

Financial Statements of

**CANADIAN UNION OF PUBLIC
EMPLOYEES EMPLOYEES'
PENSION PLAN**

And Independent Auditors' Report thereon

Year ended December 31, 2020



KPMG LLP
150 Elgin Street, Suite 1800
Ottawa ON K2P 2P8
Canada
Tel 613-212-5764
Fax 613-212-2896

INDEPENDENT AUDITORS' REPORT

To the Joint Board of Trustees

Opinion

We have audited the financial statements of the Canadian Union of Public Employees Employees' Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of changes in net assets available for benefits for the year then ended
- the statement of 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, 2020, and the changes in net assets available for benefits and changes in the 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 have 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 represent 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, Licensed Public Accountants

Ottawa, Canada

December 1, 2021

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Statement of Financial Position

As at December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash	\$ 13,056,102	\$ 2,330,492
Accrued investment income	2,568,756	2,611,180
Members' contributions receivable	1,592,373	1,011,298
Employer contributions receivable	1,658,402	1,396,032
Investments (note 4(a), Schedule a)	850,626,359	816,506,649
Due from broker	464,366	511,517
	869,966,358	824,367,168
Liabilities		
Administration and consulting fees payable	1,063,761	1,311,362
Payable to administrative agent	552,058	523,063
	1,615,819	1,834,425
Net assets available for benefits	868,350,539	822,532,743
Pension obligations (note 6)	870,029,102	782,108,602
Surplus (Deficit)	\$ (1,678,563)	\$ 40,424,141

See accompanying notes to financial statements.

On behalf of the administrator, the Joint Board of Trustees of the Canadian Union of Public Employees Employees' Pension Plan Trust Fund, we have reviewed and are in agreement with these prepared financial statements.



Charles Fleury
Co-chair
Joint Board of Trustees



Susan Arab
Co-chair
Joint Board of Trustees

December 8, 2021

Date

December 8, 2021

Date

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Changes due to:		
Net investment income:		
Investment income (note 4(b))	\$ 21,079,705	\$ 24,032,161
Changes in fair value of investment assets:		
Net realized gain on sales of investments	23,336,439	47,187,831
Current period change in net unrealized gains	(6,505,884)	15,415,499
	<u>16,830,555</u>	<u>62,603,330</u>
	<u>37,910,260</u>	<u>86,635,491</u>
Contributions (note 8):		
Members	10,002,106	9,870,073
Employer	14,951,436	13,457,130
One-time special employer contribution (note 8)	24,263,700	-
	<u>49,217,242</u>	<u>23,327,203</u>
Transfers in	3,429,902	3,030,718
	<u>90,557,404</u>	<u>112,993,412</u>
Less changes due to:		
Benefits payments (note 9)	38,897,972	38,253,500
Administration expenses (note 10)	5,431,410	5,106,056
Transaction costs	410,226	303,150
	<u>44,739,608</u>	<u>43,662,706</u>
Increase in net assets	45,817,796	69,330,706
Net assets available for benefits, beginning of year	822,532,743	753,202,037
Net assets available for benefits, end of year	<u>\$ 868,350,539</u>	<u>\$ 822,532,743</u>

See accompanying notes to financial statements.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Statement of Changes in Pension Obligations

Year ended December 31, 2020, with comparative information for 2019

	2020	2019
Pension obligations, beginning of year	\$ 782,108,602	\$ 714,220,802
Increase in pension obligations:		
Interest on pension obligations	40,533,500	39,251,000
Benefits accrued	29,466,300	27,649,900
Transfers in	4,136,900	3,030,700
Change in provision for adverse deviation	44,618,100	19,810,500
Changes in actuarial assumptions	11,435,600	16,738,000
	<u>130,190,400</u>	<u>106,480,100</u>
Decrease in pension obligations:		
Pensions, surplus allocations and termination payments (note 9)	(38,897,972)	(38,253,500)
Net experience gains	(3,371,928)	(338,800)
	<u>(42,269,900)</u>	<u>(38,592,300)</u>
Net increase in pension obligations	87,920,500	67,887,800
Pension obligations, end of year	<u>\$ 870,029,102</u>	<u>\$ 782,108,602</u>

See accompanying notes to financial statements.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements

Year ended December 31, 2020

1. Description of plan:

The following description of the Canadian Union of Public Employees Employees' Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Document.

