Financial Statements of

CANADIAN MENNONITE BRETHREN PENSION PLAN

Year ended December 31, 2020

CANADIAN MENNONITE BRETHREN PENSION PLAN
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Year ended December 31, 2020

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INDEPENDENT AUDITORS' REPORT

To the Trustees of Canadian Mennonite Brethren Pension Plan

Opinion

We have audited the financial statements of Canadian Mennonite Brethren Pension Plan (the "Entity"), which comprise:

- the statement of financial position as at December 31, 2020;
- the statement of changes in net assets available for benefits for the year then ended;
- and notes to the financial statements, including a summary of significant accounting policies (hereinafter referred to as the "financial statements").

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

Basis for Opinion

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

We are independent of the Entity 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 Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity’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 Entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

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

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

KPMG LLP

Chartered Professional Accountants

Winnipeg, Canada

April 28, 2021

CANADIAN MENNONITE BRETHREN PENSION PLAN

Statement of Financial Position

December 31, 2020, with comparative information for 2019

	2020	2019
Assets		
Cash and short-term investments	$ 8,773,490	$ 6,672,712
Mutual funds	14,226,875	8,142,437
Fixed income and related securities	28,312,078	26,537,137
Exchange-traded funds	–	9,385,883
Canadian equity and related securities	6,228,655	11,627,900
U.S. equity and related securities	29,807,470	18,171,930
International equity and related securities	17,857,530	14,476,767
	105,206,098	95,014,766
Liabilities		
Payable for investments purchased	5,586,017	–
Net assets available for benefits	$ 99,620,081	$ 95,014,766

See accompanying notes to financial statements.

On behalf of the Board:

“Michael Dick” Director

“Jeffrey Dyck” Director

CANADIAN MENNONITE BRETHREN PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

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

	2020	2019
Increase in net assets:		
Contributions:		
Employer	$ 2,264,950	$ 2,343,687
Employees	2,264,950	2,343,687
Employee voluntary	52,180	54,856
Investment income (note 3)	2,060,940	2,165,978
Realized investment gains, net of realized losses	1,947,156	3,957,966
Net unrealized investment gains	5,471,565	6,122,993
	14,061,741	16,989,167
Decrease in net assets:		
Retirement withdrawals	8,656,479	3,872,926
Terminations	118,020	65,231
Investment management fees	552,494	532,626
Trustee fees	129,433	128,008
	9,456,426	4,598,791
Increase in net assets available for benefits	4,605,315	12,390,376
Net assets available for benefits, beginning of year	95,014,766	82,624,390
Net assets available for benefits, end of year	$ 99,620,081	$ 95,014,766

See accompanying notes to financial statements.

1. Description of the Plan:

Canadian Mennonite Brethren Pension Plan (the "Plan") is an employer pension plan which provides pensions for the employees of the Canadian Conference of Mennonite Brethren Churches (the "Conference") and other Mennonite Brethren employers. The Plan is a defined contribution pension plan which is financed by contributions by the employers and employees. The Plan is registered under the Pension Benefits Act of British Columbia, registration #0561175.

These financial statements reflect only the assets and liabilities under the administration of the Trustees of the Plan on behalf of the Canadian Conference of Mennonite Brethren Churches. The term "net assets", as used throughout these financial statements, refers to net assets available for benefits.

The funding policy, in accordance with the Plan is that employees must contribute 5 percent of their earnings to the Plan, with the balance of the funding coming from employers matching employees' contributions.

The Plan is fully vested upon receipt of the first contribution.

Withdrawal or transfers of the balance of the member's account are available when a member ceases to be employed by the employer.

The Plan is a registered pension plan as defined by the *Income Tax Act* (Canada) and is not subject to income taxes.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements are prepared using Canadian accounting standards for pension plans. For accounting policies that do not relate to the Plan's investment portfolio, the Plan has elected to apply Canadian accounting standards for private enterprises.

A statement of changes in pension obligations has not been provided since the changes in the pension obligation for the year is equal to the change in net assets available for benefits that year.

2. Significant accounting policies (continued):

(b) Financial instruments:

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

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

(c) Fair value measurement:

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

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

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

2. Significant accounting policies (continued):

The Plan has categorized its assets and liabilities that are carried at fair value on a recurring basis, based on the priority of the inputs to the valuation techniques used to measure fair value, into a three level fair value hierarchy. Financial assets and liabilities measured at fair value are categorized as follows:

Level 1: Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market.

Level 2: Fair value is based on quoted prices for similar assets or liabilities in active markets, valuation that is based on significant observable inputs or inputs that are derived principally for or corroborated with observable market data through correlation or other means.

Level 3: Fair value is based on valuation techniques that require one or more significant unobservable inputs or the use of broker quotes. These unobservable inputs reflect the Plan’s assumptions about the assumptions market participants would use in pricing the assets or liabilities.

