

# 2013 Annual Report



**Musicians' Pension Fund  
of Canada**

This report is available in English and French. Please contact the Fund office to advise in which language you would prefer to receive your Pension Plan communications.

## INTRODUCTION

Welcome to the first issue of the Musicians' Pension Fund of Canada Annual Report. This report provides members and other beneficiaries of the Plan with an overview of the financial position of the Plan and includes information about Plan membership, benefits paid and Plan governance.

## MISSION STATEMENT

To administer the Plan in a prudent manner to ensure its long-term viability in order to provide the best possible retirement benefits to the Fund's members and beneficiaries.

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## PLAN INFORMATION AT A GLANCE

The Plan had **14,209 members** at the end of 2013.

Close to **\$31 million pension payments** were made in 2013. The Fund also paid out \$3.1 million in termination and death benefits for the year.

Fund **assets increased** from \$606 million at the end of 2012 to \$688 million at the end of 2013.

The Fund's overall **rate of return was 19.3%** for 2013 – very favourable when compared to the benchmark of 11.1%.

Administrative **expenses were just under \$4.6 million** for 2013, representing 0.67% of assets at year-end.

Total employer **contributions were \$10 million** to the Fund for 2013 compared to \$9.2 million in 2012.

**14,209**

**\$31** million

**13.5%**

**19.3%**

**0.67%** ADMINISTRATIVE EXPENSES

**\$10** million

## MESSAGE FROM THE CHAIR

Welcome to your Plan's annual report. Please let us know how we can make it more useful to you. Successfully addressing the many challenges that arise in a Pension Plan like ours makes the volunteer role of your Trustees interesting and rewarding.

My thanks to my fellow Trustees for their commitment, sound advice, and the good decisions they bring to the oversight of your Fund.

The enclosed highlights of the 2013 Fund performance were encouraging and it's great to see the Plan's favourable investment performance continue into 2014. These gains help to address the significant market losses in recent years, but we can't count on them continuing. The Trustees constantly monitor the Fund's performance and in a mature Plan such as ours, we must increasingly focus on balancing the investment income needed to support the liabilities of our pension benefits. In addition to our regular monitoring and oversight duties in 2013, your Trustees completed three major projects:

### INVESTMENT RESTRUCTURING

As our assets have grown, we have increased diversification of our investments to take advantage of private equity, hedge funds, infrastructure, real estate, and opportunities outside of Canada.

### GOVERNANCE GUIDELINES

A complete review and update of our governance guidelines was undertaken. A copy can be obtained by contacting the Fund office.

### TRUST AGREEMENT

The Plan's Trust Agreement is core to its operation as a Pension Plan and is the document that must address many of the legal and regulatory requirements of the Plan. This document, in conjunction with legal counsel, was reviewed and updated to reflect the many changes required.

To successfully manage a Plan such as ours, requires knowledgeable, professional management as well as staff. On behalf of the Board, I would like to thank the Fund office advisors and administration for their continued, outstanding performance.

Finally, I wish to assure you that the Trustees take their role to protect pension benefits for both pensioners and their beneficiaries seriously. We look forward to the challenges ahead and reporting to you again.

Stanley J. Shortt  
Chair



Stanley J. Shortt  
Chair

## MAJOR PROJECTS



## MESSAGE FROM THE EXECUTIVE DIRECTOR

It is my pleasure to be part of the team that is bringing you this, our first annual report. The annual report is an addition to the Fund's communications policy. We hope it will assist you in better understanding the Plan and how it works.

Communicating about the Pension Plan in language that is easily understood continues to be one of our greatest challenges. Our communications need to be clear and straightforward – not always easy to do. Another challenge is getting you, the members, to read what we provide!

We've completely redone our administration system. We feel that this project has been a big success! Our systems consultants, Procace, are very engaged and have become like a partner to the Fund office. We're looking forward to the implementation of the member self-service web. As a matter of fact, as you read this you may already have had an opportunity to visit the member self-serve.

Your Fund has an exceptional Board of Trustees. They are approachable, engaged, committed and unified in their goal to improve the lives of our pensioners and beneficiaries. Their commitment to you makes my job much easier and very rewarding. I believe my tenure speaks to their unwavering support of not only you, the members, but of all of us in the Fund office.