(a) General:

The Plan is a contributory defined benefit pension plan covering employees of the Canadian Union of Public Employees and employees of some Local Unions of the Canadian Union of Public Employees. Under the Plan, the members are required to contribute to each Plan year 9.7% of their annual pensionable earnings. The employer shall contribute an amount, which, in addition to the members contributions, is sufficient to meet the cost of benefits earned during that Plan year plus all costs of administration of the Plan as defined in the Plan Text.

The Plan is registered under the Pension Benefits Act of Ontario: registration number 0231910.

The Plan is administered by a Joint Board of Trustees.

(b) Funding policy:

The Pension Benefits Act of Ontario requires that the Canadian Union of Public Employees, being the Plan sponsor, must fund the benefits determined under the Plan. The determination of the value of these benefits is made on the basis of regular actuarial valuations, not less often than every three years.

(c) Service pensions:

A service pension is available equal to 2% of the highest average pensionable salary during any three non-overlapping continuous years, multiplied by the number of years of creditable service.

(d) Disability pension:

Disability pensions are not a benefit under the Plan. However, at retirement, a disabled employee's three year average pensionable salary is adjusted to reflect the salary increases which have taken place in the employee's job classification since the onset of disability.

(e) Death refunds:

Death refunds are equal to the greater of the commuted value of accrued benefits or two times the total contributions plus interest.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Description of plan (continued):

(f) Survivor's benefits:

A surviving spouse, who was the employee's spouse at the employee's date of retirement, receives a pension equal to 66 2/3% of the employee's pension, with full pension benefits to be made for five years from the date of the employee's retirement. If there is no such spouse, and the member dies after retirement but before receiving 120 payments, the payments will be continued to the member's beneficiary until a total of 120 payments have been made. The surviving spouse or beneficiary shall be entitled to the bridge benefit should the member die prior to attaining age 65 while in receipt of the bridge benefit and it shall cease at the time the member would have attained age 65 or to the end of the guarantee period, if earlier, in the case of a beneficiary.

(g) Bridge benefit:

Plan members actively accruing benefits under the Plan and who retire to an immediate pension are entitled to a bridge benefit payable from the date of retirement until the earlier of age 65 or death. Reference should be made to the Plan document for a complete description of the bridge benefit amount and reductions.

(h) Withdrawal refunds:

Upon application and subject to lock-in provisions, withdrawal refunds, with interest on the contributions or commuted value of the accrued benefits, are payable when a member ceases to be employed by the Canadian Union of Public Employees, or a participating Local Union of the Canadian Union of Public Employees.

(i) Income taxes:

The Plan is a Registered Pension Plan as defined in the Income Tax Act (Canada) and is not subject to income taxes.

2. Summary of significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared in accordance with Canadian accounting standards for pension plans as contained in Section 4600, *Pension Plans*, of Part IV of the CPA Canada Handbook – Accounting.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Summary of significant accounting policies (continued):

(a) Basis of presentation (continued):

Section 4600 makes reference to certain International Financial Reporting Standards (IFRS), which include guidance on fair value measurement and investment asset and liability disclosures. Section 4600 also requires that accounting policies not relating to investments or the pension obligation to comply with either accounting standards for private enterprises or IFRS on a consistent basis. The Plan has chosen to comply with Canadian accounting standards for private enterprises for its accounting policies that do not relate to its investment portfolio or its pension obligations.

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity, independent of the employer and Plan members. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the period but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

(b) Financial assets and financial liabilities:

Financial assets and financial liabilities are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

Investments are measured at fair value. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as the current period change in net unrealized gain (loss).

All non-investment financial assets and liabilities are subsequently measured at cost or amortized cost.

