PENSION PLAN

FOR NON-TEACHING EMPLOYEES OF PUBLIC SCHOOL BOARDS IN MANITOBA

2015 ANNUAL REPORT

Pinawa, Manitoba
Photo by Karen Harrington

WWW.MBSCHOOLPENSION.CA

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May 2016

Message from the Board of Pension Trustees

In 2015 real estate was added as an asset class to the pension fund. Mandates for real estate managers Fiera Properties and Greystone will be funded by transferring money from the fix income investments.

The pension trustees belief is that, over the long term, investments in commercial real estate will provide ongoing positive rates of return while offsetting some of the volatility associated with equity investments.

This past year was characterized by rapidly changing investment market conditions, which, along with global economic uncertainty resulted in pension plans having the lowest rate of return in the last 4 years. The annualized rate of return in 2015 for the average rate of return in 2015 for the average of pension plan in an RBC report was just over 5%. The return for our fund was just over 2%.

The pension trustees are constantly monitoring and assessing the appropriateness of the policy asset mix, as well as the performance of the investment managers. This ongoing review has identified the fund's recent underperformance, in large measure, can be attributed to one of the global equity managers. Steps have been taken by the pension trustees to have a replacement manager in place for 2016.

As with the investment side of the pension plan, the pension trustees remain committed to ensuring plan provisions continue to be relevant, appropriate and in the best interest of all plan members.

The pension trustees have unanimously approved two separate plan amendments. Details of these upcoming changes are in the annual report, Pension Plan Amendments section. Information will also be made available with the member's individual annual statement.

This annual report, along with downloads of plan documents, explanation of retirement options/same retirement calculations and frequently asked questions can be found at www.mbschoolpension.ca.

Sincerely,

Vince Mariani
Chair, Board of Pension Trustees

Investment Summary

Canadian Market Environment

Canadian pensions' assets rebound in Q4, ending the year in the black: RBC Investor & Treasury Services.

Global equities posted biggest gain in 2015; Canadian equities remained under pressure

Toronto, February 5, 2016 – Volatile market conditions and global economic uncertainty persisted in Q4 2015, however Canadian pension plans finished the year in positive territory with an annualized return rate of 5.4 per cent, according to the $650 billion RBC Investor & Treasury Services All Plan Universe, the industry's most comprehensive universe of Canadian pension plans.

RBC Investor & Treasury Services reported that Canadian defined benefit pension plan assets rebounded from back-to-back losses in the second and third quarters of 2015, posting a gain of 3.1 per cent in Q4 2015 compared with -2.0 per cent in Q3 2015 and -1.6 per cent in Q2 2015.

"Canadian pension plans were not immune to the persisting market and economic headwinds that buffeted 2015, posting back-to-back quarters of negative returns at the mid-year mark, but they closed the year in positive territory with a moderate 5.4 per cent annual return rate," said David Heisz, Chief Executive Officer, RBC Investor Services Trust, RBC Investor & Treasury Services. "Canadian pension plans clearly benefited from global diversification portfolio strategies. The positive 2015 return rate can largely be attributed to a lift from global equities which offset much of the downward pressure from weaker domestic sectors, particularly commodities, resources and energy, over the course of the year."

Canadian equities improve while global equities shine

Pension returns from global equities ended Q4 and the year up 8.9 per cent and 18.9 per cent respectively, in line with the MSCI World Index and mitigating the drag from their Canadian counterparts who registered annual returns of -7.4 per cent.

According to Craig Wright, Senior Vice President and Chief Economist, RBC, "Returns from global equities were boosted due to the ongoing weakness in the Canadian dollar, which had a tumultuous year on the back of tumbling crude oil prices. Ranked as the worst-performing G10 currency, the loonie finished the fourth quarter of 2015 with a loss of 3.6 per cent against the US greenback."

