Financial Statements of

# HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA

And Independent Auditors' Report thereon

Year ended December 31, 2019

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# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Healthcare Employees' Pension Plan - Manitoba

## *Opinion*

We have audited the financial statements of Healthcare Employees' Pension Plan - Manitoba (the "Plan"), which comprise the statement of financial position as at December 31, 2019, the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2019, and its changes in net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

June 11, 2020

# HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA

Statement of Financial Position

December 31, 2019, with comparative information for 2018

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash | $ | 174,671,037 | $ | 172,032,076 |
| Contributions receivable: | | | | |
| Employer | | 10,194,291 | | 14,795,943 |
| Employee | | 10,278,143 | | 16,992,460 |
| Other receivables (note 13) | | 1,837,198 | | 2,150,603 |
| Due from brokers (note 10[a][ii]) | | 4,298,055 | | – |
| Investment income receivable | | 29,682,339 | | 27,331,814 |
| Investments (note 4) | | 8,327,351,361 | | 7,255,812,128 |
| Capital assets (note 5) | | 9,257,163 | | 4,105,358 |
| Total assets | $ | 8,567,569,587 | $ | 7,493,220,382 |
| **Liabilities** | | | | |
| Accounts payable and accrued liabilities (note 13) | $ | 14,955,272 | $ | 13,925,148 |
| Government remittances payable | | 530,588 | | 103,871 |
| Due to brokers (note 10[a][ii]) | | – | | 23,086,678 |
| Total liabilities | | 15,485,860 | | 37,115,697 |
| Net assets available for benefits | | 8,552,083,727 | | 7,456,104,685 |
| Actuarial value of pension obligations (note 14) | | 7,561,171,000 | | 7,278,061,000 |
| Commitments (note 15) | | | | |
| Subsequent event (note 16) | | | | |
| Excess of net assets available for benefits over pension obligations | $ | 990,912,727 | $ | 178,043,685 |

See accompanying notes to financial statements.

Approved by the Trustees:

_______________ Chair

Monica Guirouard

_______________ Vice-Chair

# HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| Increase in net assets: | | |
| Pension fund contributions: | | |
| Employer: | | |
| Current year required | $ 174,869,033 | $ 175,858,179 |
| Past years' required | – | 74,477 |
| Buybacks | 4,032 | 3,747 |
| Employee: | | |
| Current year required | 174,174,700 | 175,808,616 |
| Past years' required | – | 112,109 |
| Buybacks | 1,391,650 | 723,799 |
| Reciprocal transfers | 2,054,924 | 5,883,549 |
| Investment income (note 6) | 219,397,457 | 209,503,821 |
| Current period change in fair value of investments | 967,638,967 | – |
| Total increase in net assets | 1,539,530,763 | 567,968,297 |
| Decrease in net assets: | | |
| Current period change in fair value of investments | – | 341,566,550 |
| Pension payments (note 7) | 391,486,328 | 358,315,596 |
| Investment management fees | 38,951,498 | 36,479,531 |
| Administrative expenses (note 8) | 13,113,895 | 11,984,201 |
| Total decrease in net assets | 443,551,721 | 748,345,878 |
| Increase (decrease) in net assets available for benefits | 1,095,979,042 | (180,377,581) |
| Net assets available for benefits, beginning of year | 7,456,104,685 | 7,636,482,266 |
| Net assets available for benefits, end of year | $ 8,552,083,727 | $ 7,456,104,685 |

See accompanying notes to financial statements.

# HEALTHCARE EMPLOYEES' PENSION PLAN - MANITOBA

Statement of Changes in Pension Obligations

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| Actuarial value of pension obligations, beginning of year | $ 7,278,061,000 | $ 6,982,602,000 |
| Benefits accrued | 307,028,000 | 309,784,000 |
| Benefits paid | (391,486,000) | (358,316,000) |
| Interest accrued on benefits | 446,000,000 | 429,102,000 |
| Effect of actuarial changes | (997,000) | (1,164,000) |
| Effect of experience gains and losses | (77,435,000) | (83,947,000) |
| Actuarial value of pension obligations, end of year | $ 7,561,171,000 | $ 7,278,061,000 |

See accompanying notes to financial statements.

