WINNIPEG POLICE PENSION PLAN FINANCIALS

DECEMBER 31, 2022

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the *Winnipeg Police Pension Plan* (*"the Plan")*, which comprise the statement of financial position as at December 31, 2022 and the statements of changes in net assets available for benefits, changes in pension obligations and changes in surplus for the year then ended, and a summary of significant accounting policies and other explanatory information (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the statements of financial position as at December 31, 2022, and the statements of changes in net assets available for benefits, changes in its pension obligations and changes in surplus for the year then ended in accordance with Canadian accounting standards for pension plans ("ASPP").

Basis of Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the *Plan* in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASPP, and for such internal control as management determines is necessary to enable the preparation of a financial statement that is free from material misstatement, whether due to fraud or error.

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

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

Auditor's Responsibilities for the Audit of the Financial Statement

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's reports that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

I. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than from one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
II. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control.
III. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
IV. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.
V. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Deloitte LLP

Chartered Professional Accountants
Winnipeg Manitoba
June 16, 2023

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF FINANCIAL POSITION

As at December 31
(in $ thousands)

	2022	2021
ASSETS		
Investments, at fair value		
Bonds, debentures and mortgages	**$ 345,083**	$ 383,993
Canadian equities	**362,608**	378,976
Foreign equities	**509,172**	638,505
Cash and short-term deposits	**65,834**	79,812
Private equities	**4,626**	4,051
Real estate	**255,464**	210,381
Infrastructure	**256,479**	189,985
Private debt	**244,516**	232,308
	2,043,782	2,118,011
Participants' contributions receivable	**3**	4
Employers' contributions receivable	**12**	9
Accounts receivable	**6**	347
Due from The Winnipeg Civic Employees' Pension Plan	**43**	-
Total Assets	**2,043,846**	2,118,371
LIABILITIES		
Accounts payable	**1,380**	2,291
Due to The Winnipeg Civic Employees' Pension Plan	**-**	133
Total Liabilities	**1,380**	2,424
NET ASSETS AVAILABLE FOR BENEFITS	**2,042,466**	2,115,947
PENSION OBLIGATIONS	**1,764,597**	1,799,924
SURPLUS	**$ 277,869**	$ 316,023
SURPLUS COMPRISED OF:		
Main Account - General Component	**$ 212,718**	$ 262,022
Main Account - Contribution Stabilization Reserve	**46,342**	34,655
Plan Members' Account	**18,803**	19,346
City Account	**6**	-
	$ 277,869	$ 316,023

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended December 31
(in $ thousands)

	2022	2021
INCREASE IN ASSETS		
Contributions		
The City of Winnipeg	**$ 38,380**	$ 37,224
Employees	**14,198**	13,794
Reciprocal transfers from other plans	**1,525**	2,505
	54,103	53,523
Investment income (Note 5)	**62,077**	56,566
Current period change in fair value of investments	**-**	215,043
Total increase in assets	**116,180**	325,132
DECREASE IN ASSETS		
Current period change in fair value of investments	**111,904**	-
Pension payments	**62,635**	60,148
Lump sum benefits (Note 7)	**4,345**	4,683
Administrative expenses (Note 8)	**1,422**	1,602
Investment management and custodial fees	**9,355**	9,113
Total decrease in assets	**189,661**	75,546
(Decrease) increase in net assets	**(73,481)**	249,586
Net assets available for benefits at beginning of year	**2,115,947**	1,866,361
Net assets available for benefits at end of year	**$ 2,042,466**	$ 2,115,947

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

For the year ended December 31
(in $ thousands)

