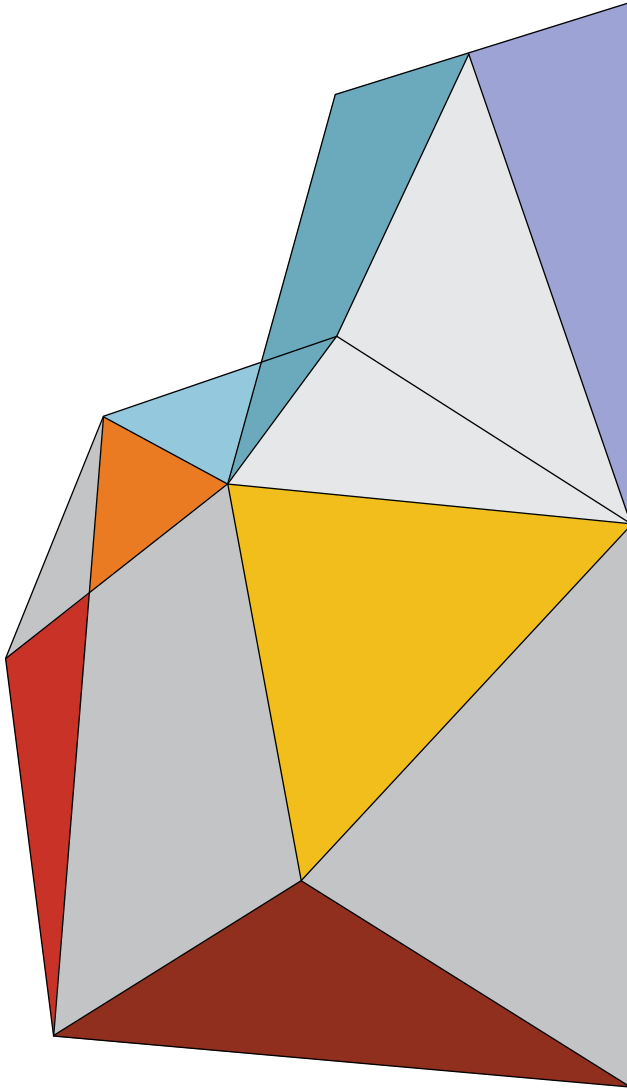
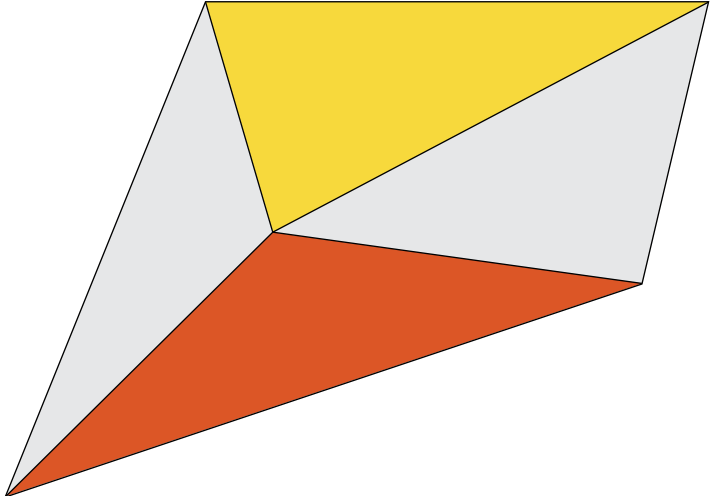




REPORT TO MEMBERS



2015



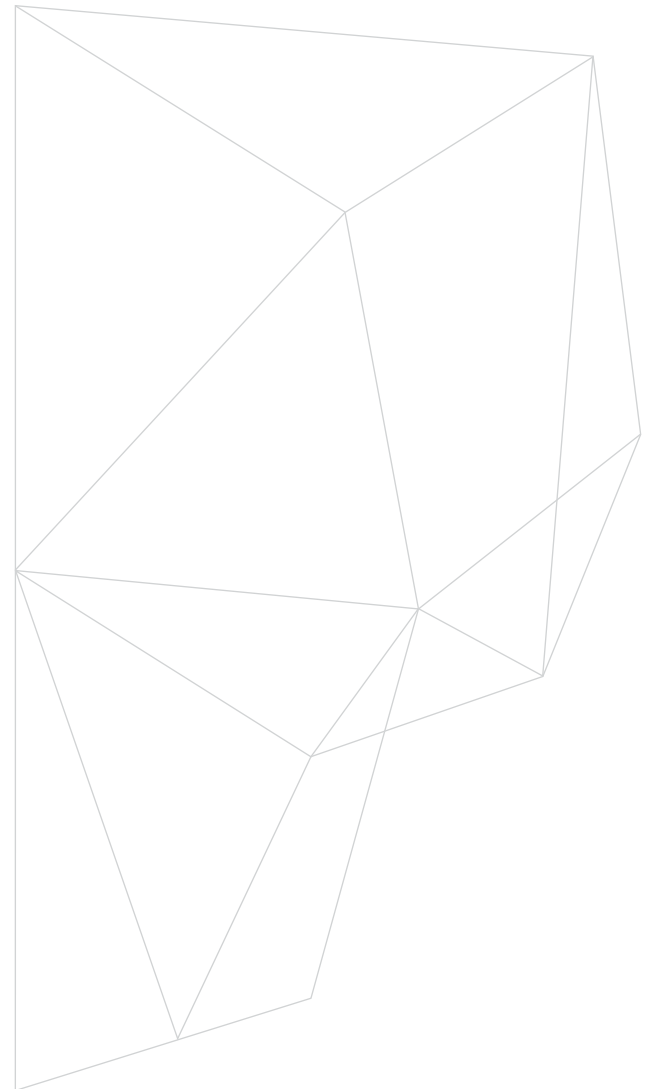
CUPE EMPLOYEES'  
PENSION PLAN

# MISSION STATEMENT

“Our Mission is to ensure the timely and accurate delivery of benefits to CEPP members and their beneficiaries in accordance with the CEPP terms and conditions by ensuring the proper funding and investment of the Pension Fund and the implementation of effective administrative procedures.”

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**[www.cepp.ca](http://www.cepp.ca)**

Ce rapport est aussi disponible en français

## TRUSTEES' MESSAGE

It seems strange to be saying this in the middle of 2016 but 2015 was not a particularly good year. From that we have several issues in this Report to Members (R2M) that will be reported on. First, the theme of this R2M is investment management and CEPP fund growth. We have provided some historical context to how we have expanded our investment structure to try to maintain decent returns in a volatile investment climate.

