



Legislative Assembly Pension Plan

Administered by The Civil Service Superannuation Board

2019 Annual Report

For more information...

Members may request any of the following from The Civil Service Superannuation Board (Board) office, Monday to Friday (except holidays) from 8:00 a.m. to 4:30 p.m.:

- A copy of The Members' Retirement Benefits Regulation
- A copy of the latest Actuarial Valuation Report
- A copy of the Pension Plan Summary

Upon request, the Board will provide members, spouses, common-law partners, or authorized representatives with detailed information and explanations regarding benefits payable in the event of a member's retirement, death, relationship separation, or termination.

The Civil Service Superannuation Board

1200-444 St. Mary Avenue
Winnipeg MB R3C 3T1

Telephone: 204-946-3200
Fax: 204-945-0237
Canada-Wide Toll-Free Number: 1-800-432-5134

E-mail: askus@cssb.mb.ca

Member Services

The Board offers the following services to members and their families, financial planners, solicitors, etc.:

1. Individual Meetings

Members can meet with Board staff to discuss pension and insurance benefits. Members are encouraged to bring anyone they wish to these meetings, like a spouse or financial planner.

2. Seminars

Seminars can be arranged for various size groups and on various topics.

3. Personal and General Inquiries

Board staff are available to answer questions by way of phone and written communication.

Staff are available to meet your information needs with respect to enrolment, retirement, termination and pension projections for estate and retirement planning.

We ask that you have your personal identification number (PIN) or social insurance number (SIN) ready when calling the office and that you make an appointment prior to visiting to assist us in serving you better.

Cover photo - Pisew Falls, MB

June 25, 2020

Honourable Myrna Driedger
Speaker of the Legislative Assembly
Room 244 - 450 Broadway
Winnipeg MB R3C 0V8

Your Honour:

The Members' Retirement Benefits Regulation under *The Legislative Assembly Act* includes in section 21 that:

The administrator must prepare and provide to the Speaker of the Assembly, on or before June 30 of each year, a report of the plan and the pension fund for the preceding fiscal year.

I am pleased to provide the enclosed Legislative Assembly Pension Plan Annual Report for 2019, which includes the Report of the Office of the Auditor General and audited financial statements.

Respectfully submitted,



Al Morin, Chair
The Civil Service Superannuation Board

Board and Standing Committee Members

THE CIVIL SERVICE SUPERANNUATION BOARD

Chair

Al Morin

Retired, President and Chief Executive Officer
Assiniboine Credit Union

Employee Representatives

Ray Erb

Civil Service Representative
Retired, Manitoba Government & General Employees
Union

Jody Gillis

Civil Service Representative
Red River College

C. Reed Winstone

Manitoba Hydro Representative
Retired, Manitoba Hydro-Electric Board

Doug Troke

Civil Service Representative
Department of Finance

Employer Representatives

Ed Balcewich

Investment Advisor, FMA, FSCI

Andrew Clarke

Financial Planner

Normand Collet, MBA

Wayne D. McGimpsey, CPA CA

INVESTMENT COMMITTEE

Chair

A. Scott Penman*

Retired, Executive Vice-President and Chief Investment
Officer,
Investors Group Inc.

Brian Allison *

Executive Vice-President, Chief Investment Officer,
The Great-West Life Assurance Company

Richard Brownscombe *

President
Montrose Mortgage Corporation Ltd.

Jody Gillis ^

Civil Service Representative

Al Morin ^

Chair
The Civil Service Superannuation Board

Elizabeth Marr, CFA*

Vice President and Director, Institutional Relationships
TD Greystone Asset Management

Bruce Schroeder ^

General Manager
The Civil Service Superannuation Board

Vacant ^

Deputy Minister of Finance
Province of Manitoba

The Investment Committee also manages the assets of the Manitoba Hydro Employer Fund and three Centra Gas portfolios. Manitoba Hydro appointed the following person as their representative to this committee in conjunction with the above members.

Aurel Tess

CFO, VP Finance
Manitoba Hydro-Electric Board

* Appointed based on investment expertise

^ Required by legislation

FINANCE AND AUDIT COMMITTEE

Chair

Doug Troke - Employee Representative

Normand Collet - Employer Representative

Ray Erb - Employee Representative

Wayne McGimpsey - Employer Representative

HR AND GOVERNANCE COMMITTEE

Chair

Jody Gillis - Employee Representative

Ed Balcewich - Employer Representative

Andrew Clarke - Employer Representative

C. Reed Winstone - Employee Representative

The Civil Service Superannuation Board

The Board has the fiduciary responsibility for the administration of the Plan and management of the investment funds in the best interest of all Plan members and beneficiaries. It is also responsible to:

- Ensure that staff fulfil the investment and administrative obligations set out in the Regulation and comply with the requirements of the Income Tax Act
- Delegate the day-to-day management to the General Manager and staff
- Provide overall direction and approval of policy items.

These duties are vested in four members that are elected by employees who participate in The Civil Service Superannuation Fund, and five members including a chair that are appointed by Government.

As the Plan trustee, the Board is required to:

- Manage The Legislative Assembly Pension Plan (Plan) in accordance with the rules of the Pension Plan, governing legislation, and common law in the interest of Plan members and their beneficiaries
- Obtain an actuarial valuation at least every three years
- Regularly review its investment policy
- Obtain an independent audit each year
- Prepare an Annual Report.

