

## **DEFINED CONTRIBUTION PENSION PLAN COMMENTS FROM THE ADVISORY COMMITTEE CHAIR**

### **FINANCIAL STATEMENTS**

Attached are the annual audited financial statements of the Canadian Blood Services Defined Contribution Pension Plan (the "Plan"). The statements have been reviewed by our external auditor, KPMG, whose report to members is included with the statements.

While members receive quarterly communications concerning their individual investment account through the administrator, Morneau Sobeco, the financial statements present the results of the Plan as a whole. Legislation under the Pension Benefits Act requires the employer to file these statements annually with the Financial Services Commission of Ontario. Audited financial statements are available for review on the Plan's website by year, starting with 2005.

### **GOVERNANCE**

The Plan is administered by Canadian Blood Services. An Advisory Committee (the "Committee") assists Canadian Blood Services by monitoring investment performance and plan administration, and by making recommendations for any changes in the fund manager(s) involved in the investment of the funds. The Committee consists of six representatives appointed by Canadian Blood Services. These representatives include individuals nominated by the unions who represent employees who participate in the Plan. The number of union representatives is in proportion to the number of Plan members represented by the unions, to a maximum of three representatives.

The Committee normally meets twice a year, in the last week of April and the last week of November.

At each meeting, the Committee reviews investment performance against benchmarks established in the Statement of Investment Policies & Procedures.

The role of the Committee includes:

- Determining the investment policy of the pension fund;
- Recommending the selection, appointment and replacement of investment managers;
- Monitoring investment performance; and
- Monitoring plan administration.

The Committee has an investment consultant (Mercer Investment Consulting) to assist them in establishing an investment policy, and selecting and monitoring investment managers.

## DEFINED CONTRIBUTION PENSION PLAN COMMENTS FROM THE ADVISORY COMMITTEE CHAIR

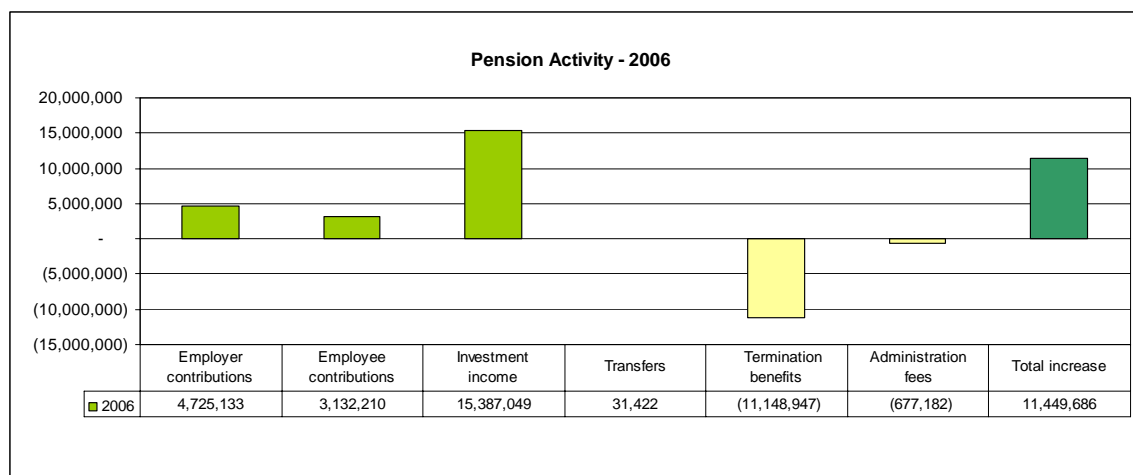
### MEMBERSHIP

Membership increased 2.5% in 2006. The number of members who left Canadian Blood Services and are waiting to transfer funds out of the Plan increased by 24.4% in 2006, mostly due to members who had not yet elected to receive their retroactive adjustment transferred from Canadian Red Cross Society Pension Plan.

	2006	2005	% change
# members, active	1,268	1,279	-0.9%
# members, terminations pending payment	250	201	24.4%
# members, vested deferred (elected to leave funds in account until retirement)	9	10	-10.0%
	1,527	1,490	2.5%

### NET ASSETS AVAILABLE FOR BENEFITS

Net assets available for benefits increased by 11.5% during 2006 from \$99,553,416 to \$111,003,102. This increase was due to \$7,857,343 in employee and employer contributions, \$15,387,049 in investment income, and \$31,422 in transfers from other plans, which was offset by \$11,148,947 in payments or recognition of obligations due to terminated members, and \$677,182 in administration fees.



### CONTRIBUTIONS

Contributions to the Plan increased by 1.1% from \$7,770,802 in 2005 to \$7,857,343 in 2006.