Canadian Market Environment

Falling crude prices continued to reverberate in the wider Canadian economy, adding to the woes of the commodities and materials sectors, and placing pressure on Canadian equities. "A large part of the economy's subpar performance in 2015 was due to an estimated 30 per cent drop in spending by energy companies and support services that shaved more than a percentage point from the year's annual growth rate," said Wright.

Returns from Canadian equities saw some light at the end of the tunnel in Q4 after posting a loss of -0.5 per cent, compared to -7.8 percent in the previous quarter. Canadian pension plans have again proven resilient and remain historically underweighted in the sector, outperforming the S&P/TSX Composite benchmark performance of -1.4 per cent for the last quarter and -8.3 per cent for the year.

Fixed income assets: steady as she goes

Returns from Canadian Fixed Income also helped underpin the overall positive performance of defined benefit schemes, registering a 1.1 per cent return in Q4 and ending the year at 3.6 per cent, compared to the FTSE TMX Universe Canadian Bond Index with its 3.5 per cent annual return.

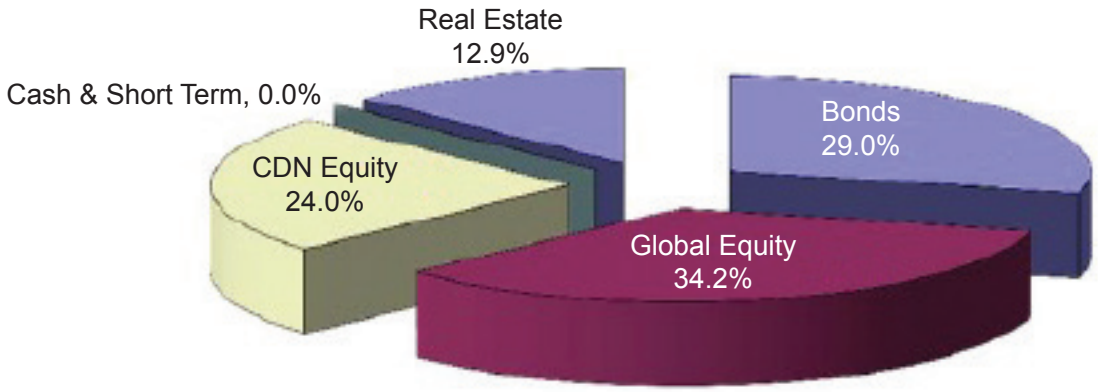
“Fixed income assets were not immune to ongoing economic volatility in 2015,” said Heisz. “Highly variable inflation, as well as economic and central bank outlooks meant bond yields experienced a wide range of movement, but short term yields recovered enough to allow pensions to register positive returns for the last quarter, breaking a negative streak in the two preceding.”

Looking ahead to 2016

China’s slowing economy, geopolitical issues and oil prices are likely to continue to have an impact on the performance of Canadian pension funds in 2016. Markets will remain unsettled, while China continues to slow its growth and rebalance itself from imports and exports to the consumer. However, as U.S. economic growth strengthens, and in light of the loonie’s weakness, the Canadian manufacturing sector stands to benefit from increasing demand for Canadian exports from south of the border.

