

2016 Annual Report



Musicians' Pension
Fund of Canada

Ce Rapport est Disponible en Français

Veillez communiquer avec le Fonds Bureau de nous faire savoir si vous souhaitez recevoir cette communication et d'autres communications du Régime de pension en français.

This Report is Available in French

Please contact the Fund Office to let us know if you would like to receive this and other Pension Plan communications in French.

INTRODUCTION

Since 1962, the Musicians' Pension Fund of Canada has provided valuable pension benefits to its eligible members and their beneficiaries. This report provides Plan members and beneficiaries with an overview of the Plan's financial status as of December 31, 2016. Information about Plan membership, benefits paid and Plan governance is included.

MISSION STATEMENT

The Fund's mission is 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.

CONTENTS

- 1 2016 Plan Information at a Glance
- 2 Message from the Chair
- 3 Message from the Executive Director
- 4 Plan Governance
- 4 How the Plan Works
- 5 The Plan's Financial Position
- 6 Financial Statement Summary
- 7 Pension Assets and Investments
- 9 Fund Performance
- 10 Major Asset Classes
- 11 Membership Data and Benefit Payments
- 12 Fund Expenses
- 13 As Heard from a Member
- 13 Feedback/More Information
- 13 Disclaimer

2016 Plan Information at a Glance

The Plan had **13,990 members** at the end of 2016.

Over **\$38 million in pension payments** were made in 2016. The Fund also paid \$2.20 million in termination benefits and death benefits for the year.

Fund **assets increased \$4 million** from \$758 million at the end of 2015 to \$762 million at the end of 2016.

The Fund's overall **rate of return was 6.2%** for 2016.

Administrative expenses were \$4.9 million for 2016, **representing 0.62% of assets** at year-end.

Total employer **contributions to the Fund were \$9 million** for 2016, compared to \$8.7 million in 2015.

13,990

\$38 million

\$4 million

6.2%

0.62% EXPENSES

\$9 million

Message from the Chair

We're pleased to present to you the Musicians' Pension Fund of Canada's 2016 Annual Report.



Stanley J. Shortt
Chairman

One of the Board of Trustees' most important responsibilities is overseeing the investment and management of the Pension Plan's assets. The assets, which includes investment income and contributions, are used to pay pension benefits to current and future retirees.

Investment returns on the Plan's assets vary from year to year as financial markets fluctuate. While investment returns for 2015 were relatively strong, returns for 2016 were not as robust.

On page 4, you will find a description about how the Board of Trustees and its professional investment advisors take a structured approach to investing the Plan's assets.

As you will see, regular monitoring of the Fund's asset managers is a key role of the Board of Trustees. With the professional advisors, the Board has adjusted the Plan's investments, using the Plan's Statement of Investment Policies and Procedures (SIP&P). Please see the information on page 7 to learn about the SIP&P.

The Fund's investment consulting firm was purchased by Ellement Consulting. Our consultant, Vaino Keelmann stayed on for 18 months to ensure a successful transition. Our new advisor, Janet Rabovsky, comes to us with many years of successful consulting. We are pleased with the continuity of high standard investment consulting.

Our most important message to you is that the Plan continues to have sufficient assets to pay benefits and that the Board continues to carefully monitor the investment performance of the Plan's assets. The Board remains committed to ensuring the good financial health of the Plan for the benefit of retirees, current members and future members.

Thank you.

Stanley J. Shortt
Chairman
Musician's Pension Fund of Canada

Message from the Executive Director

2016 was a year of change for the Musicians' Pension Fund of Canada.

After more than 20 years at our offices in the "Atria", we moved to a more compact and lower-cost location in October.

We're now at 200 Yorkland Boulevard, Suite 605, in Toronto. This change will save the Fund \$40,000 per year in administrative expenses over the 10-year lease period. Our new offices are fully equipped technologically and give us ample room to continue serving the needs of our members.

The quality of service we provide is directly related to the dedication, commitment and longevity of our office staff. Most of our staff members have been with the Fund office for over 20 years. We've recently hired a new receptionist and a new administrative assistant. These individuals speak both French and English, ensuring that we can serve our members in both official languages.