**1. General:**

Healthcare Employees' Pension Plan - Manitoba (the "Plan") is governed by a Board of Trustees appointed by signatory employers and unions. The Plan has received approval from Canada Revenue Agency (CRA) for registration as a Specified Multi-Employer Plan and the Manitoba Pension Commission has registered the Plan as a Multi-unit Pension Plan.

**2. Description of the plan:**

The following description of the Plan is a summary only. For more complete information reference should be made to the Plan Text.

(a) General:

The Plan is a multi-employer defined benefit pension plan for all employees of participating healthcare facilities in the Province of Manitoba.

(b) Funding policy:

Employers and employees are required to contribute to the Plan a certain percentage of the members' earnings up to the Year's Maximum Pensionable Earnings (YMPE) plus a certain percentage of the members' earnings in excess of the YMPE, as established by the settlors of the Plan.

The following contribution rates have been approved for 2018 and 2019:

| | Employer | Employee |
|---|---|---|
| Below YMPE | 7.9% | 7.9% |
| Above YMPE | 9.5% | 9.5% |

(c) Normal retirement pension benefits:

Normal retirement pension benefits commence the first month coincident with or immediately following the attainment of age 65. The annual earned pension payable to a member at normal or postponed retirement is based on years of service and contributory earnings.

**2. Description of the plan (continued):**

(d) Early retirement pension benefits:

A member may elect to retire early provided that:

- the member has attained age 55; or
- The total of the member’s age plus years of service total at least 80 for an unreduced pension.

If at the member’s early retirement date:

- the member has attained age 60; or
- the member’s age plus years of service total at least 80,

Then the member shall be entitled to receive pension benefits.

If at the member’s early retirement date the member’s age is between 55 and 60 and the member has not achieved the total of 80 based on age and years of service, pension benefits will be reduced in accordance with the Plan Text.

(e) Postponed retirement benefits:

Retirement benefits cannot be postponed beyond the end of the year in which a member turns 71 years of age.

(f) Death benefits:

All members are eligible for death benefits. Before retirement, members are eligible to receive the commuted value of their accrued pension for service prior to January 1, 1985 and service after December 31, 1984. After retirement, the death benefit is based on the payment form elected by the member.

(g) Benefits on termination:

In the event of termination, the terminating member will receive either (i) a monthly pension benefit deferred to retirement; or (ii) the commuted value of their monthly pension benefit.

**2. Description of the plan (continued):**

(h) Income taxes:

The Plan is a Pension Trust as defined in the *Income Tax Act* and is not subject to income taxes.

**3. Significant accounting policies:**

(a) Basis of presentation:

The Plan follows Canadian accounting standards for pension plans for accounting policies related to its investment portfolio and pension obligations. In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan complies on a consistent basis with Canadian accounting standards for private enterprises (ASPE).

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the participating employers and members. Only the net assets of the Plan and obligations to the members eligible to participate in the Plan have been included in these financial statements. These financial statements do not portray the funding requirements of the Plan or the benefit security of the individual plan members.

(b) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and investments are subsequently measured at fair value. All other financial instruments are subsequently measured at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Plan has elected not to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs. These costs are amortized using the straight-line method.

**3. Significant accounting policies (continued):**

(c) Fair value measurement:

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

The Plan uses closing market price for fair value measurement. When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits as part of the current period change in fair value of investments.

Fair values of investments are determined as follows:

(i) Short-term investments:

Short-term investments are valued at cost plus accrued interest, which approximates fair value, with maturities up to one year.

(ii) Bonds:

Bonds are valued using published market quotations or by a yield-to-maturity calculation where published rates are not available.