The second issue is the solvency ratio remains below 100% and in fact dropped to 84.1% as of the latest valuation. This has huge implications for the Plan members as inflation protection cannot be paid as laid out in the Plan Text. We needed a solvency ratio of 105% or more and did not come close to that. The JBT is working with the Settlers to try to find a long term solution to this long standing solvency problem. Until there is some solution things remain dire in terms of solvency.

There are also implications for CUPE as there is a significant possibility that the contributions required to pay for the pension plan may have to go up and go up a lot.

The JBT has worked diligently this past year and have undertaken what we called a "Needs Assessment" project. This project was a complete review of our processes, procedures, staffing, Board structure and workload. We also asked them to look at administration costs and procedures. There was nothing that was not looked at by our consultant (George and Bell Consulting from Vancouver). They have made several recommendations and the JBT is considering those recommendations at the June 2016 JBT meeting. This comes too late for us to include those considerations in this R2M. While we thought we did well as a Board, we were pleasantly surprised by the praise they had for how many policies and procedures we had in place as well as the Board's overall activism. More will be reported in the fall issue of Pension Connection.

Finally, we continue to see changes on the JBT and want to thank the following Trustees who left the Board in 2015 and to welcome new Trustees.

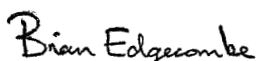
Trustees who left in 2015 and early 2016: Patty Brockman, Mark Hancock, Peter Paulekat, Cathy Remus, Catherine Louli

New Trustees in 2015 and early 2016: Susan Arab, John Lepine, Catherine Louli, Kelly Moist, Gary Yee

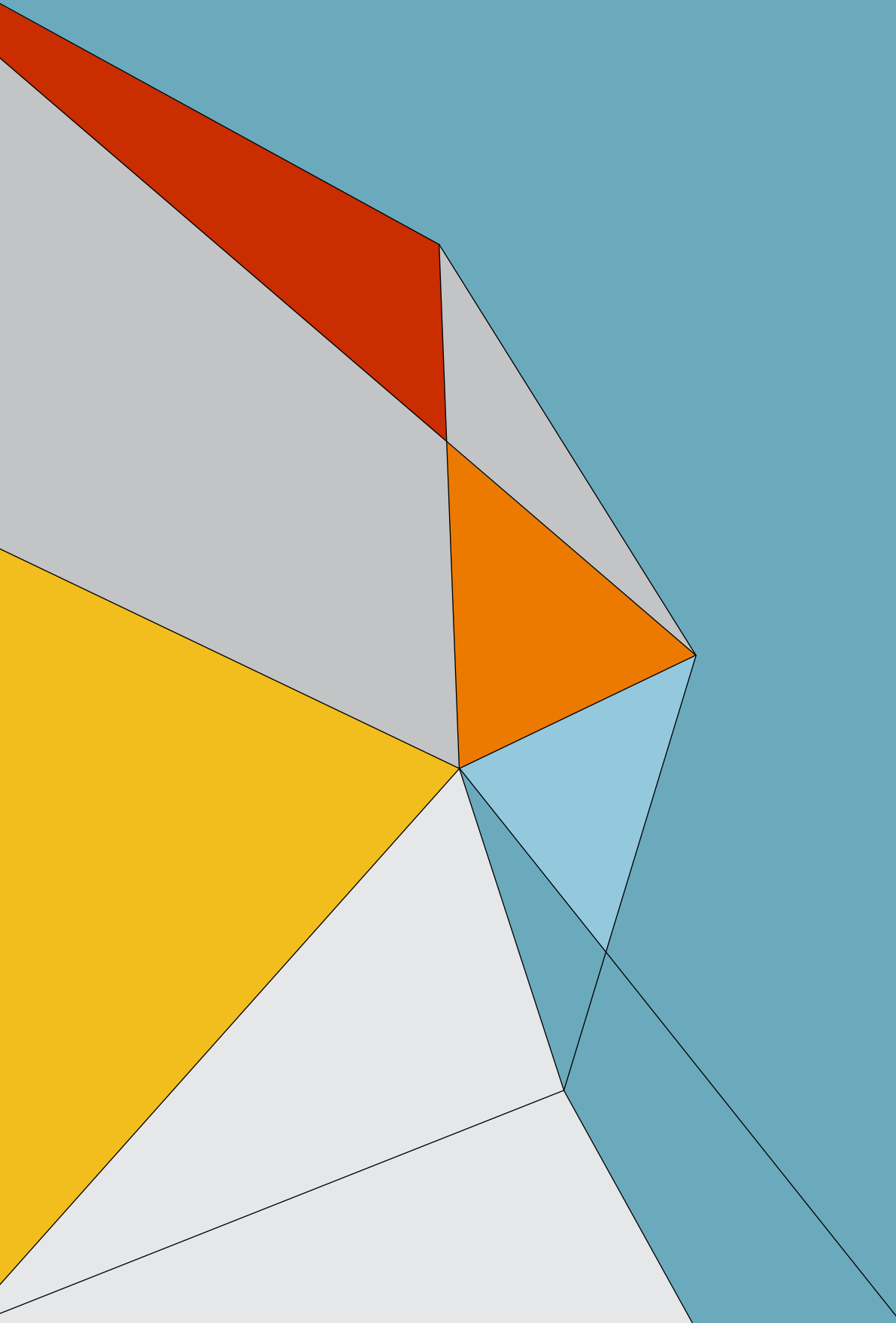
On behalf of the Joint Board of Trustees,



