WINNIPEG POLICE PENSION PLAN FINANCIALS

DECEMBER 31, 2020

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INDEPENDENT AUDITOR'S REPORT

To the Chairperson and Members of The Winnipeg Police Pension Board, and The City of Winnipeg

Opinion
We have audited the accompanying financial statements of the *Winnipeg Police Pension Plan* (*"the Plan")*, which comprise the statements of financial position as at December 31, 2020 and their statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus for the year then ended, and a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the statements of financial position as at December 31, 2020, and their statements of changes in net assets available for benefits, changes in its pension obligations and changes in surplus for the year then ended in accordance with Canadian accounting standards for pension plans ("ASPP").

Basis of Opinion
We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our 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 that 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 ASPP, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is 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.

Auditor's Responsibilities for the Audit of the Financial Statement
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 auditor's reports 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 GAAS 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 these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

I. 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 from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
II. 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.
III. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
IV. 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 auditor's 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 auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
V. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

Deloitte LLP

Chartered Professional Accountants
Winnipeg Manitoba
June 18, 2021

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF FINANCIAL POSITION

As at December 31
(in $ thousands)

	2020	2019
ASSETS		
Investments, at fair value		
Bonds, debentures and mortgages	$ **294,750**	$ 282,469
Canadian equities	**327,344**	321,202
Foreign equities	**600,424**	521,475
Cash and short-term deposits	**65,156**	28,786
Private equities	**5,669**	11,198
Real estate	**180,771**	199,669
Infrastructure	**177,462**	173,233
Private debt	**215,672**	188,715
	1,867,248	1,726,747
Participants' contributions receivable	**2**	13
Employers' contributions receivable	**6**	19
Accounts receivable	**100**	1,125
Due from The Winnipeg Civic Employees' Pension Plan	**355**	10
Total Assets	**1,867,711**	1,727,914
LIABILITIES		
Accounts payable	**1,350**	2,948
Total Liabilities	**1,350**	2,948
NET ASSETS AVAILABLE FOR BENEFITS	**1,866,361**	1,724,966
PENSION OBLIGATIONS	**1,695,705**	1,577,120
SURPLUS	$ **170,656**	$ 147,846
SURPLUS COMPRISED OF:		
Main Account - General Component	$ **111,577**	$ 71,169
Main Account - Contribution Stabilization Reserve	**42,126**	60,797
Plan Members' Account	**16,953**	15,532
City Account	**-**	348
	$ **170,656**	$ 147,846

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31
(in $ thousands)

	2020	2019
INCREASE IN ASSETS		
Contributions		
The City of Winnipeg	**$ 30,575**	$ 29,863
Employees	**13,515**	13,200
Reciprocal transfers from other plans	**2,262**	677
	46,352	43,740
Investment income (Note 5)	**49,365**	51,883
Current period change in fair value of investments	**116,009**	165,776
Total increase in assets	**211,726**	261,399
DECREASE IN ASSETS		
Pension payments	**57,651**	54,214
Lump sum benefits (Note 7)	**3,060**	987
Administrative expenses (Note 8)	**1,340**	1,335
Investment management and custodial fees	**8,280**	7,386
Total decrease in assets	**70,331**	63,922
Increase in net assets	**141,395**	197,477
Net assets available for benefits at beginning of year	**1,724,966**	1,527,489
Net assets available for benefits at end of year	**$ 1,866,361**	$ 1,724,966

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

For the year ended December 31
(in $ thousands)

	2020	2019
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	**$ 1,577,120**	$ 1,440,411
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued pension benefits	**77,325**	75,847
Benefits accrued	**52,798**	46,813
Changes in actuarial assumptions	**44,729**	83,330
Experience gains and losses and other factors	**5,851**	-
Total increase in accrued pension benefits	**180,703**	205,990
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	**60,711**	55,201
Experience gains and losses and other factors	**-**	12,779
Administration expenses	**1,407**	1,301
Total decrease in accrued pension benefits	**62,118**	69,281
NET INCREASE IN ACCRUED PENSION BENEFITS FOR THE YEAR	**118,585**	136,709
ACCRUED PENSION BENEFITS, END OF YEAR	**$ 1,695,705**	$ 1,577,120

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN SURPLUS

For the year ended December 31
(in $ thousands)

	2020	2019
SURPLUS, BEGINNING OF YEAR	**$ 147,846**	$ 87,078
Increase in net assets available for benefits for the year	**141,395**	197,477
Increase in accrued pension benefits for the year	**(118,585)**	(136,709)
SURPLUS, END OF YEAR	**$ 170,656**	$ 147,846

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 1

SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT

For the year ended December 31,
(in $ thousands)

