



## MESSAGE FROM THE CHAIR

The new year brings change for the Management Employees Pension Plan.

The Board is pleased to report that part of this change includes an all-new MEPP website. While still located at [www.mepp.ca](http://www.mepp.ca), the look and feel were significantly overhauled in January and members have since reported high satisfaction with the new product. The Board would like to express appreciation to everyone who provided invaluable time and feedback in this process.

The Board is always looking to maintain – or improve – open channels of communication with MEPP stakeholders. This Spring 2018 edition of the Member Newsletter contains the latest information about the Board's work, the status of the Plan and what else is to come this year, including risk, funding and investment initiatives. Please see the [Strategic Business Plan](#) for more detailed information about the Board's business priorities in 2018.

The Board has also revised its Code of Conduct to ensure alignment with the *Conflict of Interest Act* and Regulation. This revised Code can be viewed [here](#).

We encourage all questions and comments related to Plan governance, which can be submitted directly to the Board [here](#).

As of January 1, 2018, the Management Employees Pension Board (MEPB) also experienced some changes. We would like to take this opportunity to welcome our newest members:

- Andrew Tambone, Employee Nominee
- Deborah Polny, Employer Nominee
- Shannon Patershuk, Employer Nominee

Detailed information about all current Board members can be found on the [MEPP website](#).

Finally, the Board would like to take a moment to honour the memory of our friend and colleague James Fleming, who passed away on March 24. Jamie was a member of the External Investment Committee from January 1, 2011, to December 31, 2012. He was appointed to the Board on January 1, 2014, and served as Investment Committee Chair until December 31, 2017. Our thoughts are with his family at this time. He will be missed.

**Sonya Johnston, Chair**

### MEP BOARD VISION AND MISSION

Our vision is that Plan members and employers have a pension plan that is affordable and sustainable. Our mission is to provide prudent governance of the Plan and Fund.

### MEP BOARD INFORMATION

Go to the [MEPP website](#) and click on the MEP Board and Plan Governance tab to review current and previous communication, policies, reports and more.

## MEPP HAS A BRAND-NEW WEBSITE

If you have not already done so, please go to [www.mepp.ca](http://www.mepp.ca) and take a tour. The new site launched on January 21 and now features more comprehensive Plan information, improved tools and tips, and resources to help members plan for their retirement.

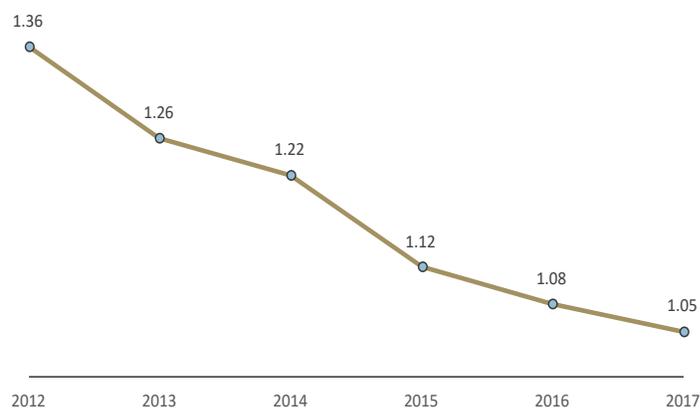
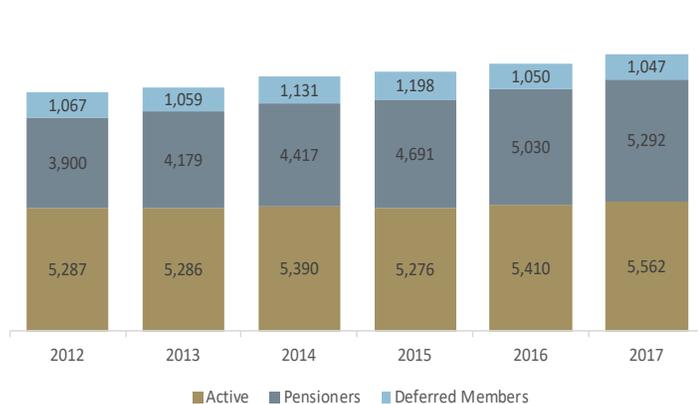
An online user-experience survey ran until April and asked members for their thoughts on the new format. Of all respondents, 94 per cent said they were extremely pleased, citing notable improvements to information quality and clarity, as well as ease of navigation. Some feedback on areas that could still potentially improve were also noted and provided to the Plan's website administrator for use in future updates.

The MEPB strives to ensure that governance-related communication to, and for, Plan members is accurate, clear and timely. The Board-specific section of the MEPP website is maintained by the MEPB, and all information therein is the Board's sole responsibility. If you have questions about content under this section of the website, please [contact the Board directly](#).

## PLAN FUNDING AND INVESTMENTS

Factors such as age and gender help predict various Plan transactions that may be expected throughout the coming year. For example, younger members tend to have more termination and enrolment activities, while older members utilize more retirement services.