The Fund office staff works as a team and has grown to a group of nine. We have five staff members who have been with the Fund office for more than 30 years, two of whom started as summer students.

Now in my 43<sup>rd</sup> year with the Fund, I look forward to the challenges ahead and to creating solutions.

Please let us hear from you with comments and ideas that could assist us in making your communications about the Fund more meaningful.

Ellen M. Versteeg-Lytwyn  
Executive Director



Ellen M. Versteeg-Lytwyn  
Executive Director

### FUND OFFICE TEAM



■ Staff working  
more than 30 years

## HOW THE PLAN WORKS

Our Pension Plan is a “defined benefit” plan, which means that it defines what you will receive at retirement.

Contributions are negotiated with employers by the AFM/CFM, and its Locals. Therefore, it is not possible to seek additional contributions in the event that either: (i) assets are not sufficient to pay for the promised benefits; or (ii) current contributions are not sufficient to pay for current benefits being earned. Accordingly, pension legislation requires the Trustees to make changes to the Plan’s promised pension benefits based on affordability, when necessary. This was the reason for the changes made to the Plan effective January 1, 2013.

Your retirement benefit is calculated according to a set formula that is based on the contributions received from employers on your behalf. It also depends on the age at which you retire and certain other factors including the type of survivor benefit you choose.

Plan assets are held in trust by an independent custodian in accordance with pension legislation. The Fund is invested in a diversified portfolio of assets and managed by professional investment managers. The Plan complies with the Income Tax Act (Canada) and the various provincial pension benefits acts across the country.

To learn more about the Plan, please visit the website at [www.mpfcanada.ca](http://www.mpfcanada.ca) and look for the Plan summary.

[www.mpfcanada.ca](http://www.mpfcanada.ca)





## PLAN GOVERNANCE

The Plan is administered by a Board of Trustees established in accordance with the Trust Agreement.

### BOARD OF TRUSTEES

Stanley J. Shortt, Chair  
E. Eddy Bayens, Vice-chair  
David J. Jandrisch  
John G. Sinclair  
Harold Redekopp

Plan governance starts with the mission statement:

To administer the Plan in a prudent manner to ensure its long-term viability in order to provide the best possible retirement benefits to the Fund's members and beneficiaries.

Among other things, the Board of Trustees is responsible for hiring an Executive Director to manage the daily operations of the Plan and Fund, for hiring various professionals to assist where needed, and for monitoring of the Fund's overall operations and performance.

The Board has created two committees – the Disability Committee and the Delinquency Committee. The Disability Committee reviews and approves applications for a disability pension and the Delinquency Committee is responsible for the Fund's delinquency control program.

The Board and committees meet on a regular basis to ensure proper Plan and Fund governance. This means that they continuously strive to ensure the overall direction, effectiveness, supervision and accountability of all aspects of Plan and Fund operations.

### DISABILITY COMMITTEE



### DELINQUENCY COMMITTEE

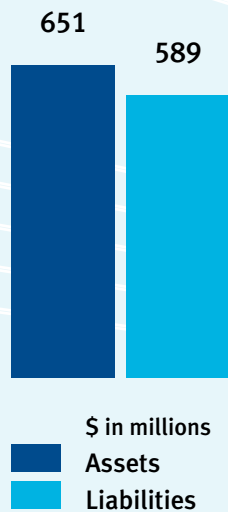


## FINANCIAL POSITION OF THE PLAN

Pension legislation generally requires that the Trustees must have an actuarial valuation of the Plan done at least once every three years by an independent third-party actuary. The purpose is to determine the financial position of the Plan and to ensure that the Plan is appropriately funded. The results are filed with the Financial Services Commission of Ontario (FSCO).

### ASSETS VERSUS LIABILITIES

At January 1, 2011\*



\* The January 1, 2014 valuation has been filed with FSCO. The Fund office is waiting for FSCO to review the valuation before publishing results.

It is important to note that the Trustees cannot focus only on assets and Fund rates of return – the assets are there to support the payment of benefits, so the Trustees also need to focus on this essential comparison of assets versus liabilities.