# DEFINED CONTRIBUTION PENSION PLAN

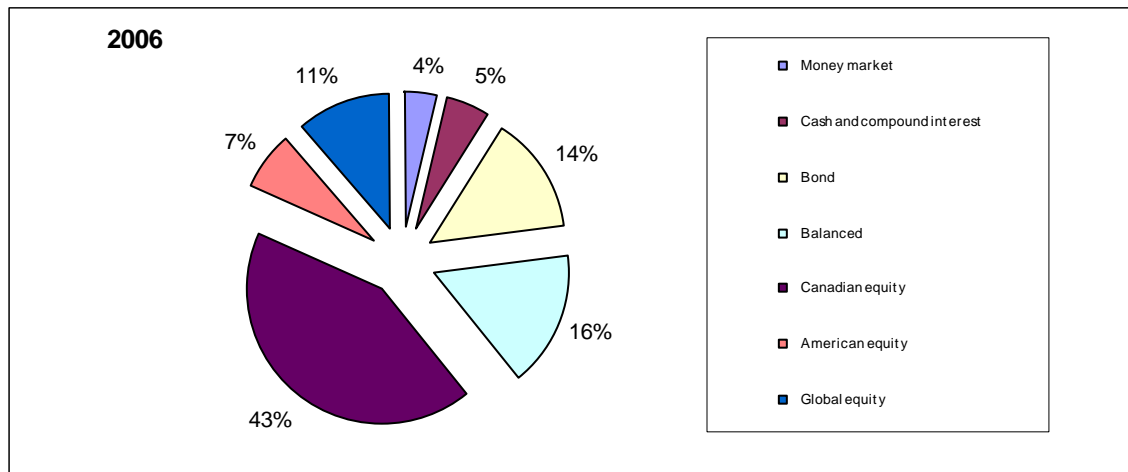
## COMMENTS FROM THE ADVISORY COMMITTEE CHAIR

### INVESTMENT INCOME

Investment income from all funds in the Plan increased to \$15,387,049 in 2006 from \$12,118,824 in 2005. This represents an overall 13.5% return in 2006 (versus an overall 11.9% return in 2005). Investment return varies for each individual fund within the Plan and each member's rate of return is dependent on their asset allocation. Specific return rates by fund are available on the Plan website under Fund Information.

### ASSET ALLOCATION

The asset allocation at December 31, 2006 was as follows:



The Committee noted in 2005 that there were a large percentage of funds held in money market. A communication was sent out in September 2006 to members invested exclusively in the Money Market Fund to remind them of the importance of diversifying. At December 31, 2006, 3.9% of assets were held in the Money Market Fund compared with 4.2% at December 31, 2005.

### INVESTMENT MANAGEMENT STRUCTURE

There were several changes made to the investment funds available to members during 2006:

- Alliance Bernstein Global Equity Fund replaced McLean Budden Global Equity Fund,
- BGI US Equity Index Fund replaced MFC US Equity Index Fund,
- McLean Budden Canadian Equity Fund replaced Seamark Canadian Equity Fund (implemented in 2007),

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- The 9-box matrix was modified to increase the foreign equity allocation, and, the Global Equity fund replaced the US and International Equity funds.

Also, McLean Budden Balanced Fund replaced the Money Market Fund as the default investment fund in instances when a member does not provide investment direction.

Detailed communication regarding these changes was sent to members during the year. This communication is posted on the Plan website.

### **TRANSFER OF ASSETS FROM CANADIAN RED CROSS SOCIETY PENSION PLAN**

In August 2004, the Canadian Red Cross Society ("CRCS") informed Canadian Blood Services of an adjustment in the calculation of unit values of certain investment funds for the period from 2001 to 2003. In March 2006 \$1,007,671 and was transferred from the CRCS to the Plan, and members received their personal amount plus investment return into their member accounts. Members received a 16.3% return during the period while these funds were awaiting transfer.

### **TERMINATION BENEFITS**

The total amount due to members who have left Canadian Blood Services and are waiting to transfer funds out of the Plan increased to \$9,688,211 in 2006 from \$9,012,222 in 2005.

In December 2004, Morneau Sobeco attempted to contact all terminated members asking for confirmation whether they would like to leave their funds in the Plan account or have the funds transferred to alternate pension vehicle. Though there was not a wide response to this communication, several members did confirm and completed the paperwork necessary to transfer their funds out of the Plan.

### **ADMINISTRATION FEES**

As specified in the Plan Text, administration fees are paid by the Plan. Total administration fees increased 5.7% to \$677,182 in 2006 from \$640,571 in 2005. Administration fees include:

**a) Investment management fees** which increased 18.3% to \$416,492 in 2006. While the rates for investment management did not change, total investment management fees increased due to the increase in assets managed.

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**b) Investment administration fees** for the maintenance of individual member accounts and related reporting services as provided by Morneau Sobeco totalled \$124,005 in 2006. The rate for these services remained unchanged at \$6.95 per member per month.

**c) Other plan expenses** which are incurred for:

- investment monitoring, legal and actuarial services
- project management and accounting services
- Advisory committee meeting and travel costs
- annual plan registration fees
- member communication
- audit services

Other plan expenses decreased 16.6% to \$136,685 in 2006 primarily due to completion of the Retirement Handbook Project in 2005. Other plan expenses fluctuate from year to year, depending on the initiatives underway. For example, in 2007 expenses will be incurred for member retirement planning seminars.

Although Canadian Blood Services initially pays for other plan expenses on behalf of the Plan, Canadian Blood Services recovers the outlays for these expenses via:

- balances in the employer's forfeiture account. Funds become available in the forfeiture account when a member leaves Canadian Blood Services with less than 2 years of service. In most provinces, if a member leaves Canadian Blood Services with less than 2 years of service, the member is entitled to their own contributions plus investment returns. Contributions that the employer made on behalf of the member during that period are returned to the employer's forfeiture account. Forfeiture amounts have decreased significantly in recent years, and have not been enough to cover the outlays for other plan expenses.
- a \$10 fee per member per month. The amount of the fee is set each year at the November meeting of the Committee effective January 1 of the following year. The fee is set based on the budgeted expenses for the upcoming year as well as the status of the amount due by the Plan to Canadian Blood Services. With approximately 1,500 members, it is expected that Canadian Blood Services will recover approximately \$180,000 during 2007 via this fee. Since this amount is greater than the \$142,000 in 2007 budgeted expenses, any difference will go towards paying down the existing balance due to Canadian Blood Services that has built up since 2004.

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At the end of December 2006, the balance due to Canadian Blood Services by the Plan was \$178,437. Since it will take several years for the Plan to completely reimburse Canadian Blood Services, the Committee recommended that fee for 2007 remain unchanged at \$10 per member per month.