Bell MTS

Manitoba Telecom Services Inc.
and Participating Subsidiaries
Employee Pension Plan

# 2018

## Pension Committee Report

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# Introduction

This report provides information on the Manitoba Telecom Services Inc. and Participating Subsidiaries Employee Pension Plan (the “Plan”) for the year ended December 31, 2018. It has been prepared for employees, retirees and other beneficiaries of the Plan, and is based on official Plan reports that have been approved by the Board, filed with government authorities and presented to the Pension Committee.

# About your plan

The Plan is a contributory defined benefit plan federally registered under the Pension and Benefits Standards Act, 1985 (“PBSA”).

Highlights include:

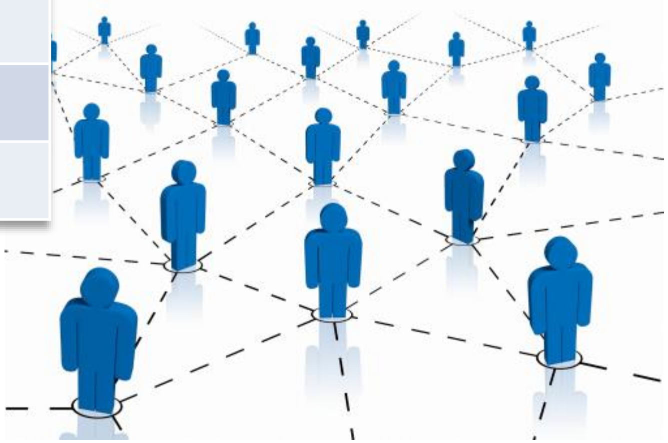
- Eligible employees contribute to the Plan by payroll deduction each pay period. These contributions are fully tax-deductible.
- The Company contributes the amounts necessary to ensure that the Plan can meet its obligations. The Company contributed $43.2 million in cash to the Plan (including $30.0 million used to reduce the face value of letters of credit) and employees contributed $6.4 million in 2018.
- At retirement, members are eligible for a pension benefit calculated using a defined benefit formula, which includes the average of your best five years of earnings multiplied by the number of years or partial years you have contributed to the Plan (referred to as “Credited Service”).
- The Plan provides for a cost-of-living adjustment (“COLA”) equal to two-thirds of the increase in the Canadian Consumer Price Index (“CPI”) to a maximum CPI increase of 4%. Additional cost-of-living adjustments may be granted if there is sufficient funding available from the COLA account.
- Members who terminate employment before age 55 are entitled to a deferred pension benefit.
- The Plan has been closed to new members since January 1, 2010.

All Plan members have electronic access to this report or receive a paper copy. For more information on the Plan, contact the Benefits Administrator.

## Membership

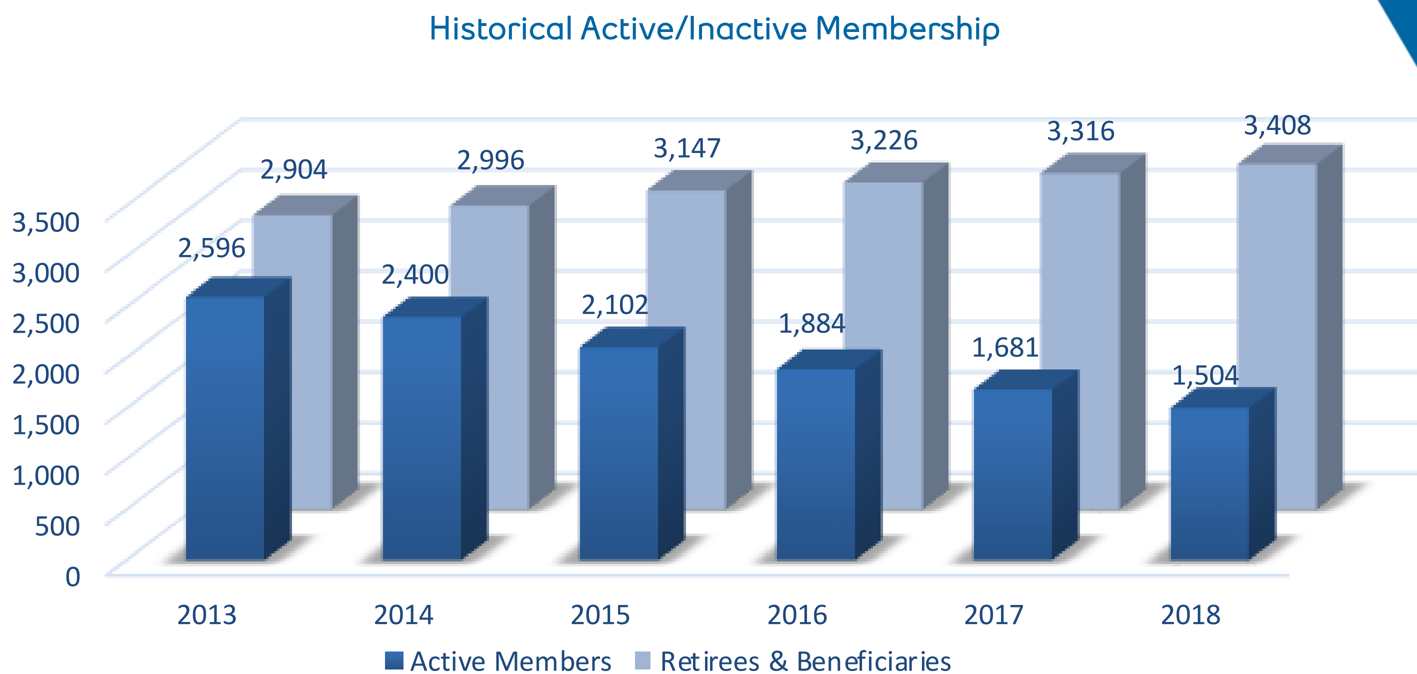
The Plan's membership falls into the following categories: active, retirees, beneficiaries and deferred pensioners. Active members are those employees who currently accrue benefits under the Plan. Deferred members are former employees who have left their pension benefits in the Plan to be paid at a later date. Retirees and beneficiaries are those individuals who currently receive a pension from the Plan.