Charles Fleury, Chair



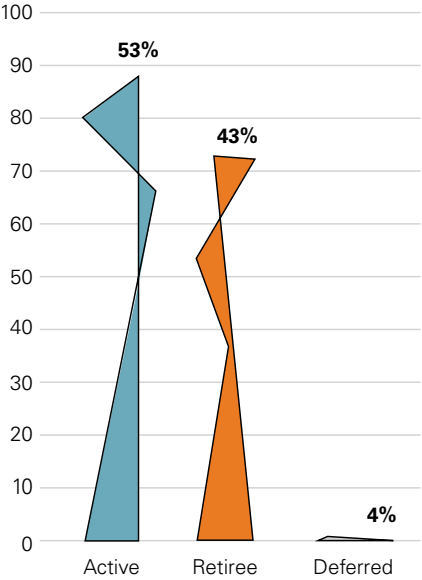
Brian Edgecombe, Vice-Chair



AT A GLANCE

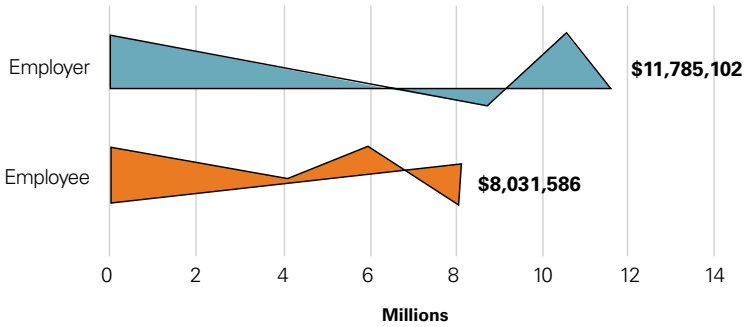


**Membership on January 1, 2016**

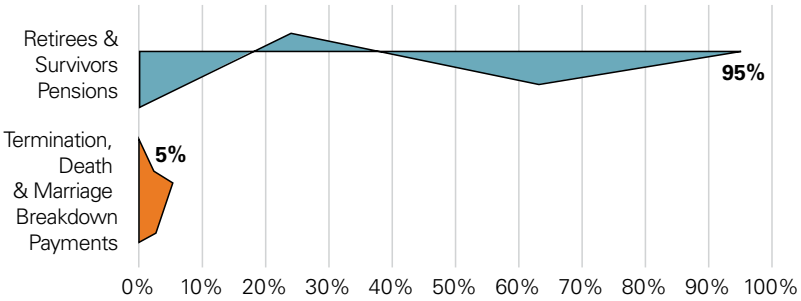


Active	893
Retiree	728
Deferred	67
<b>Total of 1,688 members</b>	

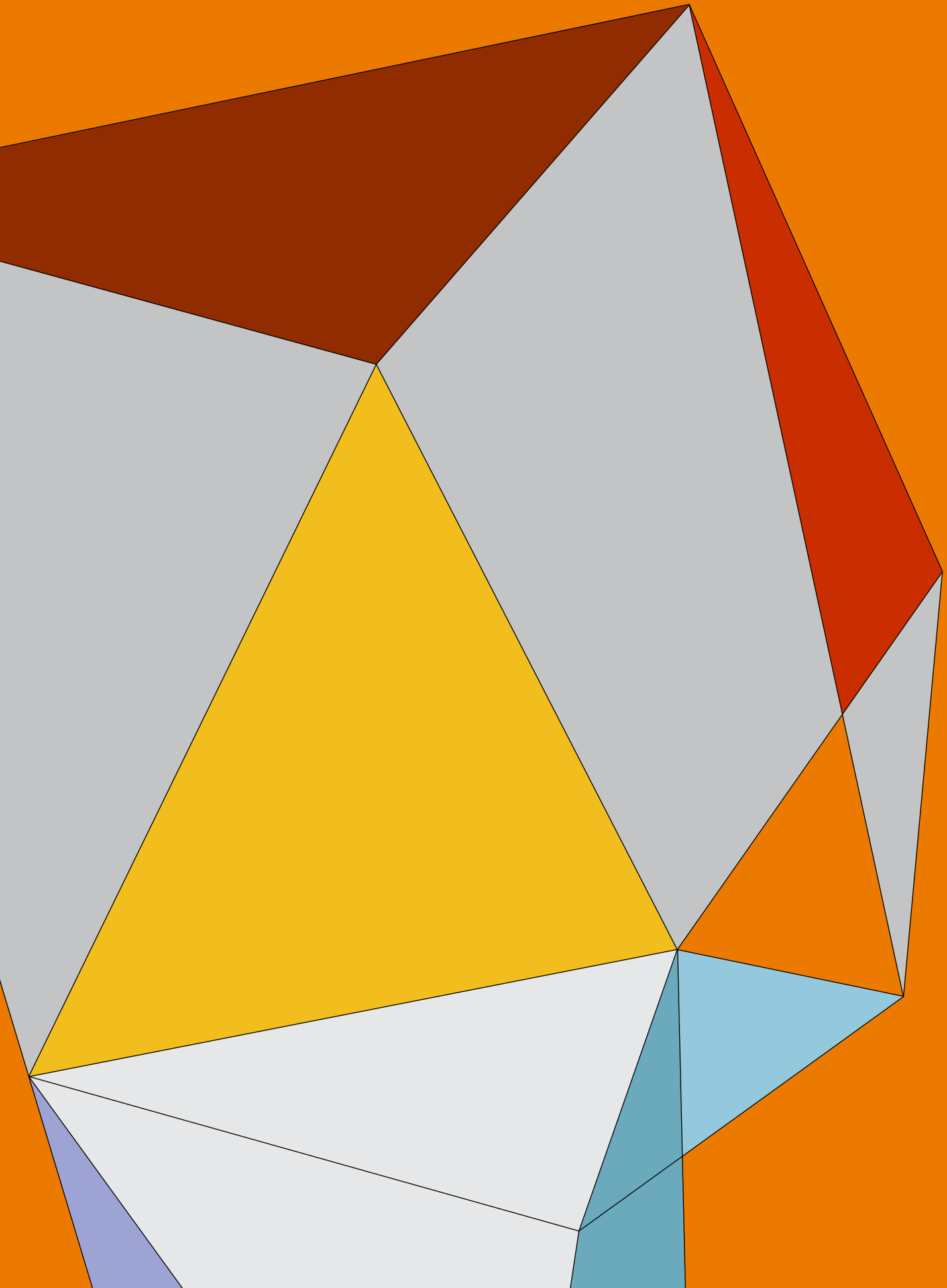
**2015 Employee and Employer Contributions**



**2015 Pension Payments**



In 2015 the CEPP paid a total of \$27,416,787 in monthly pensions; \$1,296,376 was also paid in terminations from the Plan, deaths and marriage breakdown pension benefits.



## MEMBERS' PROFILE



All data in the following tables is from the 2016 and 2015 actuarial valuations.

**Active Members**

	2016	2015
Total Active Members	893	887
Females	578	578
Males	315	309
Average Age	49.4	49.2
Average Salary	\$95,698	\$96,099
Average Current Service	11.9	11.8

**Retirees**

	2016	2015
Total Retirees	728	695
Average Annual Pension	\$38,496	\$38,544

The average age of new retirees is 58.8 years. This is very close to the expected age of retirement.