“Financial position” refers here to a comparison of the assets of the Plan with the liabilities (or cost of benefits). This is different from the Plan’s financial statements, which show year-over-year changes in the assets alone.

As of January 1, 2011, the Plan had a surplus of assets over liabilities equal to approximately \$62 million. Plan surplus has decreased since the last actuarial valuation was performed as of January 1, 2008 – at that time, surplus was approximately \$108 million.

Having a surplus is good news, but it’s not the whole story. The valuation also has to show whether yearly contributions are sufficient to pay for the benefits accruing each year. For the years 2011 and 2012, the actuarial valuation showed that contributions would not be sufficient to cover the cost of benefits accruing in those years. For each year, the projected cost was approximately \$13.4 million compared to expected contributions of \$8.1 million.

Legislation does not permit surplus to be used to support current benefit accruals – so this was the reason the Trustees were

required to take action and make the changes to the Plan effective January 1, 2013. Most notably, the Plan was changed so that only one-half of the contributions made on a member’s behalf on and after January 1, 2013 would be used in the calculation of benefits. The other one-half of post-2012 contributions are considered sustaining contributions to support the actual cost of benefits earned each year.

Actuarial valuations are based on many assumptions about the future, including expected investment return, mortality rates, retirement age, number of members expected to retire with a spouse at the time of retirement, etc. The fact that actual experience over time will differ from the assumptions made is the main reason that legislation requires a valuation to be performed at least once every three years. In a way, it’s like steering a ship – when reality does not match the assumptions, periodic course changes may be required.

The Trustees pay close attention to the results of each actuarial valuation. Future annual reports will continue to provide information about ongoing valuation results.



## FINANCIAL STATEMENT SUMMARY

The Trustees are required by legislation to have audited financial statements prepared every year. The following is an extract from the audited financial statements for the years 2012 and 2013.

### FINANCIAL STATEMENT SUMMARY

(in thousands of dollars)	Plan year ended	
	December 31, 2013	December 31, 2012
<b>Assets at beginning of Plan year</b>	<b>606,152</b>	<b>574,558</b>
<b>Increase in assets</b>		
Increase due to investments		
Total investment income – e.g., interest, dividends	34,842	25,875
Realized gains (losses) on investments – from the sale of investments	958	4,178
Unrealized gains (losses) on investments – change in the value of investments held	74,795	27,421
Employer contributions	10,076	9,203
<b>Total increase in assets</b>	<b>120,671</b>	<b>66,677</b>
<b>Decrease in assets</b>		
Monthly pension benefits	30,908	28,092
Death benefits	915	1,253
Termination payments and transfers	2,230	1,614
Plan expenses	4,577	4,124
<b>Total decrease in assets</b>	<b>38,630</b>	<b>35,083</b>
<b>Assets at end of Plan year</b>	<b>688,193</b>	<b>606,152</b>

If you would like to see more details about the audited financial statements, please visit the website at [www.mpfcanada.ca](http://www.mpfcanada.ca). The complete audited financial statements for each year are posted there.

[www.mpfcanada.ca](http://www.mpfcanada.ca)

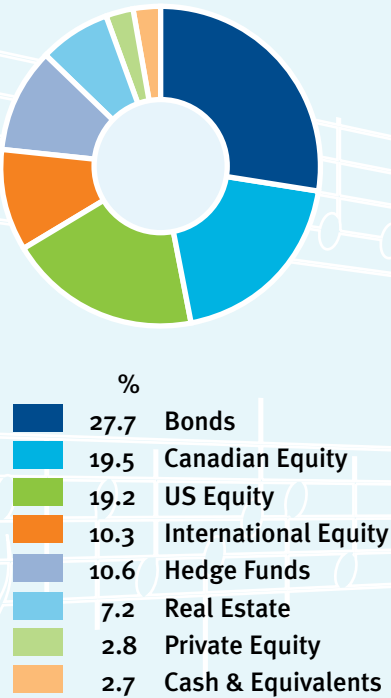


## PENSION ASSETS AND INVESTMENTS

The Fund is invested in a diversified portfolio as shown in the pie chart.