| | Active Members | Retirees | Beneficiaries | Deferred Pensioners |
|---|---|---|---|---|
| **As at January 1, 2018** | **1,681** | **2,837** | **479** | **569** |
| Retirement | (101) | 132 | - | (31) |
| Termination | | | | |
| • Vested Pension | (54) | - | - | 54 |
| • Paid Out | (19) | - | - | (21) |
| Death | | | | |
| • Survivor Pension | - | (33) | 34 | (1) |
| • Paid Out | (3) | - | - | (1) |
| • End of Payment | - | (30) | (28) | - |
| Data corrections | - | 15 | 2 | (4) |
| **As at January 1, 2019** | **1,504** | **2,921** | **487** | **565** |



# Evolution of Membership

As of January 1, 2019, active members accounted for 27% of the total membership of 5,477, and retirees and beneficiaries receiving pensions made up 62%. The ratio of pensioners to active members was 2.27.

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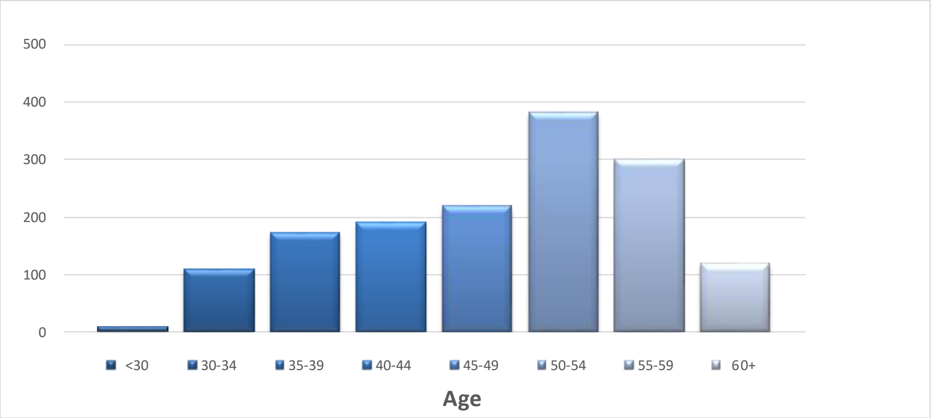
# Active Members

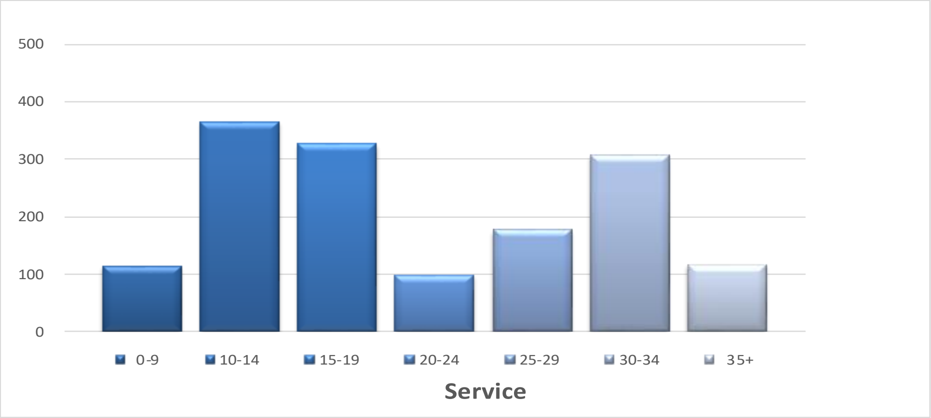
## Age Distribution

As of January 1, 2019, 8% of active members were under age 35 and 53% were age 50 and over. The average age of members was 49.0 years.




