LifeCycle Portfolios

Summary

As of March 2014, some important changes are being introduced:

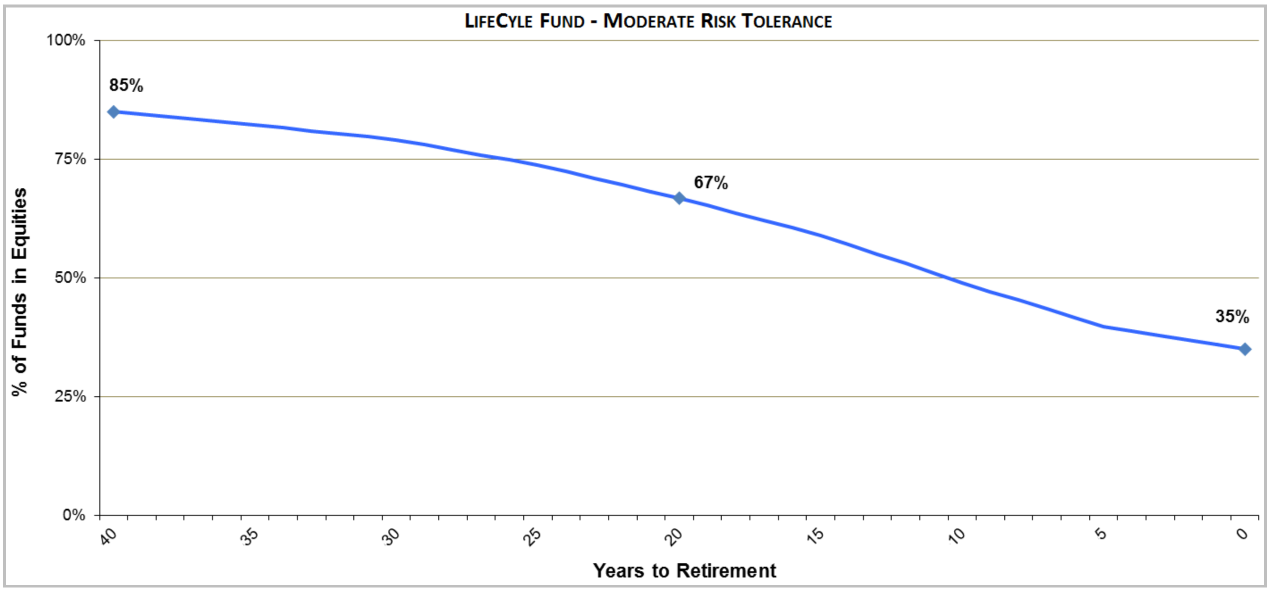
- *Introduction of* **LifeCycle Portfolios**
- *Updated* **Your Investment Options**
- *Updated* **Investment Allocation Form**

What Are LifeCycle Portfolios?

- LifeCycle Portfolios hold both equity and fixed income funds.
- LifeCycle Portfolios are also called target date funds.
- The asset mix of the funds within each portfolio is automatically adjusted to become more conservative as your retirement date approaches.

In other words a LifeCycle Portfolio automatically changes the asset mix over time from more equity/less fixed income to less equity/more fixed income.

Chart 1. LifeCycle Portfolio based on years to retirement – Moderate Risk Profile



LifeCycle Portfolios vs. Balanced Funds and the 9-Box matrix

LifeCycle Portfolios share a common strategy with balanced funds and the 9-box matrix. They all involve holding a mix of equity and fixed income investments to diversify financial risks. The difference is their "glide path".

TABLE 1.

Balanced Fund	9-Box Matrix	LifeCycle Portfolios
A balanced fund has an asset mix of investments that does not change over time and does not always reflect a member's risk profile.	The 9-box matrix allows the investor to choose different asset mixes according to his or her years to retirement and risk profile, but the asset mix does not automatically change over time.	LifeCycle Portfolios take this a step further in automatically changing the investor's asset mix over time, from more equity/less fixed income to less equity/more fixed income, as his or her retirement date approaches.

Having a high proportion of investments in equities the further away you are from retirement allows you to maximize the potential growth of your savings.