Bond pooled fund units are recorded at fair values established by the respective fund trustee.

**3. Significant accounting policies (continued):**

(iii) Mortgages:

Mortgage investments held in mortgage pooled funds are recorded at fair values established by the respective fund trustee.

(iv) Equities:

All listed equities are traded on major stock exchanges and are valued based on the quoted market price as at year end. If a closing trade price is unavailable, a latest bid price is reflected. If no bid price is available, the most recent trade price is used.

All private equities are valued by the general partner, who in its determination of fair value considers any legal sale or other liquidity restrictions on the investment.

(v) Real estate:

Real estate investments held in pooled funds are recorded at fair values established by the respective fund asset manager. Real estate properties are recorded at fair value as established by an annual appraisal conducted by qualified external real estate appraisers and, if applicable, are reduced by any assessed impairment between the appraisal and year-end dates.

Real estate investments held in limited partnership funds are recorded at fair values as determined by the Fund Manager. The fair values of investments are determined using an appropriate valuation methodology after considering: the history and nature of the business; operating results and financial conditions; valuation parameters such as discount rate and capitalization rate; contractual rights relating to the investment; public market comparable transactions and recent multiples, where applicable; current market yields; macroeconomic conditions; and other pertinent considerations.

(vi) Infrastructure:

Infrastructure investments are recorded at fair value as determined by the Fund Manager. A number of valuation methodologies are considered in arriving at the fair value of unquoted investments, including internal or external valuation models, which may include discounted cash flow analyses. The most appropriate methodology to determine fair value is chosen on an investment by investment basis. Any control, size, liquidity or other discounts or premiums on the investment are considered by the Fund Manager in their determination of fair value.

**3. Significant accounting policies (continued):**

(d) Capital assets:

Capital assets are recorded at cost less accumulated amortization. Repairs and maintenance costs are charged to expense. Betterments which extend the estimated useful life of an asset are capitalized. When a capital asset no longer contributes to the Plan's ability to provide services, its carrying amount is written-down to its residual value. Capital assets, which include computer software, computer hardware, and office equipment, are amortized on a straight-line basis over three years.

Computer projects are amortized on a straight-line basis over three years as the projects are completed.

(e) Foreign currency transactions and balances:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits within current period change in fair value of investments.

(f) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

Investment income has been accrued as reported by the issuer of the pooled funds and bonds. Dividend income from publicly traded securities is recorded as of the ex-dividend date. Interest income has been accrued as earned.

## 3. Significant accounting policies (continued):

(g) Contributions:

Contributions from the members are recorded on an accrual basis. Cash received from members for credited service and cash transfers from other pension plans are recorded when received.

(h) Benefits:

Benefit payments to members, termination refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid or payable.

(i) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Significant items subject to such estimates and assumptions include the determination of the actuarial value of pension obligations. Actual results could differ from those estimates.

## 4. Investments:

| | 2019 | 2018 |
|---|---|---|
| Bonds | $ 2,070,431,077 | $ 2,017,000,353 |
| International equities | 1,903,237,816 | 1,524,811,035 |
| U.S. equities | 1,626,144,848 | 1,410,178,009 |
| Canadian equities | 1,305,757,075 | 1,058,838,577 |
| Real estate | 985,315,627 | 907,781,487 |
| Infrastructure | 358,238,811 | 277,680,261 |
| Short-term investments | 52,147,605 | 34,488,425 |
| Mortgages | 26,078,502 | 25,033,981 |
| | $ 8,327,351,361 | $ 7,255,812,128 |

## 5. Capital assets:

| | | | 2019 | 2018 |
|---|---|---|---|---|
| | Cost | Accumulated amortization | Net book value | Net book value |
| Computer software | $ 4,354,879 | $ 4,301,798 | $ 53,081 | $ 86,780 |
| Computer hardware and office equipment | 9,545,144 | 9,151,815 | 393,329 | 372,875 |
| Computer projects | 14,618,111 | 5,807,358 | 8,810,753 | 3,645,703 |
| | $ 28,518,134 | $ 19,260,971 | $ 9,257,163 | $ 4,105,358 |