CSSB Management Team

Bruce Schroeder
General Manager

Dale Allen
Director, Management Information Systems

Dawn Prokopowich
Director, Client Services Administration

Patti Malbasa
Director, Communications and Client Services

Rick Wilson
Director, Finance and Investment Communications
& Management Services

Peter Josephson, CFA
Chief Investment Officer

Ellement Consulting Group
Consulting Actuary

Fillmore Riley
Legal Counsel

Office of the Auditor General
Auditor

Message from the General Manager

BRUCE SCHROEDER

Overall, 2019 was a stable year that produced a good overall return of 13.96%, which exceeds the plan's actuarially required rate of 5.50%.

The plan's assets total approximately \$35.6 million at the end of 2019, compared to \$31.5 million at the end of 2018. This increase in assets is almost entirely the result of investment gains experienced in 2019.

The December 31, 2018 actuarial valuation of the LAPP, completed in 2019, indicated that the plan continues to be in a fully funded position.

Although this report is for 2019, I would be remiss in not discussing the challenges that have arisen as a result of the global COVID-19 pandemic. The challenges and speed with which we had to adapt and make changes in our way of doing business were stunning.

Once it was decided that it was no longer viable or prudent to have staff continue to work in the office, all staff were provided with the capability to conduct their job duties remotely within a one-week time frame. The results were amazing. Other than no longer being able to conduct personal one-on-one appointments, which are now done by phone, the services we provide continued seamlessly with no disruption to membership services or delays in responding to requests.

We have had a business continuity plan in place for several years, but it was mainly designed for the loss of use of our office building. It has proved to be just as effective with the current pandemic situation. Investing in technology has proven to be a prudent use of resources that has enabled us to continue to provide the high level of service that our members expect.

Management and staff look forward to continuing to provide exceptional service in 2020 when the situation in the world hopefully becomes more normal again. I would like to thank the Board for their continued support in these trying times.



Highlights

| | | 2019 | 2018 |
|-----------------------------------|--|--------------------|--------------------|
| Investments | Rate of Return | 13.96% | (1.33)% |
| | Investments at Market Value | \$35,633,305 | \$31,534,589 |
| | Net Investment Income | \$996,824 | \$1,121,070 |
| | Current Period Change in Fair Value of Investments | \$3,245,336 | (\$1,662,872) |
| Contributions and Payments | Member Contributions | \$477,809 | \$439,149 |
| | Government Payments | \$992,994 | \$1,144,063 |
| | Total | \$1,470,803 | \$1,583,212 |
| Payments from Fund | Pension Benefits Paid | \$1,304,890 | \$1,252,640 |
| | Refunds and Transfers | \$129,550 | \$0 |
| Expenses | Administrative | \$88,534 | \$82,153 |
| | Investment | \$123,739 | \$96,251 |
| | | 2019 | 2018 |
| Membership | Non-Retired Members | 72 | 65 |
| | Retired Members and Other Recipients | 53 | 48 |
| | Total Members | 125 | 113 |

Your Pension Plan

Your Plan is a “defined benefit” plan which means that your pension is based on a formula that provides pension, death and termination benefits for all eligible members. The formula is based on your years of service and average salary. Participating members contribute a percentage of salary to the pension plan (8.0% in 2019). The balance of the cost to pay pension benefits and other liabilities of the plan is paid by the province.

The amount of pension a member will receive is not related to investment returns. Good investment returns are necessary for the Fund to meet its obligation to pay benefits without higher than expected government funding.

The Plan allows for retirement at or after age 55 assuming the member has at least one year of service.

Members of the Legislative Assembly have the option to join the Plan.

Cost-of-Living Allowance

- LAPP pension recipients receive the same cost-of-living increases as The Civil Service Superannuation Fund pension recipients
- The COLA granted July 1, 2019 was 1.33%
- The cost-of-living benefit payments to the Civil Service Superannuation Fund pension recipients are limited to the extent that the Indexing Benefits Account is able to finance its share of each increase. Legislation limits the maximum annual cost-of-living adjustment to $\frac{2}{3}$ of the increase in the Canadian Consumer Price Index until the account can pre-fund anticipated adjustments for the next 20 years. The actuary has cautioned that with the current funding model, it is unlikely 20 year pre-funding will ever be achieved.

Funding of Pension Benefits

The Fund's net assets available for benefits are primarily funded by:

- Investment income
- Member contributions
- Government payments

Rate of Return

The LAPP Fund is invested like The Civil Service Superannuation Fund (CSSF), to the extent that it is reasonably practicable. The rate of return for 2019 was 13.96%.

MANAGEMENT RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of the Legislative Assembly Pension Fund are the responsibility of management and have been prepared in accordance with Canadian accounting standards for pension plans, as stated in the notes to the financial statements. Management maintains internal controls to provide reasonable assurance of the reliability and accuracy of the financial information and to safeguard the assets of the Fund. In management's opinion, the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data available up to May 28, 2020.

The firm of Ellement Consulting Group has been appointed as consulting actuary for the Fund. The role of the actuary is to complete the triennial actuarial valuations of the Fund in accordance with actuarial practice and estimate the obligations for benefits for inclusion in the annual financial statements.

The Auditor General performs an independent audit of the financial statements in accordance with Canadian generally accepted auditing standards. The resulting opinion is set out in the Auditor's Report attached to the financial statements.