Gradually reducing equity exposure as you approach retirement allows you to better protect your capital from sudden equity market downturns.

Why is the CBS DC Plan offering LifeCycle Portfolios?

LifeCycle Portfolios provide an alternative investment option to DC plan members whose retirement income depends on their level of contributions and their investment decisions.

Members are responsible for their investment decisions and Life Cycle Portfolios offer an approach to members who do not want to continually monitor their investments and/or who may not be comfortable in changing their investment mixes or funds.

Like all investment options, Life Cycle Portfolios are not risk free. However, unlike balanced funds or the 9-box matrix, they automatically adjust the investment mix based on both a member's risk profile and their years to retirement.

Updated Investment Options

Once introduced, the LifeCycle Portfolios will replace the 9-box matrix investment option. Your available investment options will include:

- LifeCycle Portfolios, or
- Your own investment mix of funds including a Balanced Fund option

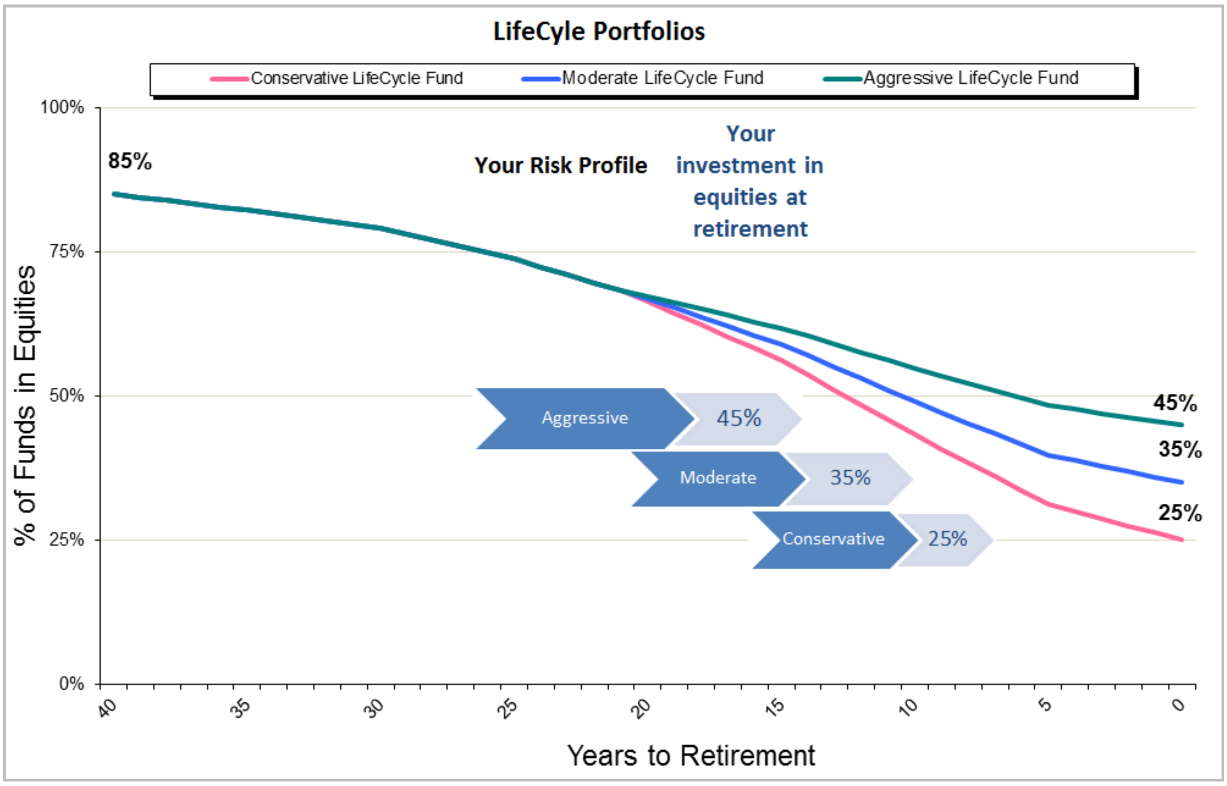
What LifeCycle Portfolios will the CBS DC Plan offer?