Serving our members includes ensuring the security of their personal data. Our security software is updated regularly, including our firewalls and anti-virus protection. In 2016, the Fund took the following additional

steps to enhance the security of our database, network and applications to keep your information safe:

- Encrypted all sensitive data, including social insurance numbers and bank account information
- Created audit and security profiles to monitor internal and remote access to the Fund's database
- Protected the member self-service (MSS) portion of our website by using SSL (Secure Sockets Layer).

Member service also includes looking for ways to improve our communications with you. In 2016, we redesigned our quarterly newsletter, focusing on shorter articles that are quicker to read and easier to understand.

As always, I remain deeply appreciative of the Board of Trustees for their dedication and commitment to the sustainability of our Plan. Our staff, too, deserves recognition and my sincerest thanks for their continued hard work every day on behalf of our members and beneficiaries.

Ellen M. Versteeg-Lytwyn
Executive Director



Ellen M. Versteeg-Lytwyn
Executive Director

Plan Governance

Plan governance describes how those involved in operating a pension plan carry out their responsibilities and obligations to the plan. It also promotes the timely and cost-effective delivery of benefits.

Board of Trustees

Stanley J. Shortt, Chairman
E. Eddy Bayens, Vice-chairman
David J. Jandrisch
John G. Sinclair
Harold Redekopp
Bernard LeBlanc

Visit the Plan Summary page of the Fund's website and click "Download PDF" to learn more about the Plan.



www.mpfcanada.ca/summary-plan

BOARD OF TRUSTEES

Board members are independent—they are **not** paid for their service to the Fund.

Among their duties, members of the Board of Trustees are responsible for:

- Hiring and monitoring an Executive Director. The Executive Director and his/her staff manage the daily operations of the Fund and the Plan
- Hiring professionals, including legal counsel, the Plan actuary, investment counsel and auditors, to assist where needed
- Monitoring the Fund's overall operations and performance.

The Board, whose members are listed on this page, meets regularly to ensure proper Plan and Fund governance. Their work guides the overall direction, effectiveness, supervision and accountability of all aspects of Plan and Fund operations.

HOW THE PLAN WORKS

OUR PENSION PLAN IS A TARGET DEFINED BENEFIT PLAN.

With this type of plan, your retirement benefit is calculated using a formula that's based on contributions received from employers on your behalf. Your

benefit also depends on other factors, such as your age at retirement and the type of survivor benefit you choose.

Contributions are negotiated with employers by the American Federation of Musicians/Canadian Federation of Musicians (AFM/CFM) and its Locals and written into collective bargaining agreements. Since contributions are collectively bargained, if Plan assets aren't enough to pay current or future pension benefits, it's not possible for employers to make additional contributions to the Fund outside of collective bargaining. Instead, based on pension legislation and Plan rules, Trustees must change the Plan's promised pension benefits based on affordability, when necessary.

Plan assets are held in trust by an independent custodian, in compliance with pension legislation and are invested in a diversified portfolio of assets managed by professional investment managers.

The Plan complies with the Income Tax Act (Canada) and the various provincial pension benefits acts across the country.

The Plan's Financial Position

Pension legislation requires the Trustees to conduct an actuarial valuation of the Plan by an independent third-party actuary at least once every three years.

The valuation determines the Plan's financial status and helps ensure that the Plan is funded appropriately. Results are filed with the Financial Services Commission of Ontario (FSCO).

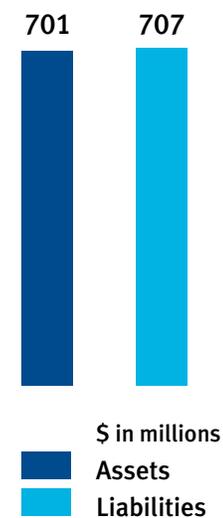
“Financial position” is a comparison of Plan assets to Plan liabilities, which are the costs of benefits. This is different from the information provided by the Plan's financial statements, which only show year-over-year asset changes.

