# Delivering the pension promise

CBC Radio-Canada

CBC Pension Plan
Annual Report

2016

CBC Pension Plan

# Committed to pension stability and security

**The CBC Pension Board of Trustees understands the importance of long-term benefit security to members.**

We are committed to meeting the pension promise by ensuring you receive the pension benefits you've worked hard for and earned. In the report that follows, you will find details about 2016's Pension Plan activities and performance. We hope it provides reassurance that the plan is secure and stable. We want you to understand and feel confident that your pension will be there when you need it.

CBC Pension Plan

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This annual report is available online at
www.cbc-radio-canada-pension.ca

CBC Pension Plan

# 2016 HIGHLIGHTS

**$1.73**

**BILLION**

(Funding Surplus)

**135%**

(Funding Ratio)

**$6.62**

**BILLION**

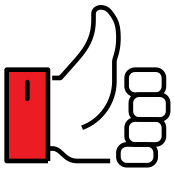
(Net Assets)

**5.8%**

(2016 rate of return)

**9.6%**

(4-year annualized rate of return)



**95%**

(Member Service Satisfaction Level)

**18,726**

(Total membership)

# 2016 ACTIVITY HIGHLIGHTS

## Member Services

We are committed to providing pension administration services to our members in a timely and cost efficient basis. This starts with providing clearly communicated information to our members about our services; establishing acceptable service level criteria and providing services that meet this quality standard. Our service levels continue to meet or exceed targets and survey results regarding member experience have been rated good/excellent 95% of the time by those completing the survey. Participation in member satisfaction surveys continues to increase and we will look for expanded ways for members to provide feedback on our services.

Last year we began the roll out of a multi-year plan to bring a more member-centric approach to our communications. This year, we revised the Trustees and CEO letters in the annual report to focus more on what mattered to members and less on financial market developments. The Plan's public website, the front page of the PAC website and the pension section of the CBC/Radio-Canada's iO Portal have been similarly revised. The format of the Trustees' quarterly Communiqué was simplified and includes a one-page infographic summarizing our long-term Strategic Plan goals and the status of our activities.

## Investment Management

We are also responsible for the investment of assets used to pay benefits. Although your benefits are not based on our investment returns, our ability to generate solid, stable investment returns helps to create a more sustainable pension plan. Despite a year of choppy financial markets and surprising geo-political events, our investment returns managed to keep pace with the growth in long-term pension obligations. During the year, we continued to focus on growing our internal investment management capabilities by completing the corporate bond transition to internal management and by developing an in-house currency management program for implementation in 2017.

## Operations / Risk Management

Understanding, mitigating and managing the risks faced by the Plan remains a critical component of our operational oversight. As institutional investors, we need to be aware of these risks and know when to take advantage or avoid them. In 2016 we completed the biennial review of the Risk Register which identifies the Plan's major risks and assesses our risk mitigating activities and controls. Regulatory risk was identified as a key Plan risk as the amount of regulation continues to increase. During the year, we spent a significant amount of time actively engaging with the regulator and industry organizations to better understand and respond to regulatory developments. A comprehensive framework to address cyber risk was also developed.

## Governance

It has been well researched that good governance leads to better investment and operational performance. We have long recognized the importance of a robust governance model which includes training for new Trustees and ongoing education sessions for all Trustees in light of an ever-evolving pension industry. This year we welcomed two new Trustees and prepare for two new Trustees in 2017. An industry wide assessment of auditor services was undertaken and following a robust process the decision was made to retain the services of our current provider. A third-party testing of fraud controls was also completed as part of the Trustees assurance control framework.

# PENSION PLAN PROFILE

The Canadian Broadcasting Corporation Pension Plan (the Plan) was established by the CBC/Radio-Canada effective September 1, 1961, pursuant to the Broadcasting Act. The Plan is primarily a contributory defined benefit pension plan covering substantially all the CBC/Radio-Canada employees. The Plan also incorporates an additional contributory component at no cost to the Plan which provides employees the flexibility to improve the provisions determining the calculation of their pension benefit through optional tax-deductible contributions. The Plan is federally regulated and is governed by the provisions of the Pension Benefits Standards Act (the Act), and the Regulations thereof.

The primary purpose of the Plan is to provide defined pension benefits for its members in accordance with the CBC Pension Plan text (and other documents), describing the Plan. The pension benefits received by its members are financed by the assets (and investment earnings) of the Plan and the contributions of CBC/Radio-Canada and the participating employees.

## CONTRIBUTIONS

Contributions are based on the salary and the Yearly Maximum Pensionable Earnings (YMPE).

| | 2016 | 2015 |
|---|---|---|
| YMPE | $54,900 | $53,600 |

| Contribution Rates | Employer | | Employee (Full Time) | |
|---|---|---|---|---|
| | Before July 2016 | After June 2016 | Before July 2016 | After June 2016 |
| Salary up to YMPE | 10.30% | 9.60% | 6.98% | 7.68% |
| Salary above YMPE* | 10.30% | 9.60% | 9.18% | 10.10% |

* Subject to a maximum salary allowed under the Income Tax Act

## PENSION BENEFITS

Pension benefit payments are adjusted each January 1st for inflation up to a maximum of 2.7% a year. This is called the annual indexation rate adjustment.

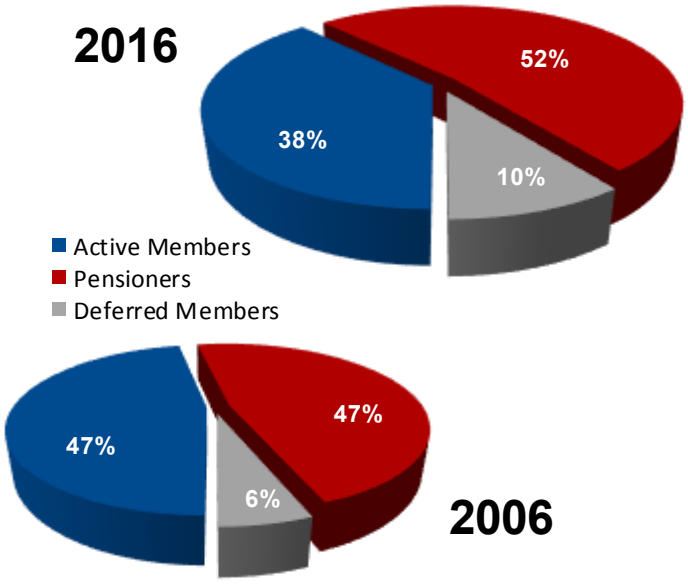
All pension benefit payments are determined using a formula based on pensionable salary, pensionable service and average YMPE.

| | 2017 | 2016 | 2015 |
|---|---|---|---|
| Indexation Rate Adjustment | 1.41% | 1.27% | 1.66% |

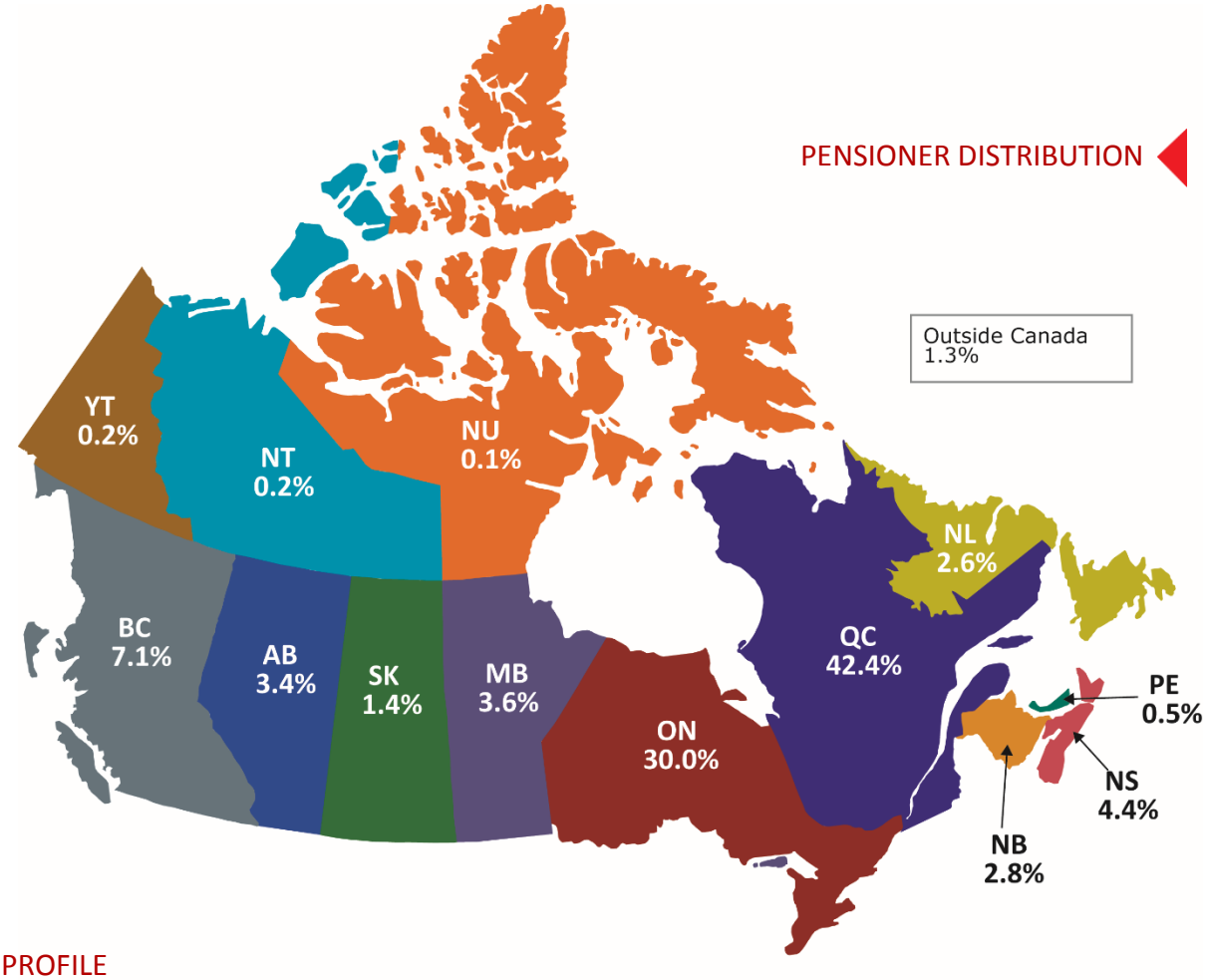
## MEMBERSHIP

Over the last decade, there has been a 13% decrease in active members, a 19% increase in pensioners and an 87% increase in deferred members.

| No. of Members | 2016 | 2006 |
|---|---|---|
| Active Members | 7,098 | 8,142 |
| Pensioners | 9,756 | 8,193 |
| Deferred Members | 1,872 | 1,002 |
| Total Membership | 18,726 | 17,337 |



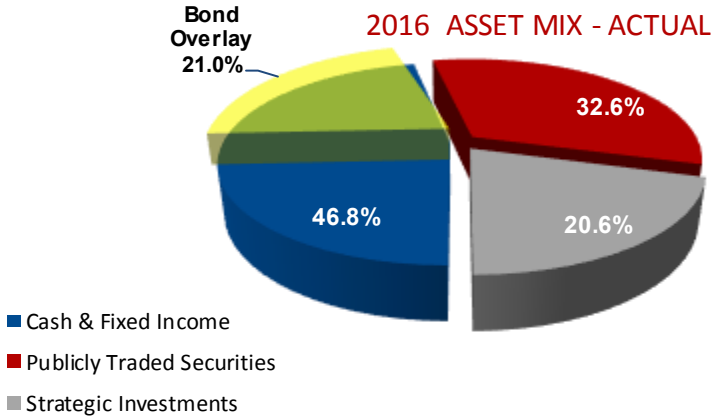
## PENSIONER DISTRIBUTION



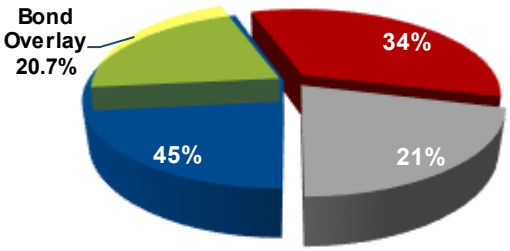

## ASSET PROFILE

The assets of the Plan are administered by the CBC Pension Board of Trustees (the Trustees) by virtue of the Trust Deed between CBC/Radio-Canada and the Trustees. The Trustees, directly or through agents retained by it, are responsible for investing the Plan's assets and in doing so, identify and pursue investment opportunities in accordance with the Act, the Regulations and the Plan's Statement of Investment Policy and Procedures (SIP&P). The asset mix is comprised of two broad categories of assets. The first, the fixed income class (the 'matched assets'), shares the pension plan obligations' sensitivity to changes in interest rates and inflation. This also includes a "Bond Overlay" consisting of derivatives used to hedge interest rate and inflation changes. The second category includes publicly traded equities and strategic investments (the 'unmatched assets'), which provide a higher expected rate of return over the long term but are generally more volatile.

### 2016 ASSET MIX - ACTUAL




### 2016 ASSET MIX - POLICY




The Plan is actively managed by a group of internal and external portfolio managers under the guidance of the Managing Director/CEO. The Plan's management objective is to generate returns after deductions for management fees and administration costs that equal the annual average increase in a benchmark portfolio plus 0.5% on a 4-year moving average basis.

# TRUSTEES REPORT

The CBC Pension Plan is focused on one simple overriding objective – to meet the pension promise. What this means to you, our plan members, is that everything we do is aligned with ensuring that members receive every dollar of pension benefits that they have earned. We strive to ensure that whether you retire today, tomorrow or in 40 years or more from now, the Plan will be able to pay the pension benefits that you have earned. 2016 marked another year of achievement and progress in meeting this objective.

**Financial Health of the Plan**

The Plan's primary way of assessing its overall financial health and its ability to meet the pension promise over the long term is by its funding ratios, or the value of the Plan's assets relative to the value of the pension obligations. The Plan's ratio of assets to obligations on a going-concern basis was a very healthy 135% at year end. More simply put, the Plan had approximately $1.35 of assets for each dollar of going-concern pension plan obligations. The Plan's positive going-concern funding status indicates the strong financial strength of the Plan and its ability to fulfill its pension obligations on a going-concern basis. Secondary, but still an important way of assessing the performance and health of the Pension Plan, is the Plan's long term rate of return. I am pleased to report that over the past 4 years, the Plan has achieved a 9.6% annualized rate of return (net of all expenses).

**Governance**

Every year the Board of Trustees undertakes a wide range of activities that support the ability of the Plan to meet the pension promise over the long term. In 2016, this included the continued roll out of the Strategic Plan and the monitoring of progress against the Plan's strategic and annual objectives. All key annual and strategic objectives were met and the Plan made progress in aligning its Board and member reporting to reflect the strategic objectives. The Board of Trustees also closely monitored the rollout of the Communications Plan with the introduction of a redesigned member access to the Pension Administration Center website and the redesign of the *Communiqué* and *Pension News* member newsletters.

The year 2016 was marked by a number of changes in the Board of Trustees. Mr. Paul Gaffney, Ms. Josée Girard and Mr. Brian Mitchell left the Board during the year. Collectively they had provided 18 years of service to the Board of Trustees. I would personally like to thank Mr. Gaffney, Ms. Girard and Mr. Mitchell for their dedication and service to the CBC Pension Plan. Joining the CBC Pension Board of Trustees during the year were Ms. Monique Marcotte, Vice-President, People and Culture at CBC/Radio-Canada and Mr. Rob Jeffery, a Director on the CBC/Radio-Canada Board of Directors. Mr. Alain Pineau, Member of the National Pensioners Association will join the Board of Trustees at the start of the new year.

**Thank You**

One behalf of the entire Board of Trustees, I would like to thank all pension plan members for the trust that they have placed in us.

On behalf of the CBC Pension Board of Trustees

Maureen McCaw
Chair
CBC Pension Board of Trustees
February 18, 2017

# MANAGING DIRECTOR / CEO REPORT

Why provide a defined benefit pension plan? For the sponsor, a defined benefit pension plan provides a way to attract and retain employees. For employees, it adds a stable and reliable component to their future retirement income.

The funding of the CBC Pension Plan relies on contributions from both CBC/Radio-Canada (the Plan Sponsor) and active members. Over the last few years, the level of employee contributions has been on the rise, moving slowly towards an equal cost-sharing of the Plan. This trend towards higher employee contributions is consistent throughout the defined benefit pension industry, as defined benefit plan sponsors contend with low interest rates, people living longer and regulatory conservativism. Other federal crown corporations have also been moving towards a 50/50 sharing of the total contributions.

Despite the trend towards higher costs, I think defined benefit pension plans are worth it. While some studies say that certain generations of employees are not interested in this benefit, I make sure that my "millennial"-born children know that defined benefit pension plans are a big deal and highly valuable.

One of our key roles at the Board of Trustees is to invest total contributions in order to generate an investment return that, over time, will grow the assets sufficiently to pay the long-term pension benefit payments earned by plan members.

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## The Plan's going-concern funded ratio at year end remained strong at 135% and the surplus (net assets in excess of liabilities) now rests at $1.7 billion.

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I am pleased to report that 2016 was another good year for the CBC Pension Plan. This year's 5.8% rate of return, net of investment management fees, brings the four-year average annual rate of return to 9.6%. Both of these numbers are in excess of their respective benchmark returns of 5.7% and 7.5%. Despite a year full of financial market volatility and jaw-dropping geopolitical events, our investment approach has been very successful in generating returns in excess of that required to support the long-term sustainability of the plan. As a result, the Plan's going-concern funded ratio at year end remained strong at 135% and the going concern surplus (net assets in excess of liabilities) now rests at $1.7 billion. This positive position indicates that the Plan continues to hold more than sufficient assets to meet all of the long-term obligations of the Plan. More information on the Plan's funded status on a going concern, as well as on a solvency basis can be found on page 17.

We are also an organization dedicated to servicing the pension administration needs of our 18,726 members. On this front, we continue our efforts to improve member's experience at the Pension Administration Centre (PAC). Recent enhancements include allowing easier access to the PAC employee website. Our self-service options are available 24/7 and more website usage by members will assist in managing the costs associated with your Pension Plan. We re-designed our various communications with shorter, more simplified and focused messages. Member service delivery is important to us and our service quality metrics and member survey ratings remain strong.

To achieve these results, I am surrounded by a great team, dedicated to the careful management and oversight of the assets and benefit administration. We, in turn, are overseen and challenged by a Board of Trustees who understand the importance of their fiduciary duties.

Last year's member survey results indicated that one of the key messages that you wanted was confirmation that the benefits you earn in the CBC Pension Plan are secure, stable and predictable. We manage our responsibilities with that goal in mind. How much is that type of benefit worth to you? We think it is worth a lot. We hope you agree.

Sincerely,

Debra Alves
Managing Director / CEO

# MANAGEMENT DISCUSSION & ANALYSIS



The Management Discussion and Analysis section of the Annual Report elaborates on the information contained in the audited financial statements. This section, which is prepared by management and reviewed by the Board of Trustees, assists the readers in gaining an appreciation of the Plan's financial position and performance over the past year as well as some brief insight on the year to come. The reader is cautioned that there is a degree of uncertainty in forward looking information pertaining to economics and investments in general.

# FINANCIAL OVERVIEW

## PLAN OBJECTIVE

The CBC Pension Plan (the "Plan") is required to provide defined pension benefits for its members in accordance with the Plan Text, the Trust Deed and other documents. The Plan's assets are managed within a moderate level of risk to provide a rate of return sufficient to meet liabilities and attempt to avoid increases in contribution rates. The investment policy is expressed in a document entitled the Statement of Investment Policy and Procedures (SIP&P). This policy is reviewed and approved annually by the Board of Trustees as required by the Office of the Superintendent of Financial Institutions (OSFI).