(c) Fair value measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, the Plan applies the guidance in IFRS 13, *Fair Value Measurement* ("IFRS 13"). As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

Fair values of investments are determined as follows:

Bonds and equities are valued at year-end quoted market prices using closing prices. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Summary of significant accounting policies (continued):

(c) Fair value measurements (continued):

Short-term notes and treasury bills maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the fund's proportionate share of underlying net assets at fair values determined using closing market prices.

Real estate equity is valued based on property appraisals obtained by the investment manager.

Derivative financial instruments, including foreign exchange forward contracts, are valued at year-end quoted market prices, where available. Where quoted market prices are not readily available, appropriate alternative valuation techniques are used which take into account current market and contractual prices of the underlying instruments as well as time value and yield curve or volatility factors underlying the positions.

(d) Investment income:

Investment income, which is reported on an accrual basis, includes interest income, dividends and distributions from pooled fund investments. Distributions from pooled fund investments include the Plan's proportionate share of interest and dividends.

(e) Net realized gain on sale of investments:

The net realized gain on sale of investments is the difference between proceeds received and the average cost of investments sold.

(f) Contributions:

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Pension buybacks are recognized in the year contributions are received by the Plan.

(g) Pension obligations:

Pension obligations are determined for accounting purposes based on actuarial valuations for funding purposes prepared by an independent firm of actuaries using the projected accrued benefit method pro-rated on service and management's long-term best estimate assumptions about future experience. The projected benefit method pro-rated on service is the valuation method required for accounting purposes and may differ from the valuation method used for funding purposes filed with the regulator.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Summary of significant accounting policies (continued):

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from these estimates. Significant management estimates include the assumptions used in calculating the obligations for pension benefits (note 6).

(i) Benefits:

Benefits include payments to retired members made during the year. Termination benefit payments and refunds and transfers to other pension plans are recorded in the period in which the member has elected for payment. Accrued benefits for active members of the Plan are recorded as part of the pension obligation.

3. Financial instruments:

The method used to determine the fair values of investments is as described in note 2(c). The fair values of all other financial assets and liabilities approximate their carrying values due to the expected short-term settlement of these financial instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

Level 1 -unadjusted quoted prices (inputs) in active markets for identical assets or liabilities;

Level 2 -inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and

Level 3 -inputs for assets and liabilities that are not based on observable market data.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Financial instruments (continued):

The following table illustrates the classification of the Plan's investments using the information fair value hierarchy as at December 31, 2020:

2020	Level 1	Level 2	Level 3	Total
Cash	\$ 6,846,228	\$ –	\$ –	\$ 6,846,228
Short-term notes and treasury bills	–	1,244,842	–	1,244,842
Money market pooled fund	4,179,834	–	–	4,179,834
Green bonds pooled fund	–	42,406,036	–	42,406,036
Canadian government bonds and debentures	–	92,360,226	–	92,360,226
Foreign government bonds and debentures	–	1,501,318	–	1,501,318
Canadian corporate bonds and debentures	–	104,651,930	–	104,651,930
Foreign corporate bonds and debentures	–	21,066,732	–	21,066,732
Canadian stocks	194,326,153	–	–	194,326,153
Canadian real estate equity	–	71,812,762	–	71,812,762
Global real estate equity	–	51,068,748	–	51,068,748
Eligible foreign stocks	258,956,092	–	–	258,956,092
Derivatives	–	205,458	–	205,458
	\$ 464,308,307	\$ 386,318,052	\$ –	\$ 850,626,359

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Financial instruments (continued):

The following table illustrates the classification of the Plan's investments using the information fair value hierarchy as at December 31, 2019:

2019	Level 1	Level 2	Level 3	Total
Cash	\$ 4,672,659	\$ –	\$ –	\$ 4,672,659
Short-term notes and treasury bills	–	25,186,337	–	25,186,337
Money market pooled fund	5,436,466	–	–	5,436,466
Canadian government bonds and debentures	–	129,030,777	–	129,030,777
Foreign government bonds and debentures	–	1,375,408	–	1,375,408
Canadian corporate bonds and debentures	–	68,872,992	–	68,872,992
Foreign corporate bonds and debentures	–	10,288,428	–	10,288,428
Canadian stocks	317,253,650	–	–	317,253,650
Canadian real estate equity	–	74,927,698	–	74,927,698
Global real estate equity	–	52,114,746	–	52,114,746
Eligible foreign stocks	127,209,909	–	–	127,209,909
Derivatives	–	137,579	–	137,579
	\$ 454,572,684	\$ 361,933,965	\$ –	\$ 816,506,649

There were no transfers of amounts between levels in 2020 or 2019.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

4. Investments:

(a) Investments:

	2020		2019	
	Market	Cost	Market	Cost
Cash	\$ 6,846,229	\$ 6,846,229	\$ 4,672,659	\$ 4,672,659
Short-term notes and treasury bills	1,244,842	1,244,714	25,186,337	25,165,095
Money market pooled fund	4,179,834	4,179,583	5,436,466	5,427,626
Canadian government bonds and debentures	92,360,226	89,647,932	129,030,777	129,400,479
Foreign government bonds and debentures	1,501,318	1,446,400	1,375,408	1,344,674
Canadian corporate bonds and debentures	104,651,930	100,123,416	68,872,992	67,954,687
Foreign corporate bonds and debentures	21,066,731	21,231,574	10,288,428	10,197,611
Green bonds pooled fund	42,406,036	42,550,608	—	—
Canadian stocks	194,326,153	164,289,284	317,253,650	240,643,016
Canadian real estate equity	71,812,762	63,078,515	74,927,698	63,078,515
Global real estate equity	51,068,748	52,243,339	52,114,746	50,238,948
Eligible foreign stocks	258,956,092	211,106,836	127,209,909	119,256,881
Derivatives	205,458	—	137,579	—
	\$ 850,626,359	\$ 757,988,430	\$ 816,506,649	\$ 717,380,191

(b) Investment income:

	2020	2019
Short-term notes and treasury bills	\$ 245,828	\$ 597,272
Canadian and foreign bonds and debentures	7,020,855	6,878,063
Canadian and eligible foreign stocks	9,053,430	12,418,560
Other income	4,759,592	4,138,266
	\$ 21,079,705	\$ 24,032,161

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

4. Investments (continued):

(c) The following table summarizes fair values of investments in fixed income securities at December 31 by the earlier of contractual repricing or maturity dates:

As of December 31, 2020						
	Within 1 year	1 to 5 years	6 - 10 years	10 - 20 years	Over 20 years	Total
Short-term notes and treasury bills	\$ 1,244,842	\$ –	\$ –	\$ –	\$ –	\$ 1,244,842
Government bonds and debentures	1,430,188	12,105,329	14,589,785	22,409,608	41,825,316	92,360,226
Foreign government bonds	–	–	1,043,600	457,718	–	1,501,318
Corporate bonds	230,667	40,031,660	51,657,735	3,631,414	9,100,454	104,651,930
Foreign corporate bonds	913,797	6,001,284	14,027,720	123,930	–	21,066,731
	\$ 3,819,494	\$ 58,138,273	\$ 81,318,840	\$ 26,622,670	\$ 50,925,770	\$ 220,825,047

As of December 31, 2019						
	Within 1 year	1 to 5 years	6 - 10 years	10 - 20 years	Over 20 years	Total
Short-term notes and treasury bills	\$ 25,186,337	\$ –	\$ –	\$ –	\$ –	\$ 25,186,337
Government bonds and debentures	28,178,785	47,795,578	15,487,633	11,354,430	26,214,351	129,030,777
Foreign government bonds	–	–	142,382	845,769	387,257	1,375,408
Corporate bonds	8,273,009	32,050,074	23,607,143	2,814,892	2,127,874	68,872,992
Foreign corporate bonds	219,560	4,698,485	4,939,809	430,574	–	10,288,428
	\$ 61,857,691	\$ 84,544,137	\$ 44,176,967	\$ 15,445,665	\$ 28,729,482	\$ 234,753,942

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Financial risk management:

The Plan is exposed to several risks as a result of holding investments. The following is a description of these risks and how they are managed.