The 2017 data (reporting up to year-end of 2017) shows consistent improvement to MEPP membership numbers. There were over 500 new Plan members, partially offset by retirements and deferrals. The ratio of active to retired members continues to decrease, but at a much slower rate.



Investments – The 2017 market values (in millions) (unaudited) are as follows:

	Q1 2017	Q2 2017	Q3 2017	Q4 2017
<b>Beginning Market Value</b>	<b>\$4,606,300,242</b>	<b>\$4,755,963,078</b>	<b>\$4,791,496,646</b>	<b>\$4,831,354,831</b>
Net Cash Flow	\$(4,494,892)	\$(11,584,909)	\$(7,711,055)	\$(11,715,839)*
Investment Income	\$154,157,728	\$47,118,477	\$47,569,239	\$216,243,332
<b>Ending Market Value</b>	<b>\$4,755,963,078</b>	<b>\$4,791,496,646</b>	<b>\$4,831,354,831</b>	<b>\$5,035,882,324</b>

\* Negative cash flow amounts were due to a pension system upgrade, resulting in a backlog of termination payouts at the pension administration operations level.

## PLAN FUNDING

In 2016, MEPP posted the highest surplus in the Fund's history. The Plan's surplus increased by \$103 million to \$402 million, according to the 2016 audited financial statements. At December 31, 2016, the fair value of the Plan's net assets increased by 6.7 per cent (or \$288 million) to \$4.612 billion. The increase in net assets was greater than the increase in the pension obligation, which grew by 4.6 per cent (or \$185 million) to \$4.210 billion.

We anticipate that the Plan will see continued improvement. Watch

the Plan's website for the 2017 MEPP Annual Report and Financial Statements later this spring.

As established in legislation, MEPP must file an actuarial valuation – for funding purposes – with Canada Revenue Agency (CRA), at minimum, every three years. The next scheduled funding valuation, required to set contribution rates and which must be filed with Canada Revenue Agency, will be completed in 2019.

## OTHER INVESTMENT INITIATIVES

At the tail-end of 2017, the Board completed work on the annual modified MEPP Asset Liability Study (ALS) and launched the new [Investment Policy \(IP\)](#), effective January 1, 2018. This work included a critical look at MEPP investment objectives, risk tolerance, asset class benchmarks and the asset mix.

The Board's external Investment Consultant, Ellement, works with AIMCo to run hundreds of scenarios based on different asset mixes and risk parameters. The Investment Consultant then reviews the simulation

results to identify the required changes to MEPP's existing Policy Asset Mix, which will improve the risk-versus-return profile and better match assets to liabilities. Lastly, the Consultant works with the Board to determine the optimal asset mix using various stress tests.

For monitoring purposes, and to better meet the funding needs of the Plan, this process is completed annually. The Board will commence work on the 2018 ALS shortly.

by Brad Bondy, FSA, FCIA, CFA, MBA, Partner,  
Ellement Consulting Group

## ANTICIPATION OF A DOWNTURN

Equity markets have been kind to investors in recent years. Canadians investing in Global equities have enjoyed returns of 17.5 per cent a year over the last five years and have not endured a major correction since 2008. After such a run, it is natural to question how long the party can last. We know that the recent high level of returns cannot be sustained indefinitely and that, at some point, there will be another major downturn. Certainly, there is no shortage of potential triggers for a significant market correction. With several nuclear powers growing increasingly antagonistic, trade wars brewing on several fronts and central banks looking to remove the monetary stimulus that has provided a strong tailwind to markets since 2008, there is much to be concerned about.

The challenge is in knowing when a correction will happen and how

deep it will be. Reallocating from equities into the traditional "safer" alternative of bonds can be very costly if done too early. In the words of renowned American investor Peter Lynch: "Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in the corrections themselves." And with interest rates still near generational lows, bonds do not offer a very compelling return outlook – nor are they risk-free.

Investment professionals generally avoid trying to time the downturns, preferring instead to incorporate alternative asset classes like infrastructure, real estate and private debt as a means of reducing risk through better diversification without sacrificing returns.

## HOW THE BOARD MANAGES RISK

Risk, and managing risk, is of topmost importance to all Plan stakeholders. Questions about risk are among the most common inquiries that the Board receives, and we have endeavoured to compile a summary here about MEPP's ongoing efforts.

The Board takes a proactive approach to responsible governance of the Plan today, and to address potential and future risks, such as longevity, plan maturity, affordability, and improving the overall funding status.

The Board is diligent in its review of the existing pension landscape, as well as the employment of a rigorous Enterprise Risk Management (ERM) program, which identifies the Plan's key risks, risk owners, existing mitigation strategies, and gaps. The Board has also established a robust Funding Policy (utilizing contributions, benefits and asset mix) and updated its Investment Policy to help mitigate risks associated with Plan maturity.