## Service Distribution (Continuous Employment)

As of January 1, 2019, 15% of active members had less than 10 years of service, while 37% had 25 years or more of service. The average length of service was 21.9 years.

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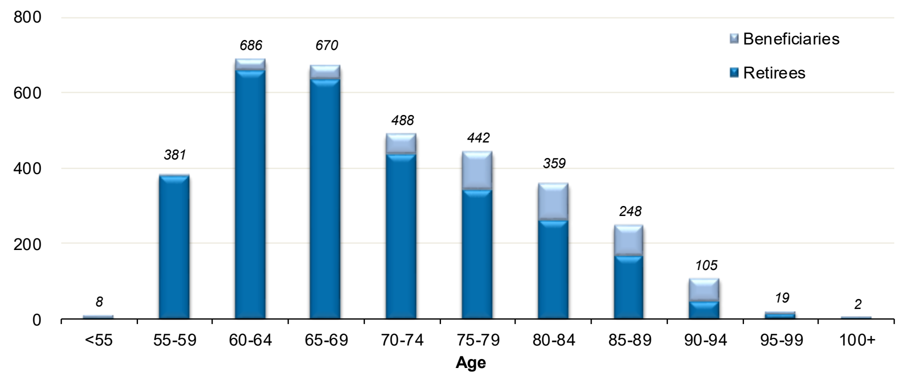
# Retirees and Beneficiaries

### Age Distribution

As of January 1, 2019, the average age was 69.9 years for retirees and 79.5 for beneficiaries.




### Retiree statistics as of January 1, 2019

| | New 2018 retirees | | All retirees | |
|---|---|---|---|---|
| | Female | Male | Female | Male |
| Average age at retirement | 58.8 | 58.7 | 57.3 | 57.1 |
| Average age at Jan 1, 2019 | | | 68.1 | 71.7 |
| Total number of retirees | 69 | 63 | 1,423 | 1,498 |

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## Actuarial valuation

In accordance with pension legislation, an actuary must calculate yearly the assets that are required to cover the value of accrued pensions and assess the amount of contributions needed to fund future benefits. There are two measures of a plan's financial situation: the going-concern valuation and the solvency valuation.

### Going-concern valuation

The going-concern valuation assumes that the plan will continue to exist indefinitely. The actuary must make assumptions regarding future events to determine the present value of the accrued pensions (liabilities). These assumptions include:

- economic factors such as future interest rates, inflation rates and salary increases;
- decrement rates such as expected mortality, withdrawal and retirement experience; and
- margins against adverse deviation

The liabilities are compared to the fund's assets. In order to not be overly influenced by fluctuating market returns, the assets are adjusted to smooth the impact of stock returns over the last four years. This is called the actuarial value of assets.

The going-concern financial situation is the difference between the actuarial value of assets and the going-concern liabilities.

### Solvency valuation

The solvency valuation assumes that the plan stops operating as of the valuation date.

Solvency liabilities are not calculated with long-term actuarial assumptions. Instead, they are based on current economic and demographic parameters and assume a settlement of all benefits at the valuation date.

The solvency financial situation is the difference between the market value of assets and the solvency liabilities, demonstrating the measure of benefit security if the plan would have been wound up at the valuation date.

## Financial position

An actuarial valuation report as of January 1, 2019, was filed with the government authorities. The report indicated the presence of an actuarial surplus of $249.1 million on a going-concern basis while the solvency test performed as of the same date showed a surplus of $203.1 million (including letters of credit held in trust for the Plan).

| (in $ millions) | January 1, 2019 | | January 1, 2018 | |
|---|---|---|---|---|
| | Going-Concern | Solvency | Going-Concern | Solvency |
| **Assets:** | | | | |
| Market value of assets | 2,084.5 | 2,084.5 | 2,147.9 | 2,147.9 |
| Smoothing adjustment | 12.5 | n/a | (47.3) | n/a |
| Provision for windup expenses | n/a | (2.7) | n/a | (2.7) |
| Letters of credit | n/a | 241.1 | n/a | 271.1 |
| Total assets | 2,097.0 | 2,322.9 | 2,100.6 | 2,416.3 |
| **Liabilities:** | | | | |
| Active members | (524.1) | (683.3) | (505.8) | (769.6) |
| Retirees and other members | (1,323.8) | (1,436.5) | (1,366.1) | (1,506.7) |
| Total liabilities | (1,847.9) | (2,119.8) | (1,871.9) | (2,276.3) |
| **Surplus (Deficit) *** | **249.1** | **203.1** | **228.7** | **140.0** |
| **Funded/Solvency Ratio** | **113%** | **110%** | **112%** | **106%** |