(a) Market risk:

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. Market risk comprises three types of risk: (i) other price risk, (ii) foreign currency risk, and (iii) interest rate risk, which are discussed below.

The investment policy of the Plan takes into consideration that there will be short-term volatility of returns and addresses market risks through the following strategies:

- asset allocation among various asset classes;
- diversification across many securities within each asset class; and
- diversification of styles through the use of two investment managers with balanced mandates, one specialized fixed income investment manager and two specialized managers for real estate investments and two specialized managers for global equity investments.

(i) Other price risk:

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk and interest rate risk), whether those changes are caused by factors specific to an individual investment or its issuer or factors affecting all similar securities traded in the market. All investments present a risk of loss of capital. The maximum risk resulting from investments is equivalent to their fair value. As all of the Plan's investments are carried at fair value with fair value changes recognized in the statement of change in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets.

The most significant exposure to market price risk for the Plan arises from investments in equity securities. If equity prices on the respective stock exchanges for these securities had increased or decreased by 10% as at December 31, 2020, with all other variables held constant, the net assets of the Plan would have increased or decreased, respectively, by approximately \$45.3 million (2019 - \$44.4 million).

(ii) Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises from the fund holding investments denominated in currencies other than the Canadian dollar.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Financial risk management (continued):

(a) Market risk (continued):

(ii) *Foreign currency risk (continued):*

As at December 31, 2020, if the Canadian dollar had strengthened or weakened by 5% in relationship to all foreign currencies, with all other variables held constant, the Plan's net assets would have decreased or increased, respectively, by approximately \$2.6 million (2019 - \$2.7 million).

Included in the investments as at December 31, 2020 are United States dollar foreign exchange forward contracts which settle within a 1 year period with a total notional amount of \$21.4 million (2019 - \$11.1 million). Foreign exchange forward contracts are contractual obligations to exchange one currency for another currency at a specified price at a predetermined future date based on the notional amount specified in the contract.

Notional amounts of derivative contracts represent the contracted amount to which a rate or price is applied for computing the cash flows to be exchanged. Notional amounts are the basis upon which the returns from, and the fair value of, the contract is determined. They are not recorded as assets or liabilities in these financial statements and they do not necessarily indicate the amount of future cash flow or the current fair value of the derivative contracts. Accordingly, notional amounts do not indicate the Plan's exposure to credit or market risks.

Derivative contracts are recorded in the statement of financial position at fair value. Derivative contracts become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market rates or prices relative to their terms. Fair values of derivative contracts can fluctuate significantly.

(iii) *Interest rate risk:*

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The value of the Plan's assets is affected by short-term changes in nominal and real interest rates.

As at December 31, 2020, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the Plan's investments in nominal securities would have decreased or increased by approximately \$17.9 million (2019 - \$11.1 million).

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Financial risk management (continued):

(b) Credit risk:

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk). The maximum credit risk to which the Plan is exposed as at December 31, 2020 represents the total carrying amount of its investments and amounts receivable.

The Plan's Statement of Investment Policies and Procedures provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. The Plan, through its external investment managers, minimizes the concentration of credit risk by trading with a number of approved brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

At December 31, 2020, the investment profile of the bond portfolio was 65% (2019 - 62%) government bonds and 35% (2019 - 38%) corporate bonds. The risk of default in the bond portfolio is mitigated through holding a diversified portfolio of securities and continuous credit monitoring.

The credit risk exposure for the Plan's investment in bonds and debentures as at December 31 is as follows:

Credit rating	2020		2019	
AAA	\$ 47,434,416	22%	\$ 68,402,842	33%
AA	27,512,260	13%	27,002,015	13%
A	66,628,450	31%	73,122,002	35%
BBB	56,790,357	26%	32,058,523	15%
BB	16,102,441	7%	4,742,016	2%
B	5,112,281	1%	4,079,019	2%
CCC	—	— %	161,188	— %
Non Rated	—	— %	—	— %
Total	\$ 219,580,205	100%	\$ 209,567,605	100%

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

5. Financial risk management (continued):

(c) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they fall due. The Plan's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements in the short and longer term. The Employer is required to make contributions to the Plan in accordance with the applicable collective agreements and the actuarial valuations that are performed as required by the Ontario Pension Benefits Act. Excluding the pension obligation, the Plan's liabilities reflected in these financial statements have contractual maturities of less than 30 days.