Ultimate responsibility for the financial statements rests with the members of the Civil Service Superannuation Board. The Board established a Finance and Audit Committee to meet with Board staff and representatives of the Auditor General. It is the responsibility of the Finance and Audit Committee to review the financial statements, ensure that each group has properly discharged its respective responsibilities and make a recommendation to the Board regarding approval of the financial statements. The auditors have full and unrestricted access to the Board and to the Finance and Audit Committee.

The Board has reviewed and approved these financial statements.

On behalf of Management,



Bruce Schroeder
General Manager
The Civil Service Superannuation Board



Rick Wilson
Director, Finance
The Civil Service Superannuation Board



Auditor General
MANITOBA

INDEPENDENT AUDITOR'S REPORT

To the Legislative Assembly of Manitoba

To the Members of the Legislative Assembly Pension Fund

Opinion

We have audited the financial statements of the Legislative Assembly Pension Fund which comprise the statement of financial position as at December 31, 2019, and the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus (deficit) for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Legislative Assembly Pension Fund as at December 31, 2019, and the changes in its net assets available for benefits, the changes in its pension obligations and the changes in its surplus (deficit) 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 *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Legislative Assembly Pension Fund 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 Legislative Assembly Pension Fund'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 an intention exists to liquidate the Legislative Assembly Pension Fund or to cease operations, or there is no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Legislative Assembly Pension Fund's financial reporting process.



Auditor's 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 auditor's 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 these 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 Legislative Assembly Pension Fund'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 Legislative Assembly Pension Fund'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 Legislative Assembly Pension Fund 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.

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.

Office of the Auditor General

Office of the Auditor General
Winnipeg, Manitoba
May 28, 2020

LEGISLATIVE ASSEMBLY PENSION FUND
Statement of Financial Position
As at December 31, 2019

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Assets | | |
| Investments, Schedule 1, Note 2(b) | \$ 35,633,305 | \$ 31,534,589 |
| Accrued interest and dividends | 68,090 | 66,171 |
| Receivables, Note 4 | 68,070 | 37,685 |
| | 35,769,465 | 31,638,445 |
| Liabilities | | |
| Accounts payable and accrued liabilities | 70,273 | 129,242 |
| Net assets available for benefits, Exhibit B | \$ 35,699,192 | \$ 31,509,203 |
| Pension Obligations and Surplus | | |
| Actuarial value of pension obligations, Exhibit C, Note 10 | \$ 34,832,476 | \$ 33,070,864 |
| Surplus (Deficit), Exhibit D | 866,716 | (1,561,661) |
| Pension obligations and surplus (deficit) | \$ 35,699,192 | \$ 31,509,203 |

The accompanying notes and schedules are an integral part of these financial statements.

Signed on behalf of the Civil Service Superannuation Board


 Chairperson of the Board


 Chairperson, Finance and Audit
 Committee

LEGISLATIVE ASSEMBLY PENSION FUND
Statement of Changes in Net Assets Available for Benefits
For the year ended December 31, 2019

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Increase in assets | | |
| Contributions, Note 1(a) and 5 | | |
| Employees | \$ 477,809 | \$ 439,149 |
| Employer | 992,994 | 1,144,063 |
| Total contributions | 1,470,803 | 1,583,212 |
| Net investment income, Schedule 2 | 996,824 | 1,121,070 |
| Current period change in fair value of investments, Note 7 | 3,245,336 | - |
| Total increase in assets | 5,712,963 | 2,704,282 |
| Decrease in assets | | |
| Current period change in fair value of investments, Note 7 | - | 1,662,872 |
| Benefits paid | 1,304,890 | 1,252,640 |
| Refunds and transfers | 129,550 | - |
| Administrative expenses, Note 9 | 88,534 | 82,153 |
| Total decrease in assets | 1,522,974 | 2,997,665 |
| Increase (Decrease) in net assets available | 4,189,989 | (293,383) |
| Net assets available for benefits, beginning of year | 31,509,203 | 31,802,586 |
| Net assets available for benefits, end of year, Exhibit A | \$ 35,699,192 | \$ 31,509,203 |

The accompanying notes and schedules are an integral part of these financial statements.

LEGISLATIVE ASSEMBLY PENSION FUND
Statement of Changes in Pension Obligations
For the year ended December 31, 2019

| | 2019 | 2018 |
|--|----------------------|----------------------|
| Pension obligations, beginning of year | \$ 33,070,864 | \$ 30,411,879 |
| Change in pension obligations | | |
| Experience (gain) loss | (261,063) | 367,835 |
| Benefits accrued | 1,470,803 | 1,583,212 |
| Benefits and administrative expenses paid | (1,522,974) | (1,334,793) |
| Interest accrued on benefits | 1,991,312 | 1,858,560 |
| Change in reserves | 83,534 | (5,756) |
| Change in actuarial assumptions | - | 189,927 |
| | 1,761,612 | 2,658,985 |
| Pension obligations, end of year, Exhibit A | \$ 34,832,476 | \$ 33,070,864 |

The accompanying notes and schedules are an integral part of these financial statements.

LEGISLATIVE ASSEMBLY PENSION FUND
Statement of Changes in Surplus (Deficit)
For the year ended December 31, 2019

| | 2019 | 2018 |
|--|-------------------|-----------------------|
| (Deficit) Surplus, beginning of year | \$ (1,561,661) | \$ 1,390,707 |
| Increase (Decrease) in net assets available | 4,189,989 | (293,383) |
| Change in pension obligations | (1,761,612) | (2,658,985) |
| | 2,428,377 | (2,952,368) |
| Surplus (Deficit), end of year, Exhibit A | \$ 866,716 | \$ (1,561,661) |

The accompanying notes and schedules are an integral part of these financial statements.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

1. Description of Plan

The Legislative Assembly Pension Fund (the “Fund”) was established on March 31, 2005, with an effective date of December 7, 2005. The Legislative Assembly Pension Plan (the “Plan”) provides benefits to members of the Manitoba Legislative Assembly (“MLA”).