## USE OF ESTIMATES

Under Canadian accounting standards for pension plans, the Plan is required to make estimates when accounting for and reporting assets, liabilities, investment income and expenses, and to disclose contingent assets and liabilities in the Plan's financial statements. Continual re-evaluation of estimates is also required. The areas of financial reporting that are the most dependent on estimates are the Plan's valuation and classification of investments as well as assumptions used in the calculation of the pension obligations. Actuarial assumptions are used in determining accrued pension benefits and reflect the Board's best estimate of future economic and non-economic factors. The primary economic assumptions include the asset rate of return, the salary escalation rate and the rate of inflation. The non-economic assumptions include mortality, terminations/departures and retirement rates of the members of the Plan. The Plan's actual experience could differ from these estimates and the differences are recognized as experience gains and losses in future years. The fair value of investments is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Management, portfolio managers and appraisers' best estimates are used in selecting the valuation assumptions to determine fair value of non-publicly traded investments.

## CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

The Plan's net assets available for benefits increased by $124.0 million to $6,618.1 million at December 31, 2016 up from $6,494.1 million at December 31, 2015.

### Investment Income

Investment income increased to $218.4 million in 2016 from $198.0 million in 2015. Investment income includes interest and dividends earned during the year as well as distributions from the Plan's Strategic investments. Interest income earned in 2016 was $62.8 million, roughly in-line with the prior year's investment income as the Plan's allocation to fixed income was relatively stable during the year. Dividend income in 2016 was $63.1 million, $11 million more than 2015 as distributions earned from the Plan's pooled fund increased yet again in 2016. Distributions from Strategic investments remain a significant source of investment income in 2016, earning $92.4 million in 2016, up from $84.7 million in 2015. Maintaining a steady source of cash flows from investment income is an important component of the Plan's ability to match the cash flows of monthly benefit payments.

## CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

### Contributions

Following several years of extremely low interest rates and changes is the regulatory environment, the cost to provide a defined benefit pension plan has climbed. This cost is defined as the "normal cost" (i.e. the amount of contributions required to fund estimated future benefits earned in the current year). This cost is shared between CBC/Radio-Canada as the sponsor and provider of the Plan and the employees (active members). The normal costs rose from 17.6% in 2015 to 17.9% of payroll in 2016. Contribution rates for employees have also increased over the last couple of years to reflect CBC/Radio-Canada's movement towards an even sharing (i.e. 50%/50%) of the Plan cost with employees. The cost sharing ratio for employees was increased from 43.33% to 46.66% effective July 1, 2016. Employees will see a final increase effective July 1, 2017 to a 50% share. Contributions to the Plan however, overall declined to $96.8 million in 2016 from $99.1 million in 2015. Due to the change in the sharing ratio, employee current service contributions increased in 2016 to $39.6 million and the employer contributions decreased to $49.8 million. Past service contributions decreased to $7.4 million in 2016 from $9.2 million in 2015.

### Change in Fair Value of Investments

The Plan's investment returns were positive in 2016, as all asset strategies had positive returns. Canadian equities were the strongest asset class in 2016, while Global equities also did very well. The Plan's Liability-Driven Investment strategy provided positive returns and cash flows to the Plan in 2016. The fair value of investments increased in 2016 by $141.8 million versus an increase of $379.7 million in 2015. The Plan's Bond Overlay portfolio (bond forwards and total return swaps), which is a significant component of the Liability-Driven Investment strategy gained $19.2 million and the Fixed Income portfolios gained $19.9 million for a total $39.1 million from inflation and interest rate sensitive assets. As mentioned above, Canadian equities were very strong in 2016 and gained $71 million in 2016. The Global equities gained $74.1 million in 2016. The Strategic portfolio (made up of real estate, private investments and hedge funds) had mixed performance in 2016 with an overall loss of $52.7 million. These values all reflect both realized and unrealized gains and losses during the year.

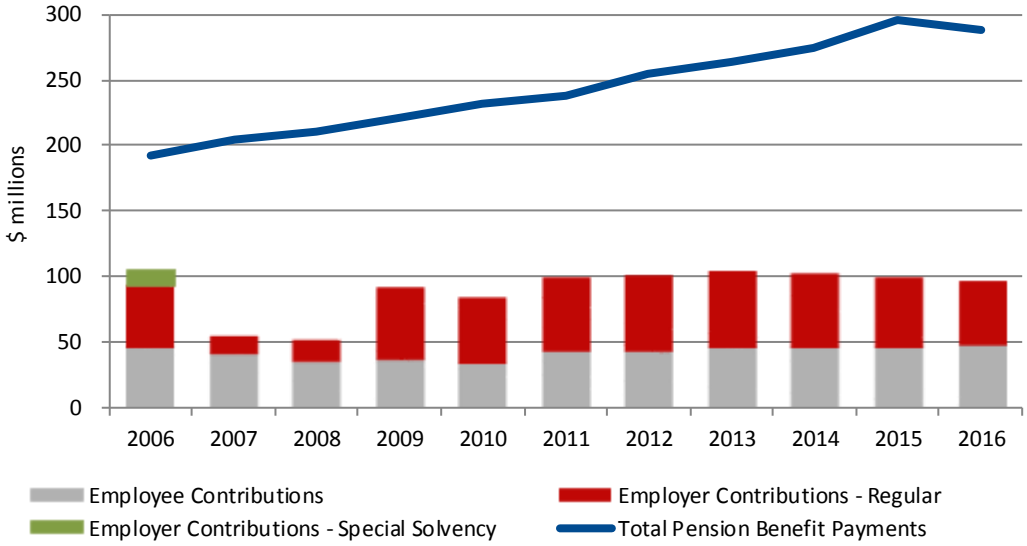
## CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

### Pension Benefits Paid

The Plan paid a total of $289.1 million in benefits during 2016, a decrease of $6.9 million from the $295.9 million paid in 2015. Retirement benefit payments rose by $5.2 million in 2016 to $242.0 million as a result of the cost of living adjustment for 2016 of 1.27% and an additional 79 pensions being paid at the end of 2016 as compared to 2015. At December 31, 2016, there were a total of 9,756 (2015 – 9,677) pensioners. The Plan's cost of living adjustment for pension payments uses an averaging method which is slightly different than the year-over-year rate of inflation. Transfers and refunds of contributions decreased by $16.9 million to $10.9 million and death benefit payments increased by $5 million. Pension benefits purchased through FlexPen withdrawals decreased slightly in 2016 to a total of $0.9 million.

The chart below shows a ten-year history of contributions compared to benefit payments. It illustrates the level of maturity of the Plan, showing benefit payments that are significantly higher than contribution levels.

CONTRIBUTIONS vs. PENSION BENEFIT PAYMENTS



CHANGE IN NET ASSETS AVAILABLE FOR BENEFITS

**Administrative Expenses**

In accordance with the Trust Deed, the total operating expenses relating to the Plan and pension benefit administration are paid by the Plan. Administrative expenses for 2016 totaled $44.3 million, a decrease of $2.0 million over the previous year. Total administrative expenses represented a cost of 67.1 cents per $100 of average assets under management in 2016, compared to 71.8 cents per $100 of average assets in 2015.

The decrease in administrative expenses in 2016 was due to savings across several operational areas of the Plan. Data processing and technology costs were lower as some external services were removed as they became more centralized under one provider. External management fees were reduced as more assets were transferred to internal management where costs are lower. External pension administration costs continue to decline as members continue to increase their use of the PAC website instead of the calling PAC directly, which is a much higher cost alternative.

The Plan participates in an annual external benchmarking study that covers the fund management portion of its administrative expenses, with the latest study being undertaken for the 2015 financial year. The study established a benchmark operating cost for a fund of our size, asset mix and nationality of 104.7 cents (2014: 99.6 cents) cents per $100 of average assets under management. The equivalent actual costs for the Plan in 2016 were 44.6 cents (2015: 43.5 cents) per $100 of average assets under management, indicating that administrative expenses for the management of the Plan compares very favourably against the industry.

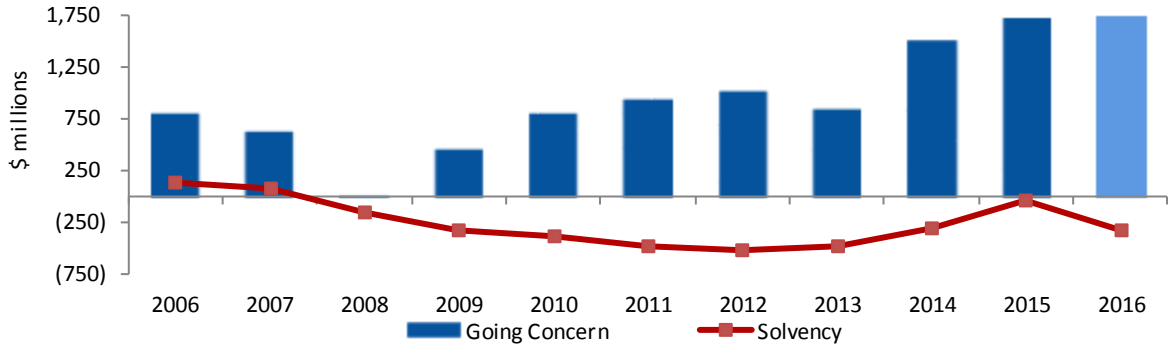
A summary of all the Plan's administrative expenses can be seen in Note 11 in the Financial Statements.

## PENSION OBLIGATIONS

The Plan's assets are managed to provide a rate of return over the long-term sufficient to cover the Plan's pension obligations. An actuarial valuation is used to estimate the Plan's pension obligations. Actuarial valuations are prepared on an annual basis at each year end. The actuarial valuation determines the pension obligations under two different scenarios: 1) a Going Concern basis and 2) a Solvency Basis. If the results of a valuation under either scenario indicate that the net assets available for benefits are greater than the pension obligations, the Plan has a funding surplus. If the pension obligations are greater than the net assets available for benefits, then this results in the Plan having a funding deficit. As the methodology to determine the pension obligations under each scenario is different, the valuation can result in the Plan having a funding surplus in one basis and a deficit in the other basis. In fact, the Plan does have a funding surplus on a going concern basis and a funding deficit on a solvency basis. The valuation results and the reason for calculating the pension obligations under different scenarios is outlined further below. The results from the valuation are used by CBC/Radio-Canada to determine the contribution rates (for both the employer and employee portions) required to cover the future pension obligations

### FUNDING SURPLUS / (DEFICIT)

as at December 31




The methodology and key assumptions underlying the actuarial valuation and projections are described in Note 8 to the Financial Statements. The primary long-term economic assumptions used in the 2016 projection are similar to those used in the 2015 actuarial valuation.

The going concern valuation basis is used to estimate the pension obligations under the assumption that the Plan will continue as a going concern (i.e. will continue to operate into the future). The going concern basis is used in preparing our financial statements and is presented as Pension Obligations on the Statement of Financial Position. As at December 31, 2016, the Plan's going concern pension obligations were projected at $4,886.8 million, an increase of $112.8 million from the previous year's total of $4,774.0 million. The going-concern funding surplus increased by $11.2 million to $1,731.3 million at year-end (2015: $1,720.1 million). The going concern funding surplus was little changed in 2016 as the Plan's return for the year of 5.80% matched the assumed long-term rate of return of 5.80% which is the discount rate used to estimate the going concern pension obligations.

The solvency valuation basis is a required calculation approach under the Pension Benefits Standards Act (PBSA) and for reporting purposes to OSFI. Using this method simulates a plan wind-up and determines the estimated cost to provided future benefits that all members are entitled to as at December 31, 2016. The estimated pension obligations under this method are $6,949.8 million and project a funding deficit of $338.2 million as at December 31, 2016. This deficit increased in 2016 by $298.3 million from a funding deficit as at December 31, 2015 of $39.9 million. The primary reason for the increase in the solvency funding deficit was due to changes in the mortality projection scale, an increase in the inflation assumptions and changes in interest rates.

For regulatory purposes, the Plan's funding position is determined based on the lower of the going concern funding position or the solvency funding position as determined in the latest actuarial valuation.

# INVESTMENT OVERVIEW

## INVESTMENT CONTRAINTS

In accordance with the PBSA, the Trustees and management must exercise the care, diligence and skills in the administration and investment of the Plan that a person of ordinary prudence would exercise in dealing with the property of another. The assets must be invested in a prudent manner taking into account all factors that may affect the Plan's funding and solvency. Permitted investments and restrictions, which are appropriate to the needs and objectives of the Plan, are identified in the SIP&P.

## INVESTMENT OBJECTIVES

The long-term objective of the Plan (Plan Objective) is expressed as a function of the Plan liabilities and is designed to replicate the Plan's solvency liabilities sensitivity to changes in interest rates and inflation. The long-term Plan objective is derived from the results of the actuarial valuation. The Plan follows a liability driven investment (LDI) strategy that is intended to outperform increases in the Plan's pension obligations and to mitigate the risk of a large funding deficit. Over the past 4 years the Plan's annual rate of return averaged 9.6% and over the past 10 years averaged 8.1% annually. The overall long-term Plan Objective was 4.7% over the past 4 years and 7.0% over the past 10 years.

The Plan's investment manager's objective (Asset Objective) is to generate net returns that exceed the annual average change of a benchmark portfolio by 50 basis points (0.5%) on a 4-year moving average basis. The benchmark portfolio return is calculated by combining the return of the asset class benchmark indices in the proportion in which they are represented in the Plan's asset mix policy. On a 4-year moving average, the Plan's annual rate of return of 9.6% exceeded the Asset Objective of 8.0% and over a 10-year period the Plan's average annual return of 8.1% exceeded the Asset Objective of 7.6%.

## INVESTMENT MANAGEMENT APPROACH

The Plan is actively managed by a group consisting of the Managing Director/CEO, the Secretary/Treasurer, seven internal portfolio managers and five external investment managers. The Managing Director/CEO provides the general direction on asset mix objectives in response to current market conditions and economic forecasts. Internally, the portfolio managers are responsible for the individual buy or sell decisions within their respective portfolios as are the external managers within their mandates. The internal portfolio managers, with the aid of portfolio analysts, perform their research in-house by accessing a range of company data, investment dealer research, industry publications, economic indicators, market data and through company site visits. External managers are selected following the establishment of investment objectives, mandates and constraints, determination of selection criteria and a due diligence process conducted with the assistance of independent external advisors. Oversight of external managers includes monthly portfolio performance measurement reports and more detailed quarterly reports on performance attribution, risk, mandate compliance and other relevant measures. These are supplemented by regular teleconferences and meetings as well as periodic site visits to monitor the external managers' mandates and activities.

It is anticipated that investment decisions will add extra value to the Plan. As a mature pension plan paying out significantly more in benefit payments than it receives in pension contributions, the Plan relies on investment income to pay current and future pension benefits.

## ASSET MIX AND INVESTMENT STRATEGY

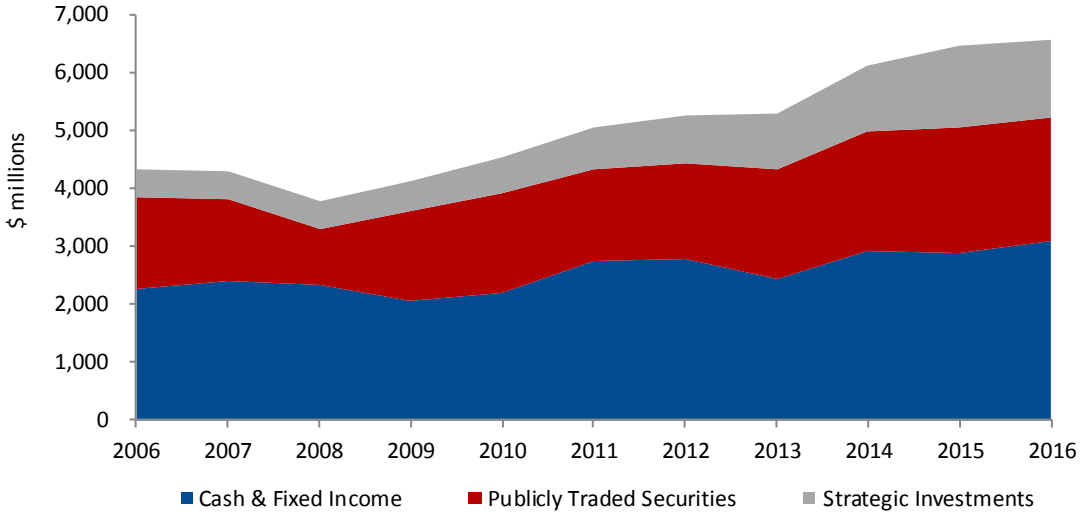
The long-term policy asset mix target of the Plan as defined in the SIP&P is 45% fixed income, 34% public equities and 21% strategic investments (which include property, private investments and hedge funds).

The long-term target asset mix also provides for hedging a portion of the Plan's interest rate and inflation risks). Under the LDI strategy, this is achieved through the use of derivative fixed income instruments.

The objective of the long-term asset mix is to ensure the Plan's assets will meet the pension obligations. The investment policy allows for the Plan to make tactical calls that vary the weighting of the asset classes within an operational range around the long-term asset mix targets. The purpose is to enhance the performance of the Plan by taking advantage of market movements. These tactical calls are normally done on a quarterly basis, based on expectations of asset class performance. The Plan may increase its weighting of those asset classes expected to perform well and reduce the weights of those asset classes that are expected to underperform.

### ASSET MIX AT FAIR VALUE

as at December 31



## RISK MANAGEMENT

The Plan has a Risk Management Policy and a comprehensive risk management program in place to help manage key Plan risks. A risk register of key Plan risks is maintained and updated on a biennial basis. Risks are assessed based on their potential impact and likelihood of occurrence and are organized into five broad categories that reflect organizational objectives. The categories are strategic, operational, investment, reporting and compliance risks. Key risks within these categories are assessed via a Control Self-Assessment process on a rotational basis and reported to the Board of Trustees. As a result of the 2016 update of the risk register, the Plan has identified a number of risk management projects that will be implemented over the next two years. In 2016, the Plan enhanced its risk measurement capabilities as it expanded its risk measurements to incorporate risk factor exposure analytics. The Plan's liability driven investment (LDI) strategy is designed to manage its investment risk. The primary objective of the LDI strategy is to reduce the fluctuations in the Plan's solvency funded position while also earning a robust long-term rate of return.

Relative to a traditional pension plan asset mix, which consists of a 60% allocation to equities and a 40% allocation to bonds, an LDI strategy is designed to hedge interest rate and inflation risks and reduces funded status volatility through:

a) holding a higher proportion of bonds within the asset mix;
b) holding bonds with a longer term to maturity (duration); and
c) holding a portfolio of financial derivatives that provide synthetic fixed income exposure.

The use of financial derivatives within the Plan's LDI strategy is tightly managed and controlled as it can have the effect of increasing other risks such as liquidity and credit risk.

The SIP&P defines the investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan including the long-term asset mix, which identifies the Plan's target exposure to each asset class. Each asset class has different levels of risk associated with it (e.g. equities are higher risk than government bonds). The asset model utilized by the Plan is considered by the Pension Board to be moderate in risk, however, it is deemed by the Board to be the most appropriate in addressing future pension obligations of the Plan. There are a number of risks associated with the Plan which are disclosed in the following section. In addition, those risks dealing with financial instruments held by the Plan are identified in Note 3 to the Financial Statements.

RISK MANAGEMENT

## Asset/Liability Matching

CBC/Radio-Canada guarantees pensions and other benefits payable under the terms of the CBC Pension Plan with the exception of the flexible pension provisions in Part III of the Plan. The Plan conducts asset/liability studies on a periodic basis to review the risk/reward associated with the existing long-term asset mix policy, analyze the risk-reward profile that would result from alternative asset mix policies, and consider the impact of various economic environments on both the assets and liabilities (pension obligations).