Investment Summary

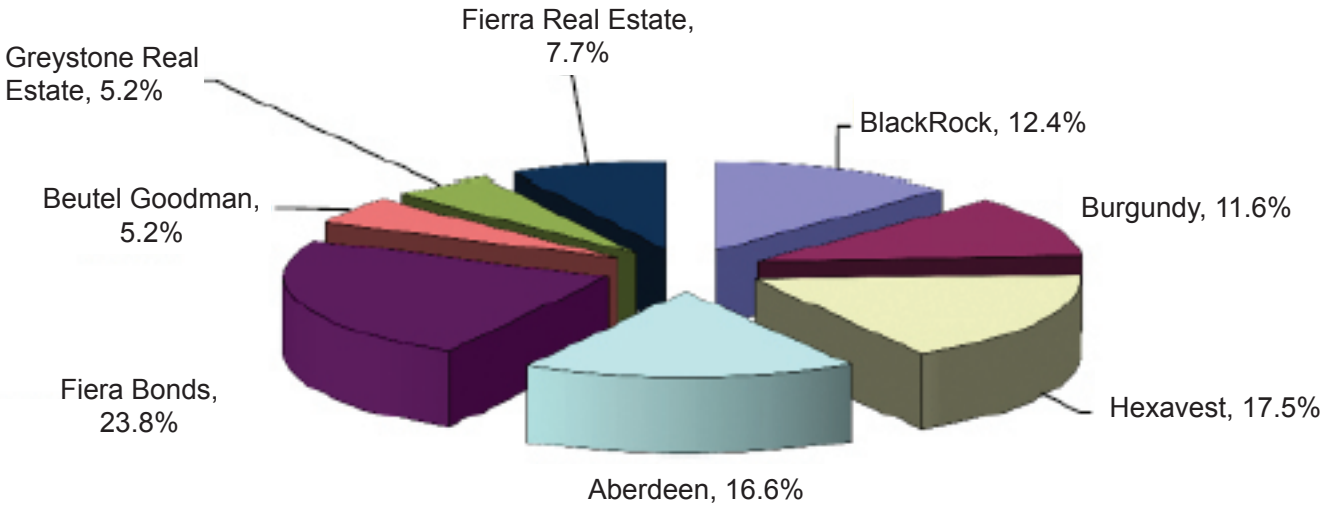
Total Plan Asset Mix - December 31, 2015



Total Plan asset were $ 491.6 million as of Dec 31, 2015 and were distributed as follows:

Investment Manager	Market Value	Weight	Mandate
BlackRock	60.8 million	(12.4)	Canadian Equity
Burgundy	57.0 million	(11.6)	Canadian Equity
Hexavest	86.2 million	(17.5)	Global Equity
Aberdeen	81.7 million	(16.6)	Global Equity
Fiera Bonds	117.0 million	(23.8)	Fixed Income
Beutel Goodman	25.4 million	(5.2)	Fixed Income
Greystone Real Estate	25.6 million	(5.2)	Real Estate
Fierra Real Estate	37.9 million	(7.7)	Real Estate

Allocation by Manager- December 31, 2015



Plans $250 Million - $1 Billion
Moving 4 Year Average Rates of Return

	Dec 2015	Dec 2014	Dec 2013	Dec 2012	Dec 2011	Dec 2010	Dec 2009	Dec 2008	Dec 2007
5th Percentile	13.68	11.00	10.53	10.97	6.07	5.04	4.79	4.69	10.89
25th Percentile	11.24	9.74	9.15	10.08	3.52	3.22	3.37	3.11	9.96
Median	9.98	9.37	8.67	9.03	2.15	2.61	3.05	2.30	9.33
75th Percentile	9.15	8.67	7.99	8.40	1.44	1.90	2.36	1.52	8.57
95th Percentile	7.10		6.95	7.67	0.70	0.82	1.49	0.37	7.34
TOTAL PLAN	7.87 88	7.27 95	7.60 82	8.63 61	2.97 35	3.22 25	3.71 17	2.83 31	9.00 63
Policy Benchmark	8.98 77	7.79 87	7.31 85	7.89 91	2.28 49	2.89 37	3.43 24	2.58 42	8.62 74
CPI + 3.5%	4.83 100	5.00 100	5.23 100	5.25 100	5.34 6	5.36 4	5.17 4	5.39 2	5.63 99

Rank

Universe: RBC Plans $250 Million - $1 Billion - Total Portfolio
Asset Class: Total Portfolio