* Including advance contributions of $23.7M as of January 1, 2019 and $34.2M as of January 1, 2018

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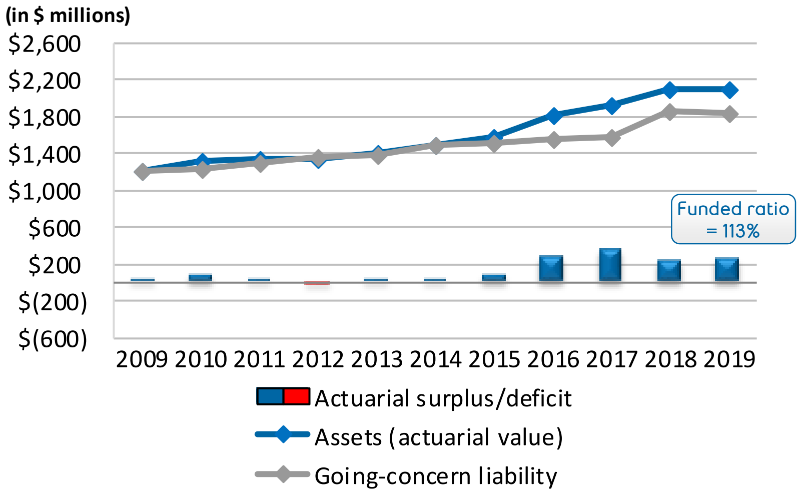
# Evolution of the Plan’s financial position

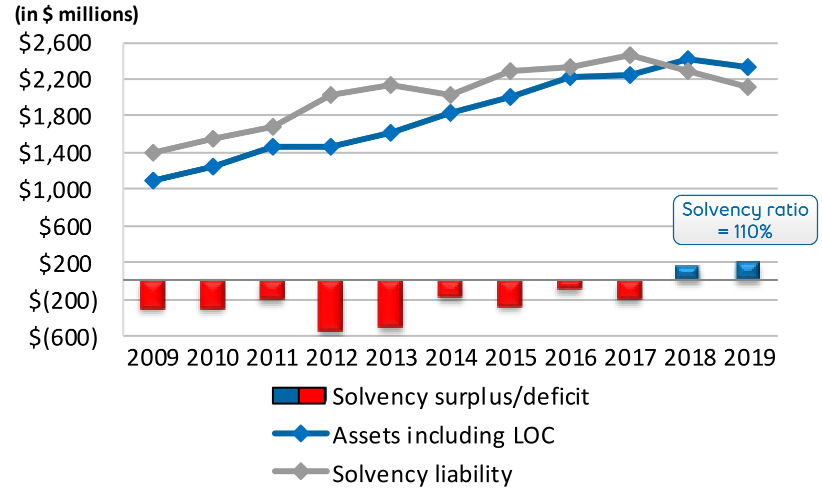
## Going-concern basis

The going-concern valuation looks at a plan’s funded status on the basis that the plan will continue to operate indefinitely. The purpose of a going-concern valuation is to recommend the orderly funding of a plan to accumulate assets to provide for the plan’s benefits in advance of their actual payment. Using this long-term perspective of the Plan, the going-concern actuarial surplus has increased from $228.7 million as of January 1, 2018, to $249.1 million as of January 1, 2019.

## Solvency basis

The solvency valuation assumes that a plan stops operating as of the valuation date. It is intended to test whether the plan has sufficient assets to pay all benefits that have been earned by members to that date. Using this short-term measure of the Plan’s financial situation, the solvency test performed as of January 1, 2019 showed a solvency surplus of $203.1 million, compared to $140.0 million as of January 1, 2018.

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## Contributions

### Employee contributions

Employee contributions to the Plan are based on the employee's pensionable earnings as follows:

- 5.1% of earnings up to the Year's Maximum Pensionable Earnings, and
- 7.0% of earnings over the Year's Maximum Pensionable Earnings.

Employee contributions totaled $6.4 million in 2018.

### Company contributions

The Company's annual contributions depend on the Plan's financial situation and are determined based on results of the actuarial valuation. In addition to contributions covering the ongoing normal cost, when the Plan has a going concern or solvency deficit the Company is required to make special contributions to eliminate the deficit(s) over a legislated period of time. When the Plan has both a going concern and solvency surplus, the Income Tax Act dictates the maximum Company contributions permitted.

In 2018, the Company contributed a total of $43.2 million to the Plan.

