

## **Financial Statements**

### **Toronto Fire Department Superannuation and Benefit Fund**

[Ontario Registration Number 0351601]

December 31, 2019



## *Independent auditor's report*

To the Benefit Fund Committee of Toronto Fire Department Superannuation and Benefit Fund

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### *Our opinion*

In our opinion, the accompanying financial statements present fairly, in all material respects, the net assets available for benefits of Toronto Fire Department Superannuation and Benefit Fund (the Fund) as at December 31, 2019 and the changes in its net assets available for benefits for the year then ended in accordance with the basis of accounting described in note 2 to the financial statements.

### **What we have audited**

The Fund's financial statements comprise:

- the statement of net assets available for benefits as at December 31, 2019;
  - the statement of changes in net assets available for benefits for the year then ended; and
  - the notes to the financial statements, which include a summary of significant accounting policies.
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### *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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Independence**

We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

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### *Emphasis of matter – basis of accounting and restriction on use*

We draw attention to note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Benefit Fund Committee of the Fund to meet the filing requirements of the Financial Services Regulatory Authority of Ontario (FSRA). As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Benefit Fund Committee of the Fund and FSRA, in accordance with the terms of our engagement, and should not be used by parties other than the Benefit Fund Committee of the Fund or FSRA. Our opinion is not modified in respect of this matter.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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### *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 the basis of accounting described in note 2 to the financial statements, 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 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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### *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 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 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 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.

*PricewaterhouseCoopers LLP*

Chartered Professional Accountants, Licensed Public Accountants

Vaughan, Ontario  
June 25, 2020

## Toronto Fire Department Superannuation and Benefit Fund

### STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at December 31	2019 \$	2018 \$
<b>Assets</b>		
Cash and cash equivalents	7,253,149	8,840,789
Investments [note 3[a]]	195,831,524	190,154,760
Investment related receivables		
Pending investment transactions receivable	—	107,891
Interest	1,528	2,202
Dividends	48,006	78,067
Accounts receivable	10,486	67,509
	<u>203,144,693</u>	<u>199,251,218</u>
<b>Liabilities</b>		
Accounts and benefits payables	837,002	853,641
Pending investment transactions payable	131	319,433
Administrative expenses payable	136,459	169,329
	<u>973,592</u>	<u>1,342,403</u>
<b>Net assets available for benefits</b>	<u>202,171,101</u>	<u>197,908,815</u>

*The accompanying notes are an integral part of the financial statements*

On behalf of the Plan Administrator:



Acting Chair



City Controller

**Toronto Fire Department Superannuation and Benefit Fund**

**STATEMENT OF CHANGES IN NET ASSETS  
AVAILABLE FOR BENEFITS**

For the year ended December 31	<b>2019</b>	<b>2018</b>
	\$	\$
<b>Increases in Net Assets Available for Benefits</b>		
Investment income		
Interest	2,838,241	3,262,206
Dividends	3,721,204	2,463,498
Net realized gain on investments <i>[note 3[c]]</i>	9,728,358	6,502,371
Other Income	—	139,970
<b>Total increase in net assets</b>	<u>16,287,803</u>	<u>12,368,045</u>
<b>Decreases in Net Assets Available for Benefits</b>		
Pension benefits - member	12,692,983	13,565,370
Pension benefits - survivor	7,441,633	7,185,057
Administrative expenses <i>[note 6]</i>	936,758	905,990
Transaction costs	—	37,123
Net change in unrealized gain on investments	(9,045,857)	15,736,316
<b>Total decrease in net assets</b>	<u>12,025,517</u>	<u>37,429,856</u>
<b>Increase (decrease) in net assets available for benefits for the year</b>	4,262,286	(25,061,811)
Net assets available for benefits, beginning of year	197,908,815	222,970,626
<b>Net assets available for benefits, end of year</b>	<u>202,171,101</u>	<u>197,908,815</u>

*The accompanying notes are an integral part of the financial statements*

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **1. DESCRIPTION OF THE FUND**

##### **General**

The following description of the Toronto Fire Department Superannuation and Benefit Fund [the "Fund"] is a summary only. For more complete information reference should be made to By-Law No. 10649 as amended.

The Fund is registered under the Pension Benefits Act, R.S.O. 1990 [the "Act"], Registration Number 0351601. The Fund is a defined benefit pension fund established in 1891 covering employees of the Toronto Fire Department who were hired prior to July 1, 1968. From that date, pensions for new employees must be provided through the Ontario Municipal Employees Retirement System (OMERS).