The following description of the Plan is a summary only. For more complete information, reference should be made to the *Members’ Retirement Benefits Regulation of The Legislative Assembly Act*.

The Fund is a registered Pension trust as defined in the Income Tax Act and is not subject to income taxes.

(a) Funding

The Act requires members to contribute 8% of pensionable earnings and the Province to fund the balance of costs associated with the pension plan. The member contribution rate will increase .5% each year until 2021. In addition, as members of the Plan, employees can elect to purchase pensionable service for all or any part of the period they were an MLA between April 25, 1995 and the beginning of the pay period for which the member began making contributions by source deduction to the Fund. The Province of Manitoba is required to contribute sufficient funds to pay all pensions and other liabilities as they come due.

(b) Basic Pension Benefit

The lifetime monthly pension calculation equals:

- (i) 2.0% of the average of the five best annual salaries received during which pensionable service was accrued or, if the member has less than five years of pensionable service, the average of the annual salaries for their pensionable service,
- (ii) multiplied by the lesser of thirty five years and the member’s years of pensionable service
- (iii) divided by twelve months.

(c) Indexing Benefit

Whenever an indexing benefit is provided for pensions being paid out of the Civil Service Superannuation Fund, a similar benefit is to be provided for both deferred members and pensioners of this Plan. In the Civil Service Superannuation Plan, the cost-of-living benefit payments are limited to the extent that the amount in the separate Indexing Benefit Account is actuarially able to finance approximately one-half of that payment. Legislation limits the maximum annual adjustment to two-thirds of the increase in the Consumer Price Index (Canada) until the Indexing Benefits Account can pre-fund anticipated adjustments for the next twenty years.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(d) Retirement

A member with at least one year of service as an MLA is eligible to retire at age 55 once they have ceased to be an MLA.

(e) Death Benefits Pre-retirement

Upon the death of an active member, a survivor's benefit is payable to a spouse or partner or the member's estate when there is no survivor.

(f) Death Benefits Post-retirement

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the member's contributions plus interest.

(g) Withdrawal Refunds

Participants who cease to be an MLA may apply (subject to lock-in provisions) to withdraw funds from the Plan. Members may choose to leave their contributions in the Plan as a vested member.

2. Significant Accounting Policies

(a) Basis of Presentation

The financial statements are prepared on a going-concern basis as a separate financial reporting entity, in accordance with Canadian accounting standards for pension plans. The Fund has selected Part II (accounting standards for private enterprises) of the CPA Canada Handbook for issues not directly addressed by these standards. In accordance with these standards, statements prepared include the statement of financial position, the statement of changes in net assets available for benefits, the statement of changes in pension obligations and the statement of changes in surplus. They are prepared to assist participants and others in reviewing the financial activities of the Plan for the fiscal year.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(b) Investments

Investments are recorded at fair value on a trade date basis. The basis of determining the fair values of the investment categories is described below.

Fixed Income

- (i) Short-term investments are valued at cost, which approximates market value.
- (ii) Bonds and debentures are valued at market by independent sources.

Equities

- (i) Publicly traded securities are valued at year end market prices as listed on the appropriate stock exchange.
- (ii) Pooled equity funds are valued at market by the external manager based on the fair value of the underlying assets.

Other Investments

- (i) Real estate investments are valued at fair value based on the most recent appraisals or external managers' valuations of the underlying properties.
- (ii) Oil and gas shares are valued at fair value based on the discounted present value of proven oil and gas reserve information provided by external managers or are reflected at cost, which approximates fair value, until such information is available.
- (iii) Private equity, Infrastructure, and Private credit investments are valued at the fair value of the underlying investments as established by the external managers or at cost, which approximates fair value, when no valuation has been prepared.

(c) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rates prevailing on the dates of the transactions. The foreign currency translation of these transactions (except for any foreign currency translation related to the acquisition of investments) is included in investment income or the current period change in fair value of investments (net realized gains or losses on the sale of investments) or administrative expenses.

The fair value of investments denominated in foreign currencies is translated into Canadian dollars at the exchange rate in effect at year-end and the resulting change from the translation at acquisition (or the prior year end) is included in the current period change in fair value of investments (net unrealized market gains or losses).

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(d) Forward Contracts

A forward contract is a contractual obligation to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate. Forward contracts are recorded at fair value which is the estimated amounts that the Fund would receive or pay to terminate the contracts at the reporting date. Realized and unrealized gains or losses on forward contracts are recognized with the current period change in fair value of investments.

(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 assets and liabilities, disclosure of contingencies 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 those estimates.

(f) Related Party Transactions

The Plan's sponsor and administrator (and their close family members) are related parties of the Legislative Assembly Pension Fund. The sponsor of the Plan is the Government of the Province of Manitoba and the administrator of the Plan is the management of the Civil Service Superannuation Board (CSSB).

CSSB management and their close family members include board members, external committee members and senior management, as well as their spouses, and any controlled business or business subject to significant influence.

All related party transactions are recorded at the exchange amount. Material transactions, in aggregate, and balances are disclosed separately.