Bell Canada remits to the Plan all required employee and company contributions in accordance with federal pension legislation. In its capacity as Plan custodian and trustee, RBC Investor and Treasury Services monitors on a monthly basis that the contributions are made within the required timeframe.

| (in $ millions) | 2018 |
|---|---|
| **Employer contributions** | |
| ▪ Normal actuarial cost | $13.2 |
| ▪ Contributions made in December 2018 to reduce face value of letters of credit | 30.0 |
| **Total** | **$43.2** |
| **Reconciliation of unused advance contributions** | |
| ▪ Unused advance contributions at Jan 1, 2018 | $34.2 |
| • Used to satisfy 2018 deficit funding requirements | (10.5) |
| ▪ Unused advance contributions at Jan 1, 2019 | $23.7 |

# Contributions (cont'd)

## Letters of credit

Regulations under the PBSA provide that letters of credit may be used, up to a maximum of 15% of solvency liabilities, to meet solvency special payment requirements for federally regulated pension plans. A letter of credit is issued by a financial institution and provides security to the pension plan up to its face value in the event the plan sponsor defaults on the funding obligations to the pension plan.

The letters of credit held by the trustee on behalf of the Plan automatically renew each year and cannot be withdrawn or reduced by the Company unless they are either replaced with cash funding or it is determined in an actuarial valuation that the letters of credit, or a portion thereof, are no longer required.

In 2018, the Company contributed $30.0 million over and above the minimum required contribution, which was used to reduce the face value of letters of credit. As such, the letters of credit held on behalf of the Plan decreased from $271.1 million as at January 1, 2018 to $241.1 million as at January 1,2019.

## 2019 Contribution requirements

In light of the Plan's financial situation as of January 1, 2019, the minimum required and maximum eligible Company contributions for 2019 are as follows:

| (in $ millions) | 2019 Contribution requirements | |
|---|---|---|
| | Minimum required | Maximum eligible |
| Current service cost | $16.2 [1] | $16.2 |
| Deficit amortization | – | 38.0 |
| Total | $16.2 | $54.2 |

[1] Employer contributions in respect of the normal actuarial cost may be reduced by the lesser of the surplus on a going-concern basis and the excess of the solvency assets over 105% of the solvency liability.

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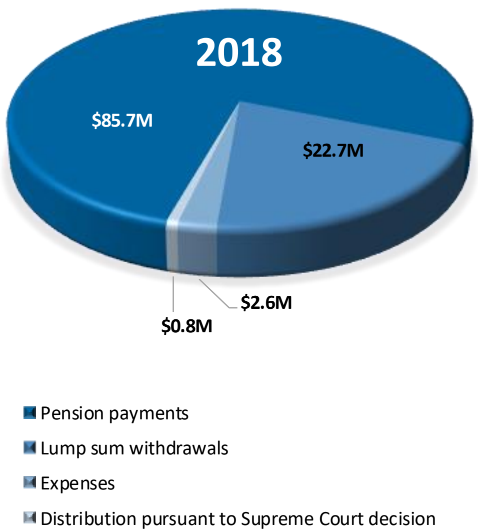
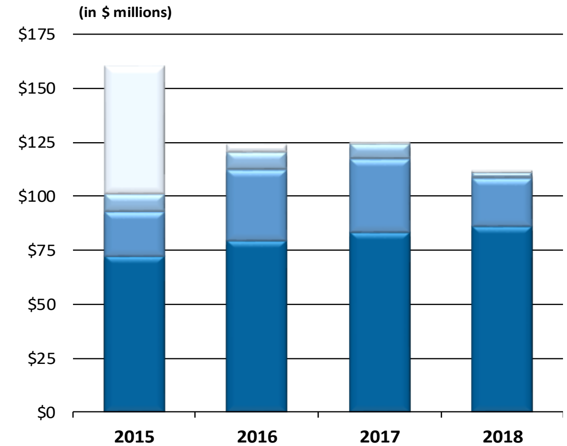
# Payments from the Plan

In 2018, disbursements in the amount of $111.8 million were made from the Plan as follows:




| | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|
| Lawsuit Disbursement | 59 | 4 | 1 | 1 |
| Expenses | 8 | 8 | 7 | 3 |
| Lump-sum withdrawals | 21 | 33 | 34 | 23 |
| Monthly pensions | 72 | 79 | 83 | 86 |
| Total | $160 | $124 | $125 | $112 |