	2022	2021
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	**$ 1,799,924**	$ 1,695,705
INCREASE IN ACCRUED PENSION BENEFITS		
Interest on accrued pension benefits	**85,882**	79,761
Benefits accrued	**58,794**	56,819
Changes in actuarial assumptions	**-**	2,149
Experience gains and losses and other factors	**-**	31,832
Total increase in accrued pension benefits	**144,676**	170,561
DECREASE IN ACCRUED PENSION BENEFITS		
Benefits paid	**66,980**	64,830
Experience gains and losses and other factors	**8,812**	-
Changes in actuarial assumptions	**102,583**	-
Administration expenses	**1,628**	1,512
Total decrease in accrued pension benefits	**180,003**	66,342
NET (DECREASE) INCREASE IN ACCRUED PENSION BENEFITS FOR THE YEAR	**(35,327)**	104,219
ACCRUED PENSION BENEFITS, END OF YEAR	**$ 1,764,597**	$ 1,799,924

See accompanying notes to the financial statements

STATEMENT OF CHANGES IN SURPLUS

For the year ended December 31
(in $ thousands)

	2022	2021
SURPLUS, BEGINNING OF YEAR	**$ 316,023**	$ 170,656
(Decrease) increase in net assets available for benefits for the year	**(73,481)**	249,586
Net decrease (increase) in accrued pension benefits for the year	**35,327**	(104,219)
SURPLUS, END OF YEAR	**$ 277,869**	$ 316,023

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 1

SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT

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

	2022				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	**Total**
INCREASE IN ASSETS					
Contributions					
The City of Winnipeg	$ 38,380	$ -	$ -	$ -	**$ 38,380**
Employees	14,198	-	-	-	**14,198**
Reciprocal transfers from other plans	1,525	-	-	-	**1,525**
	54,103	-	-	-	**54,103**
Investment income (Note 5)	60,104	1,403	570	-	**62,077**
Transfer to Contribution Stabilization Reserve - Resolution of funding surplus (Note 3)	(13,026)	13,026	-	-	**-**
Transfer to City Account - Resolution of funding surplus (Note 3)	(6)	-	-	6	**-**
Total increase (decrease) in assets	101,175	14,429	570	6	**116,180**
DECREASE IN ASSETS					
Current period change in fair value of investments	108,347	2,530	1,027	-	**111,904**
Pension payments	62,635	-	-	-	**62,635**
Lump sum benefits (Note 7)	4,345	-	-	-	**4,345**
Administrative expenses (Note 8)	1,422	-	-	-	**1,422**
Investment management and custodial fees	9,057	212	86	-	**9,355**
Total decrease in assets	185,806	2,742	1,113	-	**189,661**
(Decrease) increase in net assets	(84,631)	11,687	(543)	6	**(73,481)**
Net assets available for benefits at beginning of year	2,061,946	$ 34,655	$ 19,346	-	**2,115,947**
Net assets available for benefits at end of year	$ 1,977,315	$ 46,342	$ 18,803	$ 6	**$ 2,042,466**

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 2

SCHEDULE OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS BY ACCOUNT
For the year ended December 31,
(in $ thousands)

	2021				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	Total
INCREASE IN ASSETS					
Contributions					
The City of Winnipeg	$ 37,224	$ -	$ -	$ -	$ 37,224
Employees	13,794	-	-	-	13,794
Reciprocal transfers from other plans	2,505	-	-	-	2,505
	53,523	-	-	-	53,523
Investment income (Note 5)	55,126	924	516	-	56,566
Current period change in fair value of investments	209,572	3,511	1,960	-	215,043
Transfer from Contribution Stabilization Reserve -					
Resolution of funding deficiency (Note 3)	11,757	(11,757)	-	-	-
				-	
Total increase (decrease) in assets	329,978	(7,322)	2,476	-	325,132
DECREASE IN ASSETS					
Pension payments	60,148	-	-	-	60,148
Lump sum benefits (Note 7)	4,683	-	-	-	4,683
Administrative expenses (Note 8)	1,602	-	-	-	1,602
Investment management and custodial fees	8,881	149	83	-	9,113
Total decrease in assets	75,314	149	83	-	75,546
Increase (decrease) in net assets	254,664	(7,471)	2,393	-	249,586
Net assets available for benefits at beginning of year	1,807,282	42,126	16,953	-	1,866,361
Net assets available for benefits at end of year	$ 2,061,946	$ 34,655	$ 19,346	$ -	$ 2,115,947