The actuarial valuation also determines whether annual contributions are enough to pay for the benefits accumulating each year. The January 1, 2016 actuarial valuation shows that contributions are sufficient to cover the cost of benefits that accrued in 2016. However, as life expectancy increases for members, retirees and beneficiaries, pensions get more expensive because pension payments will be made for a longer time. The cost of pension payments is expected to continue rising because life expectancy is forecast to continue increasing.

Actuarial valuations are based on many assumptions about the future, including expected investment return, mortality rates, retirement age, the number of members who retire and have a spouse at retirement, etc. The main reason that legislation requires a valuation at least once every three years is that actual experience will differ from the assumptions made. Based on the difference between the projected and actual experience, the Trustees identify what changes, if any, to make to ensure the continued financial health of the Fund. The Trustees pay close attention to the results of each actuarial valuation. The Fund's future Annual Reports will summarize future valuation results.

ACTUARIAL ASSETS VERSUS ACTUARIAL LIABILITIES

As of January 1, 2016*



* This was the last filed actuarial valuation.

Fund assets are the money in the Fund used to pay benefits. Fund rates of return are the percentages of increase or decrease in the Fund's assets based on investment results. While these are important financial measures, they are not the Trustees' sole focus. The Trustees must also focus on comparing Fund assets to Fund liabilities. Fund liabilities are the costs of benefits.

Financial Statement Summary

Legislation requires Trustees to have audited financial statements of the Fund prepared every year. The following is an extract from the 2016 audited financial statements.

FINANCIAL STATEMENT SUMMARY in thousands of dollars	Plan year ended	
	December 31, 2016	December 31, 2015
Assets at beginning of Plan year	766,271	733,704
Increase in assets		
Increase due to investments		
Total investment income — e.g., interest, dividends	41,269	22,732
Realized gains (losses) on investments — from the sale of investments	9,553	64,183
Unrealized gains (losses) on investments — change in the value of investments held	2,353	-18,741
Employer contributions	9,273	8,740
Total increase in assets	62,448	76,914
Decrease in assets		
Monthly pension benefits	38,258	34,852
Death benefits	182	932
Termination payments and transfers	2,014	3,483
Plan expenses	4,919	5,080
Total decrease in assets	45,373	44,347
Assets at end of Plan year	783,346	766,271

Financial Statement Details

To see the Fund's complete audited financial statements, please click on the applicable Audit Statement on the Fund's website:



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

Pension Assets and Investments

The Fund’s assets are invested in a diversified portfolio, as shown in the chart at right.

THE FUND’S INVESTMENT PROCESS

The MPF Canada Board of Trustees (the “Trustees”) has a wide range of responsibilities. Chief among them are those related to the investment of the Plan’s assets. To ensure that the Pension Plan is properly funded, the Trustees monitor the asset mix for the Plan (stocks, bonds and cash equivalents) and select suitable investment managers. Trustees monitor the results of the Plan’s investments and the Plan’s investment managers to ensure the Plan can pay benefits to current and future retirees. The Trustees hire professional experts to assist with these activities, including an actuary, investment consultant, investment managers, a custodian (who is responsible for keeping the Plan’s assets secure) and legal counsel.

The Plan’s Statement of Investment Policies and Procedures (SIP&P) describes the Trustees’ current asset mix strategy, their risk tolerance (the degree of investment risk they can take versus the potential rate of

investment return), the asset classes in which they can invest, conflict of interest policies and monitoring procedures. The SIP&P provides guidance for the plan’s investment professionals. Usually, the SIP&P incorporates the relevant regulations and laws with which a pension plan must comply—in the case of the Musicians’ Pension Plan of Canada, the Pension Benefits Act (Ontario) and the Income Tax Act (Canada).

The Plan’s investment consultant conducts asset mix studies to assist the Trustees in developing a strategic asset mix for the Fund. These studies consider the Fund’s ability to pay benefits to current and future retirees. Potential asset mixes are tested in a range of possible market and economic environments to see their potential investment results. This helps the Trustees decide how much investment return risk to take. The selected asset mix balances cost, investment return and risk of investment loss.