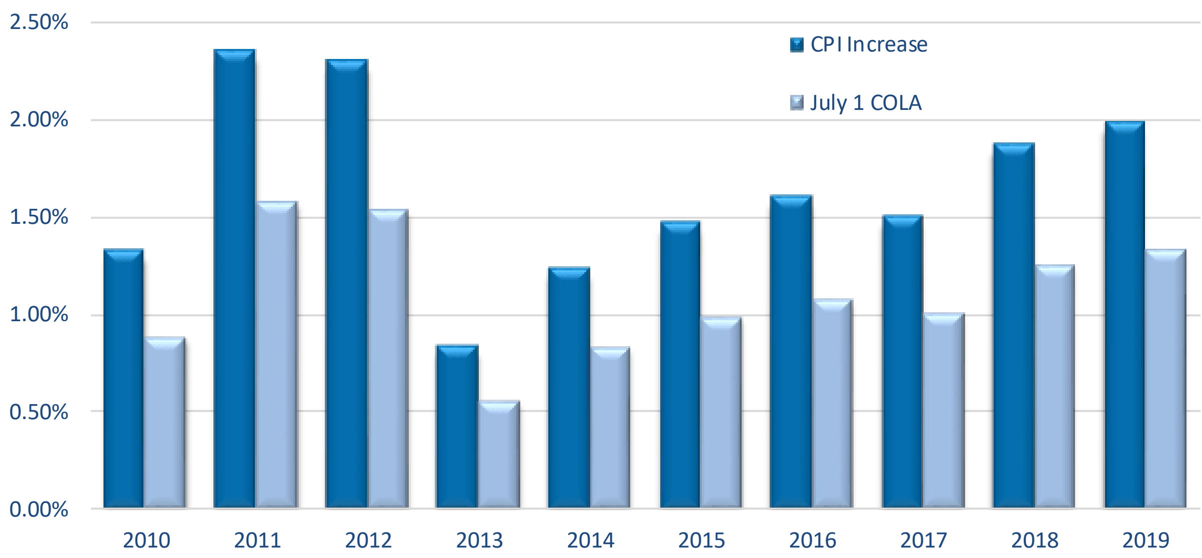
**January 30, 2014 Supreme Court of Canada Ruling**

As of January 1, 2018, $1.4 million remained of the original $140.9 million which was available for distribution and payment of distribution expenses. On June 19, 2018, the Surplus Implementation Committee approved a plan to distribute the remaining surplus (excluding the individual surplus allocations held in trust for unlocated deferred vested members) in equal payments amongst current members on record as at that date, including active members, deferred vested members, retirees and beneficiaries. In 2018 the Plan distributed $0.8 million in payments to retirees and beneficiaries, while active and deferred vested members will receive a lump sum payment when pension or termination benefits are initiated. As at December 31, 2018, $0.6 million remained to be distributed, $0.5 million to active and deferred vested members and $0.1 million for unlocated deferred vested members. The company will continue to pay original entitlements to these former members as they come forward.

## Cost of living adjustment

The Plan provides for a guaranteed COLA each year. The increase to pension payments is equal to two-thirds of the increase in CPI to a maximum CPI increase of 4%. COLA increases are granted each July. In 2018, retirees received a COLA increase of 1.25% which was two-thirds of the 2017 CPI increase of 1.87%. In 2019, retirees will receive a COLA increase of 1.33% which is two-thirds of the 2018 CPI increase of 1.99%.

### Cost of living adjustments over the last 10 years



# Investments

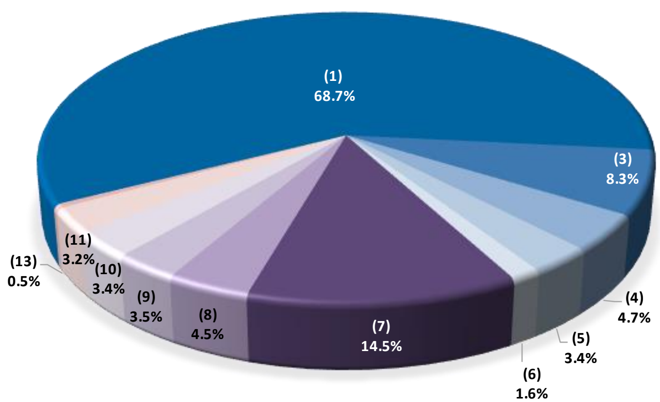
## Investment policy and guidelines

The market value of assets of $2,084.5 million is invested according to an investment policy established by the Pension Fund Committee ("PFC") which is a standing committee of the Board of Directors.

The policy provides for an investment approach that balances financial risk and return. The investment policy includes guidelines that define the acceptable level of risk by establishing the minimum and maximum percentages of assets that may be invested in each of the various asset classes. The guidelines also set out specific investment conditions for each of the asset classes. At its discretion, the fund's investment manager, Bimcor, determines the asset mix of the portfolio within these guidelines.

