

MANAGEMENT EMPLOYEES  
PENSION BOARD

STRATEGIC BUSINESS PLAN

2021-2023

## Table of Contents

MEPP GOVERNANCE .....	1
BOARD VISION .....	2
BOARD MISSION .....	2
ACCOUNTABILITY STATEMENT .....	2
STRATEGIC PLANNING.....	3
<i>INTERNAL AND EXTERNAL CHALLENGES</i> .....	4
<i>STRATEGIC PRIORITIES AND GOALS</i> .....	8
Strategic Priority 1 – Effective monitoring of MEPP Funding .....	8
Strategic Priority 2 – Appropriate investment of MEPP assets.....	8
Strategic Priority 3 – Diligent fiscal management .....	8
Strategic Priority 4 – Effective communications .....	8
Strategic Priority 5 – Prudent Plan and Board Governance .....	8
BUSINESS PLANNING.....	9
Deliverables – Strategic Priority 1 .....	9
Deliverables – Strategic Priority 2 .....	9
Deliverables – Strategic Priority 3 .....	10
Deliverables – Strategic Priority 4 .....	10
Deliverables – Strategic Priority 5 .....	10

# OVERVIEW

## MEPP GOVERNANCE

The President of Treasury Board and Minister of Finance (the “Minister”) is the statutory administrator and trustee of the Management Employees Pension Plan (“MEPP” or the “Plan”), and holds all assets of MEPP in trust for the sole purpose of providing benefits pursuant to the Plan and meeting Plan costs. The assets of the Plan fund belong beneficially to the persons entitled to benefits under the Plan.

The *Public Sector Pension Plans Act* (“PSPPA”) sets out the main objectives of the Management Employees Pension Board (“MEPB” or the “Board”) with respect to funding, administration, investments and amendments to MEPP.

As outlined in the PSPPA, the Government of Alberta (“GoA”) has given the Board the following responsibilities:

- Advise the Minister on any pension matter that is of interest to those entitled to benefits under MEPP.
- Consult with the Minister with respect to the following:
  - amending or repealing and replacing Management Employees Pension Plan Regulation (“Plan Rules”), including adjusting contribution rates to ensure the Plan is funded;
  - conducting an actuarial valuation with respect to MEPP and the Public Service Management Closed Plan (Closed Plan);
  - proposed changes to the Public Service Pension Plans Regulation; and
  - the costs to be charged for the administration of MEPP and the Closed Plan.
- Set general policy guidelines, such as the Investment Policy (“IP”), on the investment and management of the Plan fund.
- Set general policy guidelines on the administration of MEPP.

The Board is also subject to the *Alberta Public Agencies Governance Act* (“APAGA”) which requires the Board and the Minister to develop a Mandate and Roles Document (“MRD”) to create a common understanding of respective roles and responsibilities. The MEPB MRD was signed on January 7, 2014.

AIMCo provides investment management services in respect of the Plan fund in accordance with the Investment Management Agreement (“IMA”) with the Province. The Province, in consultation with the Board, monitors, evaluates and oversees the overall performance of AIMCo. AIMCo has the authority to invest MEPP’s assets subject to applicable legislation, implement the MEPP IP as set by the Board, and follow the requirements of the IMA.

The responsibility of the Board’s Investment Committee (“IC”) is to review the Plan’s investment results and make recommendations to the Board regarding the Plan’s investments, including the asset mix and the Board’s IP.

Alberta Pension Services Corporation (“APS”) provides pension-related services to the Province in accordance with the Pension Administrative Services Agreement (“PASA”) with the Crown, and other applicable legislation. APS provides benefit administration for members, pensioners and employers, including receiving and reconciling pension plan contributions, maintaining membership records, paying pensions, and providing information to members, pensioners and employers.

## BOARD VISION

That MEPP members and employers have a pension plan that is affordable and sustainable.