Fund Rates of Return

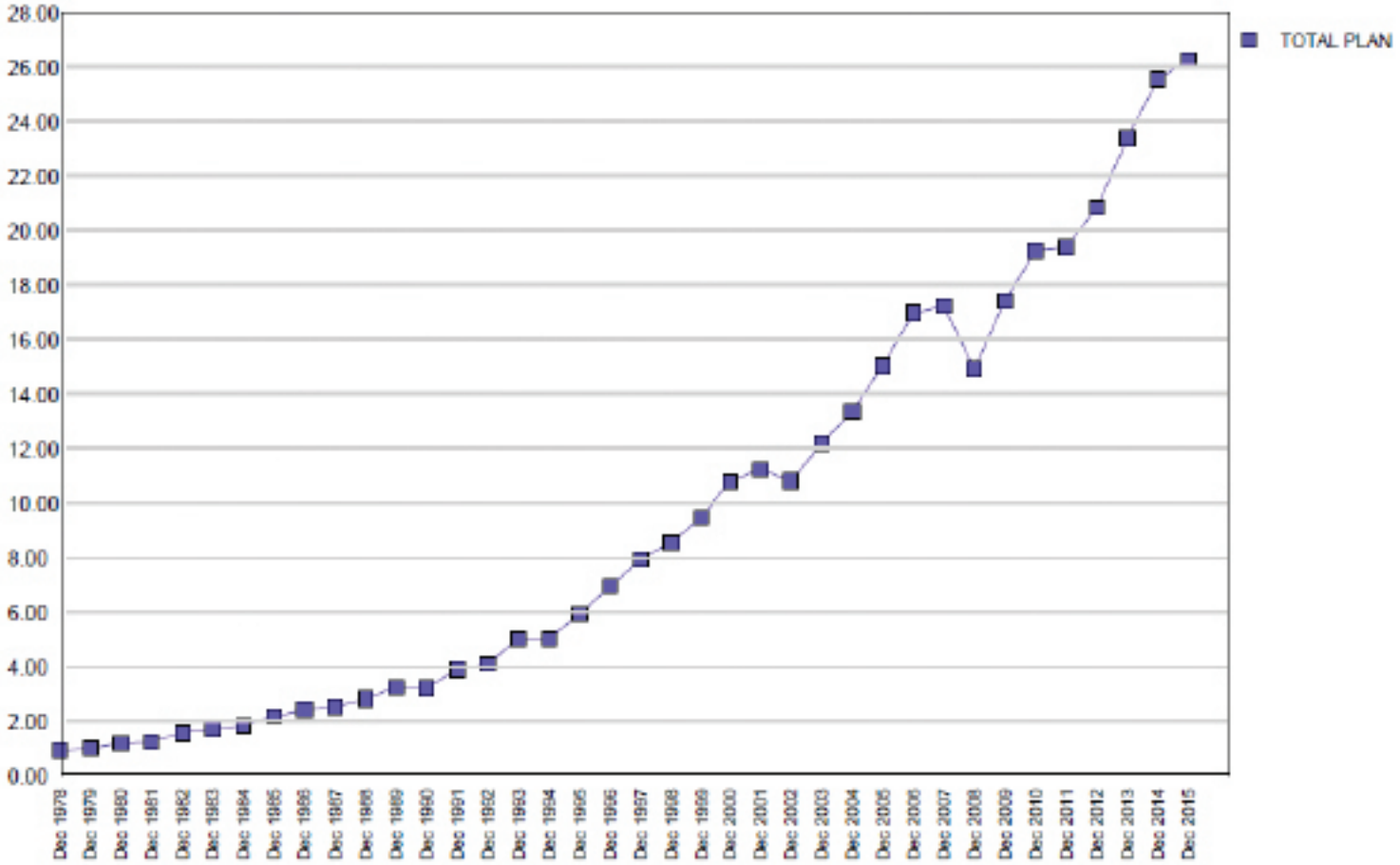
Following are the rates at which interest was allocated in 2015 and in each of the previous nine years for the active and deferred members accounts at year end:

Year	Member's Account	Average 91 Day Treasury Bill Rate
2015	2.042368%	0.515833%
2014	9.417250%	0.915000%
2013	12.002601%	0.967500%
2012	7.339533%	0.947500%
2011	0.237688%	0.910833%
2010	9.880608%	0.580833%
2009	14.075176%	0.320000%
2008	-13.607912%	2.593333%
2007	1.45895%	4.124167%
2006	12.455695%	4.042500%
2005	12.313340%	2.729167%

	Annualized Rate of Return
1 year	2.04%
3 years ending 2015	7.74%
5 years ending 2015	6.12%
10 years ending 2015	5.21%
20 years ending 2015	7.36 %

Investment Summary

Growth of a Unit (Annual)
Total Portfolio



Membership Information

This report is based on membership and contribution data as at December 31, 2015, provided by the school boards and Manitoba School Boards Association.

We have applied tests for internal consistency, as well as for consistency with the data used for the previous year. These tests were applied to membership reconciliation and the active and deferred member accounts. Contributions and lump sum payments were compared with corresponding amounts reported in financial statements provided by RBC Investor Services Trust. The results of these tests were satisfactory.

The membership movement in 2015 is summarized below. For comparison, we have also included the membership movement for the prior year.

	2015	2014
Active Members		
Total at January 1	8,432	8,465
New entrants	719	679
Terminations		
• lump sum/transfers	(282)	(284)
• deferred	(304)	(294)
Retirements	(134)	(110)
Deaths	(9)	(8)
Accounts Consolidation & Adjustments	3*	13
Total at December 31	**8,384**	**8,432**

Deferred Members		
Total at January 1	2,260	2,164
Terminations from active	304	294
Lump sum/Transfers	(133)	(145)
Retirements	(61)	(34)
Deaths	(8)	(6)
Accounts Consolidation & Adjustments	(3)*	(13)
Total at December 31	**2,359**	**2,260**

* These adjustments in 2015 represent employees who were accidentally identified as terminated however their status with the school division went from non-teaching to teaching, thus no termination of employment.

Membership Information

	Members	Total Value of Members' Pension Accounts	Average per Member
• Active member accounts			
Under 35	970	$11,936,744	$12,306
35–44	1,766	$43,631,929	$24,568
45–54	2,928	$143,893,878	$49,144
55–64	2,378	$203,972,857	$85,775
65+	332	$25,022,333	$75,368
• Total active member accounts	8,384	$428,457,741	$51,104
• Deferred member accounts			
Under 35	356	$2,323,258	$6,526
35–44	636	$9,186,430	$14,444
45–54	744	$18,876,859	$25,372
55–64	536	$25,079,270	$46,790
65+	87	$6,665,418	$76,614
• Total deferred member accounts	2,359	$48,904,894	$26,338
Total as at December 31, 2015	**10,743**	**$490,588,976**	**$45,666**

Independent Auditors Report

To the Trustees of Manitoba School Boards Association Pension Plan for Non-Teaching Employees of Public School Boards in Manitoba.

We have audited the accompanying financial statements of Manitoba School Boards Association Pension Plan for Non-Teaching Employees of Public School Boards in Manitoba, which comprise the statement of financial position as at December 31, 2015, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising 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.

Auditors' 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 our 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, we consider 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 Manitoba School Boards Association Pension Plan for Non-Teaching Employees of Public School Boards in Manitoba as at December 31, 2015, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Professional Accountants

May 12, 2016
Winnipeg, Canada

Financial Information

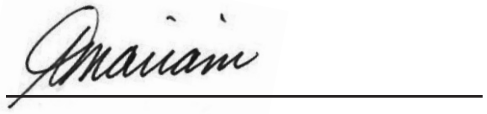
Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
Assets		
Investments (note 3)	$ 495,776,775	$ 490,076,652
Contributions receivable (note 4)	3,120,544	2,344,154
Receivable from Administration Fund	1,069,178	885,690
	499,966,497	493,306,496
Liabilities		
Benefits payable	9,048,521	1,268,004
Payable to Administration Fund (note 5)	321,908	297,980
Payable to School Divisions	7,092	8,116
	9,377,521	1,574,100
Net assets available for benefits	490,588,976	491,732,396
Obligation for pension benefits	490,588,976	491,732,396
Net assets available for benefits less obligation for pension benefits	$ –	$ –

See accompanying notes to financial statements.