See accompanying notes to the financial statements

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
SCHEDULE 3

SCHEDULE OF CHANGES IN SURPLUS BY ACCOUNT

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

	2022				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	**Total**
SURPLUS, BEGINNING OF YEAR	$ 262,022	$ 34,655	$ 19,346	$ -	**$ 316,023**
Decrease (increase) in net assets available for benefits for the year	(84,631)	11,687	(543)	6	**(73,481)**
Net decrease in accrued pension benefits for the year	35,327	-	-	-	**35,327**
SURPLUS, END OF YEAR	$ 212,718	$ 46,342	$ 18,803	$ 6	**$ 277,869**

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

	2021				
	Main Account - General Component	Main Account - Contribution Stabilization Reserve	Plan Members' Account	City Account	Total
SURPLUS, BEGINNING OF YEAR	$ 111,577	$ 42,126	$ 16,953	$ -	$ 170,656
Increase (decrease) in net assets available for benefits for the year	254,664	(7,471)	2,393	-	249,586
Net increase in accrued pension benefits for the year	(104,219)	-	-	-	(104,219)
SURPLUS, END OF YEAR	$ 262,022	$ 34,655	$ 19,346	$ -	$ 316,023

See accompanying notes to the financial statements

1. Description of Plan

a) General

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

b) Administration

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

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

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

c) Financial structure

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

i) Main Account – General Component

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

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

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

ii) Main Account – Contribution Stabilization Reserve

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

1. Description of Plan (continued)

c) Financial structure (continued)

ii) Main Account – Contribution Stabilization Reserve (continued)

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

iii) Plan Members' Account

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

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

iv) City Account

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

d) Retirement pensions

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

Retirement and survivor pensions, including deferred pensions, are increased annually to provide cost-of-living adjustments at the stated level in the *Plan* text, which level is currently 52.5% (2021 – 50.0%) of the percentage change in the Consumer Price Index for Canada.

e) Disability pensions

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

f) Survivor's benefits

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

1. Description of Plan (continued)

g) Termination benefits

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

h) Variation in benefits

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

2. Summary of Significant Accounting Policies

a) Basis of presentation

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

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

b) Investments and investment income

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

Publicly traded equity investments are valued using published market prices.

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

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

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

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

2. Summary of Significant Accounting Policies (continued)

b) Investments and investment income (continued)

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

c) Financial instruments other than investments

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

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

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

d) Foreign currency translation

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

e) Use of estimates

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

3. Obligations for Pension Benefits

An actuarial valuation of the *Plan* was performed as of December 31, 2022 by Eckler Ltd. This valuation was used to determine the actuarial present value of accrued benefits disclosed in the Statement of Financial Position as at December 31, 2022. For the comparative 2021 figures, the actuarial present value of accrued benefits at December 31, 2021 is based on the December 31, 2021 actuarial valuation performed by Eckler Ltd.

The economic assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long term economic and investment market conditions. Significant long term actuarial assumptions used for accounting purposes included a valuation interest rate of 5.15% (2021 – 4.75%) per year, inflation of 3.50% for the next year and 2.0% thereafter (2021 – 3.50% for the

3. Obligations for Pension Benefits (continued)

next two years and 2.0% thereafter) per year and general increases in pay of 3.25% (2021 – 3.25%) per year. The change in the valuation interest rate from 4.75% to 5.15% decreased the obligations for pension benefits by $114,605. The economic assumptions for the termination discount rates were revised, which decreases the obligations for pension benefits by $1,004.