The CBS DC Plan is introducing three LifeCycle Portfolios starting March 2014. The three options will reflect different risk profiles (similar to those presently available in the 9-box matrix):

The fixed income and equity elements of the portfolios have been constructed using the investment funds available to plan members – the funds you see today on the investment direction form with the addition of a long bond fund that will also be available to members who choose their own investment mix. See section below on the long bond fund.

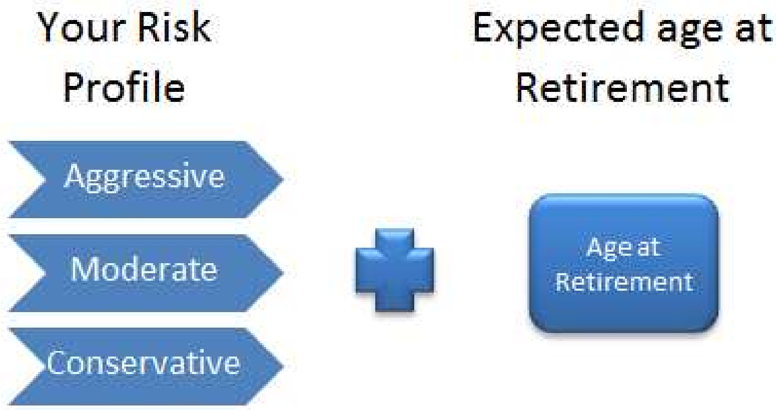
The asset mix has been set based on the advice of Mercer and the recommendation of the Canadian Blood Services Defined Contribution Pension Plan Advisory Committee. Morneau Shepell will manage the movement of asset allocation along the glide path as well as periodic rebalancing to the target asset allocation at each stage along the glide path.

CHART 2. LIFECYCLE PORTFOLIO BASED ON EXPECTED YEARS TO RETIREMENT – ALL RISK PROFILES



How will the LifeCycle Portfolios work?

If you select a LifeCycle Portfolio, you will have to determine your **risk profile** and your **expected age at retirement**. There is a questionnaire that will help you decide your risk profile (*see Risk Profile Questionnaire below*).



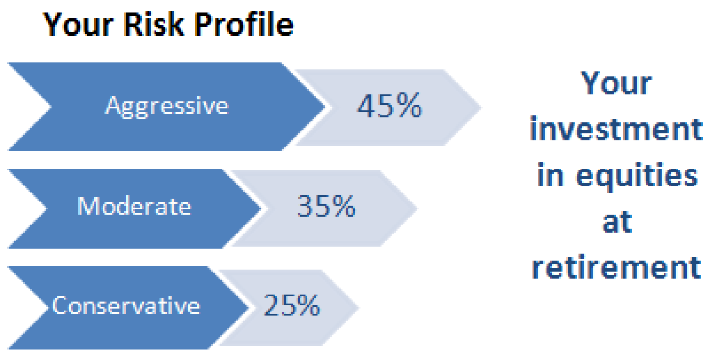
Morneau Shepell will then place you on one of the three glide paths according to the risk profile you select and your years to retirement which will be determined based on your current age and the expected retirement age you specify for yourself. This could be age 65 or an earlier or later age, depending on your retirement plans.

Tell me about the investment mix.

The asset allocation remains constant at 85% equity / 15% fixed income until 40 years from retirement. For the span running from 40 to 20 years from retirement the allocation to equity is gradually reduced. The asset allocation changes are identical for all risk profiles until 20 years from retirement. The reason for this is that as retirement is far away, regardless of your appetite for market risk, a short term market drop represents a lower risk than other sources of risk such as inflation and longevity. Afterwards the pace at which the allocation changes is different for each risk profile.

As your expected retirement date draws near, between 25% and 45% of your asset mix will be in equities, depending on your risk profile.

By the time you reach your expected retirement age, if you are an investor with moderate risk profile, 35% of your investments will be in equities. If you have higher or lower tolerance for risk, your investments in equities will be adjusted accordingly.



<u>Equities</u>

The equity component will be 50% Canadian equity and 50% Foreign equity at all points on the glide path.