## 6. Investment income:

| | 2019 | 2018 |
|---|---|---|
| Bonds | $ 80,206,094 | $ 82,249,873 |
| International equities | 55,134,505 | 39,688,890 |
| Canadian equities | 34,857,801 | 36,969,535 |
| U.S. equities | 25,412,528 | 25,281,156 |
| Real estate | 20,037,828 | 22,085,682 |
| Short-term investments | 2,266,195 | 1,726,934 |
| Mortgages | 847,593 | 735,035 |
| Security lending income | 634,913 | 766,716 |
| | $ 219,397,457 | $ 209,503,821 |

## 7. Pension payments:

| | 2019 | 2018 |
|---|---|---|
| Retirement benefit payments | $ 308,864,621 | $ 284,222,522 |
| Termination benefit payments | 82,621,707 | 74,093,074 |
| | $ 391,486,328 | $ 358,315,596 |

## 8. Administrative expenses:

| | | 2019 | | 2018 |
|---|---|---|---|---|
| Salaries and benefits | $ | 7,529,652 | $ | 6,754,067 |
| Other administrative expenses | | 2,457,259 | | 1,582,562 |
| Custodial fees | | 1,140,812 | | 793,874 |
| Amortization of capital assets | | 846,727 | | 1,534,186 |
| Investment related expenses | | 548,113 | | 483,780 |
| Actuarial fees | | 429,211 | | 441,374 |
| Legal fees | | 96,770 | | 338,709 |
| Audit fees | | 65,351 | | 55,649 |
| | $ | 13,113,895 | $ | 11,984,201 |

## 9. Capital risk management:

The main objective of the Plan is to sustain a certain level of net assets in order to meet the pension obligations of the Plan. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the SIPP), which is reviewed annually by the Plan. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year’s employee and employer contributions) in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the employers. The main use of net assets is for benefit payments to eligible Plan members.

The primary risk the Plan faces is that the Plan’s asset growth and contribution rates will be insufficient to cover the Plan’s liabilities (funding risk) resulting in an unfunded liability (funding deficiency). If a funding deficiency reaches a certain level, or persists, it may need to be eliminated through contribution rate increases, pension benefit reductions or a combination of the two.

The Plan’s net funded position can change relatively quickly if there are changes in the value of the investments or liabilities. Either can result in a mismatch between the Plan’s assets and its liabilities. The most significant contributors to funding risk are:

- declining interest rates,
- declining long-term investment rates of return, and
- unexpected increases in inflation and salary escalation.

## 9. Capital risk management (continued):

The Plan’s liabilities are affected by non-economic factors like changes in member demographics. The Plan’s assets are subject to financial instrument risks which are explained in more detail in note 10 to these financial statements.

## 10. Risk management:

(a) Market risk:

(i) Interest rate risk:

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan’s cash flows, financial position and income. The Plan’s fixed income investments are exposed to the risk that the value of interest-bearing investments will fluctuate due to changes in the level of market interest rates. The Plan has invested approximately 26 percent (2018 - 29 percent) of its investments in fixed income securities as at December 31, 2019. To properly manage the Plan’s interest rate risk, appropriate guidelines on the weighting and duration for bonds and other fixed income investments are set and monitored.

The remaining terms to contractual maturity of the Plan’s bond portfolio at December 31 are as follows:

| | 2019 | 2018 |
|---|---|---|
| Less than one year | $ 32,213,034 | $ 29,956,299 |
| One to five years | 898,392,936 | 892,303,678 |
| After five years | 1,139,825,107 | 1,094,740,376 |
| Total carrying value | $ 2,070,431,077 | $ 2,017,000,353 |

The Plan holds the above fixed income securities directly and indirectly through pooled funds. An increase of 100 basis points in interest rates, with all other variables held constant, will impact fixed income investments by an estimated loss of $124.8 million (2018 - $116.4 million). The Plan’s interest rate sensitivity was determined based on portfolio weighted duration.