(g) Net Investment Income and Current Period Change in Fair Value of Investments

Dividend income is recognized based on the ex-dividend date; interest income and income from real estate, infrastructure, private equity, private credit and security lending are recognized on the accrual basis as earned. Current period change in fair value of investments includes both realized and unrealized gains and losses. Unrealized gains and losses are recognized only when the fair value of the investment is based on a quoted market price in an active market or a valuation using appropriate valuation techniques is performed and approved by

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

3. Risk Management

Fair values of investments are exposed to market risk (interest rate risk, currency risk and price risk), credit risk and liquidity risk.

(a) Market Risk

Interest Rate Risk

Interest rate risk refers to the impact of interest rate changes on the Fund's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Fund's assets and liabilities. The value of the Fund's assets is affected by changes in interest rates.

The Fund's exposure to interest rate risk is concentrated in its investments in bonds and debentures. To properly manage the Fund's interest rate risk, appropriate guidelines on the weighting and duration for bonds and debentures are set and monitored by the Fund's Investment Committee.

The Fund has invested approximately 24.4% (2018 – 22.9%) of its assets in fixed income securities as at December 31, 2019, which generated a rate of return of 9.37% (2018 - 0.99%). The returns on fixed income securities are particularly sensitive to changes in nominal interest rates. As at December 31, 2019, if prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, fixed income investments would likely have decreased or increased respectively by approximately \$755,254 (2018 - \$627,879). The Fund's interest rate sensitivity was determined based on portfolio weighted duration.

Currency Risk

Currency risk relates to the possibility that foreign currency-denominated investments will change in value due to future fluctuations in foreign exchange rates. The impacts can be positive or negative and can be significant given the volatility of foreign exchange rates. CSSB management and external managers hedge some of the Fund's currency exposure in invested assets using forward contracts. As at December 31, 2019, the notional amount of all forward contracts held by the Fund was \$2,234,713 (2018 - \$2,790,703) with unrealized gains (losses) of \$18,901 (2018 - \$(75,833)).

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

The Fund's exposure in cash and investments to foreign currencies, net of hedging, reported in Canadian dollars is shown below:

| As at December 31, 2019 | Actual Currency Exposure | |
|--------------------------|-----------------------------|----------------|
| Canadian dollar | \$ 20,015,715 | 56.2 % |
| US dollar | 9,186,913 | 25.9 |
| Japanese yen | 1,139,232 | 3.2 |
| Euro | 1,132,755 | 3.1 |
| Hong Kong dollar | 775,646 | 2.2 |
| Pound sterling | 723,393 | 2.0 |
| South Korean won | 459,926 | 1.3 |
| Australian dollar | 391,458 | 1.1 |
| India rupee | 357,176 | 1.0 |
| Other currencies | 1,451,091 | 4.0 |
| Total investments | \$ 35,633,305 | 100.0 % |

A 10 percent increase or decrease in exchange rates, net of hedging, with all other variables held constant, would result in a change in unrealized gains (losses) of \$1,561,800 (2018 - \$1,174,300).

Price Risk

Price risk is the risk that the value of an investment will fluctuate as a result of a change in market conditions (other than those arising from interest rate or currency risk), whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's equity and other equity-based investments are sensitive to market fluctuations. To assist in mitigating the impact of price risk, the Fund's Investment Committee has established appropriate guidelines on asset diversification to address specific security, geographic, sector and investment manager risks which they monitor on a regular basis. A decline or increase of 10 percent in fair values of equities and other equity-based investments, with all other variables held constant, will impact the Fund's investments by an approximate loss or gain of \$2,695,000 (2018 - \$2,431,200).

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(b) Credit Risk

Credit risk is the risk of loss from the failure of a counter party to discharge its contractual obligations. At December 31, 2019, the Fund's maximum credit risk exposure relates to bonds and debentures, short-term investments and cash totaled \$8,682,064 (2018 - \$7,222,643), receivable of \$68,070 (2018 - \$37,685) and accrued interest of \$34,120 (2018 - \$35,893) totaled \$8,784,254 (2018 - \$7,296,221). The Fund's Investment Committee limits credit risk by concentrating on high quality securities and adhering to a Statement of Investment Policies and Procedures. The Policy establishes investment ownership limits and acceptable credit ratings. In the case of bonds and debentures, all bonds must be rated BBB- or higher at the time of purchase.

All transactions in listed securities are settled upon delivery using approved investment managers. The risk of default is considered minimal, as delivery of securities sold is only made once the investment manager has received payment. Payment is made on a purchase once the securities have been received by the investment manager. The trade will fail if either party fails to meet its obligation.

The breakdown of the Fund's bonds and debentures portfolio by credit rating from various rating agencies is presented below:

| Credit Rating | 2019 Fair Value | | 2018 Fair Value | |
|-----------------------------------|---------------------|--------|---------------------|--------|
| AAA | \$ 1,873,758 | 26.5% | \$ 1,114,774 | 16.8% |
| AA | 574,482 | 8.1 | 909,891 | 13.7 |
| A | 4,049,649 | 57.2 | 3,976,862 | 59.8 |
| BBB+ | 547,289 | 7.7 | 500,769 | 7.5 |
| BBB and lower | 36,875 | 0.5 | 145,352 | 2.2 |
| | 7,082,053 | 100.0% | 6,647,648 | 100.0% |
| Cash and short-term | 370,410 | | 193,808 | |
| Total bonds and debentures | \$ 7,452,463 | | \$ 6,841,456 | |

Credit risk associated with contributions receivable is minimized due to their nature. Contributions are collected from participating members through the payroll process. No provision for doubtful contributions receivable has been recorded in either 2019 or 2018.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(c) Liquidity Risk

Liquidity risk is the possibility that investments of the Fund cannot be readily converted into cash when required to meet contractual obligations. The Fund may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Fund or other securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Fund's assets in investments that are traded in an active public market and can be readily sold. Although market events could lead to some investments becoming illiquid, the diversity of the Fund's portfolio and current contribution levels should ensure that liquidity is available for benefit payments.