Within the Canadian component, there will be a 10% allocation to small cap equities for investors with a moderate risk profile and 20% for aggressive investors. There will be no allocation to small cap for conservative investors.

The Foreign component will be split evenly between US and International equities.

<u>Fixed Income</u>

Until 14 years from your expected retirement age, 100% of the fixed income component will be in the long bond fund. Over the final 14 years until your expected retirement age, this will transition to 100% universe bond fund.

The asset mix will be adjusted annually to account for your movement along the glide path and rebalanced quarterly if the actual Equity/Fixed Income mix is more than 5% different from the target mix.

What is the Long Bond fund?

The long bond fund will be the BlackRock Long Bond Index Fund. It invests in Canadian bonds of governments and corporations maturing in at least 10 years. By contrast, the Bond fund offered up until now invests in bonds with short, medium and long terms.

A long bond fund has a higher long-term expected return than a money market or short-term bond fund and provides better protection of income replacement in most economic scenarios.

A long bond fund also matches the duration of time during which you build your retirement savings and then draw on them for income in retirement.

At retirement you can choose to continue to invest your retirement savings in a life income fund (LIF) or to buy an annuity. Long bonds are a better match to LIFs and annuities.

Tell me about moving along the glide path and rebalancing.

If you select the LifeCycle Portfolio investment option, you will be placed on the glide path for the risk profile you select:

40+ years from your retirement

- Until you are 40 years from your retirement, although you will move along the glide path, it will be generally flat – 85% equity and 15% fixed income.

39 to 20 years from your retirement

- For the span running from 39 to 20 years from retirement the allocation to equity is gradually reduced. The asset allocation changes are identical for all risk profiles until 20 years from retirement.

19 years from your retirement

- Starting when you are 19 years from your retirement, the rate at which the equity allocation reduces will be different for each of the three risk profiles.

14 years from your retirement

- Until you are 14 years from your retirement your fixed income investments will be in long bonds.
- Starting when you are 14 years from your retirement, the long bond allocation will be replaced by the universe bond fund.

Every quarter, Morneau Shepell will check your Equity/Fixed Income asset allocation and, if it is more than 5% different from the target for your place on the glide path, they will rebalance by selling units in the funds that are above the target allocation and buying units in funds that are under the target allocation.

TABLE 2

Years From Retirement	Equity and Fixed Income Mix
40+	Generally flat –> 85% equity and 15% fixed income
39 to 20	Allocation to equity is gradually reduced
19	The pace at which equity will begin to reduce and the fixed income will begin to increase will accelerate more or less depending on the risk profile you selected.
Note: Up to 14 years from your retirement age, fixed income investments are in long bonds. At 14 years, the long bond allocation will begin to be replaced by the universe bond fund	

What decisions would I need to make?

If you want to participate in the LifeCycle Portfolios, you need to:

- Opt for the LifeCycle Portfolio over your own mix of individual funds;
- Choose an expected retirement age (or confirm the default of 65); and
- Determine your risk profile.

If I selected a LifeCycle Portfolio, will I be able to change my investment option later?

Yes, you could transfer to another investment portfolio and select your own mix of individual funds.

You could also stay in the LifeCycle Portfolios and change to one with a different risk profile, or change your expected retirement age.

Could I put some of my contributions into a LifeCycle Portfolio and choose how to invest the rest?

No, you would either choose one of the LifeCycle Portfolios, or choose your own mix of investment funds.

What would LifeCycle Portfolios cost?

Investment fees would be paid on each of the underlying funds, the same as now, plus an additional 10 basis points or one-tenth of one percent (0.1%) that will be paid to Morneau Shepell for managing the glide path and quarterly rebalancing.

Since plan members in each of the LifeCycle Portfolios will be at different stages along the glide path, with different and changing investment mixes, it is not possible to provide an overall management fee rate for the LifeCycle Portfolios.

What would my quarterly statement tell me?

Your statement would tell you your personal rate of return (but no historical performance of the LifeCycle Portfolios), the allocation of your LifeCycle Portfolio, fees, and other information you currently receive on your statement.

Can I continue to choose one of the boxes in the 9-box matrix?