**10. Risk management (continued):**

(ii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan primarily invests in financial instruments and enters into transactions denominated in various foreign currencies, other than its measurement currency. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The Plan and its investment managers have the ability to utilize derivative instruments to mitigate foreign currency risk, subject to the approval of the Plan's Investment Committee. The Plan is exposed to fluctuations in the U.S. dollar, Japanese yen, Hong Kong dollar and European currencies, notably the Euro, British pound sterling and Swiss franc. As at December 31, 2019, the Plan has outstanding foreign exchange contracts to purchase and sell foreign currencies, both with notional amounts of $604,783,000 (2018 - $579,227,000). The net unrealized gain on the contracts at December 31, 2019 of $13,031,000 (2018 - net unrealized loss of $11,788,000) is included in the balance due from brokers (2018 - due to brokers).

The Plan's exposure in cash and investments to foreign currencies to Canadian dollars is shown below:

| As at December 31, 2019 | Actual currency exposure | % |
|---|---|---|
| Canadian | $ 3,876,095,674 | 45.6 |
| US dollar | 2,914,184,931 | 34.3 |
| Euro | 609,275,862 | 7.2 |
| Japanese yen | 327,791,863 | 3.9 |
| British pound sterling | 316,194,892 | 3.7 |
| Swiss franc | 182,412,998 | 2.1 |
| Hong Kong dollar | 85,084,319 | 1.0 |
| Other currencies | 190,981,859 | 2.2 |
| | $ 8,502,022,398 | 100.0 |

## 10. Risk management (continued):

| As at December 31, 2018 | Actual currency exposure | % |
|---|---|---|
| Canadian | $ 3,549,368,634 | 47.8 |
| US dollar | 2,435,836,967 | 32.8 |
| Euro | 456,836,168 | 6.1 |
| Japanese yen | 319,368,476 | 4.3 |
| British pound sterling | 287,949,213 | 3.9 |
| Swiss franc | 133,081,229 | 1.8 |
| Hong Kong dollar | 85,239,670 | 1.1 |
| Other currencies | 160,163,847 | 2.2 |
| | $ 7,427,844,204 | 100.0 |

A 10 percent increase or decrease in exchange rates, with all other variables held constant, would result in a change in unrealized gains (losses) of $462.6 million (2018 - $387.8 million).

(iii) Market price risk:

The Plan's investments in equities are sensitive to market fluctuations. To properly manage the Plan's other price risk, appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks are set and monitored. A decline of 10 percent in equity values, with all other variables held constant, will impact the Plan's equity investments by an approximate loss of $483.5 million (2018 - $399.4 million).

(b) Credit risk:

The Plan is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due or requested. The Plan's greatest concentration of credit risk is in its fixed income securities. The fair value of the fixed income securities includes consideration of the creditworthiness of the debt issuer. All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal, as payment is made on a purchase once the securities have been received from the broker. For sales transactions, the securities are released once the broker has made payment.

## 10. Risk management (continued):

The breakdown of the Plan’s bond portfolio by credit rating from various rating agencies is presented below:

| Credit rating | 2019 Fair value | % | 2018 Fair value | % |
|---|---|---|---|---|
| AAA | $ 523,259,172 | 25.3 | $ 524,430,264 | 26.0 |
| AA | 440,492,949 | 21.3 | 418,591,759 | 20.8 |
| A | 238,786,599 | 11.5 | 265,610,867 | 13.2 |
| BBB | 395,898,305 | 19.1 | 333,643,691 | 16.5 |
| Not rated | 471,994,052 | 22.8 | 474,723,772 | 23.5 |
| | $ 2,070,431,077 | 100.0 | $ 2,017,000,353 | 100.0 |

Credit risk associated with contributions and other receivables is minimized due to their nature. The majority of the receivable balances are due from member facilities and are collected from participating members through the payroll process. The carrying amounts of fixed income investments and contributions and other receivables represent the maximum credit exposure to the Plan.