	2020				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	**Total**
INCREASE IN ASSETS					
Contributions					
The City of Winnipeg	$ 30,575	$ -	$ -	$ -	**$ 30,575**
Employees	13,515	-	-	-	**13,515**
Reciprocal transfers from other plans	2,262	-	-	-	**2,262**
	46,352	-	-	-	**46,352**
Investment income (Note 5)	47,809	1,109	447	-	**49,365**
Current period change in fair value of investments	112,352	2,608	1,049	-	**116,009**
Transfer to Contribution Stabilization Reserve -					
Resolution of funding deficiency (Note 3)	22,202	(22,202)	-	-	**-**
Transfer to City Account -					
Resolution of funding deficiency (Note 3)	348	-	-	(348)	**-**
Total increase in assets	229,063	(18,485)	1,496	(348)	**211,726**
DECREASE IN ASSETS					
Pension payments	57,651	-	-	-	**57,651**
Lump sum benefits (Note 7)	3,060	-	-	-	**3,060**
Administrative expenses (Note 8)	1,340	-	-	-	**1,340**
Investment management and custodial fees	8,019	186	75	-	**8,280**
Total decrease in assets	70,070	186	75	-	**70,331**
Increase (decrease) in net assets	158,993	(18,671)	1,421	(348)	**141,395**
Net assets available for benefits at beginning of year	1,648,289	60,797	15,532	348	**1,724,966**
Net assets available for benefits at end of year	$ 1,807,282	$ 42,126	$ 16,953	$ -	**$ 1,866,361**

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 2

SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT

For the year ended December 31,
(in $ thousands)

	2019				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	Total
INCREASE IN ASSETS					
Contributions					
The City of Winnipeg	$ 29,863	$ -	$ -	$ -	$ 29,863
Employees	13,200	-	-	-	13,200
Reciprocal transfers from other plans	677	-	-	-	677
	43,740	-	-	-	43,740
Investment income (Note 5)	49,585	1,822	466	10	51,883
Current period change in fair value of investments	158,434	5,821	1,487	34	165,776
Transfer from Contribution Stabilization Reserve - Resolution of funding surplus (Note 3)	(9,136)	9,136	-	-	-
Transfer from City Account - Resolution of funding surplus (Note 3)	(31)	-	-	31	-
Total increase in assets	242,592	16,779	1,953	75	261,399
DECREASE IN ASSETS					
Pension payments	54,214	-	-	-	54,214
Lump sum benefits (Note 7)	987	-	-	-	987
Administrative expenses (Note 8)	1,335	-	-	-	1,335
Investment management and custodial fees	7,059	259	67	1	7,386
Total decrease in assets	63,595	259	67	1	63,922
Increase in net assets	178,997	16,520	1,886	74	197,477
Net assets available for benefits at beginning of year	1,469,292	44,277	13,646	274	1,527,489
Net assets available for benefits at end of year	$ 1,648,289	$ 60,797	$ 15,532	$ 348	$ 1,724,966

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 3

SCHEDULE OF CHANGES IN SURPLUS BY ACCOUNT
For the year ended December 31,
(in $ thousands)

	2020				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	**Total**
SURPLUS, BEGINNING OF YEAR	$ 71,169	$ 60,797	$ 15,532	$ 348	**$ 147,846**
Increase (decrease) in net assets available for benefits for the year	158,993	(18,671)	1,421	(348)	**141,395**
Net increase in accrued pension benefits for the year	(118,585)	-	-	-	**(118,585)**
SURPLUS, END OF YEAR	$ 111,577	$ 42,126	$ 16,953	$ -	**$ 170,656**

For the year ended December 31,
(in $ thousands)

	2019				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	Total
SURPLUS, BEGINNING OF YEAR	$ 28,881	$ 44,277	$ 13,646	$ 274	$ 87,078
Increase in net assets available for benefits for the year	178,997	16,520	1,886	74	197,477
Net increase in accrued pension benefits for the year	(136,709)	-	-	-	(136,709)
SURPLUS, END OF YEAR	$ 71,169	$ 60,797	$ 15,532	$ 348	$ 147,846

See accompanying notes to the financial statements

1. *Description of Plan*

a) General

The *Plan* is a defined benefit pension plan, which provides pension benefits for City of Winnipeg police officers. All police officers are required to become members of the *Plan* at the commencement of their employment.

b) Administration

The *Plan* is administered by the *Winnipeg Police Pension Board* which is comprised of two voting members appointed by the Winnipeg Police Association, appointed on behalf of Police Officers who are Active Members; one voting member appointed by the Winnipeg Police Senior Officers' Association, appointed on behalf of the senior police officers who are Active Members; one voting member elected by the Non-Active Members and other beneficiaries under the *Plan*; and five voting members appointed by the City.