**Deferred Members**

	2016	2015
Total Deferred Members	67	64
Average Annual Pension Liability	\$4,620	\$4,944

**Ratio of Actives/Retirees**

	2016	2015
Ratio of Actives/Retirees	1.2	1.3

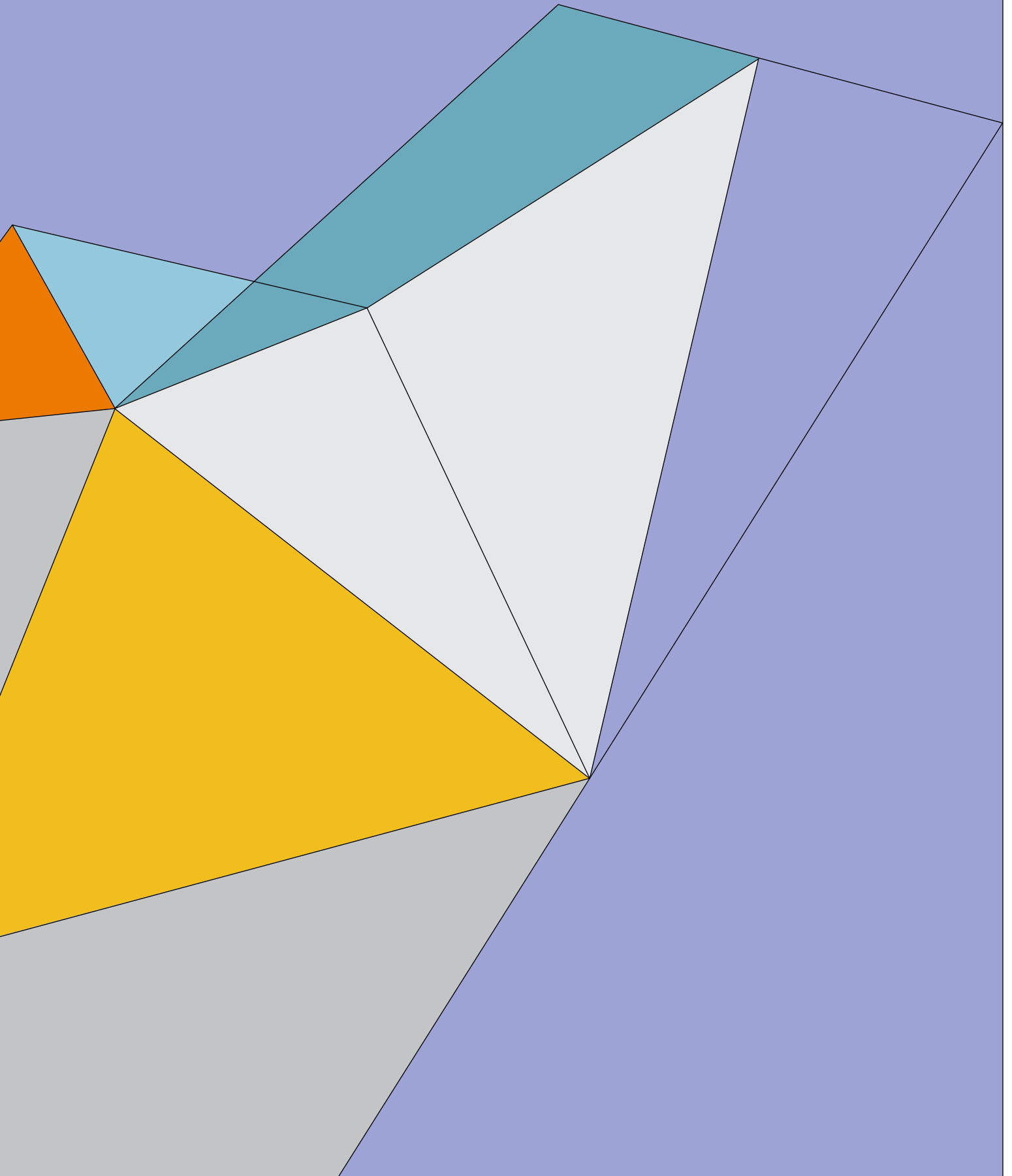
A pension plan is considered to be a mature plan when the number of retirees is equal to the number of active members.

All data in the following table is from December 31.

**Membership Changes**

	2015	2014
New Entrants	60	60
Deaths, Terminations, Vested & Deferred	13	12
New Retirees	43	38

In 2015, the new members' average age is 42.1.





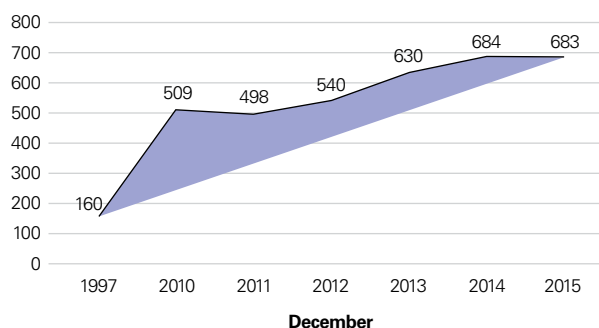
## FINANCIAL STATUS OF THE CEPP - Historical Perspective

### From \$159,526,400 To \$682,983,731

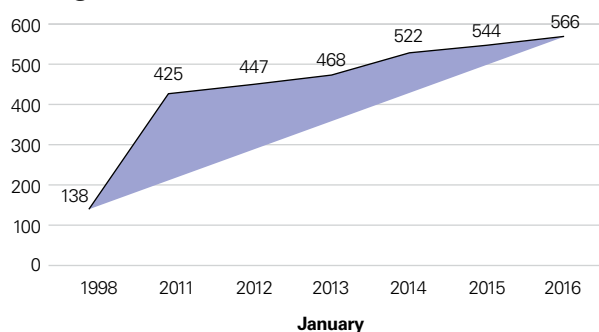
Since the Joint Board of Trustees (JBT) took over the administration of the CUPE Employees' Pension Plan and Fund, in January of 1998, there has been a spectacular growth of \$523,457,331 million or almost 328.14%. Such results do not come easily and many of you have asked how this came to be. This Report to Members will give you some of the background and explanation.



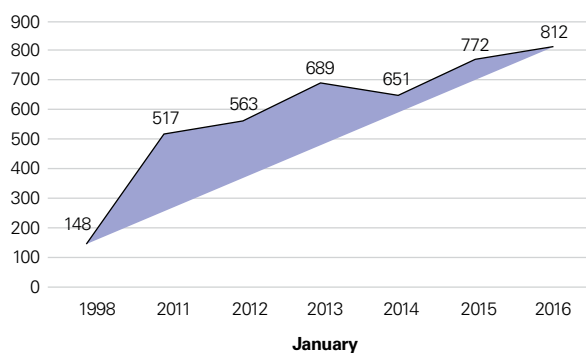
#### Market Value of Assets (in Million \$)



#### Going Concern Liabilities (in Million \$)



#### Solvency Liabilities (in Million \$)



1998 was the first year of "joint" trusteeship. Prior to 1998 the Plan was administered by CUPE along with a "Joint Benefits Committee" which included representation from the staff unions and from non CUPE employee plan members. For the most part the Fund was in good shape with surpluses of funds and no solvency issues. The JBT took the job seriously and from day one asked questions and learned all about how pension funds are invested and the importance of different investment managers. The Trustees relied on the Statement of Investment Policies and Procedures (SIP&P) to assist them in evaluating the manager's performance.