6. Pension obligations:

An actuarial valuation for funding purposes was filed effective as of January 1, 2020 and was prepared by Eckler, a firm of consulting actuaries. The effective date of the next required actuarial valuation for funding purposes to be filed with the regulator must be no later than January 1, 2023. For accounting purposes, management obtained an updated funding actuarial valuation by Eckler as at December 31, 2020 which is not filed with the regulators.

A pension obligation of a defined benefit pension plan is the actuarial present value of accrued pension benefits determined by applying best estimate assumptions and the projected benefit method prorated on services.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. These assumptions reflect management's long-term best estimate assumptions. Significant long-term actuarial assumptions used in the valuation were:

	2020	2019
Discount rate	5.70%	5.85%
Inflation rate	2.00%	2.00%
Salary escalation rate	3.00%	3.00%
Mortality	Private Sector Canadian Pensioners' Mortality Table, without size adjustment factor, and Improvement Scale MI-2017	Private Sector Canadian Pensioners' Mortality Table, without size adjustment factor, and Improvement Scale MI-2017

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

6. Pension obligations (continued):

In 2018, the Ontario government revised the rules for the funding of single-employer defined benefit pension plans. Under the new rules, the margin has been replaced with an explicit prescribed Provision for Adverse Deviation ("PfAD") as determined based on plan specific characteristics including: whether the plan is open or closed; the asset allocation of the plan, and the difference between the discount rate used in the valuation and the benchmark discount rate. The PfAD at December 31, 2020 is \$135.2 million (2019 - \$90.6 million) which represents 18.4 % (2019 - 13.1%) of the Plan's projected liability, excluding the value of future escalated adjustments. The impact of the PfAD on the most recent funding valuation has been included in the Statement of Changes in Pension Obligation as a change in Provision for Adverse Deviation.

Under the new rules as outlined above, the Canadian accounting standards for pension plans require the PfAD to be included as part of the Pension Obligations on the Statement of Financial Position. The main components of the Pension obligations are as follows:

Pension benefits earned by plan members	\$ 734,821,901
Provision for Adverse Deviation	135,207,201
Total Pension obligations	\$ 870,029,102

7. Capital 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 Canadian Union of Public Employees ("CUPE"). 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 Joint Board of Trustees of the CUPE Employees' Pension Plan. The SIPP was last amended on September 16, 2020.

The Plan's long-term objective for the total fund is to achieve a return of at least 3.75% above increases in the Consumer Price Index (CPI).

The SIPP permits four broad categories of assets: equities, fixed income, cash equivalents, and real estate. A set of benchmarks has been identified to measure performance of each category total rate of return based on a moving four-year average. The total investments annual rate of return is measured against a composite index made up of the weighted average of each category's benchmark return using a target allocation of the SIPP to weight the various categories.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

7. Capital management (continued):

The Plan's investments were allocated within the allowed asset categories range, as of the date of the financial statements. The following table presents the asset allocation and annual rate of investment return for each asset category, and total investments, along with appropriate benchmarks.