The *Board* also consists of a maximum of four non-voting members, one of whom may be appointed by each of the Winnipeg Police Association, the Winnipeg Police Senior Officers' Association, and the City of Winnipeg, respectively, and one of whom may be elected by the Non-Active Members or, if no election is held, appointed by the Non-Active Member Representative on behalf of the Non-Active Members.

The *Plan* is registered under *The Pension Benefits Act* of Manitoba. The *Plan* is a registered pension plan under the *Income Tax Act*, and is not subject to income taxes.

c) Financial structure

The *Winnipeg Police Pension Plan* is comprised of three Accounts, namely the Main Account (which has two components being the General Component and the Contribution Stabilization Reserve), the Plan Members' Account and the City Account.

i) Main Account – General Component

All benefits of the *Pension Plan* are paid from the Main Account - General Component.

Employees contribute 8% of earnings to the Main Account. If the Contribution Stabilization Reserve is sufficient to provide a transfer to fund the difference between the current service cost of benefits accrued during the year and matching employee and City contributions and to the extent provincial funding regulations permit such a transfer, then the City matches the employee contributions during the year.

If the Contribution Stabilization Reserve is insufficient to provide the above transfer or if provincial funding regulations restrict such a transfer, then the City contributes the balance of the current service cost of benefits accrued during the year, including 2% of earnings for post-retirement cost-of-living adjustments, in excess of the employees' contributions.

ii) Main Account – Contribution Stabilization Reserve

The Contribution Stabilization Reserve is credited with a portion of actuarial surpluses. The Contribution Stabilization Reserve finances, through transfers to the Main Account – General Component, the portion of the current service cost of benefits that exceeds the employees' and City's contributions.

1. Description of Plan (continued)

c) Financial structure (continued)

ii) Main Account – Contribution Stabilization Reserve (continued*)*

In accordance with Provincial funding regulations, the Contribution Stabilization Reserve can be used to reduce the City's contributions only to the extent of the balance in excess of 5% of the *Plan's* solvency liabilities. The balance of the Contribution Stabilization Reserve has been below this threshold since 2012.

iii) Plan Members' Account

In order to ensure that the *Plan* members will receive a benefit equal to the benefit received by the City through the contribution holidays that it took in 2001 and 2002, the Plan Members' Account was established effective January 1, 2003 with an initial balance equal to the amount of the City's contribution holidays adjusted for investment income up to December 31, 2002.

The Plan Members' Account will be credited with any share of future actuarial surpluses that are allocated to the *Plan* members in accordance with the *Plan*.

iv) City Account

The City Account is credited with the share of future actuarial surpluses that are allocated to the City in accordance with the *Plan*.

d) Retirement pensions

The *Plan* provides for retirement at or after age 55 or following completion of 25 years of credited service. The *Plan* allows early retirement at age 50 or completion of at least 20 years of credited service subject to an early retirement pension reduction. The pension formula prior to age 65 is equal to 2% of the average earnings in the 60 consecutive months in which the earnings are highest ("Best Average Earnings") for each year of credited service. The pension formula after age 65 is equal to 1.4% of Best Average Canada Pension Plan earnings plus 2% of Best Average Non-Canada Pension Plan earnings for each year of credited service. Pensions are subject to the maximum benefit limits prescribed for registered pension plans under the *Income Tax Act*.

Retirement and survivor pensions, including deferred pensions, are increased annually to provide cost-of-living adjustments at the stated level in the *Plan* text, which level is currently 52.7% (2019 – 55.4%) of the percentage change in the Consumer Price Index for Canada.

e) Disability pensions

A member, who has completed at least fifteen years of credited service, and who has become totally and permanently disabled may apply for a disability pension.

f) Survivor's benefits

The *Plan* provides survivor pensions or lump sum benefits on death prior to retirement. On death after retirement, eligible surviving spouses normally receive 66 ⅔% of the member's pension.

1. Description of Plan (continued)

g) Termination benefits

Upon application and subject to vesting and locking-in provisions, deferred pensions or equivalent lump sum benefits are payable when a member terminates employment with the City.

h) Variation in benefits

The *Plan* provides that the rate of cost-of-living adjustment to pensions may be increased using funds available in the Plan Members' Account or may be reduced in the event of a funding deficiency.

2. Summary of Significant Accounting Policies

a) Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for pension plans on a going concern basis and present the aggregate financial position of the *Plan* as a separate financial reporting entity, independent of the City and *Plan* members. They are prepared to assist *Plan* members and others in reviewing the activities of the *Plan* for the fiscal period.

These financial statements include the financial statements of the *Plan* and its wholly-owned subsidiary, 5332665 Manitoba Ltd., which was incorporated on July 14, 2006. The *Plan* accounts for its investment in its subsidiary on a non-consolidated basis and presents it at fair value. The purpose of the subsidiary corporation is to invest in and hold certain private equity investments on behalf of the *Plan*.

b) Investments and investment income

Investments are stated at fair value. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal (or most advantageous) market at the measurement date under current market conditions.