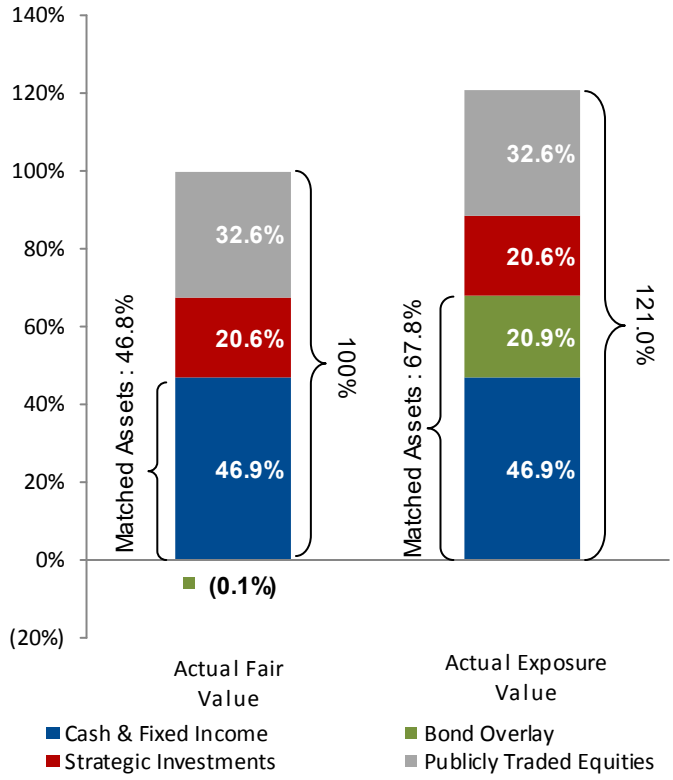
The most recent asset/liability study, which was completed in 2015, reconfirmed the Plan's LDI strategy and existing asset mix policy, while also identifying additional enhancements. It showed that an LDI strategy continues to provide the Plan with the optimal balance between funded status stability and expected rate of return. The 2015 asset/liability study also introduced a hedge ratio glide path that adjusted the Plan's level of interest rate hedging based on the level of interest rates.

The Plan's objective is to select eligible investments that produce acceptable rates of return to meet the obligations of the Plan. If the Plan's investment portfolio were risk free, the rates of return would be stable but low and would require significantly higher contributions. If the Plan's investment portfolio were aggressive, for instance, primarily invested in equities, the rates of return would be potentially higher but far more volatile due to the increased investment risk. While contributions may be lower if high returns are earned, contributions could be much higher if there was a major long-term contraction in the market.

Exposure Value refers to the total amount of the Plan's assets available to generate returns which can be either positive or negative. The Plan's use of derivatives in the Bond Overlay program allows the Plan to increase its exposure to Fixed Income securities (Matched Assets) without extending additional capital. This created an additional 21.0% of asset value exposure at December 31, 2016 to generate returns.

ASSET MIX

as at December 31, 2016



RISK MANAGEMENT

### Interest Rate Volatility Risk

The Plan's pension obligations are sensitive to changes in the assumptions on the long-term rates of asset return, salary escalation, mortality and inflation. Note 3 e ii) b) to the Financial Statements describes the impact of changes in the assumed long-term rate of return, which is used in going concern basis actuarial valuations. Low rates of return over a prolonged period could cause an increase to contribution levels in order to meet the Plan's pension obligations.

By regulation, the Plan's funding position is determined using the lower of the going concern and solvency basis actuarial valuations. The valuation of liabilities on a solvency basis is highly sensitive to changes in interest rates. The Plan's LDI investment strategy seeks to mitigate the impact of sensitivities to interest rates inherent in the Plan's pension obligations, as well as the inflation risk created by the partial indexation of Plan benefits. Thus, a decrease in interest rates that would increase the Plan's pension obligations would also be expected to increase the matched (fixed income) portion of the Plan's asset values.

### Financial Market Volatility Risk

The Plan's total assets at December 31, 2016, were $6.6 billion at fair value. Of this total, $2.1 billion was in publicly traded equity investments. This substantial amount exposes the Plan to domestic and foreign market volatility. This volatility is managed by diversifying across industry sectors, market capitalizations and international equity markets. The long-term performance expectation for publicly-listed equities outweighs the risks of short-term cyclical volatility. The Plan further mitigates this risk by investing in alternative assets such as hedge funds, real estate and private investments, including infrastructure projects, which have longer-term investment horizons. Diversification across various asset classes, investment strategies and investment managers continues to be an important management tool used in reducing volatility and risk. Note 3 e) ii) c) to the Financial Statements provides more information on the management of this risk.

### Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge its obligation and cause the other party to incur a financial loss. Every time the Plan makes an investment in a fixed income security it is exposed to the risk that the security issuer, be it a government or a corporation, may default on payments or become insolvent. The Plan's SIP&P provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. Note 3 e) iii) to the Financial Statements provides more detail on this subject.

RISK MANAGEMENT

### Liquidity Risk

Liquidity relates to the Plan's ability to sell investments to meet its pension payments, operating costs, mark to market gains and losses on derivative positions and other long term capital commitments. Liquidity risk refers to the risk that the Plan will be unable meet its financial obligations as they fall due. In 2016, benefit payments from the Plan and administration costs totaled $333.3 million. These payments were partially offset by employee contributions to the Plan of $47.3 million, and employer contributions of $49.8 million. The cash flow requirement for the balance of benefit payments was generated through investment income of $218.4 million and proceeds from the sale of assets. The Plan maintains a portfolio of highly liquid short-term notes that allows it to meet the Plan's ongoing liquidity requirements. The management of liquidity risk is further described in Note 3 e) iv) to the Financial Statements.

### Foreign Currency Exposure Risk

The Plan invests in non-Canadian securities for which the fair value may fluctuate due to variations in the market price of the security as well as the relative value of the Canadian dollar. These investments contribute to the diversification of the portfolio. Occasionally, the Plan invests in forward currency contracts in order to reduce its foreign currency risk. With the exception of currency forward contracts held as part of hedge fund portfolios, total market value of the forwards in any one foreign currency never exceeds the total market value of the Plan's investments in the hedged foreign currency at the time the hedge was placed. Note 3 e) ii) a) to the Financial Statements provides more information on the management of foreign currency exposure risk.

## INVESTMENT PERFORMANCE

Despite a lackluster growth in the global economy, global markets ended 2016 on a mostly positive note, with both equity and fixed income markets delivering modest gains in Canadian dollar terms. The Plan's total rate of return in 2016 was 5.8%, which was 0.1% higher than the Plan asset reference portfolio benchmark of 5.7%. Comparatively, in 2015, the Plan's 9.4% total rate of return was 3.5% higher than the reference asset portfolio benchmark return of 5.9%.

The Plan's overall 0.1% overachievement of the asset benchmark in 2016 reflected mixed performance against benchmarks amongst the asset classes. On a 4-year basis, the total Plan return of 9.6% was higher than the overall reference asset portfolio benchmark return of 7.5%.

## SUMMARY OF BENCHMARKS USED TO MEASURE ASSET PERFORMANCE

| Asset Categories | Benchmarks |
|---|---|
| Cash & Short-Term Investments | FTSE TMX 91 Day T-Bill Index |
| Fixed Income & Bond Overlay | FTSE TMX Canada Long Term Corporate Bond Index<br>FTSE TMX Canada Long Term Overall Bond Index<br>FTSE TMX Canada Real Return Bond Index<br>FTSE TMX Canada Long Term Provincial Bond Index |
| Canadian Equities | S&P/TSX Capped Composite Index |
| Global Equities | MSCI ACWI ex-Canada Index<br>MSCI ACWI Index<br>S&P 500 Index<br>Russell 3000 Index<br>S&P Developed SmallCap Index |
| Strategic | FTSE TMX 91 Day T-Bill Index + spread |

## INVESTMENT PERFORMANCE BY ASSET CATEGORY VS BENCHMARK

| Annualized Compounded Rates | | 1-Year Returns | | 4-Year Returns | |
|---|---|---|---|---|---|
| Asset Categories | Category as a % of Total Investments | Asset Returns | Benchmark Returns | Asset Returns | Benchmark Returns |
| Fixed Income: | | | | | |
| Cash & Short-Term Investments | 6.4% | 1.0% | 0.5% | 1.1% | 0.8% |
| Nominal Bonds | 28.8 | 3.3 | 3.1 | 4.4 | 4.0 |
| Real Return Bonds | 11.7 | 3.1 | 3.1 | 0.9 | 0.9 |
| Publicly Traded Securities: | | | | | |
| Canadian Equities | 10.9 | 18.7 | 21.1 | 8.4 | 8.5 |
| Global Equities | 21.7 | 7.9 | 3.7 | 20.9 | 17.6 |
| Strategic Investments: | | | | | |
| Property | 8.9 | 6.2 | 3.9 | 8.3 | 4.2 |
| Private Investments | 9.6 | 3.2 | 3.9 | 17.6 | 4.2 |
| Hedge Fund | 2.1 | (10.2) | 3.9 | 3.9 | 4.2 |
| Bond Overlay | (0.1) | 0.3 | 0.2 | 0.7 | 0.4 |
| Total / Weighted Average | 100.0% | 5.8% | 5.7% | 9.6% | 7.5% |

## THE ECONOMIC ENVIRONMENT

A recurring theme in 2016 was the desire of voters for fundamental political change. In June, voters in the U.K. decided to leave the European Union. In November, the US elected a President with no political experience. Both were unexpected events. Voter dissatisfaction, however, was not unique to these two countries. Similar scenarios also played out in other countries in 2016. Often it was due to the erosion of the political centre. Ironically, part of this shift in political thinking was driven by economic policies originally put in place to resolve the 2008 financial market crisis.

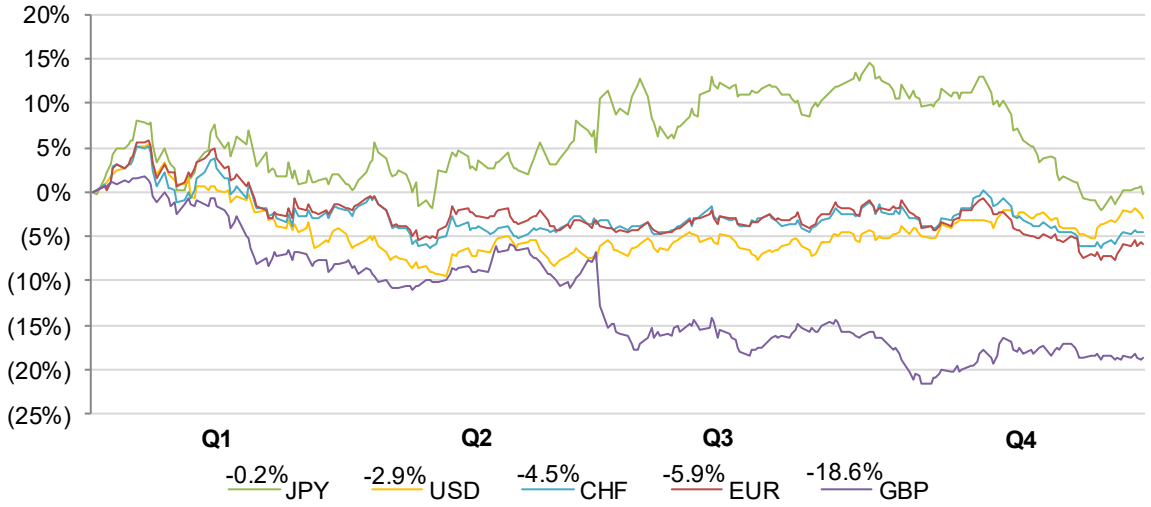
Since 2008, various central banks around the world have pumped in a cumulative US$11 trillion in monetary stimulus in an attempt to jumpstart their national economies. This is an astonishingly large number. The U.S., U.K., Europe and Japan have all engaged in massive government bond purchases known as Quantitative Easing. Europe and Japan even went one step further and implemented negative interest rates. One unintended consequence of all this monetary stimulus is that it has caused unprecedented distortions in financial markets. Many asset classes (including equities) are now richly priced thanks to ultra-low interest rates in the developed world.

Although this massive monetary stimulus did have the intended effect of stabilizing economic growth, the benefits have not been equally shared across society. Most of the advantage of high asset prices accrued in favour of those holding the assets, typically wealthier individuals. The average person has seen little personal benefit to all this monetary stimulus. As a result, income disparity has increased noticeably in many countries over the last several years. Not surprisingly, people have voiced their dissatisfaction by voting for political change - sometimes significant political change. This will have economic consequences for the next several years.

In spite of all the political changes that occurred in 2016, the global economy continued to grind along for much of the year. According to the IMF, world economic expansion came in at around 3.1% in 2016, similar to levels seen over the last couple of years.

FOREIGN CURRENCY PERFORMANCE vs CANADIAN DOLLAR

2016



## THE ECONOMIC ENVIRONMENT

Economically, the United States fared better than most countries. It grew an estimated 1.6%. The US housing market (the original source of the 2008 financial crisis) remained stable and there were solid improvements in the labour market. Several large US employers, particularly in the retail and service sector, were forced to raise salaries to attract enough qualified individuals. The United States has not experienced such broad-based wage increases for several years. Due to the improving labour outlook and the strengthening economy, the Federal Reserve raised interest rates at their last meeting of the year.

Going into 2017, the Trump presidency is more of an unknown factor than any other presidency since World War II. There are several sectors of the US economy that could be impacted: fiscal policy, tax policy, trade & tariffs, and immigration. For example, by some measures the US has the highest corporate tax rate of any large developed country. In addition, there has also been no substantive change to the US tax code since 1986. A reduction in corporate taxes could have a stimulative effect on both the US economy and financial markets, particularly if it is combined with a fiscal stimulus package aimed at improving US infrastructure.

The larger concern, however, is in the field of immigration and international trade. These are two areas where a US president has a great deal of influence and control. The risk of a trade war with a major trading partner is of particular concern. This could cause an unwinding of globalization with potentially negative economic consequences.

Another major economic risk going forward is that the Federal Reserve could accelerate interest rate increases, particularly if the US enacts a fiscal stimulus plan at the point where the US economy is approaching full employment.

Canada had a different story in 2016. Economically, the country continued to struggle with GDP growth of just 1.4% during the year. The Fort McMurray wildfires had a noticeable negative effect on the oil and gas sector, which in turn impacted Canada's export sector. The broader economic issue in Canada last year, however, continued to be the financially-stretched Canadian consumer.

Canadians hold too much debt, primarily in the form of home mortgages and personal lines of credit. Multiple surveys have shown many Canadian households are also not prepared for higher interest rates. The Bank of Canada is generally perceived to be on hold. However, if rates rise in the United States, it could cause interest rates (and thus mortgage rates) to also rise in Canada. This is perhaps the single biggest risk to the Canadian economy in 2017.

According to the Bank of Canada, if the Canadian economy is going to continue to grow, it will become more dependent on exports for economic growth. Exports in turn will be largely determined by the price of oil and gas and other key commodities, all of which are very volatile. On a positive note, the proposed fiscal stimulus plan of the federal government should provide a positive contribution to the economy over the next couple of years.

## THE ECONOMIC ENVIRONMENT

Economically, the Eurozone continued to struggle in 2016, managing only 1.7% GDP growth. Recent events, however, such as the U.K. deciding to leave the Eurozone, the ongoing immigration crisis in the region and the rise of political extremism suggests that Europe has other larger issues to deal with besides the economy. The U.K. exit from the Eurozone, in particular, is going to be a significant challenge. The short time frame allocated to negotiating an orderly separation will probably be insufficient given the complexity of the situation. It could result in a messy divorce. Although economically the U.K. will suffer, there is nothing to suggest it will become a broader global issue.

Japan is another major country that economically continued to move sideways during much of 2016. The country is rapidly aging with little to show for it except an ever-increasing debt burden. Their neighbour China is doing better. China continues to produce greater than 6% annual GDP growth. Some of this, however, is due to government stimulus programs. One issue with China is that the country has been trying to engineer a gradual decline in the value of their currency the renminbi. So far, they have been relatively successful. If China (as the second largest economy in the world) were forced to do a rapid devaluation of their currency, it could have a significant negative impact on both financial markets and economic activity.

Overall, 2017 is going to be a challenging year. The change to the political landscape will have distinct economic consequences, particularly in the United States. Going forward, the biggest issue is likely to be the risk of protectionism and its impact on global trade. There is a cost to reducing global trade beyond the obvious economic impact. Less global trade implies less interaction between countries. This decoupling can result in more regionalization. As well, the more countries look inward and the less they look outward, the greater the risk of further political extremism. This in turn can lead to an increased risk of regional conflicts.

# PLAN ASSET PERFORMANCE

## FIXED INCOME

*Fixed income investments are comprised of cash, short-term investments and bonds. Most of the fixed income assets held by the Plan are invested in Canadian dollars. Fixed income assets provide returns in the form of periodic interest payments and the repayment of principal at maturity.*

### CASH & SHORT-TERM INVESTMENTS

Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 1.0% | 0.5% |
| 4-Yrs | 1.1% | 0.8% |

The Plan's cash is invested in high quality and very liquid short term money market investments and primarily invested in the one to two-month maturity term. This activity contributes to maximizing returns on total available funds and accommodating the flexibility required to manage the cash demands related to the Plan's investments, the Plan's pension benefit payments and total administration expenses. In 2016, the Plan had on average approximately $295 million or 4.5% of assets in cash and short-term investments compared to $243 million or 3.8% of assets in 2015. At December 31, 2016, cash and short-term investments represented 6.4% of the Plan's investments.

Short-term investment yields remained relatively flat as the Bank of Canada kept its overnight lending rate unchanged at 0.5% in 2016 after cutting the target rate by 50 basis points in 2015. The slack in the Canadian economy is higher than in the US and explains the divergence in monetary policy between the Bank of Canada and the US Federal Reserve, which began to normalize rates in late 2015, increasing its policy rate by 50 basis points to-date.

### BONDS

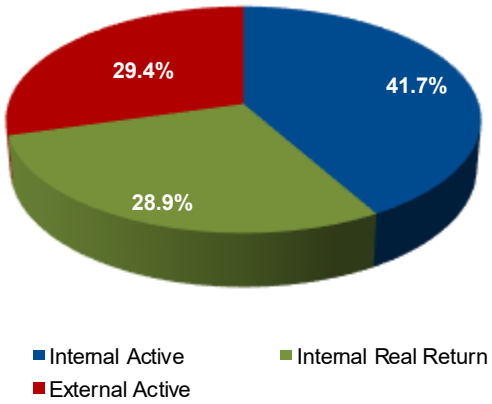
Annualized Compound Rates of Return

| Nominal Bonds | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 3.3% | 3.1% |
| 4-Yrs | 4.4% | 4.0% |
| Real Return Bonds[1] | | |
| 1-Yr | 3.1% | 3.1% |
| 4-Yrs | 0.9% | 0.9% |

[1] The Real Return Bond benchmark is equal to the actual return of the Plan's real return bond portfolio.

2016 was a volatile year for bonds where government yields in major developed markets fell significantly throughout the first half of the year reaching all-time lows with prices peaking in July / August due to various factors including a lack of inflation, expectations of more monetary stimulus by major central banks - particularly in Europe and Japan - and an expected negative economic impact of the UK voting to leave the European Union. The 10-year government bonds in Germany and Japan fell into negative territory during this period. Bond yields rose sharply in the latter part of 2016. Prior to the US election, global yields rose as Brexit fears dissipated and central banks in Europe and Japan did not lower policy rates to more negative levels (and no additional extraordinary monetary easing was implemented). The surprise Republican clean sweep led to an abrupt repricing of US growth and inflation expectations based on potential new policies that were perceived to result in higher consumer, business and government spending and a tighter labour market. Finally, the Federal Reserve continued its tightening cycle by hiking policy rates in December.

Market Value of Bonds
as at December 31, 2016
$2,668.2 million




All told, yields at the end of 2016 in the US and Canada were only modestly higher compared to the start of the year. U.S. Treasury 10 and 30-year benchmark yields rose 17 and 5 basis points, respectively, while Government of Canada bond yields increased 20 basis points in the 10-year maturity versus a 13 basis point rise in the 30-year term. Corporate bonds underperformed government bonds in the first two months of the year mirroring the risk off tone in equity markets and the collapse of oil prices. The yield differential or spread between corporate / provincial and government of Canada bond yields narrowed sharply during the year. The return of corporate bonds significantly outperformed both federal and provincial bonds. The return of Real Return Bonds was modestly lower than nominal bonds mainly due to low inflation.