### ASSET MIX

Actual investment mix as of December 31, 2013



### ASSET MIX AND DIVERSIFICATION

A key factor in managing investment risk and return is asset mix – the allocation of assets amongst a variety of asset classes and geographies. As indicated in the Chair’s message, the Board of Trustees has recently restructured the Fund’s investments to take more advantage of diversification opportunities. Diversification helps minimize the impact of a decline in a particular region or type of investment.

Legislation is also a factor – for example, the Ontario Pension Benefits Act places limits on concentration in any one investment. These rules are there

for the protection of the Fund, its assets and, by extension, members’ benefits.

Another way the Fund diversifies is the use of multiple external investment managers. The Board chooses investment managers based on their expertise with particular asset classes and investment styles, among other things.

The diversification of the Fund’s assets ensures that the assets are invested prudently in order to achieve the Fund’s long-term investment objectives while at the same time managing investment risk.

## PERFORMANCE OF THE FUND

The total return for the year ended December 31, 2013 was 19.3% which compares very favourably to the overall Fund benchmark of 11.1%.

When evaluating the performance of any investment, it is important to compare it against an appropriate benchmark.

By law, the Board of Trustees must establish a Statement of Investment Policies and Procedures (SIP&P). The benchmarks used in the following chart are the ones established in the Fund's SIP&P. A copy of the SIP&P is available by written request to the Fund office.

As indicated in the Board's January 2014 letter to Plan members and pensioners, while the 2013 rate of return is good news, we do not expect this one-year result to have an impact on the level of Plan benefits.

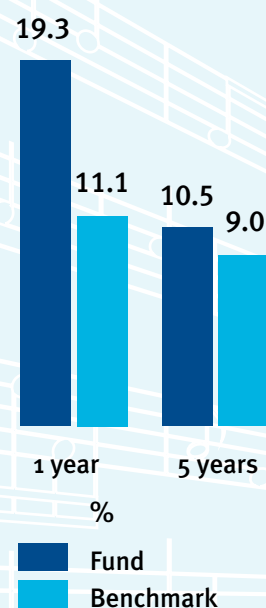
The bar chart on the right shows the total Fund return against the benchmark for the one year ended December 31, 2013 and the five years ended as of the same date.

### DEFINITION OF BENCHMARKS:

A benchmark is a standard against which the performance of a particular asset class is measured.

Asset Class	Benchmark
Bonds	FTSE TMX Canada Universe Bond Index
Canadian Equity	S&P/TSX Composite Index
US Equity	S&P 500 (CAD)
International Equity	MSCI EAFE (CAD)
Hedge Funds	10% absolute return
Real Estate	10% absolute return
Private Equity	10% absolute return
Cash & Equivalents	FTSE TMX Canada 91-day T-bills
<b>Total Fund</b>	<b>Composite of above</b>

### INVESTMENT RETURNS As at December 31, 2013

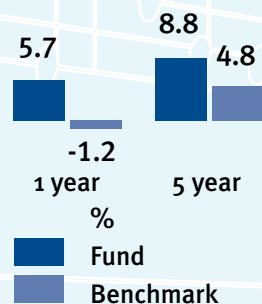


## MAJOR ASSET CLASSES

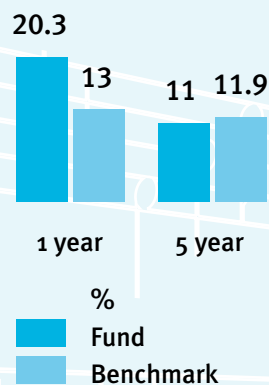
One-year and five-year rates of return as of December 31, 2013

Note – NA refers to the fact that some investment classes have existed within the Fund for less than five years.