(c) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Of the Plan’s investments, approximately 84 percent (2018 - 83 percent) are in liquid securities traded in public markets. These include all U.S. and international equities and the majority of Canadian equities, which are approximately 58 percent (2018 - 55 percent) of the Plan’s assets and are all exchange traded, and bonds. Although market events could lead to some investments becoming illiquid, management believes the diversity of the Plan’s portfolio and current contribution levels will ensure that liquidity is available for benefit payments. The Plan’s financial statement liabilities have contracted maturities of less than one year. The Plan also maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2019, the Plan had cash in the amount of $174.7 million (2018 - $172.0 million).

## 10. Risk management (continued):

The Plan's fixed income securities are diversified at December 31 as follows:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Fair value | Average coupon rate | Fair value | Average coupon rate |
| Corporate | $ 1,210,802,408 | 4.81% | $ 1,206,140,602 | 3.33% |
| Federal | 430,221,270 | 2.51% | 432,034,510 | 2.47% |
| Provincial and municipal | 429,407,399 | 3.81% | 378,825,241 | 4.03% |
| Mortgages | 26,078,502 | | 25,033,981 | |
| | $ 2,096,509,579 | | $ 2,042,034,334 | |

## 11. Fair value of financial instruments:

The determination of the fair value of investments is as described in note 3(c) with fair values of investments disclosed in note 4. The fair values of other financial assets and liabilities, being cash, investment income receivable, contributions receivable, other receivables, due from brokers, accounts payable and accrued liabilities, government remittances payable and due to brokers, approximate their carrying values due to the short-term nature of these financial instruments.

The Plan's assets which are recorded at fair value are required to be classified into one of three levels, depending on the inputs used for valuation. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

## 11. Fair value of financial instruments (continued):

The following is a summary of the inputs used as of December 31, 2019 and 2018 in valuing the Plan's investments:

| **2019** | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Cash | $ 174,671,037 | $ – | $ – | $ 174,671,037 |
| Bonds | – | 1,990,411,406 | 80,019,671 | 2,070,431,077 |
| International equities | 1,770,006,823 | 133,230,993 | – | 1,903,237,816 |
| U.S. equities | 1,622,565,691 | 3,579,157 | – | 1,626,144,848 |
| Canadian equities | 1,269,785,922 | 35,862,555 | 108,598 | 1,305,757,075 |
| Real estate | – | – | 985,315,627 | 985,315,627 |
| Infrastructure | – | – | 358,238,811 | 358,238,811 |
| Short-term investments | – | 52,147,605 | – | 52,147,605 |
| Mortgages | – | 26,078,502 | – | 26,078,502 |
| | $ 4,837,029,473 | $ 2,241,310,218 | $ 1,423,682,707 | $ 8,502,022,398 |

| **2018** | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Cash | $ 172,032,076 | $ – | $ – | $ 172,032,076 |
| Bonds | – | 1,923,572,001 | 93,428,352 | 2,017,000,353 |
| International equities | 1,422,448,745 | 102,362,290 | – | 1,524,811,035 |
| U.S. equities | 1,405,303,993 | 4,874,016 | – | 1,410,178,009 |
| Canadian equities | 1,031,794,550 | 26,821,363 | 222,664 | 1,058,838,577 |
| Real estate | – | – | 907,781,487 | 907,781,487 |
| Infrastructure | – | – | 277,680,261 | 277,680,261 |
| Short-term investments | – | 34,488,425 | – | 34,488,425 |
| Mortgages | – | 25,033,981 | – | 25,033,981 |
| | $ 4,031,579,364 | $ 2,117,152,076 | $ 1,279,112,764 | $ 7,427,844,204 |

For the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and Level 2.