All changes in fair value, other than interest and dividend income, are recognized in the statement of changes in net assets available for benefits within unrealized and realized investment gains and losses.

Fair values of investments are determined as follows:

Bonds, equities and exchange-traded funds are valued at year-end closing market prices.

Since money market instruments are primarily comprised of Canada treasury bills, government and corporate short-term notes, their carrying value approximates fair value given the nature of these investments.

Mutual funds are valued at the unit values supplied by the fund administrator, which represents the Plan’s proportionate share of underlying net assets at fair values determined using year-end closing market prices.

2. Significant accounting policies (continued):

Investments in derivative financial instruments, being forward foreign exchange contracts, are valued at year end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.

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

(d) Foreign currency translation:

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

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits within unrealized investment gains and losses.

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

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

2. Significant accounting policies (continued):

(f) Contributions:

Employee and employer contributions are recognized on an accrual basis.

(g) Benefits:

Benefit payments to members, termination refunds to former members, and transfer payments to other plans are recorded in the period in which they are paid or payable. Any benefit payment accruals not paid are reflected in accounts payable and accrued liabilities.

(h) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets during the year. Actual results could differ from those estimates.

3. Investment income:

	2020	2019
Cash and short-term investments	$ 8,561	$ 20,275
Fixed income and related securities	676,835	632,396
Exchange-traded funds	456,488	412,038
Canadian equity and related securities	354,642	384,960
U.S. equity and related securities	293,022	331,790
International equity and related securities	271,392	384,519
	$ 2,060,940	$ 2,165,978

4. Risk management:

The Plan is exposed to a variety of financial risks as a result of its investment activities and has policies and procedures that govern the management of market, credit and liquidity risk. The Finance Committee establishes a target asset mix among interest bearing instruments and Canadian and foreign equities to ensure diversification across asset classes. This strategy is provided to the investment managers who implement and monitor it to ensure the policies are met.

4. Risk management (continued):

The Board of Directors through the Finance Committee, a permanent sub-committee of the Board, has overall responsibility for the Plan including the establishment and review of the Plan's risk management objectives and policies. The Board has appointed RBC Dominion Securities to manage the ongoing investment operations of the Plan in keeping with the agreed upon Statement of Investment Policies and Procedures (SIPP) and as required by the law. The Finance Committee receives regular reports from RBC Dominion Securities through which it reviews the market values of the Plan assets.

The principal financial instruments used by the Plan, from which financial instrument risk arises are as follows:

(i) cash, short-term investments and mutual funds; and

(ii) investments in fixed income and related securities, Canadian equity and related securities, U.S. equity and related securities, international equity and related securities and exchange-traded funds.

There have been no substantive changes in the Plan's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or methods used to measure them from previous periods.

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Plan invests in interest-bearing financial assets. The Plan is exposed to the risk that the value of such financial assets will fluctuate due to changes in the prevailing levels of market interest rates. The Plan's exposure to interest rate risk is concentrated in its investments in fixed income funds and a money market mutual fund. To manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set by the Finance Committee and monitored by the investment manager. As at December 31, 2020, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets would likely have decreased or increased, respectively, by approximately $2,403,500 (2019 - $1,506,000).

4. Risk management (continued):

(ii) Foreign currency risk:

Currency risk is the risk that fair value or future cash flows of a financial instrument will fluctuate as a result of the Plan investing in foreign currencies and converting non-Canadian earnings at different points in time at different foreign exchange rates. The Plan currently holds foreign equities. This investment approach exposes the Plan to changes in exchange rates which can affect the net assets available for benefits. The Plan does not hedge foreign currency risk.

The Plan’s exposure to foreign currencies to the Canadian dollar is shown below:

As at December 31, 2020	Actual currency exposure	%
Canadian	$ 55,650,734	50.90
U.S. dollar	49,555,364	49.10
	$ 105,206,098	100.00

As at December 31, 2019	Actual currency exposure	%
Canadian	$ 58,955,729	62.05
U.S. dollar	36,059,037	37.95
	$ 95,014,766	100.00

A 10 percent increase or decrease in exchange rates at December 31, 2020, with all other variables held constant, would have resulted in a change in unrealized gains (losses) of approximately $4,956,000 (2019 - $3,606,000).

(iii) Other price risk:

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Plan is subject to equity price risk due to daily changes in the market values of its equity portfolio.

4. Risk management (continued):

Equity price risk is managed by investment policy guidelines that provide for prudent investment in equity markets within defined limits. The Plan does not use derivative instruments to reduce its exposure to equity price risk.

As at December 31 2020, a decline of 10 percent in equity values, with all other variables held constant, would have impacted the Plan's equity investments by an approximate unrealized loss of $5,389,000 (2019 - $4,428,000).

(b) Credit risk:

The Plan is exposed to credit risk through its investment in fixed income securities, which is the risk that a counterparty will be unable to pay amounts in full when due. 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 Plan utilizes multiple counterparties and those that have a high credit rating in order to minimize credit risk.