The minimum and maximum limits as well as the actual investment levels as of January 1, 2019, are:

In addition to the chart below, the asset mix includes a negative Financial Leverage value of (15.5%) and a negative Currency Hedging value of (0.8%).




| | Minimum | Actual allocation | Maximum |
|---|---|---|---|
| **Low Risk Assets** | **60%** | **71.2%** | **80%** |
| (1) Nominal Bonds | 45% | 68.7% | 100% |
| (2) Financial Leverage | (15%) | (15.5%) | (25%) |
| (3)Real Return Bonds | 5% | 8.3% | 15% |
| (4)Infrastructure Equity | - | 4.7% | 10% |
| (5)Real Estate | - | 3.4% | 10% |
| (6)Cash and Money Market | - | 1.6% | 10% |
| **Return Generating Assets** | **20%** | **28.8%** | **40%** |
| (7) Non-Canadian Equities | - | 14.5% | 30% |
| (8) Hedge Funds | - | 4.5% | 10% |
| (9) Private Equity | - | 3.5% | 10% |
| (10) Canadian Equities | - | 3.4% | 12% |
| (11) Dividend Equities | - | 3.2% | 7% |
| (12) Currency Hedging | n/a | (0.8%) | n/a |
| (13) Other | n/a | 0.5% | n/a |

## Investment performance

The investments of the Plan posted a one-year return net of investment management fees of -0.2% in 2018 and an average annual rate of return of 6.5% for the 4-year period ending on December 31, 2018.

## Investments (cont'd)

### Pension plan risk management

The Plan has adopted a financial management risk framework to reduce risk while maintaining or improving the funded position of the Plan. The pension plan is being "de-risked" in a disciplined and systematic way by dividing the fund into two components:

- The Low-Risk Portfolio ("LRP"), where the objective is to closely match the return of the liability
- The Return Generating Portfolio ("RGP"), where the objective is to generate returns exceeding the liability while assuming an acceptable level of risk

Subject to the PFC's approval, assets are moved gradually from the RGP to the LRP as the plan matures and the solvency position improves.

The de-risking strategy includes a fixed income overlay of up to 20% of Plan assets over the current 70% LRA / 30% RGA asset allocation. An overlay is implemented by using financial leverage; the Plan obtains synthetic exposure to fixed income investments in order to more closely match the profile of the Plan's assets to its liabilities. The objective of this strategy, commonly used by large pension plans and approved by the PFC, is to manage interest rate risk, thereby reducing the volatility of the solvency ratio due to interest rate movements.

### About the investment manager

Bimcor is a wholly-owned subsidiary of Bell Canada and oversees management of the pension assets on behalf of the pension funds of Bell Canada and its various subsidiaries and affiliates.

Bimcor manages pooled fund products in equities and fixed income securities. Bimcor selects and directs external firms, both domestically and abroad, to manage specialty mandates on behalf of Bell's pension funds.

## Who’s who

| Administrator | Roles |
| --- | --- |
| Bell Canada Board of Directors (Board) | • Responsible for sound administration of Plan and fund<br>• Adopt Plan changes<br>• Appoint investment managers and custodian/trustees<br>• Receive Pension Fund Committee and Pension Management Committee reports on activities<br>• Adopt overall governance policy (including control systems) |
| Pension Fund Committee (PFC) | • Approve funding and investment policies<br>• Approve fund’s financial statements<br>• Appoint fund auditors and actuary<br>• Oversee administration and investment of Plan and fund<br>• Review any change to the Plan, as proposed by management, and recommend for approval any change requiring Board action |
| Senior Management | • Advise Pension Fund Committee on policy with respect to administration, funding and investment of fund<br>• Oversee fund investment and administration, including employee communication<br>• Monitor administration and fund management performance |
| Pension Management Committee (PMC) | • Responsible for certain administrative, investment and governance functions delegated by the PFC |
| Employer/Plan Sponsor | • Deduct and remit contributions to the fund<br>• Provide accurate information required by administrator/agents<br>• Act through Board of Directors<br>• Report to regulators and Plan members |

# Who's who (cont'd)

| Agents | Roles |
|---|---|
| Actuary<br>(BCE Inc.) | • Develop and recommend funding policy to senior management<br>• Prepare actuarial valuation reports<br>• Process government filings |
| Pension Benefit Administrator<br>(Morneau Shepell) | • Handle daily Plan pension administration<br>• Provide Plan information and decision-making tools to members through the Benefits website |
| Investment Manager<br>(Bimcor) | • Invest Plan assets<br>• Develop and implement an investment strategy |
| Custodian and Trustee<br>(RBC Investor and Treasury Services) | • Maintain fund assets in trust<br>• Settle and maintain records of all investment transactions<br>• Act as paying agent |
| Auditors<br>(Deloitte LLP) | • Audit fund's financial statements<br>• Review accounting systems, internal controls, and related data<br>• Advise management of opportunities to improve Plan's accounting operations |

## Who's who (cont'd)

| Governments | Roles |
|---|---|
| Canada Revenue Agency<br>[Income Tax Act] | • Set requirements for Plan registration<br>• Establish limits on pensions paid out and contributions<br>• Provide tax framework for retirement savings |
| Office of the Superintendent of Financial Institutions<br>[Pension Benefits Standards Act, 1985] | • Protect members' rights<br>• Promote fairness and ensure security and viability of employer's pension promise<br>• Verify that information is being provided to members in accordance with legislation |
| **Members** | **Roles** |
| Pension Committee | • Promote awareness and understanding of Plan among members<br>• Review, for information purposes, Plan's financial, actuarial, and administrative aspects |
| Plan Members | • Review personal pension statements and ensure employer/plan sponsor has accurate personal information<br>• Respond to other requests for information |

The company follows Canada's Personal Information Protection and Electronic Documents Act, known as the privacy legislation. To ensure your personal information is treated in a secure and confidential manner, the company has established standards for all parties involved in the administration of the Plan.