In 1998 there was a single investment manager who was considered a balanced manager. The JBT decided that this investment manager was not doing the job as set out in the SIP&P. After long serious discussions and considerations that took many months to complete, we hired two different investment firms.

A BALANCED MANAGER IS ONE WHO INVESTS BALANCING RISKS AND REWARDS OF SPECIFIC FIXED INCOME (BONDS) AND EQUITIES (STOCKS).

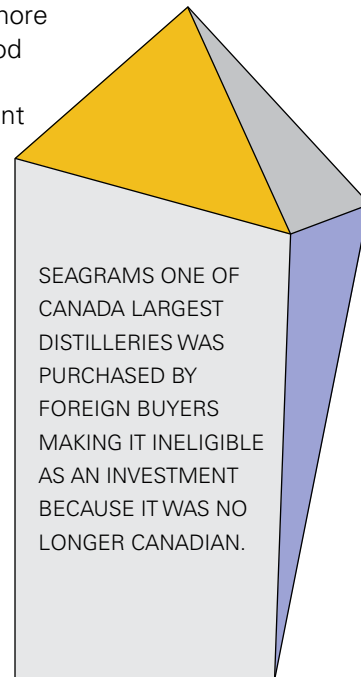
These two firms were hired because of their past performance records and because they had different styles of investing (one was a value manager and the other growth).



As part of the management of the Fund the term “diversification” became a strong mantra (don’t keep all your eggs in one basket) to reduce risk. That was part of the JBT’s rationale for choosing two managers with different styles, to ensure that if one style of investment was in favour and the other wasn’t, the offsetting styles could help ensure our investment goals were being better met. And were they ever. Letko Brosseau (who continues to this day) had spectacular returns. We had a very strict policy of investing in Canada only and for more than ten years our returns were in the top quartile of all large plan returns. In fact, our 10-year return was #1 in the RBC investment analytic reports.

The Fund was growing quickly. It was soon determined that we needed further diversification of investments to ensure that the long term return goals would be met or exceeded. Subsequently, in 2007, we hired Bentall Kennedy, a large British Columbia based firm who owns and manages real estate across Canada. They remain one of our managers to this date.

About the same time, the JBT started discussing and considering the effect of a shrinking Canadian investment market. Canada makes up less than 3% of the investment universe and it was becoming more and more difficult to achieve good returns having a strict Canada only investment policy as the number of “Canadian” companies was reduced as a result of foreign take overs. After considerable discussions and work we developed a list of Eligible Foreign Companies. This does not throw the doors open for our managers to invest where ever they want. In point of fact, quite the opposite. We



developed a policy that says that our investment managers can invest in “foreign” companies but they must meet criteria of having a significant footprint within Canada. So for example General Motors which is US based manufactures, distributes and retails automobiles/ automotive parts and accessories. Prior to this policy change they would not have been eligible. Today they are.

The process to determine eligibility is; the investment sub-committee will get requests from our manager(s) to confirm that a specific company is investable as an Eligible Foreign Company. A check of the company’s economic activities in Canada is done by the JBT and the manager is given a yes or no answer. Then it is up to the manager to decide to make the investment or not. Many times we have said yes but the investment manager simply chose to purchase shares in a different company. That is part of their mandate to make those independent decisions within the boundaries of our investment policies.

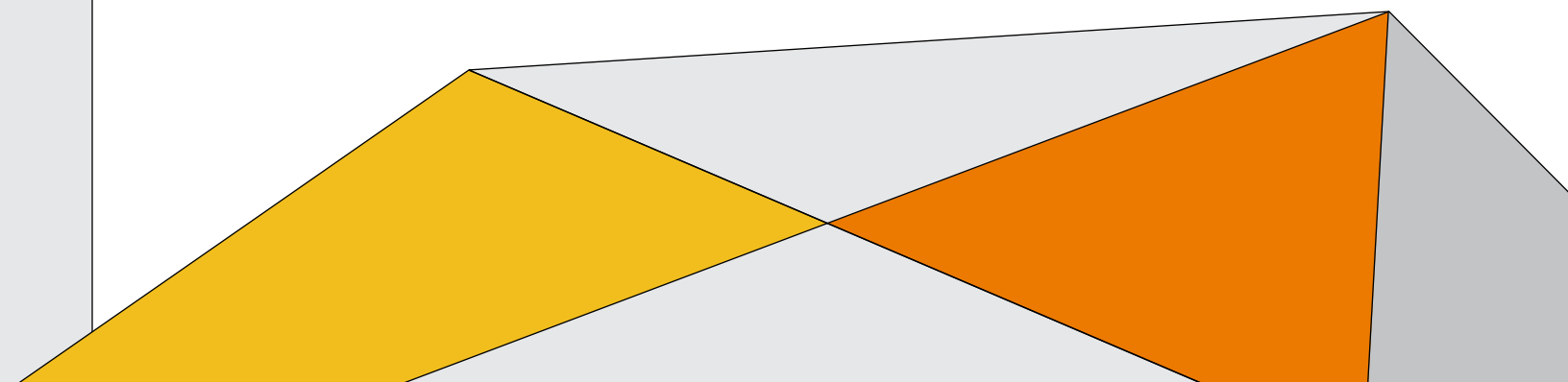
In 2009/10 we started to talk about terminating the services of one of our balanced managers (Jarislowsky Fraser - JF). Their investment performance was not consistent with the results expected in our SIP&P. A consistent lack of performance takes time to be seen as fairly conclusive. Reading the investment results for one month, one quarter, even one year is hard to base a decision to retain or terminate the services of an investment manager. Finally, it became obvious that we needed a different manager and we let JF go and hired Guardian Capital in 2012. They are another balanced manager with a bias towards staying close to the index (in this case the TSX and our foreign index as well).

While this was happening there were also many changes to the JBT make up with Trustees leaving and new ones being appointed. The JBT created several sub-committees detailed elsewhere in this report. The investment sub-committee was created for a variety of reasons but the biggest issue was the growing difficulty in getting good returns (you'll all remember the 2008 debacle around the world). It was also time to have a look at ways of protecting ourselves against the vagaries of the market. We started looking at alternative investments, responsible investments and other investment possibilities. As stated earlier it takes time to make decisions. Good performance by a firm today does not mean good performance tomorrow. Your Trustees all wanted to make sure that we were doing the correct thing by expanding our investment horizons.