Publicly traded equity investments are valued using published market prices.

Bonds, debentures and mortgages are valued either using published market prices or by applying valuation techniques that utilize observable market inputs.

For private equity, private debt and infrastructure investments, where quoted market prices are not available, various methods of valuation are used by the external managers to determine fair value including the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Real estate investments are valued based on the most recent valuations or appraisals of the underlying properties.

Cash and short-term investments are recorded at cost, which, together with accrued interest income, approximates fair value.

Investment transactions are recognized on a trade date basis. Investment income is recorded on the accrual basis.

2. Summary of Significant Accounting Policies (continued)

b) Investments and investment income (continued)

The *Plan's* investment income, current period change in fair value of investments and investment management and custodial fees are allocated between the Accounts and Reserve based on the average balance of each Account and Reserve during the year.

c) Financial instruments other than investments

Financial instruments other than investments include accrued contributions receivable, accrued pension benefits payable and lump sum benefits payable. Financial assets other than investments and financial liabilities are recognized in the *Plan's* statement of financial position when the *Plan* becomes a party to the contractual provisions of the instrument. All financial assets and financial liabilities are initially measured at fair value.

The *Plan's* contributions receivable are measured at amortized cost, where the amortized cost equals the amount at which the receivable is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The settlement periods for the majority of items are normally in the seven to fourteen days range.

The *Plan's* financial liabilities are measured subsequently at amortized cost.

d) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the year end. Income and expenses, and the purchase and sale of investments, are translated into Canadian dollars at the exchange rates prevailing on the transaction dates.

e) Use of estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets, obligations, and surplus during the year. Actual results could differ from those estimates. Items within the financial statements which require significant estimates and judgment include the pension obligations and the fair value of investments.

3. Obligations for Pension Benefits

An actuarial valuation of the *Plan* was performed as of December 31, 2020 by Eckler Ltd. This valuation was used to determine the actuarial present value of accrued benefits disclosed in the Statement of Financial Position as at December 31, 2020. For the comparative 2019 figures, the actuarial present value of accrued benefits at December 31, 2019 is based on the December 31, 2019 actuarial valuation performed by Eckler Ltd. The economic assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long term economic and investment market conditions. Significant long term actuarial assumptions used in the valuation included a valuation interest rate of 4.75% (2019 – 4.95%) per year, inflation of 2.0% (2019 – 2.0%) per year and general increases in pay of 3.25% (2019 – 3.25%) per year.

(in $ thousands)

3. Obligations for Pension Benefits (continued)

The change in the valuation interest rate from 4.95% to 4.75% increased the obligations for pension benefits by $55,064.

The demographic assumptions, including rates of termination of employment, retirement and mortality, were chosen after detailed analysis of past experience. These assumptions were approved by the *Winnipeg Police Pension Board* for the purpose of preparing the financial statements. The actuarial present value of accrued benefits was determined using the projected benefit method pro-rated on services.

The actuarial valuation as at December 31, 2020 disclosed a $23,514 funding deficiency which is to be resolved in accordance with the *Plan*, by transferring $11,757 from the Main Account – Contribution Stabilization Reserve to the Main Account – General Component and by decreasing future cost-of-living adjustments from 52.7% to 50.0% of inflation (with a corresponding decrease in obligations for pension benefits of $11,757), effective January 1, 2021.

The actuarial valuation as at December 31, 2019 disclosed a $32,885 funding deficiency which was resolved in accordance with the *Plan*, by transferring $348 from the City Account to the Main Account – General Component, by transferring $22,202 from the Main Account – Contribution Stabilization Reserve to the Main Account – General Component and by decreasing future cost-of-living adjustments from 55.4% to 52.7% of inflation (with a corresponding decrease in obligations for pension benefits of $10,335), effective January 1, 2020.

The assets available to finance the *Plan's* accrued benefits are those allocated to the Main Account - General Component. In determining the surplus or deficiency for actuarial valuation purposes, and to be consistent with the assumptions used to determine the actuarial present value of benefits, the actuarial value of the assets of the Main Account – General Component was determined from fair values. The actuarial value placed on the assets smoothes out fluctuations in fair values by spreading the difference between expected returns and actual returns, including unrealized gains and losses, over five years.