For more information, go to [www.bce.ca/governance](http://www.bce.ca/governance) and select **Board Members and Committees**.

## Pension Committee

The Pension Committee meets at least annually and reports to Bell's Pension Management Committee, as delegated by the PFC. In accordance with its mandate, the Committee reviews the results of the funding actuarial valuation and the COLA actuarial valuation, and reviews the Plan's investment performance and other administrative aspects of the Plan.

The members of the Pension Committee as of September 2019 (date of last Pension Committee meeting) are:

| Independent Chair | |
|---|---|
| John Smith | Investment Advisor, John Smith Wealth and Investment Management |
| **Employer Representatives** | |
| Jamie McMurray | Assistant Controller |
| Don Rooney | Director Labour Relations |
| Peter Andranistakis | Director Network |
| Nikki Keating | Director Finance |
| **Union Representatives** | |
| Bob Linsdell | TEAM Representative |
| Debbie Marantz | Unifor Representative |
| Don Senkow | IBEW Representative |
| **Elected Retiree Representative** | |
| Larry Trach | |

## Pension Benefit Administrator

For more information on your personal retirement or termination benefits, contact the Benefits Administrator:

| Benefits Administrator | |
|---|---|
| Active members | 1-888-391-0005 or Bell.ca/mybenefits |
| Retirees and beneficiaries | 1-888-400-0661 |
| Deferred members | 1-877-878-7960 |

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# Glossary

## General

### Accrued pension

The actual pensions earned as of January 1, 2019. For active members, it is the pension they would be entitled to receive at retirement age, based on current average pensionable earnings and years of service. For retirees and beneficiaries, it is the pension they are currently receiving. For members entitled to a deferred pension, it is the pension they are entitled to receive at retirement age, based on average pensionable earnings and years of service at their termination date.

### Actuarial surplus (deficit)

The difference between the value of the Plan's assets and its liabilities. It can be either positive (surplus) or negative (deficit).

### Adverse deviation

A deterioration in the Plan's experience or in the financial markets that modifies the long-term expected results based on the assumptions and produces an increase in the pension costs.

### Benefits Administrator

The agent that performs the daily administration of the Bell MTS Pension Plan, including record keeping and employee and retiree contact.

### Market value of assets

The value of the pension fund assets determined as the price at which the assets sell in a given market at a given time.

## Investment Classes

### Canadian Equities

A portfolio invested in stocks issued by Canadian corporations, designed to provide long-term capital appreciation.

### Currency Hedging

Strategy based on an agreement between two parties to exchange two designated currencies at a specific time in the future to manage currency risk on foreign currency.

### Dividend Equities

A portfolio invested primarily in equity securities issuers across developed markets with dividend yields higher than average, designed to provide the investor with a stable source of dividend income while seeking long-term capital appreciation. Returns can be affected by fluctuations in foreign currency exchange rates.

## Glossary (cont'd)

**Financial Leverage**
Technique involving the use of borrowed funds in the purchase of an asset.

**Hedge Funds**
Funds using a range of investment techniques and investing in a wide array of assets. Hedge funds are designed to reduce risk, to generate a higher return for a given level of risk or to generate a consistent level of return, regardless of what the market does.

**Infrastructure Equity**
A portfolio invested in ownership interest in facilities and structures essential for the orderly operations of an economy, e.g. transportation networks, health and education facilities, communications networks, water and energy distribution systems.

**Money Market**
A portfolio invested in high quality, short-term instruments maturing within one year, designed to provide liquidity, income and capital preservation over the short term.

**Nominal Bonds**
Bonds whose value does not adjust to compensate for the impact of inflation.

**Non-Canadian Equities**
A portfolio invested in stocks issued by corporations whose head office is located outside Canada, designed to provide long-term capital appreciation. Returns can be affected by fluctuations in foreign currency exchange rates.

**Private Equity**
A portfolio invested in equity capital that is not quoted on a public stock exchange. Private equity consists of investments made directly into private companies.

**Real Estate**
A portfolio invested in real estate investment trusts dedicated to the ownership and operation of income properties such as apartments, shopping centers, offices and warehouses.

**Real Return Bonds**
A portfolio invested in bonds where the return is indexed to inflation. They are thus designed to remove the inflation risk of an investment.