured at the amount of consideration established and agreed to by both parties. Included in operating expenses is $4.2 million (2020 – $4.6 million) for administrative services provided by the Plan Sponsor. Included in accounts payable and accrued liabilities is $1.8 million (2020 – $0.6 million) due to the Plan Sponsor for administrative services provided to the Plan and nil (2020 – $1.3 million) for payments made by the Plan Sponsor on behalf of the Plan.

The Plan defines its key management personnel as the Trustees of CMHC's Pension Fund, CMHC's Board of Directors and those senior executives responsible for planning, directing and controlling the Plan's activities. The Plan is not charged for the compensation of these individuals. If a reasonable allocation of the compensation for key management personnel was performed, the amount would not be significant.

12. CAPITAL MANAGEMENT

The Plan defines its capital as the Plan's funded status [surplus/deficit]. An independent actuary periodically determines the funding surpluses or deficits of the Plan. The Plan's primary objective with respect to capital management is to ensure that plan assets are adequate to provide for the pension benefits in accordance with the provisions of the CMHC Pension Plan Rules.

The Plan Rules, as well as the Plan's funding and operations, are subject to the PBSA and its regulations and the *Income Tax Act*. Management has adopted a Statement of Investment Policies and Procedures (SIP&P) for the Plan, which sets investment objectives, guidelines and benchmarks used in investing the Plan's assets, permitted categories of investments, asset mix diversification and rate of return expectations. The Plan's SIP&P was last updated and approved in September 2021. The Plan's Trustees provide oversight for ensuring that the Plan assets are managed in accordance with the SIP&P.

The Pension Fund's strategic asset allocation (SAA) policy is based on the principle of diversification of investments among various asset classes relative to the liabilities of the defined benefit Pension Plan. In 2021, the Board of Directors approved a new asset allocation policy, which we expect to fully adhere to by 2026.

The Fund's long-term asset allocation policy is as follows:

Asset class	New SAA	Previous SAA
Liability hedging assets		
Cash	3%	5%
Fixed income	14%	24%
Real return securities	12%	12%
Public growth assets		
Equity	37%	40%
Emerging market debt	5%	-
Private growth assets		
Private equity	5%	-
Private debt	3%	-
Real assets	21%	19%

Through the use of leveraged long government bonds, the SIP&P allows for a modest level of leverage of 25% of net asset value to purchase fixed income assets to reduce the interest rate risk of the portfolio.

CMHC has managed the Plan's capital in accordance with the legal and regulatory requirements. There have been no changes in what is considered to be capital or the objectives of managing capital during the year.

13. COMMITMENTS AND CONTINGENT LIABILITIES

The Plan enters into commitments related to the funding of investments, including those in infrastructure, real estate and other real assets. The future commitments can generally become payable on demand in the future based on the capital needs of the investment. The funding is ordinarily expected to occur over several years, in accordance with the agreed-upon terms and conditions. As at 31 December 2021, the commitments amounted to $160.6 million (2020 – $109.9 million). The Plan has sufficient liquidity to meet these commitments as they come due.

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