The financial statement valuation interest rate of 5.15% (2021 – 4.75%) is a current snapshot view of the Plan's financial position based on market rates. The financial statement valuation is considered the best estimate to project the value for future pension plan liabilities for accounting purposes.

The *Plan's* funding valuation interest rate of 4.75% (2021 – 4.75%) assesses the long-term health of the plan and is used to establish contribution and benefit rates. Funding valuations are prepared in accordance with legislative and regulatory requirements using actuarial assumptions to project the value of future pension plan liabilities for funding purposes.

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

The actuarial valuation as at December 31, 2022 disclosed a $44,537 funding surplus which was resolved in accordance with the *Plan*, by transferring $26 to the City Account, by transferring $22,256 from the Main Account – Contribution Stabilization Reserve to the Main Account – General Component and by increasing future cost-of-living adjustments from 52.5% to 56.8% of inflation (with a corresponding increase in obligations for pension benefits of $22,256), effective January 1, 2023.

The actuarial valuation as at December 31, 2021 disclosed a $26,057 funding surplus which is to be resolved in accordance with the *Plan*, by transferring $6 to the City Account, by transferring $13,025.5 from the Main Account – General Component to the Main Account – Contribution Stabilization Reserve and by increasing future cost-of-living adjustments from 50.0% to 52.5% of inflation (with a corresponding increase in obligations for pension benefits of $13,025.5), effective January 1, 2022.

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

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

(in $ thousands)

3. Obligations for Pension Benefits (continued)

	2022	2021
Surplus for financial statement reporting purposes - Main Account - General Component	**$ 212,718**	$ 262,022
Variance between funding and financial statement valuation		
Interest rate	**(114,605)**	-
Fair value changes not reflected in actuarial value of assets	**(53,576)**	(235,965)
Surplus for actuarial valuation purposes - Main Account - General Component	**44,537**	26,057
Add: special purpose reserves and accounts		
Main Account – Contribution Stabilization Reserve	**46,342**	34,655
Plan Members' Account	**18,803**	19,346
City Account	**6**	-
Surplus for actuarial valuation purposes - including special purpose reserves and accounts	**$ 109,688**	$ 80,058

The funding requirements relating to the *Plan's* solvency position under *The Pension Benefits Regulation*, are based on the last actuarial valuation for funding purposes filed with the Manitoba Pension Commission, which will be as at December 31, 2022.

The actuarial valuation as at December 31, 2022 disclosed that the *Plan* no longer has a solvency deficiency, whereas the actuarial valuation as at December 31, 2020 disclosed a solvency deficiency of $11,562.

An irrevocable letter of credit has been used to secure special payments that would otherwise be required from the City of Winnipeg. The existing letter of credit took effect from October 27, 2022 and as of December 31, 2022 the irrevocable letter of credit secured special payments that would otherwise be required from the City of Winnipeg in the amount of $4,830. The letter of credit expires October 26, 2023.

As the Plan no longer has a solvency deficiency, the letter of credit will no longer be required and will not be renewed.

4. Management of Financial Risk

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

(in $ thousands)

4. Management of Financial Risk (continued)

a) Credit risk

Credit risk arises from the potential for an investee to fail or to default on its contractual obligations to the *Plan*, and is concentrated in the *Plan's* investment in bonds, debentures, mortgages, private debt and short-term deposits. At December 31, 2022, the *Plan's* credit risk exposure related to bonds, debentures, mortgages, private debt and short-term deposits totaled $655,433 (2021 - $696,113).

The *Plan's* concentration of credit risk as at December 31, 2022, related to bonds, debentures, and mortgages, as well as private debt is categorized amongst the following types of issuers:

Type of Issuer	2022 Fair Value	2021 Fair Value
Government of Canada and Government of Canada guaranteed	**$ 36,706**	$ 62,236
Provincial and Provincial guaranteed	**111,756**	127,568
Canadian cities and municipalities	**5,725**	6,921
Corporations and other institutions	**3,921**	29,950
Commercial mortgages	**186,975**	157,318
Bonds, debentures and mortgages	**345,083**	383,993
Private debt	**244,516**	232,308
	$ 589,599	$ 616,301

The *Plan's* investments include short-term deposits with the City of Winnipeg which have a fair value of $3,441 at December 31, 2022 (2021 – $8,446).