The term to maturity and related market values of fixed income investments are as follows:

| Term to Maturity | 2019 | 2018 |
|---------------------------------------|---------------------|---------------------|
| Less than one year | \$ 1,600,012 | \$ 574,995 |
| One to five years | 1,601,692 | 1,425,629 |
| Over five years | 5,480,360 | 5,222,019 |
| Total fixed income investments | \$ 8,682,064 | \$ 7,222,643 |

(d) Fair Value

The following is a summary of the inputs used as of December 31, 2019 and 2018 in the measurement of the fair value of the Fund's investments based on the fair value hierarchy:

| | Level 1 Quoted Prices in Active Markets | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs | Total 2019 |
|--|---|---|--|---------------|
| Assets | | | | |
| Cash | \$ 197,425 | \$ - | \$ - | \$ 197,425 |
| Short-Term Bonds and debentures | - | 1,683,961 | - | 1,683,961 |
| Equities | - | 7,082,050 | - | 7,082,050 |
| Infrastructure | 16,255,506 | 2,747,284 | - | 19,002,790 |
| Oil and gas | - | - | 1,923,754 | 1,923,754 |
| Private equity | - | - | 29,612 | 29,612 |
| Private credit | - | - | 60,975 | 60,975 |
| Real estate | - | - | 1,290,628 | 1,290,628 |
| Total investments, Note 2(b) and Schedule 1 | \$ 16,452,931 | \$ 11,513,295 | \$ 7,667,079 | \$ 35,633,305 |

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

| | Level 1 Quoted Prices in Active Markets | Level 2 Significant Other Observable Inputs | Level 3 Significant Unobservable Inputs | Total 2018 |
|--|---|---|--|---------------|
| Assets | | | | |
| Cash | \$ 184,315 | \$ - | \$ - | \$ 184,315 |
| Short-Term Bonds and debentures | - | 736,188 | - | 736,188 |
| Equities | 14,233,497 | 6,647,648 | - | 6,647,648 |
| Infrastructure | - | 2,336,345 | - | 16,569,842 |
| Oil and gas | - | - | 1,769,728 | 1,769,728 |
| Private equity | - | - | 226,831 | 226,831 |
| Private credit | - | - | 5,702 | 5,702 |
| Real estate | - | - | 1,112,807 | 1,112,807 |
| | - | - | 4,281,528 | 4,281,528 |
| Total investments, Note 2(b) and Schedule 1 | \$ 14,417,812 | \$ 9,720,181 | \$ 7,396,596 | \$ 31,534,589 |

At December 31, 2019, no equity investments were transferred from Level 1 to Level 2. All securities in Level 1 can be traded in an active market.

During the year ended December 31, 2019, the reconciliation of investments measured at fair value using unobservable inputs (Level 3) is presented as follows:

| | Infrastructure | Real estate | Oil and gas | Private equity | Private credit | Total |
|--|----------------|----------------|----------------|-------------------|-------------------|--------------|
| Beginning Balance | \$ 1,769,728 | \$ 4,281,528 | \$ 226,831 | \$ 5,702 | \$ 1,112,807 | \$ 7,396,596 |
| Purchases | 188,654 | 259,927 | 15,840 | 62,513 | 444,559 | 971,493 |
| Sales and withdrawals | (71,124) | (566,520) | (6,051) | - | (151,066) | (794,761) |
| Capitalized income | - | 314,723 | - | - | - | 314,723 |
| Return of capital | (56,706) | - | - | - | (40,188) | (96,894) |
| Dividend | (79,610) | (33) | - | (784) | (129,145) | (209,572) |
| Change in unrealized appreciaton (depreciation) | 172,812 | 72,485 | (207,008) | (6,456) | 53,661 | 85,494 |
| Ending Balance | \$ 1,923,754 | \$ 4,362,110 | \$ 29,612 | \$ 60,975 | \$ 1,290,628 | \$ 7,667,079 |

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

(e) Security Lending

The Fund participates in a securities lending program through the lending agent, State Street Trust Company Canada. Under the program, the Fund will lend various securities in its possession to borrowers approved by the lending agent. The loans can be secured by either securities or cash collateral. The Fund has risks under this program including borrower default and reinvestment risk, mitigated by an indemnification clause in the securities lending agreement with State Street Bank and Trust Company.