##### **Retirement pension**

A normal pension is available based on the number of years of credited service up to 35 years times 2% of the best five years' average earnings reduced by Canada Pension Plan's ["C.P.P."] reduction calculated at 0.7% of the lesser of the Year's Maximum Pensionable Earnings in the year of retirement and the two preceding years times the number of years and completed months of contributory service. The C.P.P. reduction does not take effect until the member attains age 65.

##### **Death benefits**

On death the pension benefit will be paid to the member's spouse or other named beneficiary. The spousal pension benefit equivalent of 66 2/3% of pension shall be paid to the surviving spouse for life.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Accounting**

The financial statements have been prepared on the accrual basis of accounting. The regulator, as described in note 12, allows the preparation of financial statements in accordance with Canadian generally-accepted accounting principles (GAAP) for pension plans, excluding recognition and disclosure of pension obligations, to comply with the filing requirements of Section 76 of Regulation 909 of the Ontario Pension Benefits Act. As such, these financial statements have been prepared in accordance with Part IV of the CPA Canada Handbook – Accounting and Canadian accounting standards for pension plans, which excludes recognition and disclosure of the pension obligation and includes certain additional disclosures required by Section 76 of Regulation 909. These financial statements do not purport to show the adequacy of the Fund's assets to meet its pension obligations. These financial statements have been prepared to assist in meeting the financial reporting expectations of the regulator (refer to note 12).

The Fund's accounting policies not related to the investment portfolio or pension obligation are based on Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook – Accounting.

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **Use of estimates**

The preparation of these 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 changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents are short-term, highly liquid investments that are subject to insignificant changes in value and are readily convertible into known amounts of cash. Cash equivalents comprise financial assets with maturities of three months or less from the date of acquisition. These investments are subsequently measured at amortized cost.

#### **Income taxes**

The Fund is a Registered Pension Trust as defined in the Income Tax Act (Canada) and, as such, is not subject to income taxes. Certain foreign income may be subject to withholding tax.

#### **Investment assets and liabilities**

Investment assets and liabilities are recorded at fair value in accordance with IFRS 13, Fair Value Measurement. Purchases and sales of investments are recorded as of the trade date. (The date on which the substantial risks and rewards have been transferred). Transactions that have not settled are reflected in the Statement of net assets available for benefits as pending investment transactions receivable/payable. The change in the difference between the fair value and the cost of the investments at the beginning and end of each year represents that specific year's change in unrealized gains/loss on investments and is reflected in the statement of changes in net assets available for benefits.

The method used to determine fair value for each category of investment assets and liabilities is explained below.

Fair values of investments are determined as follows:

- [a] Equity instruments are normally valued at the closing price on the stock exchange where listed or at the previous day's closing if the security did not trade on the valuation date. Unlisted shares are recorded at values reflecting the most reliable quotation then available.
- [b] Bonds and debentures are valued at closing quotations from Canadian investment dealers. Unlisted debt instruments are recorded at values reflecting current market yields of similar debt obligations.
- [c] Mutual, pooled and segregated funds are valued using the unit values supplied by the fund manager, which reflects the fund's proportionate share of underlying net assets at fair values determined using closing prices.
- [d] Short-term investments are valued at cost, which, together with accrued income approximates fair value.

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **Investment Income recognition**

Gains or losses on the sale of investments are determined based on an average cost of the investments sold and are recorded on the trade date. Interest income on bonds and debentures is recognized on an accrual basis. Dividends are accrued on the ex-dividend date. Distributions from mutual, pooled and segregated funds are recorded when declared by the fund manager. The net change in unrealized gain or loss on investments is calculated as the difference between the unrealized gain or loss on investments at the beginning and end of the fiscal year.

#### **Contributions**

Employer special payments received due to going concern and solvency-deficiency position are recorded in the period in which they are received or as a contribution receivable if received subsequent to the year end, but are applicable to the current year.

#### **Foreign currency translation**

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in the change in unrealized gain (loss) on investments.

Foreign currency denominated transactions, as well as cost of investments, are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

#### **Benefits**

Benefits paid to pensioners are recorded in the period in which they are due. Refunds to estates of deceased members and former members are recorded in the period in which they are paid. Refunds attributable to the current year but paid after year end are reflected in benefits and accounts payable.

#### **Fund expenses**

Administrative expenses incurred are paid directly from the Fund and are treated as expenses in the financial statements, with the exception of audit expenses, which are paid directly by the City of Toronto (the sponsor).

#### **Transaction costs**

Transaction costs are not part of the fair value of investments and are expensed as incurred in the statement of changes in net assets available for benefits.