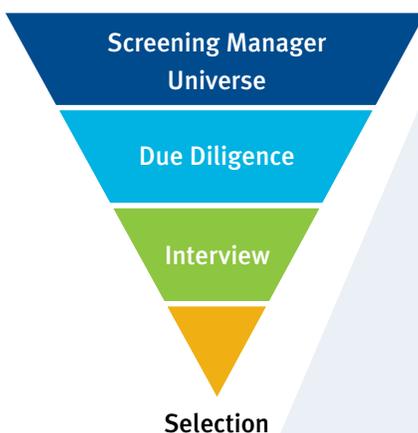
ASSET MIX

As of December 31, 2016



	%
Canadian Equity	16.3
US Equity	12.7
International Equity	11.5
Fixed Income	21.6
Real Estate	6.4
Private Equity	8.1
Hedge Fund of Funds	16.2
Infrastructure	5.6
Cash & Equivalents	1.7
Other	-0.1

CURRENT ASSET MIX



The Musicians’ Pension Fund of Canada is a mature plan. This means that a large portion of the current value of the Plan’s money is used to pay benefits to current retirees. Since the Plan is mature, assets that produce stable income and have a relatively lower risk of investment loss—such as public and private fixed income investments, and real assets (e.g., real estate and infrastructure)—are emphasized. The chart at left shows the Plan’s current asset mix. The Trustees review the Plan’s asset mix every quarter to ensure that the mix stays within the investment risk/return ranges described in the SIP&P.

When a new asset class is chosen and/or a current investment manager is being replaced, the Trustees work with the Plan’s investment consultant to select an investment manager who specializes in that asset class as shown in the diagram on the left. The Plan’s investment consultant carefully screens potential investment managers to determine suitable candidates. Screening results are provided in a formal report to Trustees. The Trustees then interview selected candidates. Finally, the Trustees make their choice and contract with the investment manager for their professional services.

The Trustees continually oversee the performance of the Plan’s investments and its investment managers. The investment consultant helps with this by measuring investment performance, monitoring the work of the investment managers, and monitoring investment compliance for the Plan as a whole and for each investment manager. The investment consultant presents formal, quarterly reports to the Trustees at regularly scheduled Board of Trustee meetings. The investment consultant also monitors the Plan’s investment managers for qualitative issues (e.g., changes in ownership, personnel turnover, succession issues, changes in investment philosophy, or process and risk management). Substantive changes to the investment manager’s business, staffing or investment process, and/or prolonged underperformance of investment results, could trigger a required review of the respective investment manager.

We hope that this gives our members a better understanding of the Fund’s investment process.

Fund Performance

The Fund's total investment return for the year ended December 31, 2016 was 6.2%—the Fund benchmark was (6.9%).

When evaluating the performance of any investment, it is important to compare the performance 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 chart at right are the ones established in the Fund's SIP&P. (See page 7 for more information about how the Fund's investment decisions are made.) A copy of the SIP&P is available by written request to the Fund Office.

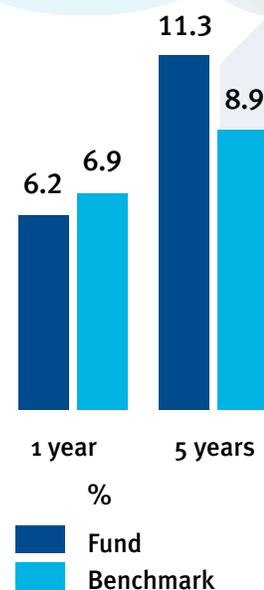
The bar chart at right shows the total Fund return against the benchmark for the one year ended December 31, 2016 and the five years ended as of the same date.

DEFINITION OF BENCHMARKS:

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

ASSET CLASS	BENCHMARK
Fixed Income	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 Fund of Funds	HFR Index
Real Estate	IPD Property Index
Private Equity	10% absolute return
Infrastructure	10% absolute return
Cash & Equivalents	FTSE TMX Canada 91-day T-bills
Total Fund	Composite of above