## BOARD MISSION

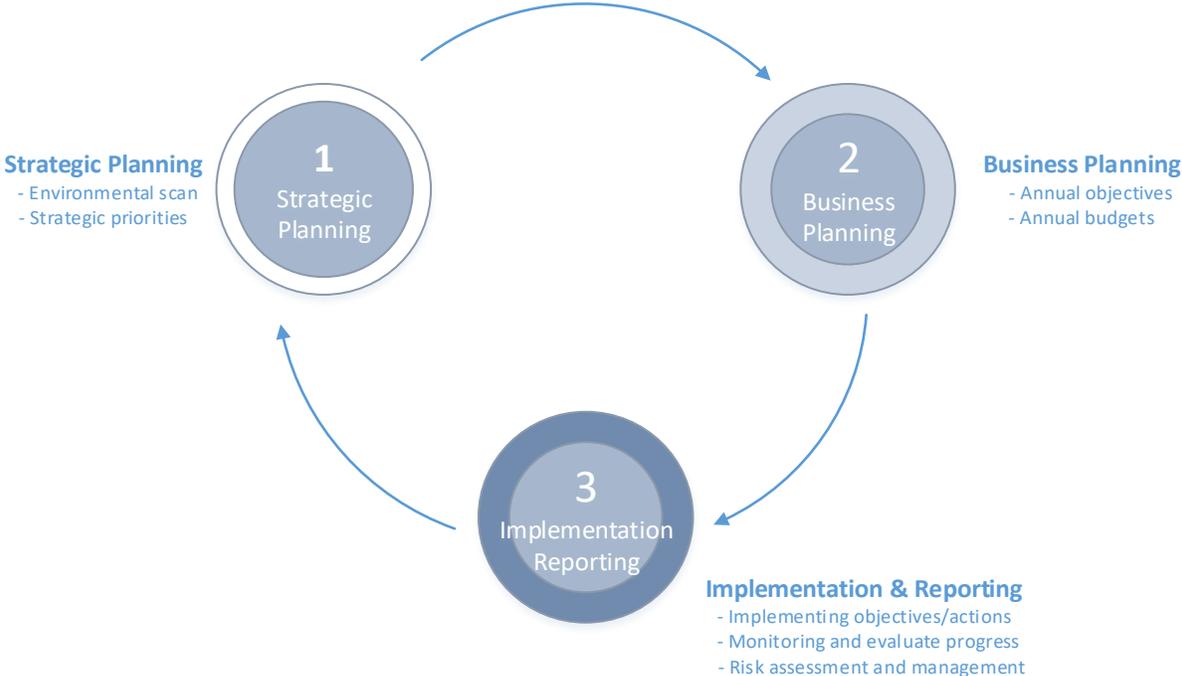
To provide prudent governance over the Plan's assets and liabilities as well as ensuring effective Plan administration.

## ACCOUNTABILITY STATEMENT

This strategic business plan was prepared under the Board's philosophy that the governors of MEPP (the Board and the Minister as the statutory administrator and trustee) work in the best interests of the Plan, to ensure its sustainability. The Board believes that this is achieved through accountability, diligence, initiative, innovation, integrity, trust, and transparency.

# 2021-2023 STRATEGIC BUSINESS PLAN

The Board’s 2021-2023 Strategic Business Plan outlines the Board’s approach to identifying its strategic priorities, goals, and deliverables required to manage risks facing MEPP over the next three years and beyond. The Board’s strategic planning cycle is outlined in the graphic below:



## STRATEGIC PLANNING

MEPP, like most pension plans, inherently faces many risks. The Board monitors Plan risks in collaboration with the GoA through its Enterprise Risk Management (“ERM”) Program.

As a first step, to understand the Plan’s risks and to identify the Board’s focus for the upcoming years, the Board annually determines the key current and possible future challenges and opportunities.

## INTERNAL AND EXTERNAL CHALLENGES

### Governance and Plan Changes

In late 2019, Bill 22 received royal assent from Lieutenant Governor Lois Mitchell. The bill, titled the *Reform of Agencies, Boards and Commissions and Government Enterprises Act*, implemented changes to some provisions previously contemplated with the *Joint Governance Public Sector Pension Plans Act* which transitioned several public sector pension plans (LAPP, PSPP and SFPP) to a joint-governance model. As a result, service level agreements with those plans and APS and AIMCo are currently being reviewed and reestablished to reflect changes resulting from Bill 22.