The effect of using a smoothed value of assets for the Main Account – General Component in determining the estimated actuarial surplus or deficiency, before allocation of surplus or deficit resolution, is as follows:

	2020	2019
Surplus for financial statement reporting purposes - Main Account - General Component	**$ 111,577**	$ 71,169
Fair value changes not reflected in actuarial value of assets	**(135,091)**	(104,054)
Deficiency for actuarial valuation purposes - Main Account - General Component	**(23,514)**	(32,885)
Add: special purpose reserves and accounts		
Main Account – Contribution Stabilization Reserve	**42,126**	60,797
Plan Members' Account	**16,953**	15,532
City Account	**-**	348
Surplus for actuarial valuation purposes - including special purpose reserves and accounts	**$ 35,565**	$ 43,792

3. *Obligations for Pension Benefits (continued)*

The funding requirements relating to the Plan's solvency position under *The Pension Benefits Regulation*, are based on the last actuarial valuation for funding purposes filed with the Manitoba Pension Commission, which will be as at December 31, 2020.

The actuarial valuation as at December 31, 2020 disclosed solvency liabilities measured on a Plan termination basis of $1,858,570 and a solvency deficiency of $11,562 as at December 31, 2020.

The Pension Benefits Regulation provides that an irrevocable letter of credit may be used to secure some or all of the special payments that would otherwise be required from the City of Winnipeg. The City of Winnipeg has informed the Winnipeg Police Pension Board that it will be arranging for an irrevocable letter of credit to be held by the Winnipeg Police Pension Board in lieu of making special payments of $204,917 per month together with any applicable interest as required under the Regulation, commencing in 2021. The letter of credit is expected to be effective October 2021 and must be renewed annually thereafter until such time as the Plan no longer has a solvency deficiency or the City of Winnipeg has made all payments required under the Regulation.

4. *Management of Financial Risk*

In the normal course of business, the *Plan's* investment activities expose it to a variety of financial risks. The *Plan* seeks to minimize potential adverse effects of these risks on the *Plan's* performance by hiring professional, experienced portfolio managers, by regular monitoring of the *Plan's* position and market events, by diversifying the investment portfolio within the constraints of the investment policy and objectives, and occasionally through the use of derivatives to hedge certain risk exposures. Significant risks that are relevant to the *Plan* are discussed below.

On March 11, 2020, the World Health Organization characterized the outbreak of a strain of the novel coronavirus ("COVID-19") as a pandemic which has resulted in a series of public health and emergency measures that have been put in place to combat the spread of the virus. As of the date of the financial statements, the measures taken to contain the spread of COVID-19 remains dynamic with responses varying from cities and countries around the world. As a result of COVID-19, the global and Canadian financial markets have experienced significant volatility, changes in interest rate and fluctuations in foreign currency exchange rates. Given the extent of the pandemic, the uncertainty surrounding the economic impact of COVID-19 will remain elevated. The duration and impact of COVID-19 is unknown at this time and it is not possible to reliably estimate the impact that the length and severity of these developments will have on the financial results and condition of the *Plan* in future periods.

a) Credit risk

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the *Plan*, and is concentrated in the *Plan's* investment in bonds, debentures, mortgages and short-term deposits. At December 31, 2020, the *Plan's* credit risk exposure related to bonds, debentures, mortgages and short-term deposits totaled $359,906 (2019 - $311,255).

The *Plan's* concentration of credit risk as at December 31, 2020, related to bonds, debentures, and mortgages is categorized amongst the following types of issuers:

(in $ thousands)

4. Management of Financial Risk (continued)

a) Credit risk (continued)

Type of Issuer		2020 Fair Value		2019 Fair Value
Government of Canada and Government of Canada guaranteed	**$**	**47,127**	$	67,277
Provincial and Provincial guaranteed		**71,725**		108,653
Canadian cities and municipalities		**3,594**		2,600
Corporations and other institutions		**64,945**		103,939
Commercial mortgages		**107,359**		-
	$	**294,750**	$	282,469

The *Plan's* investments include short-term deposits with the City of Winnipeg which have a fair value of $3,908 at December 31, 2020 (2019 – $14,358).

The *Plan* limits credit risk by investing in bonds and debentures of investees that are considered to be high quality credits and by utilizing an internal Investment Policy Guideline monitoring process.

As at December 31, 2020 bonds and debentures analyzed by credit rating are as follows:

	2020		2019	
Credit Rating	**Percent of Total Bonds**	**Percent of Net Assets**	Percent of Total Bonds	Percent of Net Assets
AAA	**31.2**	**3.2**	26.5	4.4
AA	**38.6**	**3.9**	35.4	5.8
A	**17.6**	**1.8**	23.3	3.8
BBB	**12.6**	**1.2**	14.8	2.4
	100.0	**10.1**	100.0	16.4

At December 31, 2020, the *Plan's* credit risk exposure related to mortgages totaled $107,359 (2019 – $Nil) and the interest rates of the loans within the mortgage portfolios range from 2.9% to 9.5%. At December 31, 2020, the *Plan's* credit risk exposure related to private debt totaled $215,672 (2019 – $188,715). The *Plan's* external managers for the mortgage and private debt portfolios limit credit risk through diversification, performing internal credit analysis and enforcing loan covenants.