INVESTMENT RETURNS As of December 31, 2016

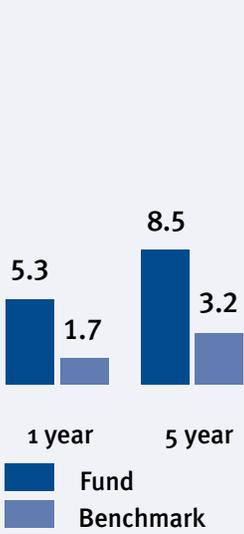


Major Asset Classes

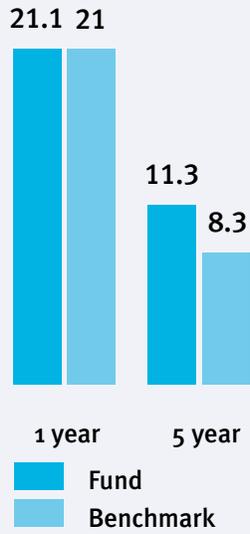
One-year and five-year rates of return as of December 31, 2016, in percentages.

Note: "NA" appears for investment classes that have existed within the Fund for less than five years.

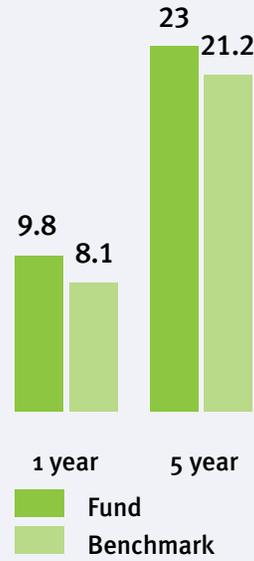
FIXED INCOME



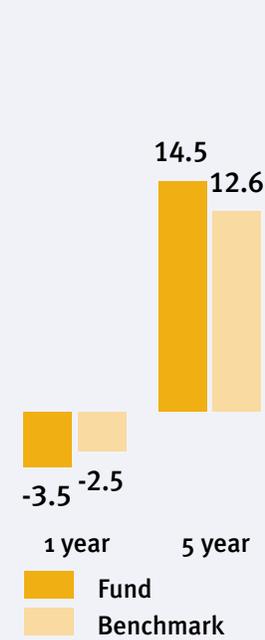
CANADIAN EQUITY



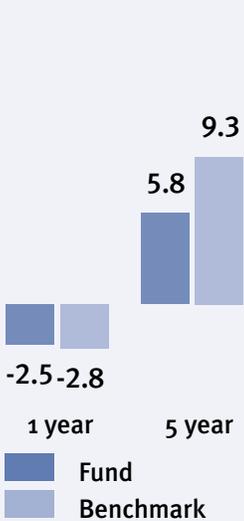
US EQUITY



INTERNATIONAL EQUITY



HEDGE FUNDS



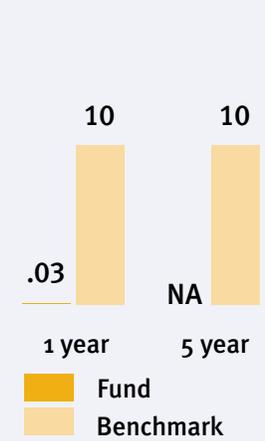
REAL ESTATE



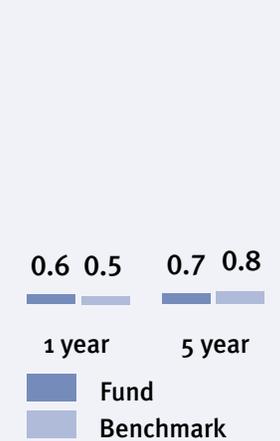
PRIVATE EQUITY



INFRASTRUCTURE EQUIVALENTS



CASH & EQUIVALENTS



Membership Data and Benefit Payments

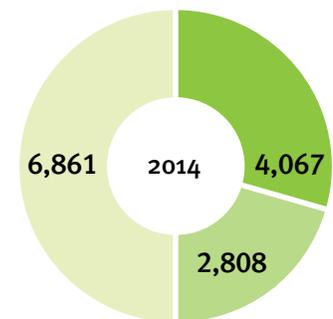
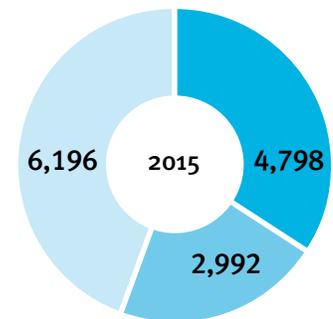
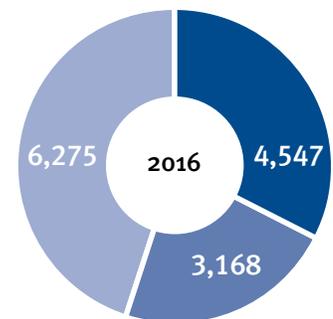
Plan membership has remained fairly steady over the past year, as noted in the tables and charts.

PLAN MEMBERSHIP SUMMARY

As of January 1, 2016	2016	2015	2014
Active	4,547	4,798	4,067
Pensioners and beneficiaries	3,168	2,992	2,808
Deferred vested	6,275	6,196	6,861
Total	13,990	13,986	13,736

COMPARATIVE PLAN MEMBERSHIP SUMMARY

As of January 1, 2016



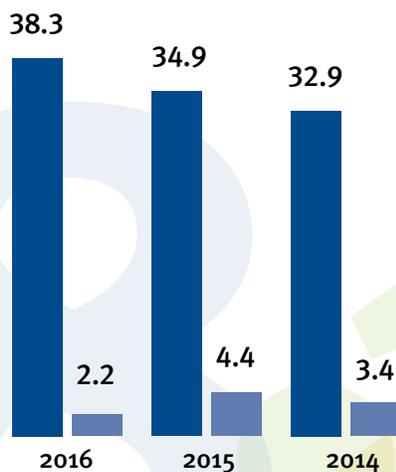
BENEFIT PAYMENTS

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

In thousands of dollars	2016	2015	2014
Pension payments	38,258	34,852	32,997
Termination and death lump sum payments	2,196	4,415	3,412

The Fund paid approximately \$40,454 in benefits in 2016.

BENEFIT PAYMENTS



\$ in millions
 Pension payments
 Termination and death lump sum payments

2016 2015 2014
 Active
 Pensioners & beneficiaries
 Deferred vested

Fund Expenses

The Board of Trustees approves an annual operating expense budget. The Board of Trustees monitors all Fund expenses on a regular basis to ensure they are reasonable. The expenses for the past three years are shown below.

Please visit the website, you'll find answers to many questions there.