## 11. Fair value of financial instruments (continued):

The reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

| | Bonds | Canadian equities | Real estate | Infrastructure | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2017 | $ 52,382,580 | $ 3,418,374 | $ 802,089,137 | $ 172,219,061 | $ 1,030,109,152 |
| Purchases | 119,096,290 | – | 178,433,092 | 85,087,781 | 382,617,163 |
| Sales | (80,112,829) | (3,896,493) | (132,759,260) | (11,093,605) | (227,862,187) |
| Realized gains (losses) | 384,246 | (13,302) | 41,474,082 | (5,511,932) | 36,333,094 |
| Current period change in fair value of investments | 1,678,065 | 714,085 | 18,544,436 | 36,978,956 | 57,915,542 |
| Balance, December 31, 2018 | $ 93,428,352 | $ 222,664 | $ 907,781,487 | $ 277,680,261 | $ 1,279,112,764 |
| Purchases | 69,081,053 | – | 120,445,467 | 85,589,897 | 275,116,417 |
| Sales | (76,259,131) | (105,497) | (95,532,677) | (25,664,384) | (197,561,689) |
| Realized gains (losses) | 376,740 | (747) | 18,778,087 | 3,405,487 | 22,559,567 |
| Current period change in fair value of investments | (6,607,343) | (7,822) | 33,843,263 | 17,227,550 | 44,455,648 |
| Balance, December 31, 2019 | $ 80,019,671 | $ 108,598 | $ 985,315,627 | $ 358,238,811 | $ 1,423,682,707 |

The Plan did not use or consider alternative assumptions for valuation of Level 3 investments as those are valued independently by investment managers or third party providers.

Section 3.29 of the *Manitoba Pension Benefits Act Regulation* requires disclosure of each investment asset that has a fair value greater than one percent of the fair value of the investment assets of the Plan. As of December 31, 2019, the Plan held the following investments that met this criteria:

| | | |
|---|---|---|
| Equities: | | |
| Causeway Emerging Markets Fund | $ | 133,230,994 |
| Real estate: | | |
| Brookfield Strategic Real Estate Partners II-A L.P. | | 96,594,908 |
| Infrastructure: | | |
| Macquarie European Infrastructure Fund 5 L.P. | | 85,128,765 |

## 12. Role of the actuary and auditor:

The actuary has been appointed pursuant to the Plan Text and the Trust Agreement. With respect to the preparation of financial statements, the actuary has been engaged to carry out a valuation of the Plan’s assets and liabilities, which consists of a provision for future obligations of the Plan to the members. The valuation is made in accordance with accepted actuarial practice, applicable legislation and any direction received from regulatory authorities, and reported thereon to the Board of Trustees. In performing the valuation of the liabilities, which are by their nature inherently variable, assumptions are made as to the investment rate of return, inflation rates and salary escalation in the future, taking into consideration the circumstances of the healthcare employees and the nature of the liabilities. The actuary, in their review of the management information provided by the Plan used in the valuation, also makes use of the work of the external auditors. The Actuary’s Report outlines the scope of their work and opinion.

The external auditors have been appointed by the Board of Trustees to conduct an independent and objective audit of the financial statements of the Plan in accordance with generally accepted auditing standards and report thereon to the Board of Trustees. In carrying out their audit, the auditors also make use of the work of the actuary and their report on the Plan’s liabilities. The Auditors’ Report outlines the scope of their audit and their opinion.

## 13. Related parties:

The Plan and the Healthcare Employees’ Benefits Plan - Manitoba (HEBP) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. Other receivables include an amount of $771,892 (2018 - $1,151,652) due from HEBP. The balance due from HEBP is non-interest bearing, and has no fixed terms of repayment.