## BOND OVERLAY

Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 0.3% | 0.2% |
| 4-Yrs | 0.7% | 0.4% |

As part of its LDI strategy, the Plan utilizes a Bond Overlay that consists of fixed income derivative instruments. This helps reduce funded status volatility while at the same time allowing for enhanced returns relative to an all fixed income portfolio. Although fixed income instruments provide a better match to Plan liabilities, their long-term expected return is lower than many other asset classes, which makes a 100% bond portfolio less than optimal. The Bond Overlay strategy allows for return generating assets with higher return potential, such as equities, private investments and real estate, to form part of the Plan's asset mix, while at the same time ensuring that the Plan's assets have the required interest rate and inflation sensitivity. This structure is designed to produce overall Plan returns which more closely mirror the movement in the Plan's pension obligations, while producing an enhanced return over that of an all-bond portfolio.

# EQUITY

*Equity investments represent ownership interests in publicly-traded Canadian and international companies. In addition to providing diversity to the Plan, equities are expected to provide a higher return than fixed income investments over the long term.*

## CANADIAN EQUITY

Annualized Compound Rates of Return

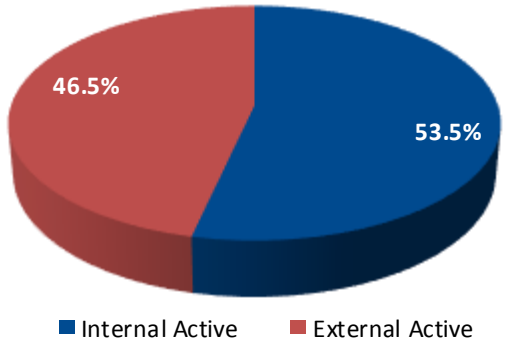
| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 18.7% | 21.1% |
| 4-Yrs | 8.4% | 8.5% |

A sharp rebound in commodity prices, optimism of a strengthening global economy and a continuing strong housing market lifted the Canadian equity market 21.1% in 2016, to near all-time highs. After hitting a low of $26 in February, Oil rebounded sharply, rising 45% to close the year at $54 USD per barrel on hopes an OPEC agreement to cut supply will balance the market.

Resource sectors led the market higher, with the Materials sector up 41.2% and the Energy sector up 35.5%. Also, posting strong returns were the Financials sector up 24.1% and the Industrials sector up 22.8%. The Health Care sector continued to experience heavy losses in 2016, down 78.5%, with Valeant Pharmaceuticals down 86.2% as the troubles continue for the company including potential accounting issues. Also, underperforming the market was the Information Technology sector with a return of 5.2%, Real Estate up 5.9% and Consumer Staples up 7.5% as defensive sectors moved out of favour.

### Market Value of Canadian Equity

as at December 31, 2016
$719.8 million




### S&P/TSX Capped Composite index

2016

## GLOBAL EQUITY

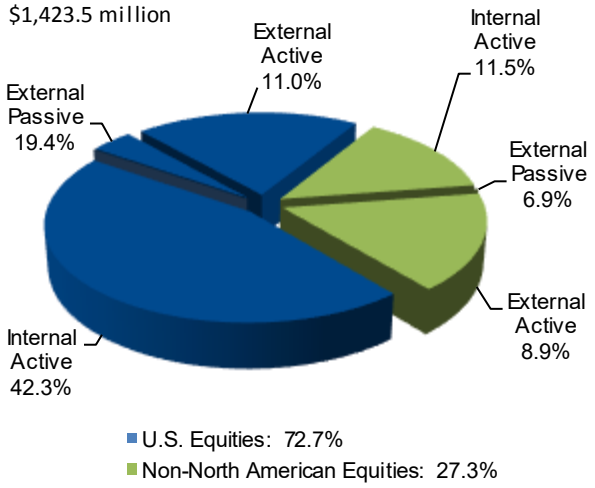
Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 7.9% | 3.7% |
| 4-Yrs | 20.9% | 17.6% |

Market Value of Global Equity

as at December 31, 2016

$1,423.5 million




Global equities generated positive returns in 2016, with the MSCI All-Country World ex-Canada Index rising 3.7% in Canadian dollar terms (including dividends). While the year itself had a number of ups and downs, 2016 will be remembered by: Britain's vote to leave the EU ("Brexit"), and the stunning victory of Donald Trump in the US presidential elections. Of perhaps greater surprise was the ultimate reaction of global equity markets to these events – after an initial bout of weakness, equity markets charged higher and closed 2016 near the highs of the year, buoyed by hopes of a US-led pro-growth agenda of lower taxes, fiscal stimulus and reduced regulation. Breaking a five-year run of underperformance, emerging market equities outpaced developed equities, while small capitalization stocks also generated higher returns than their large cap peers.

From a regional perspective, a sharp rebound in Brazil was the main factor behind the outperformance of emerging market equities in Latin America, with solid returns also seen in emerging European markets. US equities also outpaced the broader market, driven by optimism around a Trump-led growth agenda. While the underlying equity market in the UK remained resilient in the face of the Brexit vote, significant weakness in the British pound in the face of the vote caused UK equity markets to underperform in Canadian dollar terms. Within the regional context, equities in continental Europe and Japan also underperformed the overall market.

MSCI ACWI ex-Canada Index

Return (CAD) - 2016

U.S. Market

2016 was quite a year in U.S. equity markets. Highlights included the biggest decline to start a year for the S&P 500 on record as lows were hit in mid-February, followed by the biggest quarterly rally since 1933 into April. The Donald Trump presidential victory led to one of the biggest 4th quarter rallies in recent memory. In all, the S&P 500 generated a rather rocky 8.1% return (in Canadian dollar terms) for 2016. Energy was the best-performing sector in 2016, generating a 23.9% return (in Canadian dollar terms), after being the worst-performing sector in the previous 2 years. Financials also rebounded to a 19.4% return coinciding with a back-up in Treasury yields. Lagging sectors were Healthcare, Real Estate and Consumer Staples reflecting a reversal of the "defensive" trade of investing for yield. Earnings growth has been challenging over the past couple of years. The third quarter of 2016 marked the first year-over-year increase in earnings for the S&P 500 since the fourth quarter of 2014.


EAFE Markets

The EAFE region (Europe and developed Asia) contracted -2.5% in Canadian dollar terms in 2016, held back in part by currency weakness. The biggest headline event of the year was the surprise Brexit vote in the UK, which weighed heavily on the British pound, although the impact of this was partially offset by a significant rally in export-driven equities. Ongoing monetary easing remained the theme across the Eurozone and Japan, a notable divergence from the US, which had a second round of rate hikes in December. Among the EAFE markets, the strongest returns were seen in New Zealand (+15%), Norway (+11%), Austria (+8%) and Australia (+8%), while markets such as Israel (-27%), Denmark (-18%) and Italy (-12%) underperformed.

Emerging Markets

Emerging markets enjoyed solid returns in 2016, with the MSCI EM Index rising 7.3% in Canadian dollar terms. Within the EM universe, however, returns varied widely. On the positive side, firming commodity prices and improving political sentiment led to the significant outperformance of Brazil (+61%) and Russia (+51%). Peru (+50%), Hungary (+31%) and Thailand (+23%) also experienced outsized gains in the year. On the weaker end of the spectrum, Greece (-15%) continued its multi-year run of underperformance, while Egypt (-14%) was also hit by a policy-driven currency devaluation, with the Egyptian pound depreciating 57% against the US dollar. Concerns over US trade protectionism with the incoming administration weighed heavily on Mexico (- 12%), while Turkey (-11%) faced heightened political turmoil and a significant depreciation in the Turkish lira.

## STRATEGIC INVESTMENTS

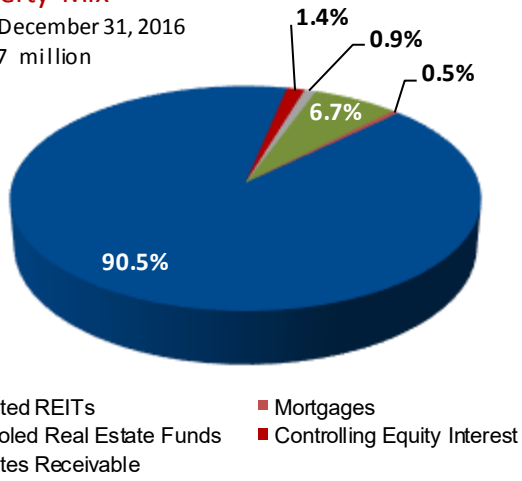
*Strategic Investments are comprised of three separate components: Property, Private Investments and Hedge Funds. Property consists of investments in real estate and mortgages. Private Investments include investments in infrastructure, private equity, mezzanine financing, buyout funds, secondary funds and venture capital. Hedge funds include a global macro hedge fund and a managed futures hedge fund. The Strategic Investments diversify the Plan's sources of return and have the potential to earn high returns.*

### PROPERTY

Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 6.2% | 3.9% |
| 4-Yrs | 8.3% | 4.2% |

Property Mix
as at December 31, 2016
$586.7 million




Despite lackluster economic growth and rising interest rates, the Canadian commercial real estate market pulled off another good year, albeit lacking some of the stellar capital gains of recent years. Vancouver and Toronto in particular posted exceptional returns, while investments in Alberta generally suffered capital losses. Transaction volumes were very strong as several portfolios changed hands and foreign buyers have returned to the Canadian property market, mostly in the hotel sector. Capitalization rates edged lower, again with the notable exception of Alberta.

Overall, the vacancy rate for the office sector continues to climb to the highest in over a decade. However, this belies the tremendous diverse experience across Canada. The Calgary vacancy is now over 20%, the Toronto market is below 10%. The Vancouver and Montreal markets are also performing well. The industrial sector is showing improvement with low vacancy levels in Vancouver and Toronto while the Alberta industrial market is experiencing soft leasing conditions. The Canadian retail sector is holding up relatively well despite the increase in online shopping. Mid-level fashion has been particularly hit hard, however, new entrants from the luxury brands are quick to snap up many of the vacancies, resulting in little change to the overall vacancy rate in Canada. The multi-residential sector continues to thrive, particularly with newly developed properties in major downtown centres. Alberta is the exception, as lease rates have fallen substantially and vacancy levels have climbed, causing valuations to plummet.

2016 was an active year for the property portfolio, with over $58 million in acquisitions and $70 million in disposals. The focus of the Plan's investment activity in the year were core Canadian real estate investments that provide stable returns.

## PRIVATE INVESTMENTS

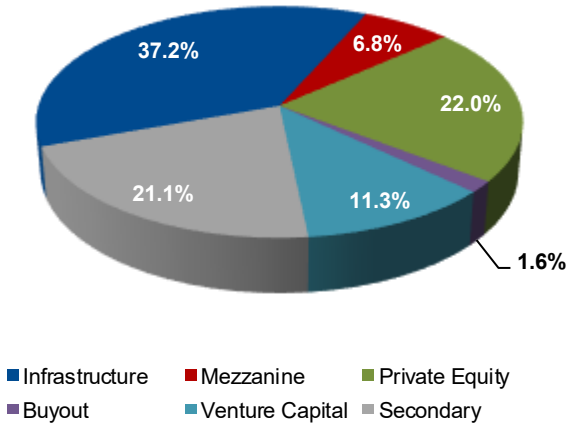
Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | 3.2% | 3.9% |
| 4-Yrs | 17.6% | 4.2% |

Private Investment Allocations

as at December 31, 2016

$627.8 million




Many of the private investments involve buying and running small to medium size enterprises. These enterprises typically have targeted products and services. If well managed, they provide the opportunity to offer high returns over the long term. Investors who can afford to be patient with such illiquid investments typically receive a premium compared to publicly listed companies. The Private Investment portfolio also helps to diversify the Plan into countries and segments of the global economy that are not well represented by public equity markets or fixed income holdings.

The allocation of the Private Investment portfolio on a fully drawn basis at year end was 37% infrastructure, 22% private equity, 21% secondaries, 11% venture capital, 7% mezzanine and 2% buyout. The Private Investment portfolio is well diversified on a global basis, with a geographic allocation that roughly matches global GDP (with an overweight towards Canada). The current geographic allocation of the portfolio is 31% Europe, 27% US, 27% Asia, 11% Canada and 4% South America.

Three new commitments were made to the Private Investment portfolio in 2016. This included an investment in a European secondary fund, an investment in a global infrastructure fund and an investment in a global secondary fund. All three investments were made with existing business partners who have solid long-term track records.

## HEDGE FUNDS

Annualized Compound Rates of Return

| | Plan Assets | Asset Benchmark |
|---|---|---|
| 1-Yr | (10.2)% | 3.9% |
| 4-Yrs | 3.9% | 4.2% |

The Plan invests in two externally managed hedge funds. One is a global macro hedge fund where the three main investment strategies are based on the relative value among G-10 country stock and bond markets, relative value among global currencies and value among commodities. This fund experienced poor returns overall for the year, especially within bond country selection. Also, both the stock country selection and commodity strategies contributed to underperformance.

The second hedge fund is a managed futures fund that provides diversification into various markets and introduces some medium-term trend momentum to the Plan. It seeks to exploit the existence of persistent, multi-month trends in a wide range of highly liquid listed futures and currency markets. Performance in 2016 was disappointing overall with the exception of fixed income markets. In general, the environment was difficult for directional trend following strategies. The majority of markets (commodities, stock indices and currencies) failed to demonstrate significant trending opportunities.

## SUMMARY OF ASSET ALLOCATION

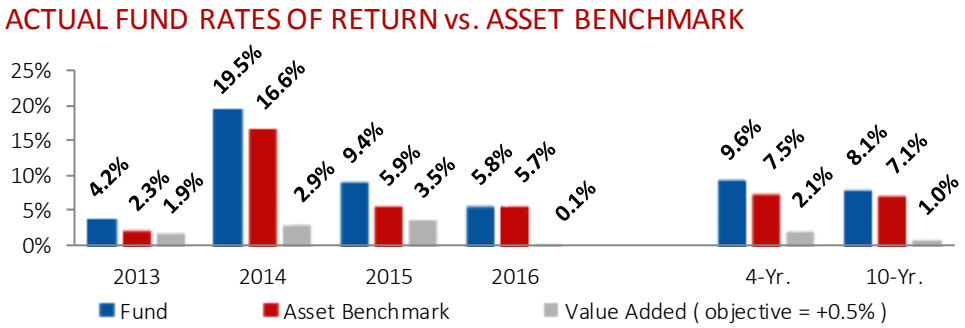
The investment policy allows for the Plan to make tactical calls that vary the weighting of the asset classes from the policy allocation of 45% Canadian fixed income, 34% public equity and 21% strategic (real estate, private investments and hedge funds). Tactical calls are normally done on a quarterly basis, although they can be done more frequently depending on market conditions. Value-added to the overall Plan is achieved by a combination of these tactical calls at the Plan level and manager selection at the individual portfolio level.

High valuations in public equity markets led the Plan to remain moderately overweight cash at the beginning of 2016. This overweight position was reduced back to neutral by the second quarter of the year as it became evident that no significant equity market correction was likely to occur.

The Plan also remained moderately overweight Canadian fixed income in the first half of the year due to ongoing concerns over the weak Canadian economy and the impact of quantitative easing in Europe and Japan supressing global fixed income prices. This overweight position was shifted back to neutral by the end of 2016 on expectation that the US Federal Reserve would increase interest rates (which did occur at their December meeting).

Ongoing concerns over the trends in commodities coupled with uncertainty surrounding oil and gas prices resulted in the Plan being moderately underweight resource-heavy Canadian equity throughout much of the year. Much of the underweight in Canadian equity was reallocated to US equity.

As of December 31, 2016, the actual asset mix of the Plan was 46.8% Canadian fixed income (of which 6.4% was in cash-equivalent instruments), 32.6% public equity and 20.6% strategic.



# MEMBER SERVICES

## PENSION BENEFIT ADMINISTRATION

The CBC Pension Board of Trustees is responsible for the administration of the Plan, which includes the payment of pension benefits from the Plan to those who have retired or resigned and to survivors of those whose death occurred in service or after retirement. The CBC Pension Plan also includes an additional contributory component providing employees with the flexibility to enhance their pension benefit through tax-deductible contributions. This component, which does not entail additional costs to the Plan, is commonly known as FlexPen.

Since January 2013, the firm of Morneau Shepell Ltd (Morneau) has provided pension benefit administration services for CBC/Radio-Canada employees and pensioners through the Pension Administration Centre (PAC). Performance standards for the pension benefit administration services address the practices and processes required to execute, in a timely and efficient manner, the major responsibilities noted above as well as other varied functions in pension related activities such as:

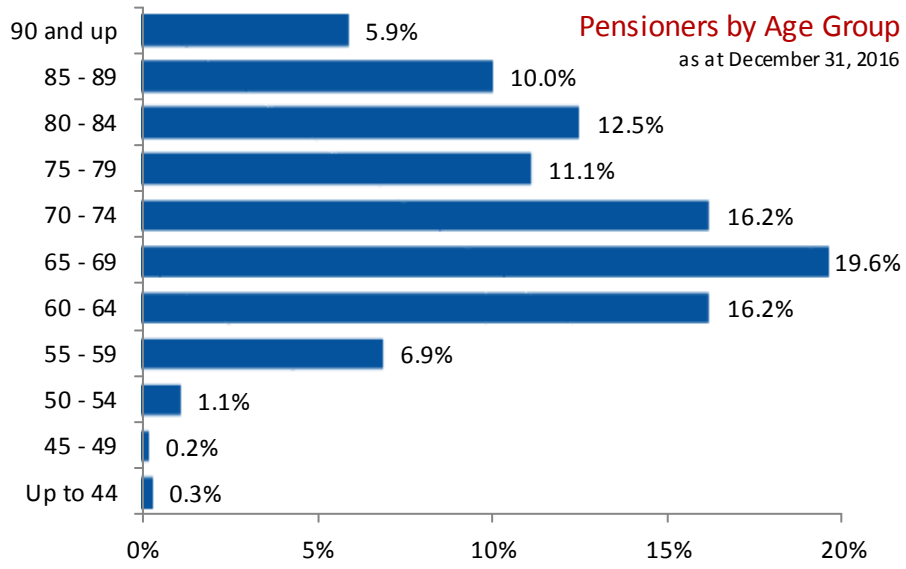
- calculations in connection with the purchase of previous service;
- the transfer of pension entitlements under the terms of reciprocal transfer agreements;
- coordinating the division of pension credits on marriage breakdown;
- processing pension benefit adjustments related to indexation, ad hoc adjustments, retroactive salary adjustments, etc.;
- on-line access, through a secure website, to pension information, pension projection and buy-back cost estimation tools and pension forms. Further, this on-line feature provides an information request capability;
- a toll-free call centre; and
- customer service representatives capable of answering pension related questions, putting clients in touch with outside providers and mailing forms related to various life changes.

The table below shows the increasing number of pensions being paid from the Plan at year end. In 2016, there was an increase of 79 in the number of pensions being paid, compared to 2015. Over a 5-year period, the total number of pensions being paid increased by 5.6% from 9,241 in 2012 to 9,756 in 2016.

| Year-ending December 31 | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| Pensions being paid | | | | | |
| To retirees | **7,875** | 7,812 | 7,691 | 7,615 | 7,449 |
| To spouses of deceased employees and retirees | **1,772** | 1,755 | 1,771 | 1,735 | 1,695 |
| To former spouses due to division of pension credits | **85** | 84 | 75 | 76 | 74 |
| To children of deceased employees and retirees | **24** | 26 | 22 | 24 | 23 |
| Total pensions being paid | **9,756** | 9,677 | 9,559 | 9,450 | 9,241 |

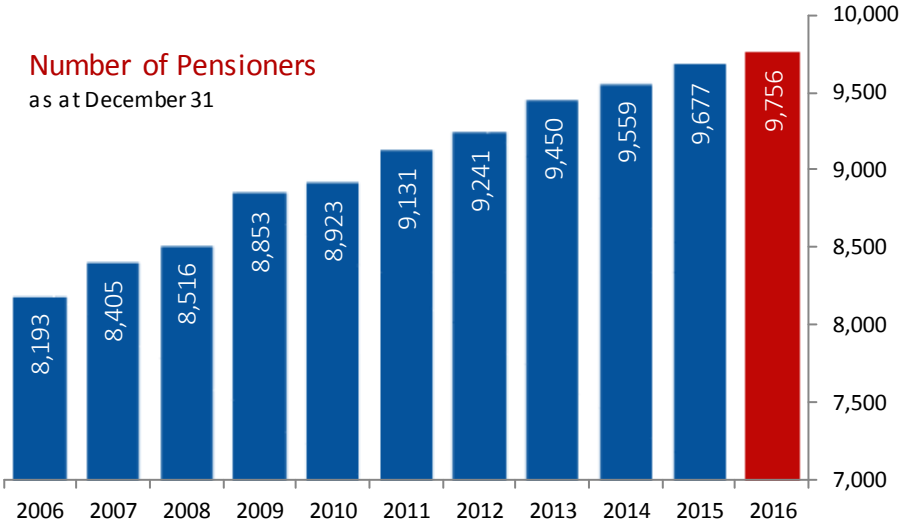
The fourth year of operation of the Pension Administration Centre (PAC) by the new service provider was again considered successful based upon service levels achieved, satisfaction survey results and utilization volumes. To get there, our pension administration service provider has shown continued commitment to improving the efficiency and the quality of services since the transition in 2013. Ongoing satisfaction surveys during the year among callers to the Pension Administration Centre showed an aggregate overall satisfaction rating of 95%.