The governance structure of MEPP has not been altered by recent legislative changes, though the public sector pensions environment within which MEPP operates has changed considerably and continues to shift. MEPP remains under the previous governance model and continues to be subject to its current governing documents including the Operating Protocol (2008), the MRD (2014), the Memorandum of Understanding (2020) and provisions in the service level agreements (2019) with APS and AIMCo. Given its distinct governing model, the Board may face new challenges with the decision-making process in order to diligently and effectively manage MEPP. Clarifying the roles and responsibilities of MEPP's service providers remains a key consideration, and renewal of the service level agreements which govern the provision of services to MEPP and the other Crown-trusted pension plans will contribute to this clarity. As such, the Board intends to engage in revision of the service level agreements and continue the review of other governing documents to ensure alignment and to modernize language as needed.

As a result of MEPP Regulation amendments effective April 1, 2020, the calculation methodology for MEPP's commuted value was revised to aligned with that of other Alberta public sector pension plans. The impact of this change on MEPP membership trends is being monitored by the Board and any risks or opportunities will be reported to the Minister.

### MEPP Investments

To gain returns in a slower growth, low interest rate economy, MEPP must take on some risk. Consequently, the sophistication and complexity of investments has increased, which has resulted in the need for enhanced monitoring.

Investments with sufficiently high returns and low risk are difficult to secure. An appropriate risk/return relationship can be difficult to solidify considering the unique challenges of a defined pension plan.

The COVID-19 pandemic had a great impact on world markets and economies. The rate at which it caused market volatility was unparalleled and it caused the fastest descent into an equity bear market to date. Many countries deployed fiscal stimulus packages and used monetary policy to minimize the impact of COVID-19. These measures and the lifting of lock downs led to a sharp recovery in many economies. However, given the current status of the COVID-19 pandemic and subsequent waves in many parts of the world, it is unclear whether government support programs are sustainable over the longer term. Vaccine deployment is a focus looking ahead in order to slow the rate of transmission of the coronavirus, allow for economic recovery and increase investor confidence.

Like many pension funds across the country, MEPP was impacted by the COVID-19 pandemic and market volatility may continue in 2021 and beyond. While there may be some investor opportunities in the current market environment, investors seem to be using caution and not deviating significantly from long-term policies and focus.

In 2020, the U.S. election created some short-term uncertainty in the market, with the long-term effects yet to be realized. Policies regarding the oil industry could impact Canada's energy sector over the next several years. Green-focused startups, tech companies and some energy producers may benefit; oil and gas producers may be negatively impacted. This could cause concern, particularly for Alberta.

The Board monitors these risks on a quarterly basis with its independent investment consultant and AIMCo to ensure MEPP is well positioned to withstand short term turmoil in the financial markets and the slowing global economy. MEPP investments are broadly diversified for long-term performance and sustainability.

#### MEPP Maturity

MEPP continues to mature (retired member liabilities growth relative to active member liabilities); therefore, MEPP's ability to pay pensioners without incurring deficits and its ability to recover from a negative shock becomes more challenging.

MEPP's maturity may be impacted by an aging population and the downsizing of MEPP's active membership due to recent budget cuts that impacted management positions and promotions by employers. The Board monitors these risks and uses an experience study to determine how past performance may impact demographics assumptions for the Plan.

#### Provincial Budget

The global health crisis, economic recession and low oil prices continue to significantly affect the province's finances. Alberta's 2021-22 budget predicts a deficit of \$18.2 billion and debt ballooning to a record \$115.8 billion by the end of the fiscal year. Actions taken to address this deficit may result in impacts to MEPP's service providers, which may in turn impact services to members and the Plan.

#### Defined Benefit Pension Environment

In recent years, there has been some negative publicity regarding the viability and affordability of defined pension plans in Canada today and in the future. The Board communicates to its stakeholders on the value of the Plan. Of equal importance is increased education regarding Plan benefits. This is a shared role between the Board and APS; it is crucial that stakeholder communications and education are approached in a collaborative manner.

#### Board Staff Reporting and Retention

The Board recognizes the challenge of the reporting structure that historically existed with its support management team, who are employed by APS. The Board Support Memorandum of Understanding provides some clarity in this regard. The Board supports that the Plan Board Director's knowledge, retention and transfer of information are key to the Board's oversight role over MEPP.