Unless otherwise authorized by the Board, the asset mix of the fund must at all times be in accordance with the Plan's SIPP. In addition, all investments are required to be maintained within legal limitations for employee pension plans registered under the *British Columbia Pension Benefits Act* and the Pension Benefits Standards Regulations (1985) Canada, and in such a manner as is necessary to avoid any penalty under the *Income Tax Act* (Canada). These measures mitigate the risk of credit default. The Finance Committee reviews investment reports with the investment advisor to monitor exposure to risk.

The breakdown of the Plan's fixed income portfolio by credit ratings from various rating agencies is presented below:

	2020		2019	
Credit rating	Carrying value	Coupon rate	Carrying value	Coupon rate
AAA	$ –	%	$ 1,664,940	2.80%
AA	16,275,588	%	15,807,994	2.86%
A	9,128,564	%	5,871,016	2.85%
BBB	2,907,926	%	3,193,187	2.58%
	$ 28,312,078		$ 26,537,137	

4. Risk management (continued):

Credit risk associated with contributions receivable is minimized due to their nature. No provision for doubtful contributions has been recorded in either 2020 or 2019.

(c) Liquidity risk:

Liquidity risk is the risk that the Plan will encounter difficulty in meeting financial obligations as they come due. The Plan may be subject to liquidity constraints because of insufficient volume in the markets for the securities of the Plan or the securities may be subject to legal or contractual restrictions on their resale. Liquidity risk is managed by investing the majority of the Plan's assets in investments that are traded in an active market and can be readily disposed.

The table below summarizes the fair value by the earliest contractual maturity of the Plan's fixed income investments:

	2020	2019
Less than one year	$ –	$ 836,265
One to five years	11,701,487	14,436,935
After five years	16,610,591	11,263,937
Total fair value	$ 28,312,078	$ 26,537,137

(d) Other risk:

The global pandemic related to an outbreak of COVID-19 has cast additional uncertainty on the assumptions used by management in making its judgements and estimates. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Plan in future periods.

5. Disclosures relating to fair value measurements:

The following table summarizes the fair value measurements recognized in the statement of financial position categorized by fair value hierarchy:

December 31, 2020	Level 1	Level 2	Level 3	Total
Cash and short-term investments	$ 3,276,065	$ 5,497,425	$ –	$ 8,773,490
Mutual funds	5,148,684	9,078,191	–	14,226,875
Fixed income and related securities	–	28,312,078	–	28,312,078
Exchange-traded funds	–	–	–	–
Canadian equity and related securities	6,228,655	–	–	6,228,655
U.S. equity and related securities	29,807,470	–	–	29,807,470
International equity and related securities	17,857,530	–	–	17,857,530
	$ 62,318,404	$ 42,887,694	$ –	$105,206,098

December 31, 2019	Level 1	Level 2	Level 3	Total
Cash and short-term investments	$ 6,672,712	$ –	$ –	$ 6,672,712
Mutual funds	–	–	8,142,437	8,142,437
Fixed income and related securities	–	26,537,137	–	26,537,137
Exchange-traded funds	9,385,883	–	–	9,385,883
Canadian equity and related securities	11,627,900	–	–	11,627,900
U.S. equity and related securities	18,171,930	–	–	18,171,930
International equity and related securities	14,476,767	–	–	14,476,767
	$ 60,335,192	$ 26,537,137	$ 8,142,437	$ 95,014,766

During the year ended December 31, 2020, $8,142,437 was transferred from level 3 to level 2. During the year ended December 31, 2019, there were no transfers between levels.

5. Disclosures relating to fair value measurements (continued):

Level 3 fair values

The fair value of the mutual funds is determined based on the underlying net asset values of the mutual funds. The following table presents the reconciliation of the Plan's mutual funds measured at fair value using unobservable inputs (Level 3):

Contingent consideration	2020	2019
Balance, beginning of year	$ 8,142,437	$ 6,414,056
Unrealized gains	–	1,728,381
Transfer to level 2	(8,142,437)	–
Balance, end of year	$ –	$ 8,142,437

6. Capital management:

The capital of the Plan is represented by net assets available for benefits. There have been no changes in what the Plan considers to be its capital since the previous period. The Plan fulfils its objectives by adhering to specific investment policies outlined in the SIPP which is reviewed annually by the Finance Committee.

The Plan's investment positions expose it to a variety of risks which are discussed in note 4. The Plan manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP.

As a defined contribution pension plan, the Plan's operations are reliant on revenues generated annually. The Plan has accumulated net assets available for benefits over its history. A portion of the net assets available for benefits is retained as working capital which may be required from time to time due to timing days in receiving its primary revenues. The remaining balance in net assets available for benefits is available for the use of the Plan and is allocated between each of the pension plan members.