When LifeCycle Portfolios are introduced, the 9-box matrix (that members have been able to use as a basis for choosing a pre-selected investment mix) will be eliminated.

The reason for this is the high cost of administering both the 9-box matrix and the LifeCycle Portfolios. Members will be able to select their own investment mix of funds (including the Balanced Fund) or one of the LifeCycle Portfolios.

What happens to my investments that I made using the 9-box matrix?

Nothing happens. Your investments will remain as they are. If you wish you may consider moving them to the LifeCycle Portfolios or reallocating your current investments into other individual funds available to members in the DC plan.

However, the 9-box matrix will not be adjusted or published after the implementation of the LifeCycle Portfolios so if you want to change your asset mix, you will need to select your own investment mix.

What about the Default Fund?

At the present time, the default fund is the Leith Wheeler Balanced Fund.

When LifeCycle Portfolios are introduced, the default investment option for members who do not provide investment direction will be the Moderate LifeCycle Portfolio assuming retirement at age 65.

Where may I obtain a copy of the revised Investment Allocation Form?

You may access a copy of the revised form from the DC Pension intranet site: https://cbs.hroffice.com/en/welcome2.asp.

You are encouraged to go to the intranet site and select your investment funds or transfer your current assets between funds directly on-line.

What are the investment funds and the asset allocations?

SUMMARY

Canadian Blood Services – LifeCycle Portfolios	40+ years to your retirement	At Your Retirement		
		Conservative	Moderate	Aggressive
Equity	85%	25% *12.50% Canadian* *12.50% Non-Canadian*	35% *17.50% Canadian* *17.50% Non-Canadian*	45% *22.50% Canadian* *22.50% Non-Canadian*
Fixed income	15%	75%	65%	55%
Total Investment	100%	100%	100%	100%

DETAIL

Canadian Blood Services – LifeCycle Portfolios		40+ years to retirement	At Retirement		
			Conservative	Moderate	Aggressive
Equity		85%	25%	35%	45%
Canadian		***42.50%***	***12.50%***	***17.50%***	***22.50%***
Canadian	*Manulife Pyramis Canadian Focused Equity Fund (7146)*	*Conservative: 42.5%* *Moderate: 38.25%* *Aggressive: 34.00%*	*12.50%*	*15.75%*	*18.00%*
Canadian Small Cap	*Manulife FGP Small Cap Canadian Equity Fund (7381)*	*Conservative: 0%* *Moderate: 4.25%* *Aggressive: 8.50%*	*0%*	*1.75%*	*4.50%*
Non Canadian		***42.50%***	***12.50%***	***17.50%***	***22.50%***
US	*Manulife BlackRock U.S. Equity Index Fund (8322)*	*21.25%*	*6.25%*	*8.75%*	*11.25%*
International	*Manulife MFS International Equity Fund (8681)*	*21.25%*	*6.25%*	*8.75%*	*11.25%*
Fixed income		15%	75%	65%	55%
Long Bond Fund	*Manulife BlackRock Long Bond Index Fund (4322)*	*15%*	*0%*	*0%*	*0%*
Universe bond	*Manulife MAM Canadian Bond Index Fund (4191)*	*0%*	*75%*	*65%*	*55%*

RISK PROFILE QUESTIONNAIRE

Take a few minutes to complete your personal risk profile questionnaire. It will help you to determine what type of an investor you are and better prepare you to make your investment decisions. Remember that speaking to a financial advisor is also a good idea when making investment decisions. Check out Chapter 3 of the DC Retirement Planning Workbook: Selecting a financial planner for more information.

Your personal risk profile

1. Answer each question and place your selected answer in the space provided.
2. Once you are finished answering all the questions, use the chart at the end of the questionnaire to calculate your total score.
3. Compare your score to the profile ranges.