On behalf of the Trustees:



Trustees

Trustees

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Investment income (note 7):	$ 56,946,992	$ 29,317,867
Investment administration fee regarding deferred members (note 5)	(321,908)	(297,980)
	56,625,084	29,019,887
Realized gain on disposal of investments, net	1,267,195	2,266,663
Unrealized gain (loss) in fair value of investments, net	(44,277,245)	9,594,825
	(43,010,050)	11,861,488
	13,615,034	40,881,375
Contributions (note 6):		
Participants	18,128,062	16,337,810
Sponsors	17,344,623	15,765,497
	35,472,685	32,103,307
Allocation of forfeited contributions to School Divisions (note 6)	(7,091)	(8,117)
	35,465,594	32,095,190
	49,080,628	72,976,565
Benefits:		
Retirements	41,895,042	29,445,654
Termination	6,845,083	1,900,435
Deaths	1,026,397	965,975
Marriage breakdown	457,526	417,840
	50,224,048	32,729,904
Increase (decrease) in net assets available for benefits	(1,143,420)	40,246,661
Net assets available for benefits, beginning of year	491,732,396	451,485,735
Net assets available for benefits, end of year	$ 490,588,976	$ 491,732,396

See accompanying notes to financial statements

Pension Plan Amendments

Notice to Members Regarding Upcoming Pension Plan Amendments

1. Interest Rate for Partial Years

Currently the interest rate credited to a plan member's account at December 31st of each year is the investment return for the year adjusted for members who had transferred their account out of the pension fund during the year (the "fund rate of return").

Plan members who transfer their account out of the pension fund during the year in accordance with Section 7 (Retirement), Section 9 (Death Benefits) or Section 10 (Termination Benefits) are credited with the greater of the fund rate of return or 0.5% per month since the end of the previous plan year to the end of the month prior to the month of transfer (the "pegged rate of return").

The historical rationale for the pegged rate of return was to benefit members who were retiring in a year with a low fund rate of return by crediting the pegged rate of return which would be higher than the fund rate of return in the year. The most notable poor investment years in the last 10 years were:

2007: 1.45% 2008: minus 13.60% 2011: 0.23% 2015: 2.04%

The aggregate amount of interest for members transferring out their account in poor investment years at the pegged rate of return (being over and above the fund rate of return in that year) is funded by all active and deferred members as they receive a lower interest rate on their account for those years. For example, the fund rate of return for 2008 had to be adjusted downward by approximately 1% to account for the additional interest paid to members who decided to withdraw their accounts in 2008 and receive the pegged rate of return.

The pegged rate of return assists a select few members yet it is funded by all active and deferred plan members by a reduced interest rate credited to their accounts. Furthermore it is unfortunately out of step with the current interest rate environment and the increasingly volatile markets that all pension plans now face.

Therefore the Pension Trustees have unanimously determined it to be prudent to amend the plan to remove the pegged rate of return.

Accordingly the plan will be amended to remove the pegged rate of return. However in order to give members ample notice this amendment will not be effective until January 1, 2018. For greater clarity, the 2017 plan year will be the last year the pegged rate of return will apply to withdrawal of pension accounts.

2. Members Age 65 and Over Continuing Employment

Under Section 7.3 (Retirement) the plan states that upon reaching the normal retirement age (age 65), a member may commence a pension or have it transferred while continuing to work (the **"Continuing Employment Option"**). The Continuing Employment Option is solely based upon a member's age and does not allow other members, specifically those of early retirement age (age 50 to 65), the same option.

Pension Plan Amendments

The Pension Trustees have received a legal opinion that the Continuing Employment Option may contravene the *Human Rights Code* (as age discrimination). Accordingly the Pension Trustees have been advised to amend the plan to remove the potential age discrimination.