The Plan's members are encouraged to use the PAC website for all their pension-related needs. The website, which includes pension projection and buyback cost estimation tools, pension plan information and general communications to name a few, is the most efficient and cost effective method for employees and retirees to access their personal pension information. Enhancements on how employees access the website were implemented in December 2015 with the view to encourage them to visit the site and take full advantage of the information and tools available at their fingertips. These enhancements have been highly successful in reducing the number of calls to the PAC call center.




Statistics on general website usage show that in 2016 the total number of log-ins, including multiple log-ins, was 14,013 for employees and 3,960 for pensioners. In total, there were 9,454 employees and pensioners who visited the website. The website provides Plan members with convenient and flexible access to information, tools and personalized calculations, and is highly cost-effective for the Plan. The PAC call center received 6,357 calls in 2016, of which 4,359 were from active members and 1,998 from pensioners and inactive members. Overall PAC volumes in 2016 were lower than in 2015, reflecting a decrease in both call volumes and pension transactions such as terminations, buybacks and payment set-ups.

The accompanying charts illustrate the increase in the number of pensioners over the past ten years; and the age distribution of the pensioners at year-end.



# PENSION PLAN GOVERNANCE

## OVERVIEW

Pension plan governance denotes the processes and structures adopted by the CBC Pension Board of Trustees to direct and manage the Plan in order to achieve its strategic objectives. The processes and structures define the division of responsibilities and the mechanisms for achieving accountability among the Board of Trustees, Plan management and the Plan members. The direction and management of the Plan takes into account the impact on other stakeholders such as CBC/Radio-Canada (the Corporation) and its Board of Directors. The practice of good governance allows the Trustees to fulfill their fiduciary obligations since effective pension plan governance is crucial to delivering the pension promise. By virtue of the Trust Deed between CBC/Radio-Canada and the Trustees, the CBC Pension Board of Trustees is responsible for the administration of the Plan including the management of the Plan's assets and the calculation and payment of pension benefits.

In discharging their fiduciary responsibilities, the Trustees must exercise the care, diligence and skill in the administration and investment of the Plan that a person of ordinary prudence would exercise in dealing with the property of another. The fiduciary duties oblige Trustees to invest assets in a prudent manner taking into account all factors that may affect the funding of the Plan and the ability of the Plan to meet its financial obligations. The CBC Pension Board of Trustees has a Statement of Investment Policy and Procedures (SIP&P) defining investment policies, principles and eligible investments which are appropriate to meet the objectives of the Plan. Through its ongoing commitment to good governance practices, the Board of Trustees has adopted the Canadian Association of Pension Supervisory Authorities (CAPSA) Pension Plan Governance Guidelines as its governance framework. These are summarized in the table below.

| | |
|---|---|
| **FIDUCIARY RESPONSIBILITY** | The plan administrator has fiduciary and other responsibilities to plan members and beneficiaries. The plan administrator may also have fiduciary and other responsibilities to other stakeholders. |
| **GOVERNANCE OBJECTIVES** | The plan administrator should establish governance objectives for the oversight, management, and administration of the plan. |
| **ROLES AND RESPONSIBILITIES** | The plan administrator should clearly describe and document the roles, responsibilities, and accountability of all participants in the pension plan governance process. |
| **PERFORMANCE MEASURES** | The plan administrator should provide for the establishment of performance measures and for monitoring the performance of participants who have decision-making authority in the governance process. |
| **KNOWLEDGE AND SKILLS** | The plan administrator, directly or with delegates, has a duty to apply the knowledge and skills needed to meet governance responsibilities. |
| **ACCESS TO INFORMATION** | The plan administrator and, as necessary, any delegates should have access to relevant, timely and accurate information. |
| **RISK MANAGEMENT** | The plan administrator should provide for the establishment of an internal control framework, commensurate with the plan's circumstance, which addresses the pension plan's risks. |
| **OVERSIGHT AND COMPLIANCE** | The plan administrator should provide for the establishment of appropriate mechanisms to oversee and ensure compliance with the legislative requirements and pension plan documents and administrative policies. |
| **TRANSPARENCY AND ACCOUNTABILITY** | The plan administrator should provide for the communication of the governance process to plan members, beneficiaries and other stakeholders to facilitate transparency and accountability. |
| **CODE OF CONDUCT AND CONFLICT OF INTEREST** | The plan administrator should provide for the establishment of a code of conduct and a policy to address conflicts of interest. |
| **GOVERNANCE REVIEW** | The plan administrator should conduct a regular review of its governance. |

A Plan Responsibility Chart, which defines the responsibilities of the participants in the governance, management and operations of the Plan, is appended to the By-Laws of the CBC Pension Board of Trustees. The Trustees conduct an annual governance self-assessment which is focused on governance best practices. It is designed to enhance Board performance and identify both strengths as well as areas for improvement in the effectiveness of the Board's operations

## BOARD OF TRUSTEES COMPOSITION & STRUCTURE

The Trust Deed defines that the Board of Trustees be comprised of seven members. Two Trustees are designated senior officers of CBC/Radio-Canada. The five remaining Trustees must be appointed by the CBC/Radio-Canada Board of Directors of which two must hold office as Directors or be officers of CBC/Radio-Canada employed full time by the Corporation, and three are general appointments. Currently, the five appointed Trustees include two members of the CBC/Radio-Canada Board of Directors, and the three general appointments include two employees, as recommended by members of a Consultative Committee for Staff Benefits, and the third is a retired member who is recommended by the CBC Pensioners National Association.

The Board of Trustees functions as a single general committee which addresses all subject matters including benefits, investments and audit.

## INDEPENDENCE OF THE BOARD

The Board of Trustees is required to act independently and not as representatives of any interest, whether CBC/Radio-Canada, active employees, or pensioners. The Board of Trustees administers the Plan as a trustee for the employer, the members of the Plan, former members, and any other persons entitled to pension benefits or refunds under the Plan. The Board of Trustees meets with outside advisers on issues which may require clarification or independent opinion in order to assist the Board in discharging its responsibilities. At its meetings, the Board of Trustees has in-camera sessions, without management present to discuss any matters or subjects it sees fit. The Board appoints and meets with external auditors to review their findings. The auditors' report is submitted to CBC/Radio-Canada in conjunction with the financial statements within 90 days following the Plan's fiscal year-end. The Board also appoints actuaries in order to obtain an actuarial report on the financial condition of the Plan. A copy of the report, which must be prepared annually, is submitted to CBC/Radio-Canada within sixty days following receipt of same. CBC/Radio-Canada is responsible for the decisions with regards to surplus utilization or the funding of deficits as well as the level of contributions.

## EFFECTIVENESS OF THE BOARD

In their oversight role, Trustees should have the qualifications necessary to oversee a complex financial business and an understanding of financial markets, risk management and actuarial principles.

The Board of Trustees has a formal orientation program for new Trustees to assist them in performing their fiduciary and governance duties. The program includes sessions on legal responsibilities, governance concepts and practices, investment management and finance, and actuarial concepts and approaches. The education sessions and material are provided by external experts and staff specialists. The Board of Trustees also has a continuing education program which includes a full day meeting as well as dedicated time at regular meetings. Topics are varied and timely in order to enhance the Trustees' knowledge base required to properly discharge their fiduciary duties.

## EFFECTIVENESS OF THE BOARD

The Plan has in place standards of business conduct to govern the activities of Trustees and other individuals in discharging their duties to the Plan. These are contained in the Code of Conduct which includes conflict of interest, personal trading, confidentiality, business conduct and gifts and other benefits guidelines. In addition, the Plan's Code of Ethics and Standards of Professional Conduct and Employee Personal Investment Guidelines apply to designated investment employees of the organization.

The Board of Trustees met eight times in 2016, of which four were in person and four were via teleconference. The By-Laws of the Board of Trustees require a minimum of four meetings per year.

## ROLE OF MANAGEMENT

The Board of Trustees has defined management responsibility for the planning, operating, and reporting activities of the Plan. These responsibilities, which include the investment management of the Plan, administration of the benefits associated with the Plan, human resources, communications, operations and control, have been delegated to the Managing Director/CEO, who reports to the Board of Trustees. Subject to Board approval, management develops and implements all relevant policies including those in the areas of investment, communications, business conduct and control, organization and compensation, and operations and administration. Subject to these policies, management develops and implements the investment program and develops and ensures that service quality standards to the Plan members are met. Throughout the process, management ensures that the Plan is administered in compliance with the policies and ensures that all regulatory requirements are met. The Board of Trustees has an assurance framework that assesses the key processes and controls implemented by management and ensures they are operating properly. The Plan completes annual reviews of key assurance processes and controls.

## MANAGEMENT PERFORMANCE

The Plan's SIP&P defines the investment policies, principles, and eligible investments which are appropriate to meet the objectives of the Plan. It takes into account all factors that may affect the funding and solvency of the Plan and its ability to meet its financial obligations. Operationally, it defines the long-term asset mix targets and the permitted ranges around each of these targets. Reviewed and approved annually by the Trustees, the SIP&P identifies the long-term investment objective of the Plan. The Plan's long-term investment objective is defined in relation to its liabilities and aims to maintain stable funding ratios on both a going concern and solvency basis. The SIP&P identifies performance benchmarks for the individual asset classes and the total Plan. A competitive compensation policy for the investment professionals is directly related to the performance benchmarks in the Investment Policy. Pension benefit administration services are outsourced to a third-party service provider under a contract that requires them to achieve a high level of service quality. Service deliver is closely monitored by management and performance is reported to the Board on a regular basis. Management regularly reports to the Trustees regarding compliance with applicable policies. All regulatory requirements were met in 2016.

## COMMUNICATION

The Board of Trustees is responsible for providing disclosure on the Plan's activities to members, as well as to CBC/Radio-Canada as the Plan sponsor. The Board of Trustees disclosure and reporting practices include the distribution of the CBC Pension Plan Annual Report Highlights document to members. Further, the main CBC Pension Plan Annual Report is available to all members as the formal communication on the activities of the Plan for the year. The Board of Trustees also follows the practice of issuing Communiqués following each of its meetings, summarizing key items discussed and distributing this communication through internet channels accessible to members. Other communications issued during the year include the personalized employee benefit statement and various communication bulletins which are distributed to retirees or their survivors. The above noted information is also available to members on the Pension Benefit Administration website at *www.pensionadmin-cbc-src.ca*. General information as well as the Annual Report is available on the Plan's main website *www.cbc-radio-canada-pension.ca*. Members are invited to communicate in writing, by fax, or by internet. The addresses are provided on the last page of this Annual Report.

## GOVERNANCE REVIEW

Governance reviews lead to improved plan governance practices which in turn contribute to improved investment performance, efficient use of Plan personnel, and reliable assurance to members that the Plan is able to pay current and future benefits. There is an annual review of the Managing Director/CEO's objectives and performance. The Trustees also perform a self-assessment of their role as Trustees. In 2013 the CBC Pension Board of Trustees, in conjunction with external consultants, conducted an in-depth review of the Plan's governance practices. The governance review found that overall the Plan had an appropriate governance framework for the size and complexity of the plan.

# FINANCIAL REPORT

## Management Responsibility for Financial Reporting

The financial statements of the CBC Pension Plan and all other information presented in this annual report have been prepared by management, which is responsible for the integrity and fairness of the data presented, including amounts which by necessity are based on management's best estimates as determined through experience and judgement. The financial statements have been properly prepared within reasonable limits of materiality. The accounting policies followed in the preparation of these financial statements conform with Canadian accounting standards for pension plans.

Management of the Plan maintains books of account, records, financial and management control, and information systems, which are designed for the provision of reliable and accurate financial information on a timely basis. Systems of internal control are maintained to provide assurance that transactions are authorized, that assets are safeguarded, and that legislative and regulatory requirements are adhered to. These controls include a code of conduct and an organizational structure that provide a well defined division of responsibilities and accountability.

The CBC Pension Board of Trustees is responsible for overseeing management and has overall responsibility for approving the financial information included in the annual report. The Board meets with management and the external auditors to review the scope of the audit, to review their findings and to satisfy themselves that their responsibilities have been properly discharged. In addition, the firm of Morneau Shepell, consulting actuaries, conducts a formal actuarial valuation of the obligations for pension benefits as is required under the Pension Benefits Standards Act.

Deloitte LLP, the Plan's external auditor appointed by the Board, has conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and procedures as it considers necessary to express the opinion in its report to the CBC Pension Board of Trustees. The external auditor has full and unrestricted access to the Board to discuss its audit and related findings as to the integrity of the Plan's financial reporting and the adequacy of internal control systems.

Debra Alves
Managing Director/CEO
CBC Pension Plan

Duncan Burrill
Secretary/Treasurer
CBC Pension Board of Trustees

March 28, 2017

## Actuary's Opinion

Morneau Shepell Limited was retained by the CBC Pension Board of Trustees (the "Board") to calculate the going concern and solvency obligations of the CBC Pension Plan (the "Plan") as at December 31, 2016, for inclusion in the Plan's financial statements.

The Plan's obligations under the going concern basis as at December 31, 2016 are based on the results of the actuarial valuation as at December 31, 2016, and take into account:

- membership data provided by CBC/Radio-Canada as at December 31, 2016;
- methods prescribed under Section 4600 of the Chartered Professional Accountants of Canada Assurance Handbook for pension plan financial statements; and
- assumptions about future events, such as future rate of inflation and future rates of return on the Plan, which have been communicated to us as the Board's best estimate of these events.

The assumptions that form the going concern basis were reasonable at the time the valuation was prepared. Further information on the data, methods and assumptions used under both the going concern and solvency bases are described in our actuarial valuation report as at December 31, 2016.

Actuarial valuation results are only estimates. Emerging experience may differ, perhaps significantly, from the assumptions used to perform the valuation. These differences will result in gains or losses to be revealed in future valuations, and will affect the future financial position of the Plan and contribution levels.

In our opinion, with respect to the actuarial valuation of the Plan as at December 31, 2016:

- The membership data on which the valuation is based are sufficient and reliable for the purposes of the valuation.
- The assumptions are appropriate for the purposes of the valuation.
- The methods employed in the valuation are appropriate for the purposes of the valuation.

This valuation has been prepared, and our opinion given, in accordance with accepted actuarial practice in Canada.

**Denis Dupont**
Fellow of the Canadian Institute of Actuaries

**Francine Pell**
Fellow of the Canadian Institute of Actuaries

Morneau Shepell Ltd.

March 28, 2017
Ottawa, Ontario

## Independent Auditor's Report

To the Members of the CBC Pension Board of Trustees

We have audited the accompanying financial statements of CBC Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in funding surplus for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of CBC Pension Plan as at December 31, 2016, and the changes in its net assets available for benefits, changes in its pension obligations and changes in its funding surplus for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Professional Accountants
Licensed Public Accountants

March 28, 2017
Ottawa, Ontario

## Statement of Financial Position

| (Canadian $ thousands)<br>As at December 31 | **2016** | 2015 |
|---|---|---|
| **ASSETS** | | |
| Investments *(Note 3)* | **$ 6,573,056** | $ 6,459,196 |
| Accrued investment income | **44,781** | 30,717 |
| Contributions receivable | | |
| - Employee | **3,993** | 3,382 |
| - Employer | **4,583** | 4,321 |
| - Reciprocal transfers | **-** | 381 |
| FlexPen investments *(Note 6)* | **5,448** | 5,650 |
| Due from brokers | **993** | 285 |
| Other assets | **455** | 1,998 |
| | **6,633,309** | 6,505,930 |
| **LIABILITIES** | | |
| Accounts payable and accrued liabilities *(Note 7)* | **9,676** | 11,763 |
| Due to brokers | **5,495** | 30 |
| | **15,171** | 11,793 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | **6,618,138** | 6,494,137 |
| **PENSION OBLIGATIONS** *(Note 8)* | **4,886,841** | 4,774,032 |
| **FUNDING SURPLUS** *(Note 10)* | **$ 1,731,297** | $ 1,720,105 |

The accompanying notes are an integral part of the financial statements

Approved by the Board of Trustees

Trustee

Trustee

Approved by Management

Managing Director / CEO

Secretary / Treasurer

## Statement of Changes in Net Assets Available for Benefits

| (Canadian $ thousands)<br>Year ended December 31 | **2016** | 2015 |
|---|---|---|
| **NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR** | **$ 6,494,137** | $ 6,159,381 |
| **Investment Activities** | | |
| Investment income *(Note 3)* | **218,355** | 198,040 |
| Change in fair value of: | | |
| - Investments *(Note 3)* | **141,812** | 379,657 |
| - FlexPen investments *(Note 6)* | **340** | 194 |
| Net investment activities | **360,507** | 577,891 |
| **Member Service Activities** | | |
| Contributions *(Note 5)* | | |
| - Employee | **47,334** | 45,615 |
| - Employer | **49,789** | 53,153 |
| - Transfers | **(295)** | 363 |
| | **96,828** | 99,131 |
| Benefits *(Note 9)* | | |
| - Pensions | **(278,124)** | (268,133) |
| - Refunds and transfers | **(10,929)** | (27,808) |
| | **(289,053)** | (295,941) |
| Net member service activities | **(192,225)** | (196,810) |
| **Administrative Expenses** *(Note 11)* | **(44,281)** | (46,325) |
| **Increase in Net Assets Available for Benefits** | **124,001** | 334,756 |
| **NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR** | **$ 6,618,138** | $ 6,494,137 |

The accompanying notes are an integral part of the financial statements

## Statement of Changes in Pension Obligations

| (Canadian $ thousands)<br>Year ended December 31 | **2016** | 2015 |
|---|---|---|
| **PENSION OBLIGATIONS, BEGINNING OF YEAR** | **$ 4,774,032** | $ 4,650,700 |
| **Increase in Pension Obligations** | | |
| Interest on pension obligations | **276,894** | 272,066 |
| Changes in actuarial assumptions | **46,154** | 13,836 |
| Benefits earned | **96,488** | 90,771 |
| Net experience losses | **-** | 42,046 |
| FlexPen investments *(Note 6)* | **680** | 554 |
| | **420,216** | 419,273 |
| **Decrease in Pension Obligations** | | |
| Benefits *(Note 9)* | **289,053** | 295,941 |
| Net experience gains | **18,354** | - |
| | **307,407** | 295,941 |
| **Net Increase in Pension Obligations** | **112,809** | 123,332 |
| **PENSION OBLIGATIONS, END OF YEAR** | **$ 4,886,841** | $ 4,774,032 |

## Statement of Changes in Funding Surplus

| (Canadian $ thousands)<br>Year ended December 31 | **2016** | 2015 |
|---|---|---|
| **FUNDING SURPLUS, BEGINNING OF YEAR** | **$ 1,720,105** | $ 1,508,681 |
| Increase in Net Assets Available for Benefits | **124,001** | 334,756 |
| Net Increase in Pension Obligations | **(112,809)** | (123,332) |
| **FUNDING SURPLUS, END OF YEAR** *(Note 10)* | **$ 1,731,297** | $ 1,720,105 |

The accompanying notes are an integral part of the financial statements

## 1. DESCRIPTION OF PLAN

The following description of the Canadian Broadcasting Corporation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the text of the Plan as amended from time to time.