## *INTERNAL AND EXTERNAL OPPORTUNITIES*

### Financial Health

The Board's philosophy on financial sustainability is that it should not be a special project or a reactive practice that arises in times of perceived crisis. Instead, consistent monitoring should be a permanent agenda item for the governors and agents of a properly functioning pension plan. Through diligent monitoring of MEPP and adopted practices (e.g. regular asset liability studies, annual assessment of cash flow projections, actuarial valuations, etc.), proactive steps may be taken to help mitigate any negative impacts to Plan's funded status.

### Investment Management

A new IMA between the Province and AIMCo was signed on March 1, 2019. This document details the roles and responsibilities of the Province and AIMCo with respect to MEPP investments, as well as the Board's role as a client.

As a service provider, AIMCo has a responsibility to provide appropriate reporting to the Board to inform sound decisions about the long-term risk-adjusted returns it expects from AIMCo. The Board continues to build a positive relationship with AIMCo and anticipates further improvements and collaboration. Improvements in this area enable the Board to more effectively monitor investments.

The Province and AIMCo, in consultation with the Board will be reviewing and revising the IMA in 2021.

Volatility in the markets can create opportunities for investment purchases at lower costs. The Board is pleased to work with AIMCo on opportunities to establish risk parameters, better match assets to liabilities, and to ensure that these needs are accurately reflected in the asset mix. The Board conducts this work by regularly reviewing its asset mix and revising its IP as needed.

### MEPP Administration

A new PASA between the Province and APS was signed on March 1, 2019. This document details the roles and responsibilities of the Province and APS with respect to Plan administration.

As a service provider, APS has a responsibility to provide pension administration services to MEPP members and the Board in accordance with the provisions in the PASA. The PASA includes an in-depth description of services and service level targets provided by APS. This formalizes the services and targets provided by APS and the Board believes this will continue to enhance its relationship with APS and provide clarity in terms of roles and responsibilities.

The Province and APS, in consultation with the Board, will be reviewing and revising the PASA in 2021.

### Risk Management

The Board's ERM Program is used to identify and monitor Plan risks, as well as to inform the Board's communication of such risks to the Minister for consideration. Additionally, the ERM Program informs the Board's strategic priorities and deliverables for future years.

In 2020, the Board identified an opportunity to improve its ERM Program to reflect the current environment, those risks within its mandate and the Board's ability to effectively and efficiently review and monitor Plan risks to provide clear, concise reporting to the Minister. This work will continue into 2021 with a thorough review and revision of the ERM Program.

### Board Assessments

To improve its effectiveness, the Board utilizes comprehensive assessments of its competencies and skills, and Board and individual Board member evaluations. The Board maintains best practices in governance and keeps up to date on industry trends, education related to governance, investment, and pension funding, through annual assessments of Board education needs. Board policies are adopted or amended based on these reviews, and the Board focuses its attention on the overarching priorities of funding and investments, Plan costs, financial health, and governance.

### Stakeholder Communication

The new PASA clarifies some of the roles of the Board and APS regarding communications. This provides the Board and APS an opportunity to collaborate on communication and education, utilizing resources more efficiently and effectively.

## ***STRATEGIC PRIORITIES AND GOALS***

The strategic priorities of the Board align with its vision and mission that guide its strategic direction, goals and deliverables. There are five key strategic priorities for 2021 – 2023.

### **Strategic Priority 1 – Effective monitoring of MEPP funding**

Overall Goal – That the MEPP's funded status (on a going concern basis) is sufficient to maintain the current level of promised benefits, while ensuring the financial sustainability of the Plan, managing the Plan's funded position from adverse risks and ensuring that each generation of active members pays for benefits that are earned by that generation of active members.

### **Strategic Priority 2 – Appropriate investment of Plan assets**

Overall Goal – That investment returns are maximized to meet long-term return objectives of the Plan while balancing the risk and return profile of MEPP and ensuring compliance with the investment policy.

### **Strategic Priority 3 – Diligent fiscal management**

Overall Goal – That investment, administration and operational costs are allocated fairly, and managed efficiently and effectively.

### **Strategic Priority 4 – Effective communications**

Overall Goal – That proactive, reliable communication is provided to members, employers and other key stakeholders regarding matters within the Board's mandate in an easily accessible and understandable manner.