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

#### 3. INVESTMENTS

[a] Investments at December 31 consist of the following:

	2019		2018	
	Fair Value	Cost	Fair Value	Cost
	\$	\$	\$	\$
Canadian equities	9,908,859	7,944,083	8,899,483	8,797,952
Foreign equities	93,000	44,809	29,965,020	26,230,218
Pooled bond funds	92,846,588	95,752,457	99,589,689	106,642,579
Pooled equity funds	60,541,984	63,257,398	25,162,489	28,531,387
Pooled foreign equities	32,441,092	31,062,812	26,538,079	31,217,510
<b>Total</b>	<b>195,831,523</b>	<b>198,061,559</b>	<b>190,154,760</b>	<b>201,419,646</b>

[b] Individually significant investments

The fair value or cost of the following individual investments exceeds 1% of the fair value or cost of the Fund's Net Assets as at December 31, 2019:

Description	Coupon %	Maturity	Fair Value \$	Cost \$
PH&N BD FD Ser O #115	-	-	46,525,882	47,998,529
CC&L Bond Pool Fund Class A	-	-	46,320,706	47,753,928
TDAM International Pooled Fund	-	-	32,441,092	31,044,539
CC&L Canadian Equity Pool Fund	-	-	30,948,934	29,721,404
Sprucegrove Special International Pool Fund	-	-	29,595,797	33,557,014

[c] Realized gain for the year ended December 31 is summarized as follows:

	2019	2018
	\$	\$
Realized gain/(loss) on sale of units	8,498,757	2,569,571
Realized gain/(loss) on sale of pooled bond funds	(206,774)	(526,260)
Realized gain/(loss) on sale of pooled equity funds	1,436,375	4,459,060
<b>Total realized gain</b>	<b>9,728,358</b>	<b>6,502,371</b>

#### 4. FINANCIAL RISK MANAGEMENT

The Fund's investment activities expose it to a range of financial risks. These risks include market risk [including currency risk, interest risk, and equity price risk], credit risk and liquidity risk. The Fund's Benefit Fund Committee manages these risks in accordance with 'the Act' as defined in the Description of the Fund.

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

The allocation of assets among various types of investments and the performance of investments held by the Fund are monitored by the Fund's investment managers on a monthly basis and reviewed by the Benefit Fund Committee on a quarterly basis.

The investments of the Fund are managed utilizing a balanced approach. The allowable asset mix range, target allocations, and actual allocations at December 31 are detailed in the following table:

Asset category	Acceptable range	Target	Actual	
			2019	2018
Canadian Equity securities	15% - 25%	20%	20%	17%
Foreign Equity securities	25% - 35%	30%	31%	29%
Fixed Income	40% - 60%	50%	49%	54%

The Fund invests in pooled funds that are in turn invested in government and government guaranteed bonds, corporate bonds, debentures, and equity securities. The investment managers of the funds must adhere to the investment policies governing these funds. The investment manager reports compliance with these policies on a regular basis to the Benefit Fund Committee. The Fund's investing activities expose it to a variety of direct and indirect financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

The allocation of assets among the various types of investments and the performance of investments held by the Fund are monitored by the Fund's investment managers on a regular basis and are reviewed by the Benefit Fund Committee. Divergence from target asset allocation and the composition of the portfolio are monitored by the Fund's investment managers, investment consultant and the Benefit Fund Committee regularly.

For indirect risk exposures from investments held in pooled funds, the various sensitivity analyses are based on similar disclosures presented in the audited financial statements of the various pooled funds. When the Fund invests in more than one pooled fund with similar financial instrument risks, the impact on the Fund's net assets available for benefits is calculated separately for each of these funds based on the pro rata holdings of the Fund, and then added together. When funds with similar financial instrument risk use a different level of reasonability of possible change to assess the impact on their net asset value, the impact is estimated by pro rating the reported change in the audited financial statements in order to arrive at a consistent level of possible impact.

#### Market risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. The Fund manages risk by investing across a wide variety of asset classes and investment strategies based on risk limits established in the Fund's Statement of Investment Policies and Procedures (SIP&P). Market risk is comprised of the following:

[a] Currency risk

Foreign currency exposure arises from the Fund's holdings of foreign currency-denominated investments and cash equivalents. Fluctuations in the relative value of foreign currencies against the Canadian dollar can result in a positive or negative effect on the fair value of investments. The Fund may be exposed to indirect currency risk in the event that the Fund invests in mutual and pooled funds that hold financial instruments that are denominated in a currency other than the Canadian dollar. For the currency risk of the Fund's pooled fund investment, the currency risk is managed by the investment manager of the pooled fund investment.

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

The table below indicates the currencies to which the Fund had significant exposure as at December 31, 2019 and December 31, 2018, respectively.