### a) General

The Canadian Broadcasting Corporation (the Corporation) established the Plan effective September 1, 1961, pursuant to the Broadcasting Act. The Plan is primarily a contributory defined benefit pension plan covering substantially all employees of the Corporation. The Plan is subject to the provisions of the Pension Benefits Standards Act (PBSA) and Regulations. The Plan's registration number with the Office of the Superintendent of Financial Institutions (OSFI) is 0055144.

### b) Benefits

The Corporation guarantees the payment of the pensions (other than the flexible pension provision (see Note 6)), and other benefits payable under the terms of this Plan. A member who is a full-time employee of the Corporation will receive benefits based on the length of pensionable service and on the average of the best five consecutive years of pensionable salary in the last ten years of employment. A member who is a part-time employee of the Corporation will receive benefits based on an indexed career average salary formula. The benefits are indexed at the lesser of 2.7% or the increase in the Consumer Price Index (CPI) effective January 1st of each year.

### c) Funding

The Plan is funded on the basis of actuarial valuations, which are made on an annual basis. Employees are required to contribute to the Plan a percentage of their pensionable salary. The contribution rate for full-time employees from January 1, 2016 to June 30, 2016 was 6.98% (6.25% in 2015) of earnings up to the maximum public pension plan earnings of $54,900 ($53,600 in 2015) and 9.18% (8.22% in 2015) of earnings in excess of such maximum. The employee contribution rate was increased to 7.68% (6.98% in 2015) of earnings up to the maximum public pension plan earnings and 10.10% (9.18% in 2015) in excess of such maximum from July 1, 2016 to December 31, 2016. The Corporation provides the balance of the funding, as required, based on actuarial valuations. The most recent actuarial valuation of the Plan was performed as of December 31, 2016.

### d) Income tax status

The Plan is a Registered Pension Trust as defined in the Federal Income Tax Act (ITA), and consequently, is not subject to income taxes. The Plan’s registration number for income tax purposes is 202895.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### a) Presentation

These financial statements are prepared in accordance with Canadian Accounting Standards for Pension Plans (ASPP) on a going concern basis and present the financial position of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. The objective of these financial statements is to assist Plan members and other users in reviewing the financial position and results of operations of the Plan for the year. However, these statements do not portray the funding requirements of the Plan or the security of an individual Plan member's benefits.

In accordance with Chartered Professional Accountants of Canada (CPA Canada) Section 4600, *Pension Plans*, which provide specific accounting guidance on investments and pension obligations, the Plan adopted Accounting Standards for Private Enterprises (ASPE) in Part II of the CPA Canada Handbook for accounting policies that do not relate to either investments or pension obligations.

### b) Investments

Investments are recorded as of the trade date and are stated at fair value. Fair value 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.

### c) Accrual of income

Investment income has been accrued to the year-end date.

### d) Fair Value Measurement

The Plan is following International Financial Reporting Standards (IFRS) 13, Fair Value Measurement to determine the fair value of its investment portfolio. The Plan's financial statement disclosures with regards to its investment portfolio are based on the provisions of Section 4600 which includes compliance with the disclosure requirements of IFRS 7, Financial Instruments: Disclosures.

### e) Current year change in fair value of investments

The current year change in fair value of investments is the difference between the fair value and the cost of investments at the beginning and end of each year adjusted for realized gains and losses in the year.

### f) Pension obligations

Pension obligations related to the defined benefit portion of the Plan are based on a going concern basis actuarial valuation prepared by a firm of independent actuaries. The value of the pension obligations is based on the results of the formal valuation completed for December 31, 2016 (see Note 8). Accrued pension benefits related to the flexible pension provisions are reported at the fair value of the investments associated with the contributions.

## 2. SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

### g) Contributions

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service are recorded in the year received. Cash contributions related to the flexible pension provisions are recorded in the year received.

### h) Foreign currency translation and forward currency agreements

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at year-end. Income and expenses are translated at the rate of exchange prevailing at the time of the transactions. Forward currency agreements are fair valued at the reporting date. Gains and losses from translation and forward currency agreements are included in the current year change in fair value of investments.

### i) Measurement uncertainty

The preparation of financial statements in conformity with ASPP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The major estimates used by management in preparing the financial statements relate to the valuation and classification of investments particularly those classified as Level 3 in Note 3 f) as well as assumptions used in the calculation of the pension obligations. Actual results could differ from those estimates.

### j) Securities lending

The Plan may enter into securities lending transactions. These securities lending activities are fully collateralized by securities, and the securities loaned continue to be accounted for as investments on the Statement of Financial Position. Lending fees earned by the Plan on these transactions are included in investment income.

### k) Future changes in accounting policies

*IFRS 9 Financial Instruments*

The new standard will replace IAS 39, *Financial Instruments: Recognition and Measurement*, and includes guidance on recognition and derecognition of financial assets and financial liabilities, impairment and hedge accounting. The mandatory effective date for the new standard has been set for annual periods commencing on or after January 1, 2018. The impact on the financial statements of adopting IFRS 9 has not yet been determined

## 3. INVESTMENTS

### a) Schedule of investments

The tables below show the fair value and the cost of the investments at year-end as well as the current year change in fair value of investments and related income. Investment income includes interest and dividends earned during the year as well as income from real estate properties which is net of operating and interest expense.

**2016 INVESTMENTS**

| (Canadian $ thousands) | Fair Value | Cost | Change in Fair Value of Investments[1] | Investment Income | Total Return |
|---|---|---|---|---|---|
| Fixed Income | | | | | |
| Cash and short-term investments | $ 417,796 | $ 417,837 | $ (5,520) | $ 3,186 | $ (2,334) |
| Canadian bonds | 2,668,233 | 2,137,015 | 25,410 | 59,615 | 85,025 |
| | 3,086,029 | 2,554,852 | 19,890 | 62,801 | 82,691 |
| Equities | | | | | |
| Canadian | 719,782 | 707,880 | 70,957 | 23,676 | 94,633 |
| Global | 1,423,459 | 990,530 | 74,097 | 39,472 | 113,569 |
| | 2,143,241 | 1,698,410 | 145,054 | 63,148 | 208,202 |
| Strategic | | | | | |
| Property | 586,742 | 400,963 | 3,013 | 32,806 | 35,819 |
| Private investments | 627,795 | 497,806 | (38,414) | 57,146 | 18,732 |
| Hedge funds | 139,626 | 126,137 | (17,256) | 2,454 | (14,802) |
| | 1,354,163 | 1,024,906 | (52,657) | 92,406 | 39,749 |
| Derivatives | | | | | |
| Bond forwards | (2,899) | - | 13,471 | - | 13,471 |
| Total return swaps | (6,726) | - | 5,681 | - | 5,681 |
| Call options - equity | (752) | (755) | 10,373 | - | 10,373 |
| | (10,377) | (755) | 29,525 | - | 29,525 |
| **TOTAL** | **$ 6,573,056** | **$ 5,277,413** | **$ 141,812** | **$ 218,355** | **$ 360,167** |

[1] *Includes $178.5 million of change in unrealized market losses and $320.3 million of realized gains.*

**2015 INVESTMENTS**

| (Canadian $ thousands) | Fair Value | Cost | Change in Fair Value of Investments[1] | Investment Income | Total Return |
|---|---|---|---|---|---|
| Fixed Income | | | | | |
| Cash and short-term investments | $ 218,521 | $ 218,555 | $ (1,017) | $ 2,147 | $ 1,130 |
| Canadian bonds | 2,647,039 | 2,132,260 | 25,060 | 59,221 | 84,281 |
| | 2,865,560 | 2,350,815 | 24,043 | 61,368 | 85,411 |
| Equities | | | | | |
| Canadian | 608,913 | 571,492 | (74,869) | 15,173 | (59,696) |
| Global | 1,561,197 | 1,059,814 | 233,467 | 36,842 | 270,309 |
| | 2,170,110 | 1,631,306 | 158,598 | 52,015 | 210,613 |
| Strategic | | | | | |
| Property | 598,851 | 403,292 | 33,475 | 30,830 | 64,305 |
| Private investments | 636,554 | 474,446 | 84,470 | 47,733 | 132,203 |
| Hedge funds | 156,881 | 126,137 | 16,494 | 6,094 | 22,588 |
| | 1,392,286 | 1,003,875 | 134,439 | 84,657 | 219,096 |
| Derivatives | | | | | |
| Bond forwards | 24,310 | - | 34,634 | - | 34,634 |
| Total return swaps | 7,719 | - | 14,600 | - | 14,600 |
| Call options - equity | (789) | (912) | 13,343 | - | 13,343 |
| | 31,240 | (912) | 62,577 | - | 62,577 |
| **TOTAL** | **$ 6,459,196** | **$ 4,985,084** | **$ 379,657** | **$ 198,040** | **$ 577,697** |

[1] *Includes $68.3 million of change in unrealized market gains and $311.4 million of realized gains.*

**3. INVESTMENTS** *(cont'd)*

**b) Determination of Fair Values**

Fair values of investments are determined as follows:

i) Cash and short-term investments, which include bank deposits, treasury bills, bankers' acceptances, commercial paper and short-term bonds, are valued at cost, including accrued interest, which due to their short term to maturity approximates fair value. Cash and short-term investments also include bonds with maturity dates due within 12 months of the year end and are recorded at closing mid-market quotes.

ii) Bonds consisting of both nominal and real return are recorded at closing mid-market quotes or if not available, estimated using discounted cash flow techniques.

iii) Equities consisting primarily of listed securities are recorded at prices based on quoted market closing prices or if not available, estimated using valuation techniques as described below under Private Investments.

iv) Private Investments consisting primarily of unlisted securities are valued at prices based on the underlying investment fund managers' best estimates and are reviewed by management. Fair values are estimated using one of the following methods: earnings multiple, discounted cash flows or earnings, available market prices and price of recent investments. These methods reflect generally accepted industry valuation practices.

v) Hedge Funds and similar alternative investment funds are recorded at fair value based on net asset values obtained from each of the fund's administrators.

vi) Derivative financial instruments entered into by the Plan are recorded at fair value based on market valuation techniques using quoted market closing prices and other financial inputs.

vii) Property, consisting of mortgages and real estate, is valued as follows:

a) Mortgages are secured by real estate and generally represent loans made at commercial mortgage rates to corporations. These loans are generally payable and amortized over periods of up to fifteen years. Mortgages are valued using current mortgage market yields and include accrued interest.

b) Real estate projects when in development are valued at the lower of cost and estimated realizable value, as a proxy for fair value. Other real estate investments are recorded at estimated fair values determined by using appropriate industry valuation techniques and best estimates by property managers and/or independent appraisers who hold professional appraiser designations. Periodic appraisals use either one or more of three basic methods to arrive at an indication of value: the cost approach, the income approach and the direct comparison approach. In periods between appraisals, valuations are reviewed and updated for changes in market and property specific parameters.

**3. INVESTMENTS** *(cont'd)*

**c) Derivative Financial Instruments**

Derivative financial instruments are financial contracts whose values are derived from the value of underlying assets, indexes, interest rates or currency exchange rates. The Plan uses fixed income derivative instruments (bond forwards and total return swaps) as part of its liability driven investment strategy which hedges the interest rate and inflation risk mismatch in the Plan's assets and liabilities. The Plan uses a covered call writing strategy for its equity portfolio to obtain additional investment income from the premiums received. The Plan may also, from time to time, manage some of its foreign currency exposure based on economic fundamentals by entering into currency forwards.

Notional values represent the face amount of the contract to which a rate or price is applied in order to calculate the exchange of cash flows. Notional values do not represent the potential gain or loss associated with the market or credit risk of such transactions. Rather, these values serve as the basis upon which the returns from, and the fair value of, the contracts are determined. Accordingly, notional values are not recorded as assets and liabilities in the financial statements.

The Plan has master netting arrangements in place for its fixed income derivative instruments. In the normal course of business the Plan settles its derivative contracts on a net basis. All the Plan's financial assets and liabilities are offset and the net amount is reported in the statement of financial position. The Plan's recognized financial instruments are presented in Note 3 a) and summarized further on the following page.

*Forwards*
The Plan's forward contracts are negotiated agreements between two counterparties where one counterparty agrees to buy a financial instrument, and the other agrees to sell a financial instrument at an agreed future date, but at a price established at the start of the contract. The Plan uses fixed income and currency forward contracts.

*Swaps*
The Plan's total return swap contracts are negotiated agreements between two counterparties where one agrees to pay the total return (interest payments and any capital gains or losses) from a specified reference asset or group of assets and the other counterparty agrees to pay a specified fixed or floating cash flow. The reference assets for the Plan's total return swaps are various fixed income indexes or a group of four to six government bonds.

*Options*
The Plan's call options are standardized equity contracts listed on regulated exchanges. The Plan has sold (written) contracts to a counterparty under which they have the right, but not an obligation, to buy an underlying equity instrument at a fixed price prior to a future specified date. The Plan receives a premium from the purchasing counterparty for this right.

## 3. INVESTMENTS *(cont'd)*

### c) Derivative Financial Instruments *(cont'd)*

The following table summarizes the notional amounts and fair value of the Plan's derivatives contracts:

(Canadian $ thousands)

| As at December 31 | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Notional Value** | **Net Fair Value** | Notional Value | Net Fair Value |
| Fixed Income | | | | |
| Forwards | **$ 931,154** | **$ (2,899)** | $ 1,128,748 | $ 24,310 |
| Total return swaps | **449,791** | **(6,726)** | 588,865 | 7,719 |
| | **1,380,945** | **(9,625)** | 1,717,613 | 32,029 |
| Equities | | | | |
| Call options (written) | **(36,290)** | **(752)** | (31,411) | (789) |
| TOTAL | **$ 1,344,655** | **$ (10,377)** | $ 1,686,202 | $ 31,240 |

The net fair value of derivative contracts is represented by:

(Canadian $ thousands)

| As at December 31 | **2016** | 2015 |
|---|---|---|
| Derivative - related receivables | **$ 10,386** | $ 32,194 |
| Derivative - related payables | **(20,763)** | (954) |
| TOTAL | **$ (10,377)** | $ 31,240 |

All derivative contracts held at December 31, 2016 and 2015 have a term to maturity less than one year.

### d) Securities Lending

The Plan participates in securities lending programs whereby it lends securities in order to enhance portfolio returns. Any such securities lending requires high quality non-cash collateral with a fair value equal to no less than 102% of the value of the securities lent. As of December 31, 2016, securities with an estimated fair value of $3.5 million (2015: $143.2 million) were loaned out, while securities contractually receivable as collateral had an estimated fair value of $4.0 million (2015: $146.1 million).

**3. INVESTMENTS** *(cont'd)*

**e) Financial Risk Management**

**i) Overview**

The Plan invests in assets that expose the Plan to a range of investment risks. The Plan invests in riskier assets to earn a higher rate of return than would be achieved through the investment in a minimum risk portfolio (MRP). The MRP is the portfolio that would minimize the Plan's overall risk. The Plan has strategies, policies and processes in place to manage these risks and to ensure it is being properly compensated for the risks it is taking. The Plan's objective is not to minimize risk, but to optimize risk relative to the Plan's risk tolerance.

The Plan follows a Liability Driven Investment (LDI) strategy that focuses on reducing the interest rate and inflation risk mismatch between the Plan's assets and liabilities. The Plan's Statement of Investment Policies and Procedures (SIP&P) sets out the Plan's investment frame work and risk limits. The SIP&P, which is prepared in accordance with applicable legislation, is updated and approved annually by the Plan's Board of Trustees. It defines eligible investments, asset mix ranges and diversification requirements. Compliance with the SIP&P is evaluated and reported to the Plan's Board of Trustees on a monthly basis. The Plan's processes for selecting and evaluating portfolio managers, as well as the Plan's investment security selection processes are key components of the Plan's financial risk management system. Derivatives are also used to manage certain risk exposures.

**ii) Market Risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk. The Plan is exposed to market risk through its investments in various types of assets. While the vast majority of the Plan's investments expose the Plan to some form of market risk, the degree of risk varies considerably by investment. One of the key ways that the Plan manages market risk is by diversifying its investments across asset classes, industry sectors, countries, currencies, investment strategies and individual companies.

a) Currency Risk — Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan is exposed to currency risk through its investment in financial instruments denominated in currencies other than the Canadian dollar. Changes in the value of foreign currencies relative to the Canadian dollar can increase or decrease the fair value and future cash flows of these investments. Currency risk is managed through SIP&P defined limits on maximum currency exposures, diversification among currencies and through the active hedging of foreign currency exposures. The SIP&P defined minimum and maximum exposure limits on foreign currencies are 15% and 40%, respectively, of the market value of the Plan's assets.

**3. INVESTMENTS** *(cont'd)*

**e) Financial Risk Management** *(cont'd)*

**ii) Market Risk** *(cont'd)*

The Plan had investment exposure to foreign currencies as set out below:

| (Canadian $ thousands)<br>As at December 31 | Foreign Currency Exposure<br>**2016** | <br>2015 |
|---|---|---|
| United States dollar | **$ 1,568,575** | $ 1,652,685 |
| Euro | **191,197** | 194,927 |
| Japanese yen | **56,709** | 65,461 |
| British pound sterling | **42,439** | 48,309 |
| Swiss franc | **23,312** | 24,061 |
| Swedish krona | **20,274** | 21,262 |
| Hong Kong SAR dollar | **18,643** | 18,877 |
| New Taiwan dollar | **8,524** | 7,921 |
| South Korean won | **7,160** | 9,642 |
| Singapore dollar | **6,809** | 8,171 |
| Indonesia rupia | **6,708** | 7,377 |
| India rupee | **5,753** | 6,154 |
| Thai baht | **5,658** | 5,582 |
| Mexican peso | **4,819** | 2,602 |
| Australian dollar | **4,480** | 3,305 |
| Danish krone | **1,478** | 3,385 |
| Norwegian krone | **479** | 2,414 |
| Brazilian real | **-** | 2,043 |
| Other | **3,447** | 2,858 |
| Total | **$ 1,976,464** | $ 2,087,036 |

As at December 31, 2016, a 1% increase in the Canadian dollar against all other currencies would decrease the value of the Plan's assets by $19.8 million or 0.3% (2015: $20.9 million or 0.3%). A 1% decrease in the Canadian dollar against all other currencies would increase the value of the Plan's assets by $19.8 million or 0.3% (2015: $20.9 million or 0.3%). This calculation is based on the Plan's direct foreign currency holdings and does not include secondary impacts of exchange rate changes.

b) 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 also contain a significant component of interest rate risk. The Plan's interest rate risk exposure arises due to any mismatches between the interest rate sensitivity of the assets and the liabilities. The Plan's LDI strategy is designed to manage the Plan's interest rate risk as it relates to both the Plan's assets and liabilities. The Plan's overall asset mix, fixed income duration and interest rate derivatives are all used to hedge the Plan's interest rate risk. As interest rate risk is one of the key risks facing the Plan, the Plan conducts a significant amount of interest rate sensitivity and scenario analysis. The Plan closely monitors its overall interest rate risk exposure and interest rate risk hedging effectiveness through a detailed set of performance report cards and dashboards.

Changes in interest rates directly affect the value of the Plan's fixed income investments, including fixed income derivative instruments and also have a significant influence on the value of equity investments and foreign exchange rates. As at December 31, 2016, and after giving effect to derivative contracts, an increase of 1% in nominal interest rates would result in a decline in the value of the fixed income investments and derivatives of approximately $600.7 million or 9.1% (2015: $623.1 million or 9.6%) of the Plan's assets. A 1% reduction in nominal interest rates would increase the value of the fixed income investments and derivatives by $600.7 million or 9.1% (2015: $623.1 million or 9.6%) of the Plan's assets. This is based on the duration of the holdings and does not include other variables such as convexity.

**3. INVESTMENTS** *(cont'd)*

**e) Financial Risk Management** *(cont'd)*

**ii) Market Risk** *(cont'd)*

With respect to pension obligations, as at December 31, 2016 and holding inflation and salary escalation assumptions constant, a 1% reduction in the assumed long-term rate of return would result in an increase in the pension obligations, which are measured on a going concern basis, of approximately 13.6% (2015: 13.7%). A 1% increase in the assumed long-term rate of return would result in a decrease in the pension obligations, which are measured on a going concern basis, of approximately 11.1% (2015: 11.0%).

c) Price Risk — Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or factors affecting all similar financial instruments traded in the market. The Plan's exposure to price risk results primarily from its holdings of domestic and foreign equities, as well as through its investments in real estate and other strategic investments. Price risk is managed through SIP&P defined maximum and minimum exposure limits on regions, countries, economic sectors and single securities.