4. Receivables

| | 2019 | 2018 |
|--|------------------|------------------|
| Employees – regular, bi-weekly contributions | \$ 13,620 | \$ 10,788 |
| Employer – regular, bi-weekly contributions | 25,726 | 26,897 |
| | 39,346 | 37,685 |
| Other receivables | 28,724 | - |
| | <u>\$ 68,070</u> | <u>\$ 37,685</u> |

5. Contributions

| | 2019 | 2018 |
|--|---------------------|---------------------|
| Employees – regular, bi-weekly contributions | \$ 477,809 | \$ 439,149 |
| Employer – regular, bi-weekly contributions | 992,994 | 1,144,063 |
| | <u>\$ 1,470,803</u> | <u>\$ 1,583,212</u> |

6. Part III and Part IV Benefits

Pursuant to the *Income Tax Act Regulation 8503 (3)(c) and 8504*, there is a maximum annual pension benefit from a registered pension plan. Any amount in excess of the defined benefit limit is not considered registered and therefore must be paid outside of the registered pension plan (Part IV benefits). In accordance with section 46 of the *Members' Retirement Benefits Regulation of The Legislative Assembly Act*, there is no maximum salary limit or early retirement reductions; therefore a member does not lose any benefits.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

The breakdown of Part III (registered) and Part IV (unregistered) cash flows is as follows:

| | Part III | Part IV | Total – 2019 |
|---|----------------------|-------------------|----------------------|
| Contributions | | | |
| Employees | \$ 477,809 | \$ - | \$ 477,809 |
| Employer | 895,915 | 97,079 | 992,994 |
| | 1,373,724 | 97,079 | 1,470,803 |
| Net investment income | 981,186 | 15,638 | 996,824 |
| Current period change in fair value of investments | 3,194,425 | 50,911 | 3,245,336 |
| Total increase in assets | 5,549,335 | 163,628 | 5,712,963 |
| Pension benefits paid | | | |
| | 1,243,780 | 61,110 | 1,304,890 |
| Refunds and Transfers | 49,058 | 80,492 | 129,550 |
| Administrative expenses | 79,794 | 8,740 | 88,534 |
| Total decrease in assets | 1,372,632 | 150,342 | 1,522,974 |
| Increase in net assets | 4,176,703 | 13,286 | 4,189,989 |
| Net assets available for benefits, beginning of year | 30,988,927 | 520,276 | 31,509,203 |
| Net assets available for benefits, end of year | \$ 35,165,630 | \$ 533,562 | \$ 35,699,192 |
| 2018 | | | |
| | Part III | Part IV | Total – 2018 |
| Contributions | | | |
| Employees | \$ 439,149 | \$ - | \$ 439,149 |
| Employer | 1,079,026 | 65,037 | 1,144,063 |
| | 1,518,175 | 65,037 | 1,583,212 |
| Net investment income | 1,102,503 | 18,567 | 1,121,070 |
| Current period change in fair value of investments | (1,635,332) | (27,540) | (1,662,872) |
| Total increase in assets | 985,346 | 56,064 | 1,041,410 |
| Pension benefits paid | | | |
| | 1,194,805 | 57,835 | 1,252,640 |
| Administrative expenses | 78,360 | 3,793 | 82,153 |
| Total decrease in assets | 1,273,165 | 61,628 | 1,334,793 |
| (Decrease) in net assets | (287,819) | (5,564) | (293,383) |
| Net assets available for benefits, beginning of year | 31,276,746 | 525,840 | 31,802,586 |
| Net assets available for benefits, end of year | \$ 30,988,927 | \$ 520,276 | \$ 31,509,203 |

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

7. Current Period Change in Fair Value of Investments

| | 2019 | 2018 |
|---|---------------------|----------------------|
| Net realized gains on the sale of investments | \$ 536,843 | \$ 1,089,095 |
| Net unrealized market gains (losses) | 2,708,493 | (2,751,967) |
| | <u>\$ 3,245,336</u> | <u>\$(1,662,872)</u> |

8. Related Party Transactions and Balances

In accordance with the *Members' Retirement Benefits Regulation*, The Civil Service Superannuation Board is the administrator of the Plan. The related costs of administering the Plan are to be charged to the Fund. These administrative services were received in terms and conditions comparable to market terms and conditions. For the year ended December 31, 2019, the cost of these services amounted to \$15,263 (2018 - \$14,608).

9. Administrative Expenses

| | 2019 | 2018 |
|------------------------------|------------------|------------------|
| Audit fees | \$ 12,724 | \$ 12,528 |
| Legal Fees | 3,103 | - |
| Actuary fees | 56,810 | 54,199 |
| Administration fees (Note 8) | 15,263 | 14,608 |
| Office and administration | 634 | 818 |
| | <u>\$ 88,534</u> | <u>\$ 82,153</u> |

10. Obligations for Pension Benefits

In accordance with *The Legislative Assembly Act*, an actuarial valuation of the Plan is required at least every three years. The actuarial valuation was last completed as at December 31, 2018 by Ellement Consulting Group.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

The actuarial present value of pension obligations including indexing benefits, based on service to date, was extrapolated by the actuary to December 31, 2019. The principal components of the changes in actuarial present value during the year are as follows (also refer to Exhibit C):

| | Part III | Part IV | Total – 2019 |
|--|---------------|--------------|---------------|
| Actuarial present value of pension obligations based on service to date, beginning of year | \$ 31,549,592 | \$ 1,521,272 | \$ 33,070,864 |
| Experience (gain) loss | (188,286) | (72,777) | (261,063) |
| Benefits accrued | 1,373,724 | 97,079 | 1,470,803 |
| Benefits and administrative expenses paid | (1,372,632) | (150,342) | (1,522,974) |
| Interest on accrued benefits | 1,903,088 | 88,224 | 1,991,312 |
| Change in reserves | 83,534 | - | 83,534 |
| Actuarial present value of pension obligations based on service to date, end of year | \$ 33,349,020 | \$ 1,483,456 | \$ 34,832,476 |