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

As at December 31, 2022 bonds and debentures analyzed by credit rating are as follows:

	2022		2021	
Credit Rating	**Percent of Total Bonds**	**Percent of Net Assets**	Percent of Total Bonds	Percent of Net Assets
AAA	**24.3**	**1.9**	28.6	3.1
AA	**66.5**	**5.2**	53.4	5.7
A	**8.3**	**0.6**	12.2	1.3
BBB	**0.9**	**0.1**	5.8	0.6
	100.0	**7.8**	100.0	10.7

At December 31, 2022, the interest rates of the loans within the mortgage portfolios range from 2.8% to 14.0%. The *Plan's* external managers for the mortgage and private debt portfolios limit credit risk through diversification, performing due diligence at the time of investing including internal credit analysis, and enforcing loan covenants while monitoring the loans until maturity.

(in $ thousands)

4. Management of Financial Risk (continued)

a) Credit risk (continued)

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

b) Liquidity risk

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

c) Interest rate risk

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

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

The *Plan* has approximately 20.1% (2021 – 21.9%) of its assets invested in bonds, debentures, mortgages and short-term investments as at December 31, 2022. The returns on bonds, debentures and mortgages are particularly sensitive to changes in nominal interest rates.

The term to maturity and related fair values of investments in bonds, debentures and mortgages held by the *Plan* at December 31, 2022 are as follows:

Term to Maturity	2022 Fair Value	2021 Fair Value
Less than one year	**$ 43,488**	$ 33,577
One to five years	**152,637**	130,608
Greater than five years	**148,958**	219,808
	$ 345,083	$ 383,993

As at December 31, 2022, had prevailing interest rates raised or lowered by 0.5% (2021 – 0.5%) assuming a parallel shift in the yield curve, with all other variables held constant, the fair value of investments in bonds and debentures would have decreased or increased, respectively, by approximately $13,332 (2021 – $16,100), approximately 0.7% of total net assets (2021 – 0.8%).

(in $ thousands)

4. Management of Financial Risk (continued)

c) Interest rate risk (continued)

The *Plan's* sensitivity to interest rate changes was estimated using the weighted average duration of the bond portfolio. In practice, the actual results may differ and the difference could be material.

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

d) Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency exposure arises from the *Plan's* holdings of foreign equity, private equity, private debt and infrastructure investments. The *Plan's* investment managers may, from time to time, hedge some of this exposure using forward contracts. The following table indicates the *Plan's* net foreign currency exposure after giving effect to the net related economic hedge as at December 31, 2022. The table also illustrates the potential impact to the *Plan's* net assets, all other variables held constant, as a result of a 10% change in these currencies relative to the Canadian dollar. In practice, the actual results may differ from this sensitivity analysis and the difference could be material.

	2022				2021	
	Gross Exposure	Net Foreign Currency Hedge	Net Exposure	Impact on Net Assets	Net Exposure	Impact on Net Assets
United States	**$ 789,743**	**$ 29,679**	**$ 760,064**	**$ 76,006**	$ 753,697	$75,697
Euro countries	**105,985**	**-**	**105,985**	**10,598**	117,097	11,710
United Kingdom	**50,824**	**28**	**50,796**	**5,080**	55,909	5,591
Switzerland	**44,106**	**-**	**44,106**	**4,410**	17,904	1,790
Japan	**25,654**	**28**	**25,626**	**2,563**	28,001	2,800
Australia	**22,215**	**-**	**22,215**	**2,221**	16,214	1,621
Hong Kong	**16,048**	**-**	**16,048**	**1,605**	19,777	1,978
Sweden	**9,116**	**-**	**9,116**	**912**	8,746	875
Other	**2,137**	**-**	**2,137**	**214**	36,365	3,636
	$ 1,065,828	**$ 29,735**	**$ 1,036,093**	**$103,609**	$1,053,710	$105,371

e) Other price risk

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

(in $ thousands)