The overall equity market exposure limits as a percentage of Plan assets as at December 31, 2016 and 2015 were as follows:

| (% of category) | Minimum | Long-term Target | Maximum |
|---|---|---|---|
| Canadian Equities | 7 | 12 | 17 |
| Global Equities | 17 | 22 | 27 |
| Total | 24 | 34 | 44 |

Concentration of price risk exists when a significant portion of the portfolio is invested in securities with similar characteristics or subject to similar economic, market, political or other conditions. The following tables provide information on the Plan's price risk:

| (% of category) | **2016** | | 2015 | |
|---|---|---|---|---|
| **EQUITIES** | **Canadian** | **Global** | Canadian | Global |
| Consumer Discretionary | **9.7** | **12.7** | 9.8 | 12.9 |
| Consumer Staples | **8.7** | **9.8** | 5.1 | 10.4 |
| Energy | **15.2** | **4.8** | 16.4 | 4.9 |
| Financials | **24.9** | **18.5** | 28.8 | 17.3 |
| Health Care | **0.0** | **12.2** | 0.0 | 12.8 |
| Industrials | **8.4** | **16.5** | 9.8 | 16.0 |
| Information Technology | **2.9** | **15.5** | 2.8 | 15.2 |
| Materials | **9.4** | **3.3** | 9.1 | 3.5 |
| Real Estate | **7.8** | **2.2** | 8.0 | 2.6 |
| Telecommunication Services | **7.3** | **2.1** | 5.4 | 2.2 |
| Utilities | **5.7** | **2.4** | 4.8 | 2.2 |
| TOTAL | **100.0** | **100.0** | 100.0 | 100.0 |

**3. INVESTMENTS** *(cont'd)*

**e) Financial Risk Management** *(cont'd)*

**ii) Market Risk** *(cont'd)*

Price risk related to equity indices (i.e. S&P/TSX, S&P 500, MSCI EAFE, MSCI World ex-Canada) is calculated based on the Capital Asset Pricing Model (CAPM) and with the assumption of a constant risk free interest rate. Portfolio betas are obtained through Thomson Reuters.

| (Canadian $ thousands) | **2016** | 2015 |
|---|---|---|
| Canadian Equity | | |
| Market Value | **719,782** | 608,913 |
| + / - 1% change in S&P/TSX | **4,037** | 5,379 |
| U.S. Equity | | |
| Market Value | **446,700** | 592,131 |
| + / - 1% change in S&P 500 | **4,037** | 5,532 |
| Global Equity | | |
| Market Value | **976,759** | 969,066 |
| + / - 1% change in MSCI ACWI ex-Canada | **9,013** | 9,111 |

**iii) Credit Risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Plan's main exposure to credit risk comes from its receivables and its investment in debt instruments and over-the-counter derivatives, as described in Note 3 c).

The Plan's receivables are comprised of pension contributions due from employees (as deductions from payroll) and from the employer (sponsor). The credit risk to the Plan arises from the possibility that the sponsor fails to pay the employee salaries from which the employee contributions are deducted, and fails to pay its own portion of the contributions due. The risk of non-payment is considered low, and all amounts due at December 31, 2015 and December 31, 2016 have subsequently been remitted to the Plan.

Debt instruments include both short-term investments and longer term fixed income investments. The credit risk in over-the-counter derivatives arises when the Plan has mark-to-market gains and is therefore owed funds by the counterparty to the derivatives transaction. The Plan's SIP&P defines permitted investments, in accordance with the PBSA and provides guidelines and restrictions on acceptable investments which mitigate credit risk. The SIP&P limits include minimum credit rating requirements, limits on types of investments, limits on exposure to single sectors and limits on exposure to single securities. No more than 3% of the bond portfolio can be invested in securities with a bond credit rating lower than "BBB-". In order to minimize derivative contract credit risk, the Plan deals only with major financial institutions with a minimum credit rating of "A-".

The Plan also has International Swaps and Derivatives Association (ISDA) agreements, netting provisions and/or collateral posting requirements with the majority of its derivative counterparties. The Plan leverages the resources of a major Canadian bank to provide it with independent credit assessments of its derivative counterparties. At December 31, 2016 the Plan provided $58.1 million (held in 2015: $32.5 million) of collateral in the form of Government of Canada bonds and provincial bonds from its various derivative counterparties.

## 3. INVESTMENTS *(cont'd)*

### e) Financial Risk Management *(cont'd)*

#### iii) Credit Risk *(cont'd)*

The maximum credit exposure of the Plan is represented by the fair value of the investments as presented in the Statement of Financial Position.

Concentration of credit risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions. The primary credit portfolio concentrations are as follows:

| (Canadian $ thousands) | **2016** | | 2015 | |
|---|---|---|---|---|
| **CASH AND SHORT TERM INVESTMENTS** | **Fair Value** | **%** | Fair Value | % |
| Cash | **$ 274,054** | **65.6** | $ 152,071 | 69.6 |
| Short term investments | | | | |
| Provincial | **-** | **-** | 5,828 | 2.7 |
| Corporate | **143,742** | **34.4** | 60,622 | 27.7 |
| | **143,742** | **34.4** | 66,450 | 30.4 |
| TOTAL | **$ 417,796** | **100.0** | $ 218,521 | 100.0 |
| Cash | **$ 274,054** | **65.6** | $ 152,071 | 69.6 |
| Short term investments | | | | |
| R-1 (high) | **95,239** | **22.8** | 34,873 | 16.0 |
| R-1 (middle) | **15,000** | **3.6** | 2,001 | 0.9 |
| R-1 (low) | **33,503** | **8.0** | 29,576 | 13.5 |
| | **143,742** | **34.4** | 66,450 | 30.4 |
| TOTAL | **$ 417,796** | **100.0** | $ 218,521 | 100.0 |

| (Canadian $ thousands) | **2016** | | 2015 | |
|---|---|---|---|---|
| **CANADIAN BONDS** | **Fair Value** | **%** | Fair Value | % |
| Government of Canada | **$ 1,001,244** | **37.5** | $ 1,032,953 | 39.0 |
| Provincial | **983,833** | **36.9** | 941,776 | 35.6 |
| Corporate | **683,156** | **25.6** | 672,310 | 25.4 |
| TOTAL | **$ 2,668,233** | **100.0** | $ 2,647,039 | 100.0 |
| AAA to AA- | **$ 1,635,659** | **61.3** | $ 1,642,927 | 62.1 |
| A+ to A- | **770,419** | **28.9** | 756,735 | 28.6 |
| BBB+ to BBB- | **262,155** | **9.8** | 247,377 | 9.3 |
| TOTAL | **$ 2,668,233** | **100.0** | $ 2,647,039 | 100.0 |

The above table does not include derivative or derivative counterparty exposure. The Plan's fixed income derivative exposure of $1.4 billion (2015: $1.7 billion) as at December 31, 2016 is 12.9% (2015: 12.3%) Government of Canada bonds and 87.1% (2015: 87.7%) Provincial bonds; all the underlying bonds have a minimum credit rating of "A".

## 3. INVESTMENTS *(cont'd)*

### e) Financial Risk Management *(cont'd)*

#### iv) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Plan is exposed to liquidity risk through its pension obligations (as described in Note 8), investment commitments (as described in Note 12) and the liabilities that might arise from mark-to-market of derivative positions. The Plan manages its short-term liquidity requirements through forecasting its cash flow requirements on a quarterly basis, monitoring of its cash flows on a daily basis and through its holdings of highly liquid short-term notes. These short-term notes, which generally mature over periods ranging from 1 day to 3 months, are managed so that their maturities cover the Plan's short-term outgoing cash flow requirements. The Plan aims to maintain minimum short-term note holdings equivalent to 3% of the Plan's value, which provides sufficient liquidity to meet contractual obligations as they come due. Over the medium to longer term, the Plan is also able to meet its liquidity requirements through its holdings of liquid investments such as publicly traded equities and fixed income instruments issued by the federal and provincial Canadian governments. The majority of the Plan's long-term fixed income instruments are held for trading purposes and are therefore not typically held to contractual maturity, and are thus considered to mature in less than one year.

The Plan has the following financial liabilities as at December 31:

(Canadian $ thousands)

| As at December 31 | | **Due 2017** | | Due 2016 |
|---|---|---|---|---|
| Accounts payable and accrued liabilities *(Note 7)* | **$** | **9,676** | $ | 11,763 |
| Due to brokers | | **5,495** | | 30 |
| Derivatives *(Note 3 c)* | | **20,763** | | 954 |
| TOTAL | **$** | **35,934** | $ | 12,747 |

### f) Fair Value Measurement Disclosure

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

## 3. INVESTMENTS *(cont'd)*

### f) Fair Value Measurement Disclosure *(cont'd)*

The following tables present the financial instruments recorded at fair value in the Statement of Financial Position, classified using the fair value hierarchy described above as at December 31, 2016 and 2015:

| 2016 INVESTMENTS (Canadian $ thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed Income | | | | |
| Cash and short-term investments | $ 175,301 | $ 242,495 | $ - | $ 417,796 |
| Canadian bonds | - | 1,853,607 | 814,626 | 2,668,233 |
| | 175,301 | 2,096,102 | 814,626 | 3,086,029 |
| Equities | | | | |
| Canadian | 385,709 | 334,073 | - | 719,782 |
| Global | 1,234,317 | 189,142 | - | 1,423,459 |
| | 1,620,026 | 523,215 | - | 2,143,241 |
| Strategic | | | | |
| Property | 39,022 | - | 547,720 | 586,742 |
| Private investments | - | - | 627,795 | 627,795 |
| Hedge funds | - | - | 139,626 | 139,626 |
| | 39,022 | - | 1,315,141 | 1,354,163 |
| Derivatives | | | | |
| Bond forwards | - | (2,899) | - | (2,899) |
| Total return swaps | - | (6,726) | - | (6,726) |
| Call options - equity | (752) | - | - | (752) |
| | (752) | (9,625) | - | (10,377) |
| **TOTAL** | **$ 1,833,597** | **$ 2,609,692** | **$ 2,129,767** | **$ 6,573,056** |

| 2015 INVESTMENTS (Canadian $ thousands) | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Fixed Income | | | | |
| Cash and short-term investments | $ 82,534 | $ 135,987 | $ - | $ 218,521 |
| Canadian bonds | - | 1,855,136 | 791,903 | 2,647,039 |
| | 82,534 | 1,991,123 | 791,903 | 2,865,560 |
| Equities | | | | |
| Canadian | 352,616 | 79,439 | 176,858 | 608,913 |
| Global | 1,353,897 | 207,300 | - | 1,561,197 |
| | 1,706,513 | 286,739 | 176,858 | 2,170,110 |
| Strategic | | | | |
| Property | 35,145 | - | 563,706 | 598,851 |
| Private investments | - | - | 636,554 | 636,554 |
| Hedge funds | - | - | 156,881 | 156,881 |
| | 35,145 | - | 1,357,141 | 1,392,286 |
| Derivatives | | | | |
| Bond forwards | - | 24,310 | - | 24,310 |
| Total return swaps | - | 7,719 | - | 7,719 |
| Call options - equity | (789) | - | - | (789) |
| | (789) | 32,029 | - | 31,240 |
| **TOTAL** | **$ 1,823,403** | **$ 2,309,891** | **$ 2,325,902** | **$ 6,459,196** |

During the year, there have been no transfers of amounts between Level 1, Level 2 and Level 3.

**3. INVESTMENTS** *(cont'd)*

**f) Fair Value Measurement Disclosure** *(cont'd)*

The following tables reconcile the fair value of financial instruments classified in Level 3 from the beginning balance to the ending balance:

**2016 INVESTMENTS**

| (Canadian $ thousands) | Balance at Dec 31/2015 | Purchases | Sales | Realized gain/(loss) | Movement in unrealized gain/(loss) | Amortization | Balance at Dec 31/2016 |
|---|---|---|---|---|---|---|---|
| Fixed Income | | | | | | | |
| Canadian bonds | $ 791,903 | $ - | $ (149) | $ (15) | $ 22,859 | $ 28 | $ 814,626 |
| | 791,903 | - | (149) | (15) | 22,859 | 28 | 814,626 |
| Equities | | | | | | | |
| Canadian | 176,858 | - | (180,846) | 101,170 | (97,182) | - | - |
| | 176,858 | - | (180,846) | 101,170 | (97,182) | - | - |
| Strategic | | | | | | | |
| Property | 563,706 | 58,162 | (73,231) | 12,734 | (13,656) | 5 | 547,720 |
| Private investments | 636,554 | 94,523 | (64,842) | (6,322) | (32,118) | - | 627,795 |
| Hedge funds | 156,881 | - | - | - | (17,255) | - | 139,626 |
| | 1,357,141 | 152,685 | (138,073) | 6,412 | (63,029) | 5 | 1,315,141 |
| **TOTAL** | **$ 2,325,902** | **$ 152,685** | **$ (319,068)** | **$ 107,567** | **$ (137,352)** | **$ 33** | **$ 2,129,767** |

**2015 INVESTMENTS**

| (Canadian $ thousands) | Balance at Dec 31/2014 | Purchases | Sales | Realized gain/(loss) | Movement in unrealized gain/(loss) | Amortization | Balance at Dec 31/2015 |
|---|---|---|---|---|---|---|---|
| Fixed Income | | | | | | | |
| Canadian bonds | $ 757,641 | $ - | $ (155) | $ (15) | $ 34,447 | $ (15) | $ 791,903 |
| | 757,641 | - | (155) | (15) | 34,447 | (15) | 791,903 |
| Equities | | | | | | | |
| Canadian | 267,826 | - | (75,000) | 42,930 | (58,898) | - | 176,858 |
| | 267,826 | - | (75,000) | 42,930 | (58,898) | - | 176,858 |
| Strategic | | | | | | | |
| Property | 479,542 | 66,778 | (18,635) | (663) | 36,675 | 9 | 563,706 |
| Private investments | 483,172 | 114,901 | (46,611) | 683 | 84,409 | - | 636,554 |
| Hedge funds | 140,387 | - | - | - | 16,494 | - | 156,881 |
| | 1,103,101 | 181,679 | (65,246) | 20 | 137,578 | 9 | 1,357,141 |
| **TOTAL** | **$ 2,128,568** | **$ 181,679** | **$ (140,401)** | **$ 42,935** | **$ 113,127** | **$ (6)** | **$ 2,325,902** |

Total net unrealized gains for Level 3 instruments held at the end of 2016 amounts to $694.4 million (2015: $831.7 million).

## 4. CAPITAL

The Plan's capital consists of the funding surpluses determined regularly in the funding valuations prepared by an independent actuary. The actuary's funding valuation is used to measure the financial well-being of the Plan. The objective of managing the Plan's capital is to ensure the Plan is fully funded to pay the plan benefits over the long term. The Pension Board of Trustees oversees the preparation of funding valuations and monitors the Plan's funded status. The Plan sponsor determines actions which may be taken to manage the funded position of the Plan. The actuary tests the Plan's ability to meet its obligations to all current Plan members and their survivors, using a set of economic and non-economic assumptions, the actuary projects the Plan's benefits on a going concern basis to estimate the current value of the liability, which it compares to the sum of the Plan assets. The result of the comparison is either a surplus or a deficit. As part of the funding valuation, the actuary also performs a measurement of the Plan's assets and liabilities on a solvency basis, which simulates the wind-up of the Plan. A funding valuation is required to be filed with the pension regulator annually. In addition, the Pension Board of Trustees obtains quarterly reports from the actuary and monthly reports from management which estimate the Plan's going concern and solvency financial positions, which assist the Pension Board of Trustees in monitoring the Plan's capital. The most recent projection of the actuarial valuation and funding position are disclosed in Notes 8 and 10. There have been no major changes to the Plan's capital requirements and its overall strategy with respect to capital remains unchanged from 2015.

## 5. CONTRIBUTIONS

The following are the contributions for the year:

| (Canadian $ thousands) | | **2016** | | 2015 |
|---|---|---|---|---|
| Employee | | | | |
| - Current Service | **$** | **39,631** | $ | 36,028 |
| - Past Service | | **7,363** | | 9,227 |
| - FlexPen *(Note 6)* | | **340** | | 360 |
| | | **47,334** | | 45,615 |
| Employer | | **49,789** | | 53,153 |
| (Refunds) / Transfers | | **(295)** | | 363 |
| TOTAL | **$** | **96,828** | $ | 99,131 |

## 6. FLEXIBLE PENSION (FLEXPEN)

The Plan includes a flexible component, FlexPen, under which members can make additional contributions to the Plan, up to limits within the ITA. Members may choose from various pooled fund investments which are administered by external managers. Contributions and accrued investment income thereon are converted into additional benefits based upon market rates at the earliest of retirement, death or termination of employment. The liabilities of the Plan with respect to FlexPen are equal to the additional member contributions, plus investment income, plus or minus capital appreciation or depreciation thereon less purchases of additional pension benefits and transfers. This portion of the Plan benefits is funded entirely by members.

| (Canadian $ thousands) | | **2016** | | 2015 |
|---|---|---|---|---|
| **Investment, Beginning of Year** | **$** | **5,650** | $ | 6,194 |
| Contributions and interest | | **340** | | 360 |
| Capital appreciation | | **340** | | 194 |
| Purchase of additional pension benefits and transfers out | | **(882)** | | (1,098) |
| **Investment, End of Year** | **$** | **5,448** | $ | 5,650 |

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following are the accounts payable and accrued liabilities at year-end:

| (Canadian $ thousands) | | **2016** | | 2015 |
|---|---|---|---|---|
| Benefits | **$** | **4,350** | $ | 8,231 |
| Administrative expenses | | **5,326** | | 3,532 |
| TOTAL | **$** | **9,676** | $ | 11,763 |

## 8. PENSION OBLIGATIONS

Under the PBSA actuarial valuations are required at least annually. The latest actuarial valuation was performed at December 31, 2016 by Morneau Shepell. Amounts reported in these financial statements are based on going concern results of this valuation. The actuarial assumptions used in determining the obligations for pension obligations reflect the Board of Trustees' best estimates of expected economic trends and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality, withdrawal and retirement rates. The primary economic assumptions include the asset rate of return, salary escalation rate, indexation and inflation rate, which were as follows:

| | **Long-term assumptions** | |
|---|---|---|
| | **2016** | 2015 |
| Asset rate of return | **5.80%** | 5.80% |
| Salary escalation rate [1] | **2.75%** | 2.75% |
| Indexation | **1.86%** | 1.86% |
| Inflation rate | **2.00%** | 2.00% |
| Mortality table | CBC Pensioner Mortality (CPM-B projection scale) | CBC Pensioner Mortality (CBC projection scale) |

[1] Excluding merit and promotional salary increases

Select assumptions reflecting the short-term economic environment were also used.

In 2016, there were net experience gains of $18.4 million (2015: net experience losses of $42.0 million) with respect to plan membership, retirement and termination settlements compared to the assumptions used in the actuarial valuation conducted as at December 31, 2015.

During the year, the Plan made two changes in the going concern assumptions; 1) the 2016 valuation uses the Canadian Pensioner Mortality, scale B ("CPM-B") changed from the CBC projection scale used in 2015, and 2) the salary escalation rate for the years 2017 and 2018 were changed to 1.40% from 2.75%. The effect of these changes in accounting estimates were accounted for prospectively as of the current year and resulted in an increase of $60.7 million and a decrease of $14.6 million in the pension obligations respectively.

The PBSA requires that the Plan also be valued on a solvency basis, which simulates a plan wind-up. As of December 31, 2016, the date of the last actuarial valuation, the Plan's solvency liabilities were estimated at $6,950 million (2015: $6,528 million).