| | Part III | Part IV | Total – 2018 |
|--|---------------|--------------|---------------|
| Actuarial present value of pension obligations based on service to date, beginning of year | \$ 29,215,436 | \$ 1,196,443 | \$ 30,411,879 |
| Experience loss | 126,212 | 241,623 | 367,835 |
| Benefits accrued | 1,518,175 | 65,037 | 1,583,212 |
| Benefits and administrative expenses paid | (1,273,165) | (61,628) | (1,334,793) |
| Interest on accrued benefits | 1,778,763 | 79,797 | 1,858,560 |
| Change in reserves | (5,756) | - | (5,756) |
| Change in actuarial assumptions | 189,927 | - | 189,927 |
| Actuarial present value of pension obligations based on service to date, end of year | \$ 31,549,592 | \$ 1,521,272 | \$ 33,070,864 |

The Plan liabilities may change significantly in the next year based on variances between actual versus expected investment and demographic experience.

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

Significant long-term actuarial assumptions used in the December 31, 2018 and 2017 actuarial valuations of the present value of the accrued basic pension obligations were:

| | 2018 | 2017 |
|---|--------------------|--------------------|
| Liability discount rate | 5.50% | 5.50% |
| Annual rate of return | 5.50% | 5.50% |
| Salary escalation rates: | | |
| (i) general increases | | |
| a) inflation component | 2.00% | 2.00% |
| b) productivity component | 0.50% | 0.50% |
| (ii) service, merit and promotional increases | Nil | Nil |
| Mortality rates: | | |
| (i) mortality | CPM 2014 Public | CPM 2014 Public |
| (ii) mortality improvements | Scale B | Scale B |
| Indexing | 1.33% | 1.33% |

The extrapolation to December 31, 2019 was based on the assumptions used in the 2018 actuarial valuation. The extrapolation also reflects the demographic experience to December 31, 2019.

The next actuarial valuation will be prepared as at December 31, 2019 and will be completed by the summer of 2020.

11. Capital Disclosures

In the context of the Fund, capital is defined as the net assets available for pension benefits. Externally-imposed capital requirements relate to the administration of the Fund in accordance with the terms of the Fund and the provisions of the Income Tax Act (Canada). The Fund has developed appropriate risk management strategies, as described in Note 3, to preserve the net assets available for benefits. The Fund has complied with externally-imposed capital requirements during the year.

12. Future Commitments

The Fund has contractual obligations for future investment transactions, which may be funded over the next several years in accordance with the terms and conditions agreed to. As at December 31, 2019, the Fund's share of the outstanding commitment is \$2,068,860 (2018 - \$2,833,613).

LEGISLATIVE ASSEMBLY PENSION FUND
Notes to the Financial Statements
December 31, 2019

13. Subsequent Event

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) to be a global pandemic. In response, many countries have taken action to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services, creating significant disruptions to businesses worldwide resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilize economic conditions.

Management has determined that these events are non-adjusting subsequent events. Accordingly, the Fund's financial position and results of operations as of and for the year ended December 31, 2019 have not been adjusted to reflect their impact. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, is currently undeterminable. At this time, it is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of operations of the Legislative Assembly Pension Fund in future periods.

LEGISLATIVE ASSEMBLY PENSION FUND
Summary of Investments
As at December 31, 2019

| | 2019 | 2018 |
|-------------------------------|----------------------|----------------------|
| Fixed income | | |
| Short-term | \$ 1,229,601 | \$ 381,187 |
| Bonds and debentures | 7,452,463 | 6,841,456 |
| Total fixed income | 8,682,064 | 7,222,643 |
| Equities | | |
| Domestic | 4,648,243 | 4,758,416 |
| Foreign | 14,617,536 | 12,142,722 |
| | 19,265,779 | 16,901,138 |
| Real estate | 4,380,493 | 4,295,740 |
| Private equity | 60,975 | 5,702 |
| Oil and gas | 29,612 | 226,831 |
| Private credit | 1,290,628 | 1,112,807 |
| Infrastructure | 1,923,754 | 1,769,728 |
| Investments, Exhibit A | \$ 35,633,305 | \$ 31,534,589 |

The accompanying notes are an integral part of these financial statements.

LEGISLATIVE ASSEMBLY PENSION FUND
Schedule of Investment Income
For the year ended December 31, 2019

| | 2019 | 2018 |
|---|-------------------|---------------------|
| Fixed income | | |
| Short-term | \$ 20,147 | \$ 11,764 |
| Bonds and debentures | 214,664 | 211,837 |
| Total fixed income | 234,811 | 223,601 |
| Equities | | |
| Domestic | 152,771 | 168,592 |
| Foreign | 343,284 | 518,848 |
| | 496,055 | 687,440 |
| Real estate | 166,389 | 115,688 |
| Private equity | 784 | 1,016 |
| Private credit | 129,596 | 81,187 |
| Infrastructure | 79,611 | 92,909 |
| Security lending revenue | 13,317 | 15,480 |
| Gross investment income | 1,120,563 | 1,217,321 |
| Less: | | |
| Investment management expenses | 123,739 | 96,251 |
| Net investment income, Exhibit B | \$ 996,824 | \$ 1,121,070 |

The accompanying notes are an integral part of these financial statements.

Provided by

The Civil Service Superannuation Board
1200-444 St. Mary Avenue
Winnipeg MB R3C 3T1
Phone: 204-946-3200 Fax: 204-945-0237