The *Plan* participates in a securities lending program, managed by the *Plan's* custodian, wherein securities are loaned to counterparties in exchange for lending fees. In this regard, the *Plan's* exposure to credit risk relates to the potential for a counterparty to not return a security and the related collateral held is insufficient to replace the security in the open market. The Manager has a responsibility to monitor the credit worthiness of counterparties and to regularly monitor and maintain collateral greater than the value of the loans.

(in $ thousands)

4. Management of Financial Risk (continued)

b) Liquidity risk

Liquidity risk is the risk that the *Plan* will encounter difficulty in meeting obligations associated with financial liabilities. The *Plan* ensures it retains sufficient cash and short-term investment positions to meet its cash flow commitments, including the ability to fund the pensioner payroll costs and to fund investment commitments. The *Plan* primarily invests in securities that are traded in active markets and can be readily disposed. The *Plan* may invest in private equity, which is not traded in an organized market and may be illiquid, but only up to a maximum of 2.5% of the *Plan's* assets, as stipulated in the *Plan's* Statement of Investment Policies and Procedures. The *Plan* may also invest in private debt, real estate and infrastructure, which are not traded in organized markets and may be illiquid, but only up to a maximum of 12.5% of the *Plan's* assets for each asset class, as stipulated in the *Plan's* Statement of Investment Policies and Procedures.

c) Interest rate risk

Interest rate risk is the risk that the fair value of the *Plan's* interest-bearing investments will fluctuate due to changes in market interest rates. The *Plan's* exposure to interest rate risk is concentrated in its investment in bonds, debentures, mortgages and short-term investments.

The *Plan's* actuarial liabilities are also exposed to fluctuations in long term interest rates as well as expectations of inflation and salary escalation. The *Plan's* primary exposure is to a decline in the long-term real rate of return which may result in higher contribution rates or lower benefit levels.

The *Plan* has approximately 19.3% (2019 – 18.0%) of its assets invested in bonds, debentures, mortgages and short-term investments as at December 31, 2020. The returns on bonds, debentures and mortgages are particularly sensitive to changes in nominal interest rates.

The term to maturity and related fair values of investments in bonds, debentures and mortgages held by the *Plan* at December 31, 2020 are as follows:

Term to Maturity	2020 Fair Value	2019 Fair Value
Less than one year	**$ 24,721**	$ 3,786
One to five years	**114,671**	113,686
Greater than five years	**155,358**	164,997
	$ 294,750	$ 282,469

As at December 31, 2020, had prevailing interest rates raised or lowered by 0.5% (2019 – 0.5%) assuming a parallel shift in the yield curve, with all other variables held constant, the fair value of investments in bonds and debentures would have decreased or increased, respectively, by approximately $10,822 (2019 – $10,912), approximately 0.6% of total net assets (2019 – 0.6%). The *Plan's* sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio. In practice, the actual results may differ and the difference could be material.

The *Plan* also has exposure to interest rate risk from its private debt investments. The *Plan's* external investment managers mitigate interest rate risk by making loans that are primarily floating rate instruments.

(in $ thousands)

4. Management of Financial Risk (continued)

d) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency exposure arises from the *Plan's* holdings of foreign equity, private equity, private debt and infrastructure investments. The *Plan's* investment managers may, from time to time, hedge some of this exposure using forward contracts. The following table indicates the *Plan's* net foreign currency exposure after giving effect to the net related economic hedge as at December 31, 2020. The table also illustrates the potential impact to the *Plan’s* net assets, all other variables held constant, as a result of a 10% change in these currencies relative to the Canadian dollar. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

	2020				2019	
	Gross Exposure	Net Foreign Currency Hedge	Net Exposure	Impact on Net Assets	Net Exposure	Impact on Net Assets
United States	**$ 682,579**	**$ 18,674**	**$ 663,905**	**$ 66,391**	$ 596,295	$59,629
Euro countries	**132,940**	**14,469**	**118,471**	**11,847**	103,617	10,362
United Kingdom	**49,047**	**11,912**	**37,135**	**3,714**	40,729	4,073
Japan	**34,843**	**-**	**34,843**	**3,484**	29,135	2,914
Hong Kong	**29,665**	**-**	**29,665**	**2,966**	21,101	2,110
Australia	**15,619**	**8,148**	**7,471**	**747**	10,824	1,082
Switzerland	**14,191**	**-**	**14,191**	**1,419**	13,282	1,328
Sweden	**12,950**	**-**	**12,950**	**1,295**	9,265	927
Other	**26,827**	**-**	**26,827**	**2,683**	19,664	1,966
	$ 998,661	**$ 53,203**	**$ 945,458**	**$ 94,546**	$ 843,912	$84,391

e) Other price risk

Other price risk is the risk that the value of investments will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk) whether those changes are caused by factors specific to an individual asset or its issuer, or factors affecting all securities traded in the market. All securities present a risk of loss of capital. The *Plan's* policy is to invest in a diversified portfolio of investments. As well, the *Plan’s* Managers moderate this risk through careful selection of securities and other financial instruments within the parameters of the investment policy and strategy. The maximum risk resulting from financial instruments is equivalent to their fair value.