The Pension Trustees had 2 options:

- Allow the age 50+ members to also have the Continuing Employment Option; or
- Eliminate the Continuing Employment Option entirely.

The Pension Trustees have determined that there would be significant probable adverse effects to the plan if the 50+ members were allowed the Continuing Employment Option, including:

- 50% of total plan members are at least age 50 and could choose to remove their money from the plan prior to retirement;
- The age 50+ member's accounts represent 75% of the plan's total assets, so significant withdrawals would result in a considerably smaller pension fund; and
- There are significant adverse effects to a smaller pension fund.

Furthermore, the Trustees believe that this does not serve the fundamental purpose of the pension plan, being to provide a pension upon retirement.

Accordingly the Pension Trustees have decided they could not amend the plan to extend the Continuing Employment Option to the age 50+ members due to the likely adverse effects on the plan. However the Pension Trustees still felt it was important to address the potentially discriminatory aspect of the current provision.

Therefore the Pension Trustees unanimously agreed to amend the plan to remove the Continuing Employment Option. Again in order to give members ample notice this amendment will also not be effective until January 1, 2018.

Members who reach age 65 prior to January 1, 2018 will continue to have access to the Continuing Employment Option while Members who reach age 65 on or after January 1, 2018 will no longer have this option.

The best interests of all plan members have been paramount when the Pension Trustees decided to implement these plan amendments.

If there are any questions with respect to this notice please contact the pension plan administrator Eckler Ltd. at:

One Lombard Place
Suite 2475
Winnipeg, MB
R3B 0X3
1 (877) 988-1581

Plan Trustees and Advisors

Pension Plan Board of Trustees

Appointed by the Manitoba School Boards Association

Ken Cameron, Trustee, Rolling River School Division
Colleen Carswell, Trustee, River East Transcona School Division
Louise Johnston, Trustee, Louis Riel School Division
Floyd Martens, Trustee, Mountain View School Division
Linda Ross, Trustee, Brandon School Division

Appointed by the Manitoba Association of School Business Officials

Vince Mariani, Secretary-Treasurer, River East Transcona School Division

Appointed by the Canadian Union of Public Employees

Darlene Parsons
Sharon Sapoznik

Appointed by the Non-Teaching Association

Carol Newbound

Advisors/Administrators

Manitoba School Boards Association Staff

Kelly Henderson, Manager, Finance and Administration
Craig Wallis, Labour Relations Consultant

Plan Administration

Eckler Limited

Plan Custodian

RBC Investor Services Limited

Measurement Service

RBC Investor Services Limited

Investment Managers

Aberdeen
Beutel, Goodman
BlackRock
Burgundy
Fiera Capital
Fiera Properties
Greystone
Hexavest

Auditors

KPMG

Plan Trustees and Advisors

If you have any questions about the plan, your first source of information should always be the plan booklet. The plan booklet can be found on our website at **mbschoolpension.ca** .

If you need further informaton, you should contact your school division office.

Additional information is also available from:

Kelly Henderson
Manitoba School Boards Association

191 Provencher Blvd.
Winnipeg, MB R2H 0G4
Telephone: 204-233-1595 or 1-800-262-8846 (outside Winnipeg)
E-mail: khenderson@mbschoolboards.ca
Website: www.mbschoolpension.ca or www.mbschoolboards.ca

If you need more assistance because of a member terminaton or death you can contact:

Eckler Ltd.
Administration

2475 - One Lombard Place
Winnipeg, MB R3B 0X3
Telephone: 204-988-1571
Website: www.eckler.ca

For help in planning your retirement benefits contact:

James Ralko
Eckler Limited

2475-One Lombard Place
Winnipeg, Manitoba R3B 0X3
Telephone: 204-988-1581 or 1-877-988-1581 (outside Winnipeg)
E-mail: jralko@eckler.ca

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