Asset Categories	Benchmark	Asset Allocation			Annual Rate of Investment Return			
		SIP&P Target	As of December 31		Benchmark		Actual *	
			2020	2019	2020	2019	2020	2019
Cash & Equivalents	DEX 91 Days T-Bills	2%	2.27%	4.2%	0.87%	1.6%	0.58%	0.4%
Fixed Income	DEX Universe	32%	30.3%	25.6%	8.69%	6.9%	7.67%	4.8%
Canadian Equities	S&P/TSX Composite	15%	15.3%	32.5%	5.60%	22.9%	-8.80%	15.1%
Canadian Small Cap Equities	S&P/TSX Small Cap Index	6%	7.2%	6.3%	12.88%	15.8%	20.67%	18.8%
Foreign Equities	MSCI World ex. Canada (C\$)	20%	19.7%	15.6%	13.87%	21.2%	18.10%	21.1%
Foreign Equities	MSCI ACWI Index	10%	10.33%		14.23%		34.01%	
Canadian Real Estate	IPD Canada Index	9%	9%	9.6%	-4.14%	6.3%	-1.34%	7.7%
Global Real Estate	CPI + 4.5%	6%	5.9%	6.2%	5.36%	6.9%	1.52%	1.0%
Total Pension Fund		100%	100%	100%	8.21%	14.2%	4.16%	10.9%

*Net of investment management fees.

The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds in accordance with the approved SIPP combined with current market conditions. Increases in net assets are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by pension plan members and by CUPE. The employer is required under the Pension Benefits Acts (Ontario) to pay contributions, based on actuarial valuations, necessary to ensure the benefits are funded on the Plan's provisions. More details on employee and employer contributions that were paid during the year are disclosed in note 8. No contributions remain past due as at December 31, 2020.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

7. Capital management (continued):

The Settlers (CUPE and the Staff Unions) agree to monitor the funding status of the Plan and will meet to negotiate a resolution to the funding problems, including increases in employer and employee contributions and/or benefit adjustments. The main use of net assets is for benefit payments to eligible Plan members. The Plan must be funded in accordance with the Pension Benefits Act of Ontario and the Plan is required to file financial statements with the Financial Services Regulatory Authority of Ontario (FSRA). There were no changes in the way capital was managed this year.

8. Members' and employer contributions:

Pursuant to the last filed actuarial valuation for funding purposes as at January 1, 2020, the Plan had a solvency ratio of 85.2%. Under Ontario funding rules, solvency special payments are only required for plans that are less than 85% funded on a solvency basis. Under the Plan, the members are required to contribute 9.7% of their annual pensionable earnings and the employer shall pay into the Trust Fund the contributions as required to cover current and past services for a minimum of 12.2% and for any Plan year in which the Plan's going concern funded ratio (before taking into account the provision for adverse deviation) is not greater than 130%, the employer will contribute an additional 1% of members' pensionable earnings, less applicable expenses as agreed by the Settlers.

Contributions to the Plan consisted of:

	2020	2019
Employer:		
Current service	\$ 13,919,737	\$ 12,450,587
Past service payments	1,031,699	1,006,543
	<u>14,951,436</u>	<u>13,457,130</u>
Members:		
Required contributions	9,722,618	9,600,624
Past service buy backs	279,488	269,449
	<u>10,002,106</u>	<u>9,870,073</u>
Total contributions	<u>\$ 24,953,542</u>	<u>\$ 23,327,203</u>

On May 27, 2020 a one-time employer special contribution of \$24,263,700 was made to the Plan in order to bring the solvency ration of the Plan to 85% as of January 1, 2020.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

9. Benefit payments

Benefit payments for the year ended December 31, 2020 were as follows:

	2020	2019
Retirement benefit payments	\$ 37,912,875	\$ 35,944,681
Termination benefit payments	917,925	931,889
Death benefit payments	67,172	1,376,930
	<u>\$ 38,897,972</u>	<u>\$ 38,253,500</u>

10. Administration expenses:

	2020	2019
Investment management fees	\$ 3,428,463	\$ 2,988,372
Actuarial, consulting and administration fees	1,003,246	859,007
Administrative agent fees	552,058	523,063
Custodian fees	225,265	269,918
Board of Trustees	39,361	130,178
Counseling fees	68,787	113,643
Legal fees	65,309	75,513
Auditing and other professional fees	54,901	50,681
Seminars	-	44,917
Proxy and engagement fees	56,976	60,585
Performance management fees	42,488	40,981
Fiduciary insurance	27,945	27,945
Other services	13,741	13,512
Administration system fees	23,332	29,694
Net indirect tax recoveries	(170,462)	(121,953)
	<u>\$ 5,431,410</u>	<u>\$ 5,106,056</u>