For this *Plan*, the most significant exposure to other price risk is from its investment in equity securities. As at December 31, 2020, had the prices on the respective stock exchanges for these securities increased or decreased by 15%, with all other variables held constant, net assets would have increased or decreased by approximately $139,165 (2019 – $126,402), approximately 7.5% of total net assets (2019 – 7.3%). In practice, the actual results may differ and the difference could be material.

The *Plan* also has exposure to valuation risk through its holdings of private equity, private debt and real estate investments, for which quoted market prices are not available. As at December 31, 2020, the estimated fair value of private equity investments is $5,669 (2019 – $11,198), approximately 0.3% of total net assets (2019 – 0.7%), and the related change in fair value of investments recognized for the year ended December 31, 2020 is $203 (2019 – $1,686).

4. Management of Financial Risk (continued)

e) Other price risk (continued)

As at December 31, 2020, the estimated fair value of private debt investments is $215,672 (2019 – $188,715), approximately 11.6% of total net assets (2019 – 10.9%), and the related change in fair value of investments recognized for the year ended December 31, 2020 is ($5,313) (2019 – ($6,745)). As at December 31, 2020, the estimated fair value of real estate investments is $180,771 (2019 – $199,699), approximately 9.7% of total net assets (2019 – 11.6%), and the related change in fair value of investments recognized for the year ended December 31, 2020 is ($2,275) (2019 – $9,753).

The *Plan* also has exposure to valuation risk through its holdings of infrastructure investments, for which quoted market prices are not available.

In 2013, the *Plan* became a client of OMERS Investment Management, and to date has made payments of $44,255 in a Contractual Return Arrangement. The Contractual Return Arrangement provides the *Plan* with the annual rate of return (which may be positive or negative) based on the total investment return reported in the OMERS Annual Report for the assets and related liabilities allocable to the OMERS Primary Pension Plan fund that are directly or indirectly owned by OMERS Administration Corporation ("OAC") and managed by Borealis Infrastructure (the "Borealis Assets"). Under this arrangement the *Plan* is the sole limited partner in an Ontario limited partnership (OIM B4 2013 L.P.), and it has entered into a derivative contract with that limited partnership, which provides the return described above each year on the outstanding value of the contract. The arrangement provides for annual cash distributions to the *Plan* to the extent that cash distributions are received by OAC in respect of the operations of any investment forming part of the Borealis Assets. In addition, further cash distributions may be made under the arrangement, to the extent that cash distributions are received by OAC and distributed to the partnership in respect of the full or partial disposition of any investment forming part of the Borealis Assets.

As at December 31, 2020, the estimated fair value of the infrastructure investments is $177,462 (2019 – $173,233), approximately 9.5% of total net assets (2019 – 10.0%), and the related change in fair value of investments recognized for the year ended December 31, 2020 is $3,652 (2019 – $5,903).

f) Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and, Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following tables present the investment assets recorded at fair value in the Statement of Financial Position as at December 31, 2020 and December 31, 2019, classified using the fair value hierarchy described above:

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
Notes to the Financial Statements
For the year ended December 31, 2020
(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	2020 Total Investment Assets at Fair Value
Bonds, debentures and mortgages	**$ -**	**$ 294,750**	**$ -**	**$ 294,750**
Canadian equities	**327,344**	**-**	**-**	**327,344**
Foreign equities	**600,424**	**-**	**-**	**600,424**
Cash and short-term deposits	**65,156**	**-**	**-**	**65,156**
Private equities	**-**	**-**	**5,669**	**5,669**
Real estate	**-**	**-**	**180,771**	**180,771**
Infrastructure	**-**	**-**	**177,462**	**177,462**
Private debt	**-**	**-**	**215,672**	**215,672**
	$ 992,924	**$ 294,750**	**$ 579,574**	**$ 1,867,248**

	Level 1	Level 2	Level 3	2019 Total Investment Assets at Fair Value
Bonds and debentures	$ -	$ 282,469	$ -	$ 282,469
Canadian equities	321,202	-	-	321,202
Foreign equities	521,475	-	-	521,475
Cash and short-term deposits	26,485	2,301	-	28,786
Private equities	-	-	11,198	11,198
Real estate	-	-	199,669	199,669
Infrastructure	-	-	173,233	173,233
Private debt	-	-	188,715	188,715
	$ 869,162	$ 284,770	$ 572,815	$ 1,726,747

During the year, there has been no significant transfer of amounts between Level 1 and Level 2.