2014 and 2015 saw the first of several changes for the JBT in the investment management structure. May 1, 2014 TD Asset Management was engaged to invest in a "Specialized Fixed Income Mandate". In other words, to focus on fixed income and to create extra value. This meant, we had four managers. In April 2015 we engaged Barrantagh to run a "Specialized Equity Investment Mandate". So from a single investment manager in 1998 we have five at this point. The idea of diversification and specialization providing incremental return improvements.

All during this time the JBT was taking responsible investing (Environmental, Social and Governance (ESG) factors) into its decision making process. A policy was developed that was essential to us in ensuring the CEPP is doing the right thing with the investments we hold. Our managers were all made aware of our concerns about responsible investing and we were assured by all that they would take them into consideration. As well the JBT hired the Shareholders Association for Research and Education (SHARE) to vote proxies using our proxy voting guidelines and to engage with specific companies on ESG matters. We developed a very complete process to be an active investor using SHARE as our advisor.

So from relatively lowly beginnings with a single balanced manager we have expanded to five managers. Two balanced, one real estate, one specialized fixed income, and one specialized small cap equity.



PRE-1998				
TAL				
1998				
Letko Brosseau		TAL		
2002				
Letko Brosseau		Jarislowsky Fraser		
2007				
Letko Brosseau	Jarislowsky Fraser		Bentall Kennedy	
2012				
Letko Brosseau	Guardian Capital		Bentall Kennedy	
2014				
Letko Brosseau	Guardian Capital	Bentall Kennedy	TD Asset Management	
2015				
Letko Brosseau	Guardian Capital	Bentall Kennedy	TD Asset Management	Barrantagh Investment Management

**So what does this mean?**

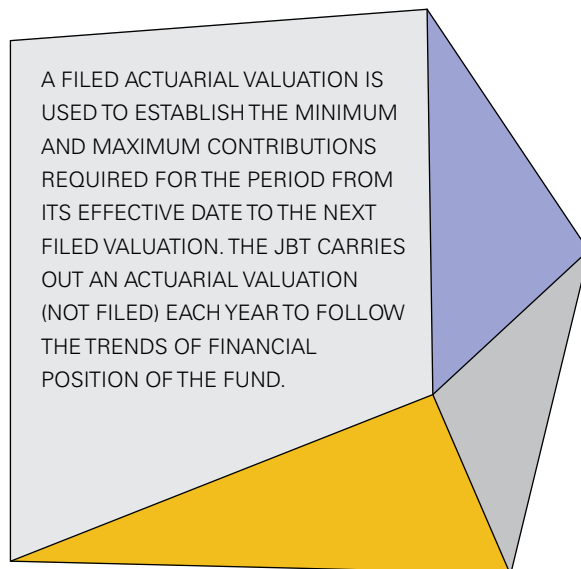
Simply put, it means we have diversified our holdings from a single manager with a strict Canada only policy to a more diverse set of holdings that includes specialized mandates, real estate, and some foreign based firms being held. We expect that while the markets are not particularly strong we will be well positioned to take advantage when markets recover.

The last Statement of Investment Policies and Procedures (SIP&P) is available on the CEPP Web site.

**Actuarial Valuation Reports Results**

An actuarial valuation is conducted as at January 1 of each year to establish the financial position of the CEPP Fund. An actuarial valuation must be filed with the Financial Services Commission of Ontario (FSCO) and the Canada Revenue Agency (CRA) at least once every three years.

The following tables show the summary of results of the last undertaken actuarial valuation reports effective January 1, 2016 and the summary of results of the last filed actuarial valuation reports performed on January 1, 2014.



## Solvency Valuation

	Draft Actuarial Valuation Report January 1, 2016 *	Filed Actuarial Valuation Report January 1, 2014
Assets (Market Value)	<b>\$683,021,400</b>	<b>\$630,527,100</b>
<b>Liabilities (Market Value)</b>		
Active	\$379,898,800	\$310,551,200
Deferred	\$4,895,500	\$4,467,200
Pensioners	\$427,572,100	\$335,795,200
Total Liabilities	<b>\$812,366,400</b>	<b>\$650,813,600</b>
Solvency Deficiency	<b>(\$129,345,000)</b>	<b>(\$20,286,500)</b>
Solvency Ratio	<b>84.1%</b>	<b>96.9%</b>

A Solvency Valuation assumes that the plan is discontinued on the date of the valuation. It determines whether or not the present assets could cover the accrued benefits.

## Funding (Going Concern) Valuation

	Draft Actuarial Valuation Report January 1, 2016 *	Filed Actuarial Valuation Report January 1, 2014
Actuarial Value of Assets	<b>\$664,268,500</b>	<b>\$584,664,700</b>
<b>Funding Liabilities</b>		
Active	\$246,855,500	\$234,814,200
Deferred	\$3,152,600	\$3,788,100
Pensioners	\$315,923,600	\$283,699,400
Total Funding Liabilities	<b>\$565,931,700</b>	<b>\$522,301,700</b>
Funding Surplus	<b>\$98,336,800</b>	<b>\$62,363,000</b>

A Funding Valuation is an actuarial valuation prepared to determine whether or not the present assets of the pension plan would cover the accrued benefits of the plan, assuming the plan is a continuing pension plan. Smoothing methods have been used as allowed by legislation.

As you can see the solvency deficit and the funding surplus have increased since the last filed actuarial valuation report.

To obtain a copy of the last filed actuarial valuation report and more details on the actuarial process visit the CEPP Web site.

\* The final results of the January 1, 2016 valuations may not be finalized before September 2016 and may be different than these draft results.

## Audited Financial Statements (as at December 31, 2015)

An audit of the statement of financial position, statement of changes in net assets available for pension benefits and statement of changes in pension obligations must be carried out every year by an independent auditor.