The Plan and the Healthcare Employees’ Pension Plan - Manitoba, Cost of Living Adjustment Plan (COLA) have a certain number of common trustees and a cost sharing agreement to allocate certain costs based on factors such as square footage, number of employees and time usage. During the year, the Plan also collected contributions from active plan members and employers on behalf of COLA. Accounts payable and accrued liabilities include a net amount of $1,377,346 due to COLA at December 31, 2019 (2018 - $2,058,768). This includes a balance of $1,694,745 (2018 - $2,378,513) payable related to contributions collected, net of a balance of $317,399 (2018 - $319,745) receivable related to costs incurred. The balance due to COLA is non-interest bearing and has no fixed terms of repayment.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**14. Pension obligations:**

As at December 31, 2019, the date of the most recent actuarial valuation, the actuarial value of pension obligations was $7,561,171,000 (2018 - $7,278,061,000). Since there is no intention of extinguishing the pension obligations in the near term, the obligations are calculated by using the going concern actuarial basis. The projected unit credit actuarial cost method was used by AON Hewitt, the actuary, to determine the actuarial value of pension obligations and the required current service contributions.

Four significant long-term actuarial assumptions used in the valuation were:

(a) the liability discount rate was assumed to be 6.15 percent (2018 - 6.15 percent);

(b) the asset rate of return was assumed to be 6.15 percent (2018 - 6.15 percent);

(c) inflation rate was assumed to be 2.25 percent (2018 - 2.25 percent); and

(d) the salary escalation rate was assumed to be 3.50 percent (2018 - 3.50 percent) plus merit and promotion.

The assumptions used in determining the actuarial value of pension obligations are going concern assumptions adopted by the Trustees and were developed by reference to expected long-term market conditions. As underlying conditions change over time, going concern assumptions adopted by the Trustees may also change, which could cause a material change in the actuarial value of pension obligations.

The actuarial valuation is prepared for financial statement purposes in accordance with the recommendations of Canadian accounting standards for pension plans and ASPE using a discount rate equivalent to the current yield on high-quality long term corporate bond and other assumptions that represent management's best estimate of future events.

The actuarial valuation as at December 31, 2019 indicates a surplus of actuarial value of net assets over actuarial value of pension obligations of $703,997,000 (2018 - $528,628,000). The going concern surplus is calculated utilizing the actuarial value of assets which resulted in a reduction of $286,916,000 (2018 - increase of $350,584,000) from the net assets available for benefits as disclosed in the statement of financial position. The actuarial valuation at December 31, 2019 also indicated that there was a solvency deficiency of $2,471,749,000 (2018 - $2,359,448,000). In November of 2010 the Plan received confirmation of solvency exemption from the Manitoba Pension Commission. Based on this exemption, the Plan is not required to fund on a solvency basis, but must still undertake a solvency valuation and disclose the current deficit, if any. The Plan is still required to apply the going concern test and fund on a going concern basis.

**14. Pension obligations (continued):**

The actuarial valuation is filed with the Office of the Superintendent of Pensions for assessment as to whether the Plan is appropriately funded over time. An actuarial valuation must be performed at least once every three years in accordance with the requirements of *The Pension Benefits Act*. The next actuarial valuation of the Plan will be completed as at December 31, 2020.

**15. Commitments:**

(a) As part of the Plan's investment in infrastructure and real estate investment vehicles, the Plan has committed to invest an additional $319,794,000 (2018 - $459,478,000) in infrastructure investments over the remaining terms of their investment agreements.

(b) The Plan leases office space under an operating lease with an expiry date of October 31, 2028. The Plan's allocation of annual lease payments to expiry is as follows:

| | |
|---|---|
| 2020 | $ 573,000 |
| 2021 | 566,000 |
| 2022 | 536,000 |
| 2023 | 536,000 |
| 2024 | 540,000 |
| Thereafter | 2,070,000 |
| | $ 4,821,000 |

**16. Subsequent event:**

Subsequent to December 31, 2019 the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Plan is not known at this time. These impacts could include decline in fair value of investments, change in the pension obligations, termination benefits or decreases in investment income.