4. Management of Financial Risk (continued)

e) Other price risk (continued)

For this *Plan*, the most significant exposure to other price risk is from its investment in equity securities. As at December 31, 2022, had the prices on the respective stock exchanges for these securities increased or decreased by 15%, with all other variables held constant, net assets would have increased or decreased by approximately $130,767 (2021 – $152,622), approximately 6.4% of total net assets (2021 – 7.2%). In practice, the actual results may differ and the difference could be material.

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

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

The table below itemizes the estimated fair value and related change in fair value of investments recognized for the year ended December 31, 2022, for the following investment assets with exposure to valuation risk:

	2022			2021		
	Fair Value of Investments	Percent of Net Assets	Change in Fair Value of Investments	Fair Value of Investments	Percent of Net Assets	Change in Fair Value of Investments
Private equities	**$ 4,626**	**0.2**	**$ 2,711**	$ 4,051	0.2	$ 3,871
Real estate	**255,464**	**12.5**	**28,382**	210,381	9.9	34,385
Infrastructure	**256,479**	**12.6**	**18,705**	189,985	9.0	12,134
Private debt	**244,516**	**12.0**	**10,567**	232,308	11.0	2,739

f) Fair value hierarchy

Financial instruments recorded at fair value on the Statement of Financial Position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for

(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

the asset or liability, either directly or indirectly; and, Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs). The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following tables present the investment assets recorded at fair value in the Statement of Financial Position as at December 31, 2022, classified using the fair value hierarchy described above:

	Level 1	Level 2	Level 3	2022 Total Investment Assets at Fair Value
Bonds, debentures and mortgages	**$ -**	**$ 345,083**	**$ -**	**$ 345,083**
Canadian equities	**362,608**	**-**	**-**	**362,608**
Foreign equities	**509,172**	**-**	**-**	**509,172**
Cash and short-term deposits	**65,834**	**-**	**-**	**65,834**
Private equities	**-**	**-**	**4,626**	**4,626**
Real estate	**-**	**-**	**255,464**	**255,464**
Infrastructure	**-**	**-**	**256,479**	**256,479**
Private debt	**-**	**-**	**244,516**	**244,516**
	$ 937,614	**$ 345,083**	**$ 761,085**	**$ 2,043,782**

	Level 1	Level 2	Level 3	2021 Total Investment Assets at Fair Value
Bonds, debentures and mortgages	$ -	$ 383,993	$ -	$ 383,993
Canadian equities	378,976	-	-	378,976
Foreign equities	638,505	-	-	638,505
Cash and short-term deposits	79,812	-	-	79,812
Private equities	-	-	4,051	4,051
Real estate	-	-	210,381	210,381
Infrastructure	-	-	189,985	189,985
Private debt	-	-	232,308	232,308
	$ 1,097,293	$ 383,993	$ 636,725	$ 2,118,011

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

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

(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

Private Equities	2022	2021
Fair value, beginning of year	**$ 4,051**	$ 5,669
Gains recognized in increase in net assets	**1,211**	3,871
Purchases	**20**	-
Sales/distributions	**(1,156)**	(1,989)
Return of Capital from subsidiary	**-**	(3,500)
Purchases of short-term investments within subsidiary	**500**	-
	$ 4,626	$ 4,051

Real Estate	2022	2021
Fair value, beginning of year	**$ 210,381**	$ 180,771
Gains recognized in increase in net assets	**28,383**	34,385
Purchases	**18,116**	-
Sales	**(1,416)**	(4,775)
	$ 255,464	$ 210,381