According to the Plan Actuary, a mature plan will reach a steady state, maintaining a relatively consistent proportion of assets versus liabilities. As a pension plan becomes more mature, it tends to have more liabilities and higher risks of cash flow shortage. The ratio of active (those contributing to the Plan) and pensioners (those drawing funds from the Plan) changes and moves towards more pensioners than active members. Specific to MEPP, this known decrease in active membership was included in the risk register and framed as maturity of the Plan – the active member to pensioner ratio is close to 1:1.

Since 2013/14, market conditions and the macroeconomic environment have improved. Alternative investments have provided investors with better risk adjusted returns over the past 10-year investment period (e.g. equities generated 6-7 per cent, bonds generated 2-3 per cent, real estate and infrastructure generated approximately 6 per cent). The Plan Fund has generated investment return over 10 per cent for the past few years, which has improved MEPP's funded status. Still, as part of its risk

management process, the Board has built conservatism into the actuarial valuation to avoid contribution rate fluctuation.

As for the Plan's investment strategies, to appropriately manage the existing Fund, the Board regularly monitors cash flow data, asset mix risk scenario testing results, and other financial analysis. The Board also relies on AIMCo's investment performance reports, stress test results, an annual ALS, and actuarial reports, such as annual extrapolations and valuations, to monitor the Plan's overall financial health.

We know the bull market will end, and bonds are not attractive given the expectation for rising interest rates. Diversification is the main risk mitigation strategy for prudent investment management. The Board is looking at the possibility of changing the Plan's asset mix to include more alternative assets such as real estate, infrastructure, and private debt to meet the changing investment landscape. Despite infrastructure's sensitivity to rising interest rates, it is expected that the asset class should perform better than bonds in such an environment.

As a rule, the Board focuses on long-term sustainability and is forward-thinking when managing risks associated with the Plan. Managing any mature pension plan can be challenging. MEPP is indeed a mature plan but, thanks to careful risk management, it is also a stable one.

### GO GREEN THIS SPRING!

MEPP members have an important, eco-friendly tool at their fingertips: [mypensionplan.ca](http://mypensionplan.ca).

Sign up to receive important retirement planning tools, including secure, direct email access to the MEPP experts. When you Go Green, you can review personal details, and submit and receive information online with confidence. This convenient, personalized and secure access is available whenever and wherever you need it – 24 hours a day. All you need is a computer.

It's fast. It's simple. It's secure. Sign up for [mypensionplan](http://mypensionplan) today.

## MARK YOUR CALENDAR

### One-on-one spring member information sessions

MEPP members who are planning their retirement can meet face-to-face with an information specialist to discuss the options and get help completing important pension documents.

Sessions are held all across Alberta. Please view [the website](#) for dates and details.

## INTRODUCING PENSIONEASE

MEPP's pension administrator is proud to announce the launch of PensionEase. This secure online retirement wizard allows MEPP members to apply for their pension virtually. For more information about PensionEase, visit the [MEPP website](#).

PensionEase is another great reason for MEPP members to log on to [mypensionplan](#) now!

## YOUR 2018 BOARD



**Sonya Johnston**  
Board Chair, Employee  
Nominee



**Kim Flynn**  
Public Service  
Commissioner's Nominee



**Andrew Tambone**  
Employee Nominee



**Deborah Polny**  
Employer Nominee



**Shannon Patershuk**  
Employer Nominee



**Michael Lundquist**  
Investment Committee Vice-Chair,  
Employer Nominee

### 2018 STAKEHOLDER GOVERNANCE SESSION

This year, the MEPP Stakeholder Governance Session will be held on October 26. Registration information will be posted to the MEPP website as soon as it becomes available.

This is an important opportunity to meet the Board, ask questions, and learn about the role of Plan governance as it relates to your pension. Here are [video highlights from the 2017 session](#).

## CONTACTS

For general information about MEPP, please visit the [Plan website](#).

**Mail:** The Management Employees Pension Board  
c/o Alberta Pensions Services Corporation  
5103 Windermere Blvd. SW  
Edmonton, AB T6W 0S9

**Telephone:** 780-391-3693

**Email:** [board@mepp.ca](mailto:board@mepp.ca)

For information and questions about your retirement options, calculating pension benefits, annual statements, forms, or changing personal information, please contact:

### Members – Member Services Centre

**Telephone:** 1-877-889-MEPP (6377) (toll-free)  
**Fax:** 780-421-1652  
**Email:** [memberservices@mepp.ca](mailto:memberservices@mepp.ca)

## BOARD STAFF

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Plan Board Director

**Matea Maric**  
Senior Plan Board Specialist

**Julia Qiu**  
Board Research Analyst

**Crystal Moreau**  
Plan Board Administrative Assistant

## GOVERNANCE STATEMENT

The President of Treasury Board and Minister of Finance is the statutory Administrator of MEPP and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs. The Public Sector Pension Plans Act sets out the main objectives of the Board with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and advises the Minister.