### **Strategic Priority 5 – Prudent Plan and Board governance**

Overall Goal – That the Board operates in an effective and efficient manner, and in accordance with best governance practices and applicable legislation, and has a clear understanding of its roles and responsibilities.

## BUSINESS PLANNING

Following are the key deliverables the Board will undertake in 2021-2023 in relation to its strategic priorities and goals.

### Deliverables

#### *Strategic Priority 1 – Effective monitoring of MEPP funding*

- Complete a full actuarial valuation as required in the PSPPA and Income Tax Act, every three years, for filing with Canada Revenue Agency;
- Complete actuarial valuations on an ad-hoc basis and/or every second year in a three-year cycle for monitoring purposes;
- Review and update the Funding Policy to ensure that the policy provides the appropriate decision framework and objectives to support the funding of the Plan, and is reflective of industry best practices;
- Assess annual cash flow projections for the liability proxy update and future projections;
- Conduct an experience study to determine actual experience of various assumptions compared with the actuarial valuation assumptions to ensure the ongoing reasonableness of the assumptions used in the valuation;
- Discuss Plan sustainability with key stakeholders; and
- Conduct other actuarial analysis if needed.

### Deliverables

#### *Strategic Priority 2 – Appropriate investment of Plan assets*

- Establish a positive, effective working relationship with the Plan's new investment consultant;
- Review the investment results and risk tolerance of the Plan fund with AIMCo quarterly, or at least semiannually;
- Complete a comprehensive or streamlined Asset Liability Study ("ALS"), as deemed appropriate, to examine and evaluate MEPP's liabilities, and to develop asset allocation recommendations;
- Review the Board's Investment Policy and work with AIMCo to implement any changes to the asset mix;
- Assess new investments and strategies as identified, and monitor AIMCo updates;
- Conduct an annual Investment Manager Review ("IMR") of AIMCo;
- Monitor the implementation and impact of AIMCo's new risk systems, FactSet and Ortec;
- Monitor AIMCo's cost as AIMCo transitions in new client assets and undertakes a review of its cost recovery methodology;
- Conduct an annual evaluation of AIMCo via the Board's scorecard;
- Conduct an annual evaluation of the Board's investment consultant;
- Work with AIMCo to improve client relations and investment reporting; and
- Work with AIMCo to understand the Plan's unique risks and the Board's risk appetite.

## Deliverables

### *Strategic Priority 3 – Diligent fiscal management*

- Review service provider budgets (APS and AIMCo), and monitor costs on an annual basis including the resulting cost per member for administration and investment services;
- Review CEM benchmarking reports of service providers;
- Maintain a three-year rolling Board business plan and budget, monitoring expenses, contracts and other operational costs;
- Complete an annual actuarial extrapolation of MEPP to inform annual financial statement reporting; and
- Review financial statement results annually to understand the financial health of MEPP on an accounting basis.

## Deliverables

### *Strategic Priority 4 – Effective communications*

- Annually review and execute the Board's Communication Plan which contains communication objectives and guiding principles, challenges and strategies, activities and tools, target audiences, and proposed timing;
- Assess the Board's strategic communications and determine how to effectively deliver timely communication to key stakeholders; and
- Consult with APS to enhance communication to MEPP members and employers.

## Deliverables

### *Strategic Priority 5 – Prudent Plan and Board governance*

- Consult with the Minister on matters that arise or that the Board deems integral to prudent management;
- Monitor and respond to new initiatives and regulation changes that affect MEPP and stakeholders; proactively propose changes as appropriate;
- Work with the Auditor General to establish the audit plan, review audit results, and prepare the annual report for approval and distribution;
- Review the service level agreements (PASA and IMA effective March 1, 2019) and Board governing documents;
- Monitor and review services provided by MEPP's service providers, to fulfill the Board's mandate;
- Monitor and review the performance of the Board's consultants;
- Consult with the Minister regarding recruitment to fill Board vacancies;
- Develop a succession plan for the Board;
- Determine education and training required for the Board;
- Review Board policies to ensure alignment with GoA policies and in keeping with best practices and all applicable legislation;
- Conduct a strategic planning session;
- Conduct annual Board evaluations, skills matrix, and individual peer assessment (as deemed necessary); and
- Review the ERM program, including the identified risks, measurements, key risk owners, and risk reporting to the Minister.