www.mpfcanada.ca

EXPENSES

In thousands of dollars	2016	2015	2014
Asset management	2,146	2,205	2,261
Professional fees	657	818	1,197
Operating expenses	2,117	2,057	1,544
Total expenses	4,920	5,080	5,002
Assets at year end	783,346	766,271	733,704
Total expenses as a percentage of net assets	0.62%	0.66%	0.68%

In the retail investment marketplace, individuals sometimes pay as much as three or four times this amount when investing in a balanced and diversified portfolio similar to that of the Fund. Fees are very low for the Fund because the Fund is large enough—at over \$700 million in assets—to command a low expense rate. This is good for the Plan, for the Fund and ultimately for Plan members; a low-cost pension delivery system means more money is available to pay benefits.

As Heard from a Member



As a freelance trombonist for over 25 years, I've been so lucky to play with a wide range of talented musicians in so many different settings and situations. The huge benefit of the MPF Canada is not just retirement income at some later date, but a sense of security *now*. The Plan helps me feel confident that I can keep playing freelance gigs knowing that when I slow down and "retire", I'll have a steady income stream to help me continue living comfortably without feeling financial stress.

"The Plan helps me feel confident!"

JEREMY BERKMAN

FEEDBACK/MORE INFORMATION

Please send the Fund Office your questions, comments and feedback on this Annual Report or anything else related to the Plan:

Musicians' Pension Fund of Canada

200 Yorkland Blvd.
Suite 605
Toronto, Ontario M2J 5C1

Telephone: 416.497.4702
Toll Free: 888.462.6666

Email: info@mpfcanada.ca

Please visit our website for additional information about the Fund and the Plan, and for answers to questions you may have: www.mpfcanada.ca.

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.



Musicians' Pension Fund of Canada

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