The administrative agent fees represent amounts charged by the Canadian Union of Public Employees for shared administration expenses including, but not limited to, a portion of salaries, office space and furniture.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Notes to Financial Statements (continued)

Year ended December 31, 2020

11. Impact of COVID-19:

In March 2020 the COVID-19 outbreak was declared a pandemic by the World Health Organization, which has had a significant global economic and social impact. The pandemic has caused government authorities worldwide to enact emergency measures to combat the spread of the virus.

The extent of which the COVID-19 pandemic may impact the Organization's activities will depend on future developments, including the duration of the outbreak, the effectiveness and availability of vaccines, travel restrictions, and the effectiveness of actions taken in Canada and other countries to control the virus. These events are highly uncertain and as such, the ultimate financial impact of the pandemic on the Plan is unknown at this time. The Plan continues to monitor and assess the impact that the COVID-19 pandemic will have on its activities.

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Schedule A – Individual Investments with Values in Excess of 1% of Total Plan Value

Year ended December 31, 2020, with comparative information for 2019

The individual book values or market values of the following investments exceed 1% of either the book value or the market value of the plan as at December 31, 2020.

	Book Value	Market Value
Canadian government bond and debentures:		
Provincial:		
Ontario, 8 March 2023	\$ 8,006,337	\$ 8,251,840
Federal:		
Canada 4.00%, 1 June 2041	8,319,356	8,544,870
	<u>\$ 16,325,693</u>	<u>\$ 16,806,710</u>
Common and preferred stock:		
Guardian Capital	\$ 47,582,790	\$ 47,455,191
Fiera Capital.	74,011,810	84,455,715
	<u>\$ 121,594,600</u>	<u>\$ 131,910,906</u>
Green pooled fund bond:		
AlphaFixe	\$ 42,550,608	\$ 42,406,036
Canadian real estate equity:		
Bentall Kennedy Prime Cdn PRPTY LTD	\$ 63,078,715	\$ 71,812,762
Global real estate equity:		
Invesco	\$ 52,243,339	\$ 51,068,748
Global pooled fund equity:		
Fiera Capital	\$ 142,944,617	\$ 170,147,897
Baillie Gifford	68,160,117	88,808,195
	<u>\$ 211,104,734</u>	<u>\$ 258,956,092</u>

CANADIAN UNION OF PUBLIC EMPLOYEES EMPLOYEES' PENSION PLAN

Schedule A – Individual Investments with Values in Excess of 1% of Total Plan Value (continued)

Year ended December 31, 2020, with comparative information for 2019

The individual book values or market values of the following investments exceed 1% of either the book value or the market value of the plan as at December 31, 2019.

	Book Value	Market Value
Canadian government bond and debentures:		
Provincial:		
Quebec, 2 June 2020	\$ 17,530,643	\$ 17,539,955
Federal:		
Canada 4.00%, 1 June 2041	7,320,972	7,328,392
	<u>\$ 24,851,615</u>	<u>\$ 24,868,347</u>
Common and preferred stock:		
Air Canada	\$ 319,084	\$ 10,429,650
Cenovus Energy Inc.	8,109,732	6,598,020
CMHC	7,876,842	7,880,046
Husky Energy Inc.	8,896,468	4,798,264
Canadian Natural Resources Ltd.	5,131,426	8,195,460
	<u>\$ 30,333,552</u>	<u>\$ 37,901,440</u>
Canadian real estate equity:		
Bentall Kennedy Prime Cdn PRPTY LTD	\$ 63,078,515	\$ 74,927,698
Global real estate equity:		
Invesco	\$ 50,238,948	\$ 52,114,746
Global pooled fund equity:		
Fiera Capital	\$ 79,779,462	\$ 85,867,718
Baillie Gifford	39,477,419	41,342,192
	<u>\$ 119,256,881</u>	<u>\$ 127,209,910</u>