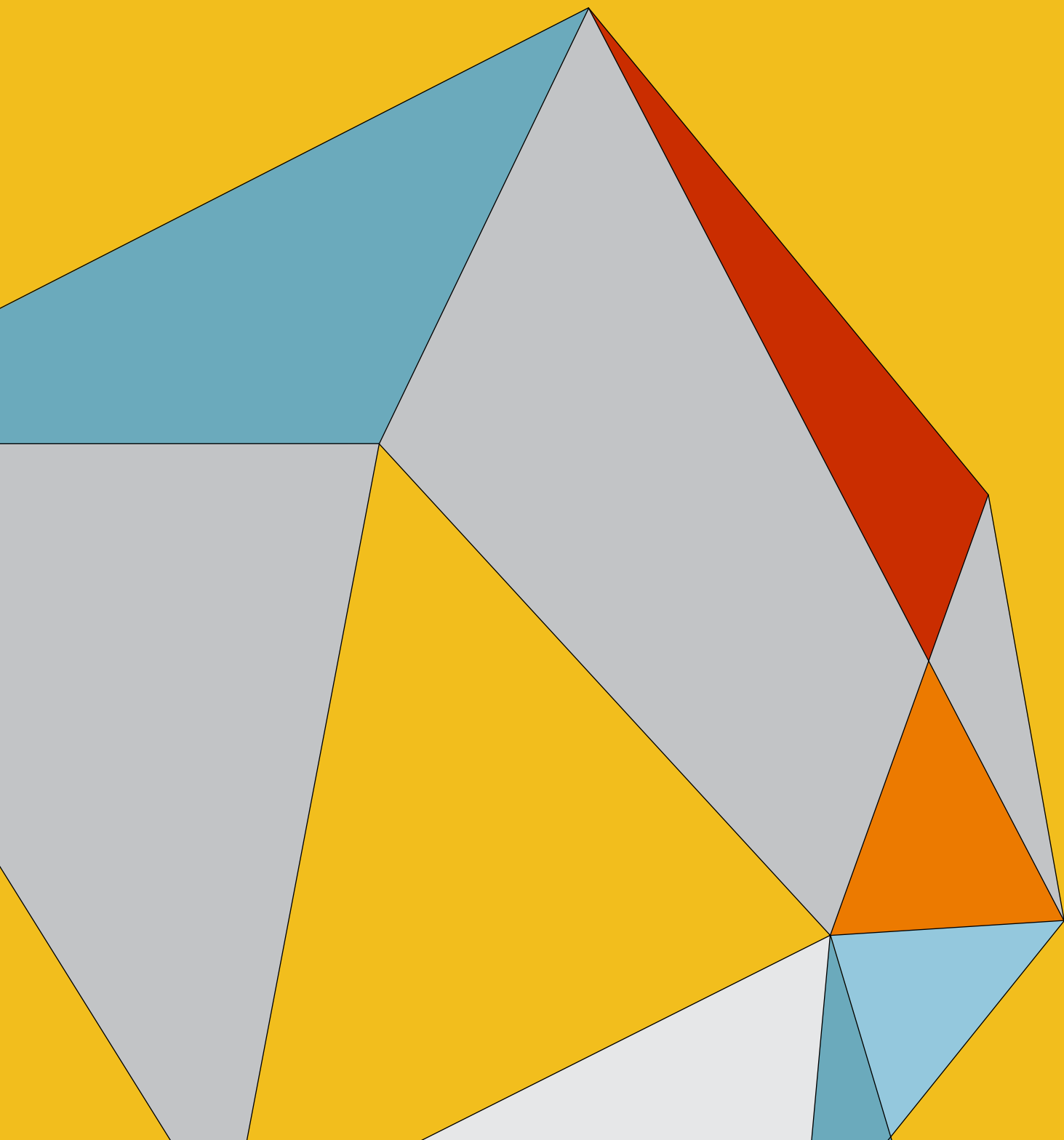
The Audited Financial Statements for the year ending on December 31, 2015 are available on the CEPP Web site.

## 2015 PLAN AMENDMENTS

Amendment No. 75 effective December 31, 2015 modifies the Plan provisions to comply with recent changes in applicable provincial pension legislation.

This amendment was approved by the Settlers in December 2015.

To obtain a copy of Amendment No. 75 visit the CEPP Web site.



## 2015 RETIREES

We congratulate the following Sisters and Brothers who retired in 2015 and wish them a long and healthy retirement.

Françoise Alauzet  
 Joseph Badali  
 Patricia Beaudoin  
 Robert Bellerose  
 Derek Blackadder  
 Frederick Blake  
 Lynn Brunet-Monette  
 Nicole Chénier  
 Kathleen Corrigan  
 Linda Craig  
 Jill Allyson Currie  
 Pierina DeBellis  
 Donald Devine  
 Monique Drapeau  
 Elaine Ehman  
 Marcia Gillespie  
 Matthew Graves  
 Denise Harder  
 Heather Hibbard  
 Robert Hickes  
 Heather Inglis  
 Paula Larocque  
 Helen Manning  
 Mary McCarthy  
 Paul Moist  
 Kelly Murray  
 Lorna Myers  
 Sylvie Pepin  
 Sylvain Pilon  
 Colette Proctor  
 Elizabeth Purves  
 Sylvie Roy  
 Ruth Scher  
 Rhonda Spence  
 James Squires  
 William Sumerlus  
 Diane Thériault  
 Lise Therrien  
 Johanne Touchette  
 Thérèse Tremblay  
 Carol Wakeam  
 Ellen Wilson  
 Edith Wolfe

## 2015 REMEMBRANCE

In 2015, the JBT was saddened to hear of the passing of:

**Active member:**

Sister Diane Jones

**Retired members, Sisters and Brothers:**

Richard Balnis  
 Lanette Bowman  
 Margaret Churchward  
 Joan Kraft  
 Thomas Mayo  
 John Keith Norton  
 Clare Powell  
 Jean Ross

**Spouses of retired members:**

Alan Hugh Costar, spouse of Sister  
 Kathleen Kennedy  
 Hans Herres, spouse of Sister Martha Herres

**Surviving spouses of retired members:**

Mildred Evelyn Gray, spouse of late  
 Edward Murray Gray  
 Marlene Hughesman, spouse of late  
 John Donald Hughesman