Infrastructure	2022	2021
Fair value, beginning of year	**$ 189,985**	$ 177,462
Gains recognized in increase in net assets	**18,705**	12,134
Purchases	**49,477**	2,207
Sales	**(1,688)**	(1,818)
	$ 256,479	$ 189,985

Private debt	2022	2021
Fair value, beginning of year	**$ 232,308**	$ 215,672
Gains recognized in increase in net assets	**10,567**	2,739
Purchases	**17,819**	44,252
Sales	**(16,178)**	(30,355)
	$ 244,516	$ 232,308

Section 3.29 of *The Pension Benefits Act Regulations* requires disclosure of each investment asset that has a fair value greater than two percent of the fair value of the investment assets of the Fund. As at December 31, 2022, the *Plan* held the following investments that met this classification:

Bonds, debentures and mortgages	2022
TD Emerald Canadian Long Government Bond Pooled Fund Trust	144,538
ACM Commercial Mortgage Fund	94,102
TD Greystone Mortgage Fund	92,873

THE CITY OF WINNIPEG
WINNIPEG POLICE PENSION PLAN
Notes to the Financial Statements
For the year ended December 31, 2022
(in $ thousands)

4. Management of Financial Risk (continued)

f) Fair value hierarchy (continued)

	2022
Foreign equities	
State Street S&P 500 Index Common Trust Fund	127,464
Hillsdale Global Performance Equity Fund	47,646
Real estate	
TD Greystone Real Estate Fund Inc.	76,377
Carlyle Property Investors, L.P.	62,233
Bentall Kennedy Prime Canadian Property Fund Ltd.	54,927
Clarion Lion Industrial Trust Fund, L.P.	42,234
Infrastructure	
OIM B4 2013 L.P.	71,371
IFM Global Infrastructure (Canada), L.P.	65,166
Stonepeak Core Fund, L.P.	53,361

5. Investment Income

	2022	2021
Bonds, debentures and mortgages	**$ 15,367**	$ 11,341
Canadian equities	**10,434**	9,484
Foreign equities	**7,573**	7,315
Cash, short-term deposits and other	**656**	97
Real estate	**4,133**	4,116
Infrastructure	**6,194**	8,452
Private debt	**17,720**	15,761
	$ 62,077	$ 56,566
Allocated to:		
Main Account – General Component	**$ 60,104**	$ 55,127
Main Account – Contribution Stabilization Reserve	**1,403**	924
Plan Members' Account	**570**	515
City Account	**-**	-
	$ 62,077	$ 56,566

6. Investment Transaction Costs

During 2022, the *Plan* incurred investment transaction costs in the form of brokerage commissions, in the amount of $769 (2021 - $648). Investment transaction costs are included in the current period change in fair value of investments.

(in $ thousands)

7. Lump Sum Benefits

		2022		2021
Death benefits	**$**	**1,044**	$	627
Payments on relationship breakdown		**939**		1,824
Termination benefits		**2,358**		2,092
Other		**4**		140
	$	**4,345**	$	4,683

8. Administrative Expenses

		2022		2021
The Winnipeg Civic Employees' Benefits Program	**$**	**1,184**	$	1,341
Actuarial fees		**111**		154
Audit fees		**36**		35
Legal fees		**31**		46
Consulting fees		**1**		-
General and administrative expenses		**59**		26
	$	**1,422**	$	1,602

9. Commitments

The *Plan's* wholly-owned subsidiary, 5332665 Manitoba Ltd., has entered into an investment management agreement wherein it has authorized an investment manager to make private equity investment commitments on its behalf, with aggregate commitments not to exceed $20,000. Commitments will be funded over the next several years. As at December 31, 2022, $16,408 had been funded, $13,000 (2021 – $13,500) capital had been returned back to the *Plan* and the remaining fair value of this investment is $4,626 (2021 – $4,051). No further private equity investments are expected to occur in 5332665 Manitoba Ltd.