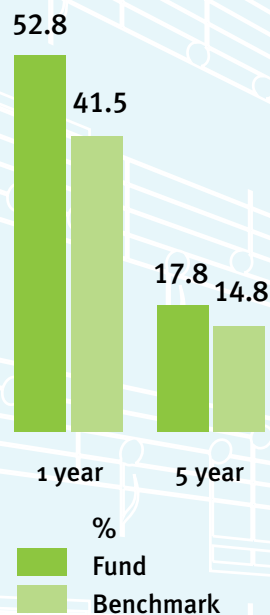
### BONDS



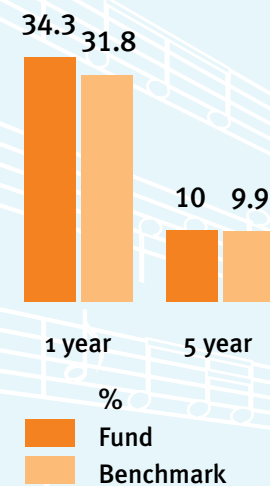
### CANADIAN EQUITY



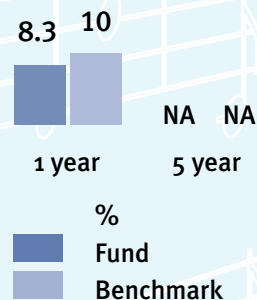
### US EQUITY



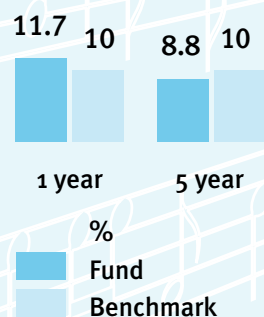
### INTERNATIONAL EQUITY



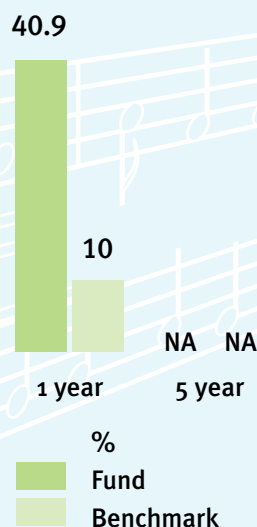
### HEDGE FUNDS



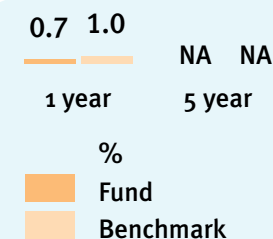
### REAL ESTATE



### PRIVATE EQUITY



### CASH & EQUIVALENTS



## MEMBERSHIP DATA AND BENEFIT PAYMENTS

Total membership has remained stable over the past three years, as can be seen from the table and charts.

### PLAN MEMBERSHIP SUMMARY

(as of December 31)	2013	2012	2011
Active	4,460	5,243	5,367
Pensioners and beneficiaries	2,690	2,505	2,338
Deferred vested	7,059	6,394	6,292
<b>Total</b>	<b>14,209</b>	<b>14,142</b>	<b>13,997</b>

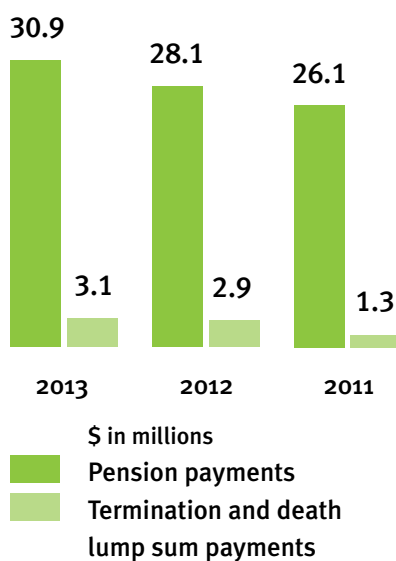
### BENEFIT PAYMENTS

Over the past three years, the following benefit payments have been made:

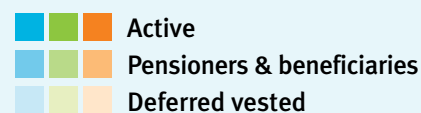
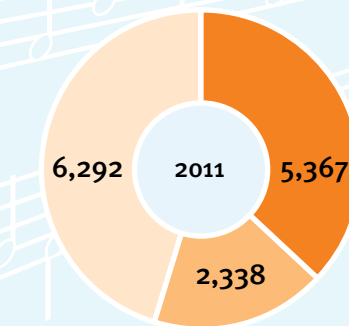
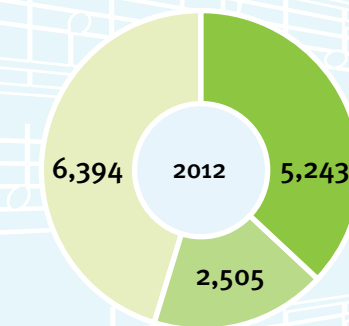
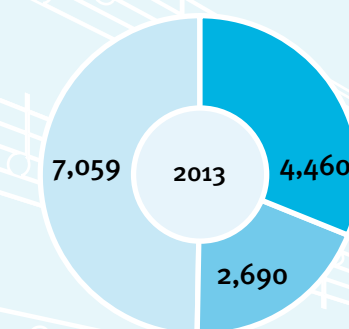
(in thousands of dollars)	2013	2012	2011
Pension payments	30,908	28,092	26,144
Termination and death lump sum payments	3,145	2,867	1,326

In total, the Fund paid approximately \$34,053,000 in benefits in 2013, an increase of 24% over the total benefits paid in 2011.

### BENEFIT PAYMENTS



### COMPARATIVE PLAN MEMBERSHIP SUMMARY As of December 31



## FEEDBACK/MORE INFORMATION

We welcome your questions, comments and feedback on this, our inaugural annual report, or on any other matter concerning the Plan. Please feel free to contact the Fund office:

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Telephone: (416) 497-4702  
Toll Free: 1-888-462-6666  
Email: [info@mpfcana.ca](mailto:info@mpfcana.ca)

Please also consider visiting the website at [www.mpfcana.ca](http://www.mpfcana.ca). You'll find answers to many questions there.

## DISCLAIMER

The Trustees expect to maintain the Fund indefinitely. However, they have the right, in accordance with applicable laws, to change or cancel any or all benefits under the Fund for active or retired members and their survivors and dependents.

This publication was prepared on behalf of the Trustees of the Musicians' Pension Fund of Canada. It provides summary information about the Fund in plain language. This publication is not intended to provide advice. If there is a discrepancy between this document and the legal documents that govern the Fund, the legal documents will apply.

## PENSION ADMINISTRATION

The Board of Trustees monitors the administrative expenses charged to the Fund on a regular basis to ensure they are reasonable. The administrative expenses for the past three years are outlined in the following table.

### ADMINISTRATIVE EXPENSES

(in thousands of dollars)	2013	2012	2011
Asset management	2,322	2,122	2,062
Pension administration	1,402	1,340	1,240
Other	853	663	653
Total expenses	4,577	4,125	3,955
Assets at year end	688,193	606,152	574,558
<b>Total expenses as a percentage of net assets</b>	<b>0.67%</b>	<b>0.68%</b>	<b>0.69%</b>

In the retail marketplace, individuals sometimes pay as much as three or four times this level of fees when investing in a balanced and diversified portfolio similar to that of the Pension Fund. The fact that the fees are so low for the Fund is the power of economies of scale – the Fund is large enough, at almost \$700 million, to be able to achieve such a low expense rate. This is good for the Plan, the Fund, and ultimately the Plan members who benefit from a low-cost pension delivery system.

### SOMEPP TREATMENT CONTINUES

Our Plan continues to be treated as a Specified Ontario Multi-Employer Pension Plan (SOMEPP) under the Ontario Pension Benefits Act. This means that we do not currently need to take action to address the solvency shortfall determined as of the last actuarial valuation at January 1, 2014. For detailed information about our SOMEPP status, please refer to the Winter 08/09 Newsletter.

The Plan's transfer ratio as of the January 1, 2014 valuation, which has just been filed, is 72%. This ratio is determined through a solvency valuation, which assumes the Plan ceases to operate, liquidates all its investments and pays out all benefits as of the valuation date. Please note that this situation is purely hypothetical. In the unlikely event that the Plan is terminated, it is possible that pension benefits could be reduced; however, as explained in the Winter 08/09 Newsletter, we expect the Plan to keep operating for many years in the future as it has done for over 40 years.