Question	Answer
1. How knowledgeable are you about investing and the various investment options available to you?	
a) I have no investment experience.	
b) I have a basic understanding of investments, but I am not sure how to design my own investment strategy.	
c) I have made investments before and understand the different risks and types of funds.	
d) I follow the markets closely, feel that I am a knowledgeable investor, and am able to design my own investment strategy.	
2. Do you worry about how your retirement savings are doing?	
a) Never	
b) Sometimes	
c) Often	
3. Which of the following statements best describes your goals for your retirement savings?	
a) I want a stable return on my investments and confidence that I will never lose money.	
b) I want a reasonably stable return on my investments, but I will accept that there might be some small losses which occur infrequently.	
c) I want a good return on my investments and I am prepared to accept some short term losses, as long as they are not significant.	
d) I want aggressive investments where I can expect a superior investment return and I am prepared to accept significant losses over short-term periods in order to achieve this.	

Question	Answer
4. Pretend that you have just won $5,000 on a TV game show. Which of the following would you do?	
a) Keep the $5,000 and go home.	
b) Give the $5,000 back to play a game with 3 chances in 4 of winning $12,000.	
c) Give the $5,000 back to play a game with 2 chances in 4 of winning $20,000.	
d) Give the $5,000 back to play a game with 1 chance in 4 of winning $50,000.	
e) Give the $5,000 back to play a game with 1 chance in 10 of winning $200,000.	
5. You have $10,000 to invest and there are five possible investments. Which one of these would you select?	
a) After 5 years you will have a total of between $11,000 and $13,000.	
b) After 5 years you will have a total of between $10,000 and $15,000.	
c) After 5 years you will have a total of between $9,000 and $17,000.	
d) After 5 years you will have a total of between $7,500 and $20,000.	
e) After 5 years you will have a total of between $5,000 and $30,000.	
6. A friend, who you believe is an investment expert, advises you to switch all of your retirement savings investments to the Acme Fund. Which best describes what you would do?	
a) You decide to invest most or all of your retirement savings in the fund.	
b) You are tempted, but decide to invest only part of your retirement savings in the fund.	
c) You are not sure, so you contact your financial planner to discuss the risks.	
d) You are not comfortable acting on a friend's advice and do nothing.	
7. If you could increase the likelihood that you will reach your retirement goals by accepting more risk, what would you do?	
a) Make no changes.	
b) Take on a little more risk with part of your money.	
c) Take on a little more risk with all of your money.	
d) Take on more risk with part of your money.	
e) Take on a lot more risk with all of your money.	
8. How much of a decline in the total value of your retirement savings are you willing to tolerate over a one-year period?	
a) More than 15% loss	
b) Up to a 15% loss	
c) Up to a 10% loss	
d) Up to 5% loss	
e) Nothing	

Use the following chart to determine your total score:

Question	Your Answer a.	b.	c.	d.	e.	Your Score
1.	2	4	8	10	-	
2.	10	6	2	-	-	
3.	0	3	6	9	-	
4.	0	3	5	7	9	
5.	0	3	6	9	12	
6.	6	4	2	1	-	
7.	0	2	5	6	9	
8.	9	7	5	3	0	
Your Total Score						

Your Total Score ________________

Based on your answers, your risk profile is most like:

Total Score	Risk Profile
Less than 25	**<u>The More Conservative Investor:</u>** • You prefer safe investments, and are likely to worry if your savings lose money.
Between 25 and 50	**<u>The Moderate Investor:</u>** • You are willing to tolerate some market fluctuations, but still want the security of some guaranteed investments, and/or • You are a knowledgeable and experienced investor who is willing to accept some risk.
More than 50	**<u>The More Aggressive Investor:</u>** • You are not concerned about short-term fluctuations in the market and have a relatively long period of time before you will need to use these funds, and/or • You have a long period of time to recover from any short-term losses and will accept the fluctuations in order to achieve long-term returns.

This questionnaire is an attempt to measure your willingness to accept investment risk, or more specifically, investment volatility. The higher your score, the more willing you are to accept volatility in your returns.

You also need to think about your ability to accept risk. Normally, this is measured by how long your investment horizon is – that is how many years will there be until you need your retirement money. The longer your investment horizon, the more opportunity there is for your investments to recover from a bad year or two. With a shorter investment horizon, there is less time to recover from losses.

In general, even though you are willing to accept a lot of risk, advisors will suggest a less aggressive investment strategy as you approach retirement.