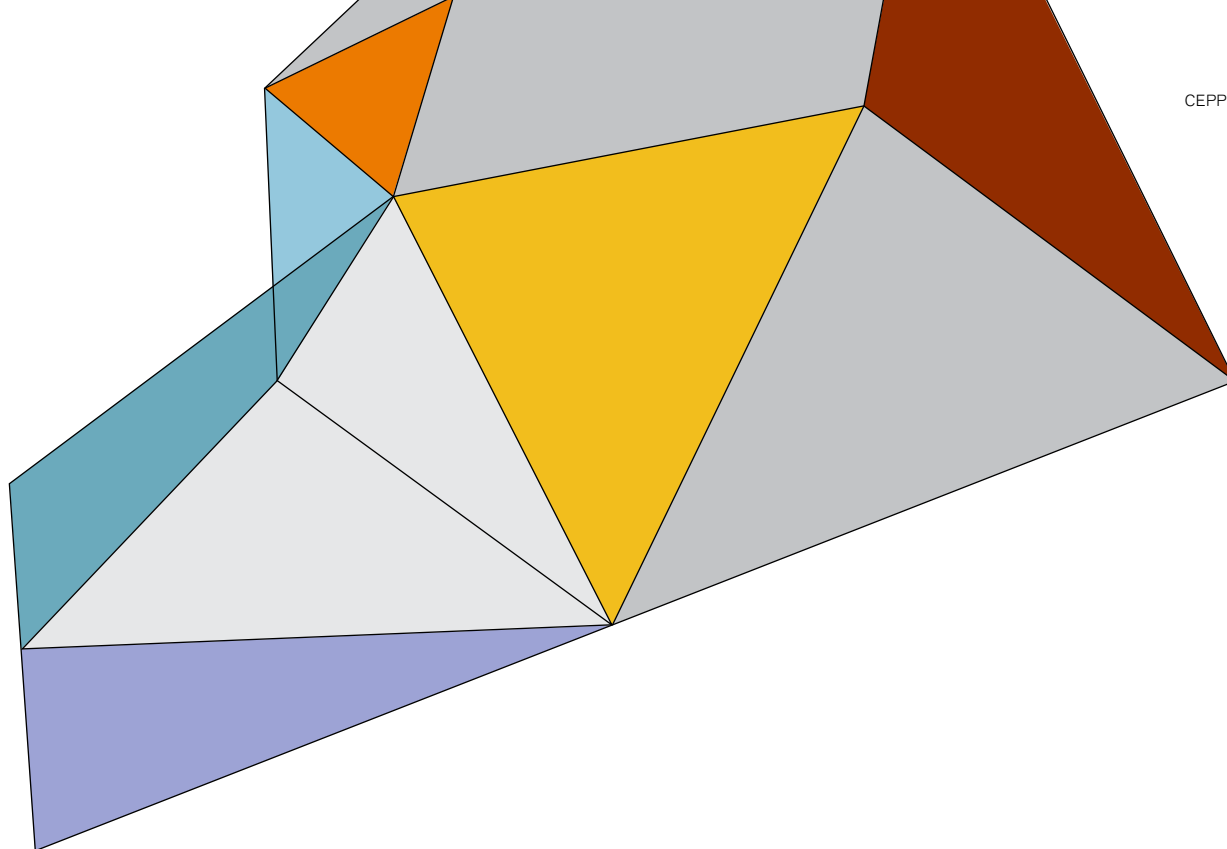
## THE JOINT BOARD OF TRUSTEES



<b>Trustee</b>	<b>Affiliation</b>	<b>Province</b>
Susan Arab	CSU Trustee	Ontario
Marie-Andrée Bourgoïn	CUPE Alternate Trustee	Ontario
Jim Costescu	CUPE Trustee	Ontario
Heather Dillabaugh	COPE Trustee	Saskatchewan
Brian Edgecombe	CSU-NC Trustee	Ontario
Charles Fleury	CUPE Trustee	Ontario
Amessan Gnawa	CSU-NC Alternate Trustee	Ontario
Tammy Greaves	CUPE Trustee	Ontario
Judy Henley	CUPE Alternate Trustee	Saskatchewan
Gary Johnson	Retiree Trustee	British Columbia
D'Arcy Lanovaz	CUPE Alternate Trustee	Alberta
John Lepine	CUPE Trustee	Ontario
Kelly Moist	CUPE Alternate Trustee	Manitoba
Barry Thorsteinson	Alternate Retiree Trustee	Ontario
Gary Yee	CSU Alternate Trustee	British Columbia

We want to take this opportunity to thank all those Trustees who have left the Board for their hard work and commitment to the CEPP.





### **JBT Sub-Committee Members and Mandates**

Over the years the JBT has determined that the most efficient way to manage some of the tasks and workload that is done each and every year is to create a series of sub-committees. These sub-committees are not decision makers with some very controlled exceptions. Their job is to undertake preliminary work and bring it back to the JBT for decisions. Each Trustee and Alternate Trustee is assigned by the JBT to these sub-committees. The 2016 sub-committees are:

#### ***Finance and Audit - Chair Tammy Greaves***

Ensures that the JBT's finances, accounting practices and staffing needs are reviewed and reported on annually.

#### ***Benefits and Member Communications - Chair Gary Johnson***

Provides member education (i.e. pre-retirement seminars), communications with plan members (Report to Members, Website, Member Booklet, Pension Connection newsletter); monitors and reports to the JBT on benefit related issues as they arise

#### ***Investment - Chair Judy Henley***

Reviews and oversees the investment policies, performance of fund managers, overall performance of the JBT investments, reviews and updates the list of foreign eligible companies, and oversees the performance of our proxy voting service as well as the responsible investing policy.

#### ***Governance - Chair Marie-Andrée Bourgouin***

Undertakes annually a review of Trustee/Board performance; sub-committee structure including mandates and performance; governance policies of the JBT; performance of legal counsel. Reviews Plan text amendments. Works with legal counsel and the actuary on legal and legislative issues or updates. Addresses pension plan administrative issues and recommends and arranges Trustees' education.

## ADMINISTRATION TEAM



CUPE is the Administrative Agent and has appointed Sister Pierrette Perras and her team to provide pension services to members.

If you are a member and need help with any of these matters:

- Plan enrolment
- Past service transfers, buy-backs, etc.
- Pension retirement estimates
- Calculations for purposes of marriage breakdown
- Retirement, termination, death benefits
- Individual pre-retirement counseling session

For active plan members in the provinces of Alberta, British Columbia, Manitoba, Newfoundland and Labrador, Nova Scotia, Ontario, Prince-Edward-Island and Saskatchewan contact:

**Carole Lachance**  
*Administrative Assistant*  
clachance@cupe.ca

For active plan members in the provinces of New Brunswick, Ontario (National Office only) Quebec and all retirees across Canada contact:

**Louise Payette**  
*Administrative Assistant*  
lpayette@cupe.ca

For pre-retirement seminar registration contact:

**Caroline Perron**  
*Clerk Typist*  
cperron@cupe.ca

For questions about:

- Administration of pension fund
- Negotiation and administration of Reciprocal Transfer Agreements (RTAs)
- Administration of policies and procedures
- Arrangement of pre-retirement seminars
- Preparation and filing of annual financial statements
- Preparation and filing of pension plan amendments
- Financial reconciliation of all pension plan transactions

Contact:

**Pierrette Perras**  
*Administrative Agent*  
pperras@cupe.ca

or

**Sylvie Ouellet**  
*Assistant Administrative Agent*  
syouellet@cupe.ca

To contact the Joint Board of Trustees (JBT):

**M. Lyn Thrasher**  
*Recording Secretary to the JBT*  
pension-jbt@cupe.ca

The Administration Team mailing address,  
telephone and fax numbers:

CUPE National  
1375 St. Laurent Blvd.  
Ottawa, On K1G 0Z7

**Tel: (613) 237-1590**

**Fax: (613) 237-5508**