## 9. BENEFITS

Benefits for the year-ended December 31 were as follows:

| (Canadian $ thousands) | **2016** | 2015 |
|---|---|---|
| Retirement benefits | **$ 242,020** | $ 236,806 |
| Death benefits | **35,222** | 30,229 |
| FlexPen – purchase of additional pension benefits *(Note 6)* | **882** | 1,098 |
| | **278,124** | 268,133 |
| Refunds and transfers to other plans | **10,929** | 27,808 |
| TOTAL | **$ 289,053** | $ 295,941 |

## 10. FUNDING POSITION

The last actuarial valuation of the Plan was performed as at December 31, 2016 and determined that the Plan had a funding excess of $1,731.3 million (2015: $1,720.1 million) on a going concern basis and a funding deficit of $338.2 million (2015: deficit $39.9 million) on a solvency basis. The actuarial report will be submitted to the Plan sponsor, as required under the Trust Deed, and to OSFI.

## 11. ADMINISTRATIVE EXPENSES

In accordance with the Trust Deed, all fees, charges and other costs incurred by the Trustees in the setting up and administration of the Plan and in the setting up and management of the Fund are to be paid by the Fund. Expenses for the years ended December 31, were as follows:

| (Canadian $ thousands) | **2016** | 2015 |
|---|---|---|
| **Fund Administration** | | |
| Internal Management | | |
| Salaries and employment costs | **$ 4,993** | $ 5,092 |
| Professional fees | **131** | 200 |
| Data processing | **916** | 1,334 |
| Custodial fees and transaction costs | **1,088** | 1,456 |
| Office rent | **327** | 377 |
| Other | **47** | 72 |
| Total Internal Management | **7,502** | 8,531 |
| External Management | | |
| Management fees | **31,714** | 32,678 |
| Custodial fees and transactions costs | **785** | 541 |
| Total External Management | **32,499** | 33,219 |
| **Total Fund Administration** | **40,001** | 41,750 |
| **Pension Benefit Administration** | | |
| External administration | **1,540** | 1,769 |
| Salaries and employment costs | **389** | 365 |
| Professional fees | **24** | 48 |
| Data processing | **41** | 54 |
| Other | **240** | 197 |
| **Total Pension Benefit Administration** | **2,234** | 2,433 |
| **Board of Trustees' Expenses** | | |
| Professional fees | **488** | 568 |
| Other | **160** | 116 |
| **Total Board of Trustees Expenses** | **648** | 684 |
| **Harmonized sales tax** | **1,398** | 1,458 |
| **TOTAL ADMINISTRATIVE EXPENSES** | **$ 44,281** | $ 46,325 |

## 12. COMMITMENTS AND CONTINGENCIES

The Plan has committed to enter into investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2016, these potential unfunded commitments totalled $539.3 million (2015: $551.2 million). The Plan has sufficient liquidity to meet these commitments as they come due. The Plan is contingently liable to fund cash flow deficiencies and the obligations of its co-investors, including other pension funds, on certain real estate related investments. In addition, the Plan may have to provide financing on certain real estate related investments in the event of the non-availability of financing from other sources. The Plan has not been required to fund the obligations of its co-investors in the past and considers this contingent risk to be low.

## 13. GUARANTEES AND INDEMNIFICATIONS

The Plan provides that the Board of Trustees, employees and certain others are to be indemnified against the expenses related to proceedings against them. In addition, in the normal course of operations, the Plan may be required to compensate counter parties for costs incurred as a result of various contingencies such as legal claims or changes in laws and regulations. The number of such agreements, the variety of indemnifications and their contingent character prevents the Plan from making a reasonable estimate of the maximum amount that it would be required to pay all such counterparties. To date, no payments have been made under such indemnifications.

# SUPPLEMENTARY FINANCIAL INFORMATION

## INVESTMENTS GREATER THAN $20 MILLION

**AS AT DECEMBER 31, 2016**
**(unaudited)**

### FIXED INCOME

| Issuer | Coupon | Maturity Date | Fair Value ($ thousands) |
|---|---|---|---|
| **NOMINAL BOND** | | | |
| BlackRock Canada CorePlus Long Bond Fund | | | 784,790 |
| Government of Canada | 2.75% | 1-Dec-48 | 51,204 |
| Government of Canada | 3.50% | 1-Dec-45 | 42,465 |
| Province of Quebec | 6.25% | 1-Jun-32 | 27,786 |
| Province of Quebec | 5.75% | 1-Dec-36 | 27,393 |
| Province of Ontario | 5.85% | 8-Mar-33 | 26,471 |
| Province of Ontario | 2.90% | 2-Dec-46 | 25,775 |
| Hydro Quebec | 6.00% | 15-Feb-40 | 21,633 |
| **REAL RETURN BOND** | | | |
| Government of Canada | 4.00% | 1-Dec-31 | 212,629 |
| Government of Canada | 3.00% | 1-Dec-36 | 108,541 |
| Government of Canada | 1.25% | 1-Dec-47 | 93,971 |
| Province of Quebec | 4.25% | 1-Dec-31 | 87,870 |
| Government of Canada | 2.00% | 1-Dec-41 | 80,256 |
| Government of Canada | 4.25% | 1-Dec-26 | 78,028 |
| Province of Ontario | 2.00% | 1-Dec-36 | 62,784 |
| Government of Canada | 1.50% | 1-Dec-44 | 51,906 |

### EQUITY

| Issuer | Fair Value ($ thousands) |
|---|---|
| **CANADIAN EQUITY** | |
| TD *Emerald* Low Volatility Canadian Equity Pooled Fund | 334,073 |
| **U.S. EQUITY** | |
| SPDR S&P 500 ETF Trust Units | 55,665 |
| Berkshire Hathaway Inc. – Class B | 46,095 |
| Microsoft Corp. | 29,083 |
| MasterCard Inc. – Class A | 28,731 |
| Johnson & Johnson | 27,810 |
| UnitedHealth Group | 22,234 |
| Apple Inc. | 20,999 |
| **GLOBAL EQUITY** | |
| TD *Emerald* Low Volatility All World Pooled Fund | 189,142 |

# INVESTMENTS GREATER THAN $20 MILLION

**AS AT DECEMBER 31, 2016**
**(unaudited)**

## STRATEGIC

| Issuer | Fair Value ($ thousands) |
|---|---|
| **PROPERTY** | |
| AEW Core Property Trust | 114,288 |
| Bentall Kennedy Prime Canadian Property fund | 83,071 |
| Triovest Realty Advisors Westhills Equities | 62,475 |
| Morguard Investment Ltd. Res. Prop. (1) Inc. Pooled | 54,532 |
| Morguard Investment Ltd. Indus. Prop. (1) Common | 36,380 |
| Minto Properties Multi-Residential Income | 29,007 |
| Crown Realty II, LP | 27,037 |
| Realstar Apartment Partnership II | 21,420 |
| **PRIVATE INVESTMENT** | |
| Global Infrastructure Fund | 45,225 |
| European Infrastructure Fund | 43,791 |
| Private Equity Secondary Fund | 35,111 |
| Global Maritime Private Equity Fund | 34,075 |
| Private Equity Secondary Fund | 34,041 |
| Global Infrastructure Fund | 29,772 |
| Global Infrastructure Fund | 28,536 |
| Private Equity Secondary Fund | 28,836 |
| Asian Infrastructure Fund | 27,993 |
| Asian Venture Capital Fund | 27,852 |
| Private Equity Secondary Fund | 25,662 |
| Asian Private Equity Fund | 24,411 |
| Private Equity Secondary Fund | 23,363 |
| Asian Venture Capital Fund | 23,347 |
| Private Equity Secondary Fund | 21,343 |
| Mezzanine Fund | 20,355 |
| **HEDGE FUND** | |
| Mellon Offshore Global Opportunity Fund Ltd. | 95,637 |
| Aspect Diversified Fund Class L shares | 43,989 |

# TOP 10 DIRECT HOLDINGS

**AS AT DECEMBER 31, 2016**
**(unaudited)**

## AS A PERCENTAGE OF NET ASSETS AVAILABLE FOR BENEFITS

| Company | Sector | % |
|---|---|---|
| **CANADIAN EQUITY** | | |
| Intact Financial Corp. | Financials | 0.29% |
| Power Financial Corp. | Financials | 0.26% |
| Element Fleet Management Corp. | Financials | 0.24% |
| Toronto-Dominion Bank | Financials | 0.23% |
| Shaw Communications Inc. – Class B | Consumer Discretionary | 0.21% |
| George Weston Ltd. | Consumer Staples | 0.21% |
| Morguard REIT | Financials | 0.20% |
| Franco-Nevada Corp. | Materials | 0.19% |
| Goldcorp Inc. | Materials | 0.19% |
| Fairfax Financial Holdings Ltd. | Financials | 0.19% |
| | **Top 10 Canadian Holdings - Total** | **2.21%** |
| **GLOBAL EQUITY** | | |
| SPDR S&P 500 ETF Trust Units | Broad Index | 0.84% |
| Berkshire Hathaway Inc. – Class B | Financials | 0.70% |
| Microsoft Corp. | Technology | 0.44% |
| MasterCard Inc. – Class A | Financials | 0.43% |
| Johnson & Johnson | Health Care | 0.42% |
| UnitedHealth Group | Health Care | 0.34% |
| Apple Inc. | Technology | 0.32% |
| JPMorgan Chase & Co. | Financials | 0.22% |
| The Coca-Cola Co. | Consumer Staples | 0.22% |
| The TJX Companies, Inc. | Consumer Discretionary | 0.21% |
| | **Top 10 Global Holdings - Total** | **4.14%** |

CBC Pension Plan

# BOARD OF TRUSTEES & MANAGEMENT

## BOARD OF TRUSTEES

(as of December 31, 2016)

Maureen McCaw
(Chair)

Director
CBC/Radio-Canada

Judith Purves

Vice-President & CFO
CBC/Radio-Canada

Monique Marcotte

Vice-President,
People & Culture
CBC/Radio-Canada

Rob Jeffery

Director
CBC/Radio-Canada

Paul Gaffney

Member of the CBC
National Pensioners
Association

Jonathan Soper

Member of the
Consultative Committee
on Staff Benefits

Isabelle Doyon

Member of the
Consultative Committee
on Staff Benefits

## MANAGEMENT

Debra Alves, CFA
Managing, Director / CEO

Duncan Burrill, CPA, CMA
Secretary / Treasurer

### INVESTMENT MANAGEMENT TEAM

Timothy Cairns, CFA
Portfolio Manager
Property

Patrizia Cappelli, CFA
Portfolio Manager
Domestic Bonds

Paul Gasperetti, CFA
Portfolio Manager
Canadian Equity

Laura Hurst, CFA
Portfolio Manager
Global Equity

Nadi Tadros, CFA
Portfolio Manager
Global Equity

Robert VandenBygaart, CFA
Portfolio Manager
U.S. Equity

Miles Whittingham, CFA
Portfolio Manager
Strategic Investments

### ADMINISTRATION

Francesca Adibe, CPA, CGA
Senior Manager
Risk Management
& Administration

Carole Bélanger, ASA
Director
Pension Administration

Sheldon Sullivan, CPA, CA
Senior Manager
Accounting Operations

We welcome your comments and suggestions for this annual report as well as other aspects of our communications program.

Please address comments to:

**CBC Pension Board of Trustees**
**99 Bank St., Suite 919**
**Ottawa, Ontario K1P 6B9**

Telephone: (613) 688-3900
Fax: (613) 688-3901

E-mail address: pension@cbcpension.ca
Internet site – general: www.cbc-radio-canada-pension.ca
Internet site – CBC staff & pensioners: www.pensionadmin-cbc-src.ca

# GLOSSARY

**ACTIVE MANAGEMENT**
An investment management style that aims to achieve returns above a chosen benchmark or market index. It is the opposite of passive management.

**ACTUARIAL VALUATION**
An analysis of the financial condition of a pension plan which calculates the liabilities of the plan and costs of providing plan benefits. An actuary prepares the valuation and the pension plan must file the valuation with its pension regulator annually.

**ACTUARY**
A business professional who is a fellow of the Canadian Institute of Actuaries (CIA) and is responsible for preparing and signing actuarial valuations.

**ASSETS**
Plan assets refer to the property of the pension fund, primarily comprised of the fair value of its investments.

**ASSET MIX**
The percentage of a portfolio or fund that is invested in each of the main asset types (i.e. short–term investments, fixed income, Canadian equity, international equity and alternatives).

**BASIS POINT**
One one-hundredth of a percentage point (0.01 percentage point). For example, if the target for the overnight interest rate is raised from 2.75 % to 3.00 %, it has been increased by 25 basis points.

**BENCHMARK**
A standard against which the performance or characteristics of a portfolio or investment is evaluated. The S&P/TSX equity index and the DEX Universe Bond index are widely used Canadian equity and Canadian fixed income benchmarks respectively.

**BETA**
A quantitative measure of the sensitivity of an equity security or an equity portfolio to changes in its related benchmark index.

**BOND FORWARDS**
Contracts between two counterparties where one counterparty agrees to buy a bond and the other agrees to sell a bond at an agreed future date, but at a price established at the start of the contract.

**BOND OVERLAY PORTFOLIO**
A portfolio of fixed income derivative instruments that are designed to hedge the Plan's interest rate and inflation risks without changing the Plan's physical asset mix. It is a key part of the Plan's Liability Driven Investment strategy.

**BUYOUT INVESTMENTS**
Investments in controlling interests of a company.

**CAPSA**
Canadian Association of Pension Supervisory Authorities (CAPSA) is a national inter-jurisdictional association of pension supervisory authorities whose mission is to facilitate an efficient and effective pension regulatory system in Canada. It discusses pension regulatory issues of common interest and develops policies to further the simplification and harmonization of pension law across Canada.

**CONSUMER PRICE INDEX (CPI)**
An inflation measure computed by Statistics Canada which calculates the change in prices of a fixed basket of goods and services purchased by a typical Canadian consumer each month. The Consumer Price Index is used to calculate annual cost of living increases for pension benefits, also referred to as Indexing.

**CONTRIBUTION HOLIDAY**
A period when the contributions to a pension plan are put on hold, the most common reason for this being a situation of surplus.

**CONTRIBUTORY DEFINED BENEFIT PENSION PLAN**
A type of pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history and years of service under the plan, rather than depending on investment returns. With a defined benefit plan, investment risk is borne by the employer. In a contributory plan, members must make contributions, usually by payroll deduction, to accrue benefits.

**CONTROL SELF-ASSESSMENT (CSA)**
A methodology used to review key business objectives, risks involved in achieving the objectives, and internal controls designed to manage those risks. A CSA allows managers and work teams directly involved in business units, functions or processes to participate in assessing the organization's risk management and control processes.

**CONVEXITY**
A measure of the sensitivity of the duration of a bond to changes in interest rates.

**CREDIT SPREAD**
The difference in the yield between two different bonds, due to different credit quality. The credit spread reflects the additional net yield an investor can earn from taking incremental credit risk. It is often quoted in relation to the yield on (federal) government bonds.

**DEFICIT**
A deficit exists in a pension plan when the actuarial valuation determines that the value of the plan's assets are less than its liabilities.

**DERIVATIVES**
Financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset, (e.g. equities, bonds), an index (e.g. exchange rates, stock market indices) or other items. The main types of derivatives are: forwards (which if traded on an exchange are known as futures); options; and swaps. Derivatives can be used to hedge the risk of economic loss arising from changes in the value of the underlying.

**DURATION**
The weighted average term to payment of the cash flows on a bond.

**FAIR VALUE**
An estimate of the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

**FIDUCIARY**
An individual or institution occupying a position of trust. An executor, administrator or trustee responsible for the assets belonging to another person.

**FUNDED RATIO**
The ratio of pension plan assets to pension plan liabilities as determined by the latest actuarial valuation. The funded ratio equals 100% when the value of the pension plan's assets and liabilities are equal. Can be measured on either a "solvency" or "going concern" basis.

**GOING CONCERN VALUATION**
A pension plan valuation that looks at the plan's funded status on the basis that the plan will continue to operate indefinitely.

**GOVERNANCE**
Pension plan governance refers to the structure, processes and safeguards for overseeing, managing and administering the plan to ensure the fiduciary and other obligations of the plan are met.

**HEDGING**
Using one kind of security to protect against unfavorable movements in the price of another kind of security. Usually hedging is accomplished by the use of derivatives such as options, forwards, swaps or futures.

**INDEXING** (of Pension Benefits)
The periodic cost of living adjustment of pension benefits usually based on a percentage or capped value of the Consumer Price Index.

**LIABILITIES**
The amount required by the plan to cover the cost of paying current and future pension benefits.

**LIABILITY BENCHMARK**
This benchmark serves as a market proxy to estimate the change in solvency pension obligations as inflation and interest rates change.

**LIABILITY DRIVEN INVESTMENT (LDI)**
LDI, which is also known as asset/liability matching, is an investment strategy that manages a pension plan's assets relative to its liabilities with the intent to minimize pension surplus volatility. This is done primarily through the hedging of interest rate and inflation risk. Under LDI, pension plan assets are grouped into matched and unmatched assets. Matched assets (fixed income) have the similar interest rate and inflation sensitivities as the pension plan's liabilities. Unmatched assets (equities and alternative investments) do not have the same interest rate and inflation sensitivities as the pension plan's liabilities.

**MANAGEMENT FEE**
A charge levied by an investment manager for managing an investment fund. The management fee is intended to compensate the managers for their costs and expertise.

**MATURE PENSION PLAN**
A pension plan where the number of retired members and employees near retirement is significantly greater than the number of younger plan members. Mature plans usually pay out more to retirees than they receive from members who are still working.

**MEZZANINE INVESTMENTS**
Investments in the subordinated debt of a company that contain an option to convert the debt to equity.

**OFFICE OF THE SUPERINTENDENT OF FINANCIAL INSTITUTIONS (OSFI)**
A federal agency established in 1987 under the Office of the Superintendent of Financial Institutions Act whose mandate is to supervise all federally regulated financial institutions and pension plans.

**PASSIVE MANAGEMENT**
An investment management style that seeks to achieve returns equal to the market or index returns. Is also known as "indexing". It is the opposite of active management.

**PENSION BENEFITS STANDARDS ACT** (1985)
Managed by the Office of the Superintendent of Financial Institutions Canada, outlines the rules regarding the registration, administration and benefits of pension plans in Canada.

**PENSION FUND**
A pension fund is a pool of assets forming an independent legal entity that are bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits.

**PENSION OBLIGATIONS**
The present value of the benefits payable to the members over their lifetime to which they are entitled or will be entitled to under the Plan.

**PERFORMANCE ATTRIBUTION**
The identification of the sources of portfolio return relative to the portfolio's benchmark. Helps explain why a portfolio over or underperformed its benchmark.

**PLAN SPONSOR**
The organization or individual that establishes a pension plan.

**PRIVATE INVESTMENTS**
The sale of equity or fixed income securities directly to institutional investors such as banks, insurance companies, hedge funds and pension funds. As the sale is to institutional investors only, the securities registration and information disclosure requirements are reduced relative to publicly traded securities.

**REIT**
Real Estate Investment Trust. A security listed on a stock exchange that invests in real estate assets.

**REPO RATE**
The Repo rate is the discount rate at which a central bank repurchases government securities from the commercial banks.

**RISK METRICS**
Are statistical measures that quantify the degree of uncertainty as to the realization of expected returns. They assist organizations in understanding the amount of risk they are currently taking or are planning to take.

**SIP&P**
Statement of Investment Policy and Procedures. The SIP&P defines the investment policies, principles and eligible investments which are appropriate to the needs and objectives of the Plan, in a manner conforming to the requirements of the Pension Benefits Standards Act and the Regulations thereof.

**SOLVENCY BASIS VALUATION**
A pension plan valuation that assumes that the plan stops operating as of the valuation date. It is intended to test whether the plan has sufficient assets to provide an immediate payout of all benefits that have been earned to that date.

**SURPLUS**
A surplus exists in a pension plan when the actuarial valuation determines that the assets available exceed the accrued benefit payments (liabilities) to be paid out.

**TOTAL RETURN SWAPS**
Are contracts between two parties where one agrees to pay the total return (interest payments and any capital gains or losses) from a specified reference asset and the other counterparty agrees to pay a specified fixed or floating cash flow.

**U.S. FED**
Created in 1913, The Federal Reserve System (also the Federal Reserve; informally The Fed) is the central banking system of the United States.

**YIELD CURVE**
The yield curve is the relation between the interest rate (rate of borrowing) and the time to maturity of the debt for a given borrower in a given currency.

**VENTURE CAPITAL INVESTMENTS**
Investments in start-up companies.