The following table reconciles the fair value of financial instruments classified in Level 3 from the beginning balance to the ending balance:

	2020	2019
Private Equities		
Fair value, beginning of year	**$ 11,198**	$ 11,599
Gains recognized in increase in net assets	**203**	1,686
Purchases	**52**	46
Sales/distributions	**(784)**	(2,133)
Return of Capital from subsidiary, accounted for on equity basis	**(5,000)**	-
	$ 5,669	$ 11,198

(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

Real Estate	2020	2019
Fair value, beginning of year	**$ 199,669**	$ 120,978
(Losses) gains recognized in increase in net assets	**(2,275)**	9,753
Purchases	**-**	68,938
Sales	**(16,623)**	-
	$ 180,771	$ 199,669

Infrastructure	2020	2019
Fair value, beginning of year	**$ 173,233**	$ 159,347
Gains recognized in increase in net assets	**3,652**	5,903
Purchases	**2,217**	8,506
Sales	**(1,640)**	(523)
	$ 177,462	$ 173,233

Private debt	2020	2019
Fair value, beginning of year	**$ 188,715**	$ 143,854
(Losses) recognized in increase in net assets	**(5,313)**	(6,745)
Purchases	**45,882**	68,808
Sales	**(13,612)**	(17,202)
	$ 215,672	$ 188,715

Section 3.29 of *The Pension Benefits Act Regulations* 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 Fund. As at December 31, 2020, the Fund held the following investments that met this classification:

	2020
Bonds, debentures and mortgages	
TD Emerald Canadian Bond Pooled Fund Trust	108,799
ACM Commercial Mortgage Fund	79,452
TD Emerald Canadian Long Government Bond Pooled Fund Trust	45,315
TD Lancaster Fixed Income Fund II	33,276
TD Greystone Mortgage Fund	27,908
Foreign equities	
State Street S&P 500 Index Common Trust Fund	129,617
Hillsdale Global Performance Equity Fund	40,864
Schiehallion Fund	22,375

(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

Real estate	
Greystone Real Estate Fund Inc.	67,934
Bentall Kennedy Prime Canadian Property Fund Ltd.	46,143
Carlyle Property Investors, L.P.	42,962
Lion Industrial Trust	23,732
Infrastructure	
OIM B4 2013 L.P.	62,934
IFM Global Infrastructure (Canada), L.P.	46,143
Axium Infrastructure NA Limited Partnership	42,962
JPMorgan Infrastructure Investments Fund	23,732
Private debt	
Northleaf Senior Private Credit-L	31,950
IFM USIDF (Offshore) B, L.P.	28,344
Northleaf Star Investor Corporation	21,366

5. Investment Income

	2020	2019
Bonds, debentures and mortgages	**$ 7,540**	$ 9,796
Canadian equities	**9,162**	10,708
Foreign equities	**6,202**	8,925
Cash, short-term deposits and other	**178**	770
Private equities	**19**	20
Real estate	**4,266**	3,130
Infrastructure	**9,018**	7,945
Private debt	**12,980**	10,589
	$ 49,365	$ 51,883
Allocated to:		
Main Account – General Component	**$ 47,809**	$ 49,585
Main Account – Contribution Stabilization Reserve	**1,109**	1,822
Plan Members' Account	**447**	466
City Account	**-**	10
	$ 49,365	$ 51,883

6. Investment Transaction Costs

During 2020, the *Pla*n incurred investment transaction costs in the form of brokerage commissions, in the amount of $528 (2019 - $497). Investment transaction costs are included in the current period change in fair value of investments.

(in $ thousands)

7. *Lump Sum Benefits*

	2020	2019
Death benefits	**$ 503**	$ 691
Payments on relationship breakdown	**1,891**	308
Termination benefits	**599**	(12)
Other	**67**	-
	$ 3,060	$ 987

8. *Administrative Expenses*

	2020	2019
The Winnipeg Civic Employees' Benefits Program	**$ 1,057**	$ 1,087
Actuarial fees	**165**	181
Audit fees	**35**	34
Legal fees	**40**	19
Consulting fees	**2**	1
Salaries and benefits – directly incurred	**28**	-
General and administrative expenses	**13**	13
	$ 1,340	$ 1,335

9. *Commitments*

The *Plan's* wholly-owned subsidiary, 5332665 Manitoba Ltd., has entered into an investment management agreement wherein it has authorized an investment manager to make private equity investment commitments on its behalf, with aggregate commitments not to exceed $20,000. Commitments will be funded over the next several years. As at December 31, 2020, $19,646 had been funded.