The following sensitivity analysis summarizes the impact on the Fund's net assets available for benefits, following changes of 5% in the Canadian dollar relative to other foreign currencies to which the Fund has a significant exposure.

December 31, 2019

Currency	Directly held Investments \$	Indirectly held in Pool Funds \$	Total Exposure \$	Impact +/- 5% \$
United States Dollar	32,441,092	-	32,441,092	1,622,055
Euro	-	6,209,529	6,209,529	310,476
British Pound	-	7,666,698	7,666,698	383,335
Japanese Yen	-	3,772,037	3,772,037	188,602
Swiss Franc	-	2,726,320	2,726,320	136,316
Other Currencies	-	9,221,213	9,221,213	461,061
	32,441,092	29,595,797	62,036,889	3,101,845

December 31, 2018

Currency	Directly held Investments \$	Indirectly held in Pool Funds \$	Total Exposure \$	Impact +/- 5% \$
United States Dollar	29,965,020	-	29,965,020	1,498,251
Euro	-	5,063,943	5,063,943	253,197
British Pound	-	6,303,684	6,303,684	315,184
Japanese Yen	-	3,304,449	3,304,449	165,222
Swiss Franc	-	2,484,331	2,484,331	124,217
Other Currencies	-	9,381,674	9,381,674	469,084
	29,965,020	26,538,081	56,503,101	2,825,155

[b] Interest rate risk

The following table illustrates the Fund's financial instruments which are exposed to interest rate risk. The table demonstrates the sensitivity of the Fund's net assets to a reasonably possible change in bond yields. The impact was determined using the duration of those financial instruments that are exposed to interest rate risk. Duration measures the sensitivity of the price of financial instruments for every 1% change in interest rates. For the interest rate risk of the Fund's pooled fund investment, the interest rate risk is managed by the investment manager of the pooled fund investment.

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

	2019 Fair value \$	Impact of 1% absolute change in bond yields on net assets \$
Pooled bond funds	92,846,588	7,515,716
	<u>92,846,588</u>	<u>7,515,716</u>

	2018 Fair value \$	Impact of 1% absolute change in bond yields on net assets \$
Pooled bond funds	99,589,689	7,503,031
	<u>99,589,689</u>	<u>7,503,031</u>

#### [c] Equity price risk

The Fund holds equity financial instruments. The Fund is therefore exposed to equity price risk as the value of equity financial instruments will fluctuate due to changes in equity prices. The following sensitivity analysis summarizes the impact on the Fund's net assets available for benefits, following a general 10% change in equity prices. For equity price risk of the Fund's pooled fund investment, the equity price risk is managed by the investment manager of the pooled fund investment.

2019

	Fair value \$	Impact +/- 10% \$
<b>Directly held Investments</b>		
Canadian equities	9,908,859	990,886
Foreign equities	93,000	9,300
<b>Indirectly held in pooled Funds</b>		
Pooled equity funds	60,541,984	6,054,198
Pooled foreign equity funds	32,441,092	3,244,109
<b>Total</b>	<u>102,984,935</u>	<u>10,298,494</u>

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

2018

	Fair value \$	Impact +/- 10% \$
<b>Directly held Investments</b>		
Canadian equities	8,899,483	889,948
Foreign equities	29,965,020	2,996,502
<b>Indirectly held in pooled Funds</b>		
Pooled equity funds	25,162,489	2,516,249
Pooled foreign equity funds	26,538,079	2,653,808
<b>Total</b>	<b>90,565,071</b>	<b>9,056,507</b>

#### Credit risk

The Fund is subject to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they are due. The SIP&P restrictions prohibit investing more than 10% of assets in any one entity, or two or more associated or affiliated entities. Furthermore, the SIP&P restricts investing more than 15% of assets in fixed income instruments with credit rating below BBB. For credit risk of the Fund's pooled fund investment, the credit risk is managed by the investment manager of the pooled fund investment.

The following are the Fund's interest-bearing financial instruments, the exposure to credit risk.

#### As of December 31, 2019

##### Credit Ratings

	Indirectly held in Pooled Funds \$
AAA	11,108,973
AA	6,565,026
A	70,066,777
BBB	5,105,812
	<u>92,846,588</u>

#### As of December 31, 2018

##### Credit Ratings

	Indirectly held in Pooled Funds \$
AAA	19,744,875
AA	25,713,433
A	53,001,449
BBB	1,129,932
	<u>99,589,689</u>

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

#### Liquidity Risk

Liquidity risk is the risk the Fund may be unable to meet pension payment obligations in a timely manner and at a reasonable cost. Management of liquidity seeks to ensure that even under adverse conditions, the Fund has access to immediate cash that is necessary to cover benefits payable, withdrawals and other liabilities. The SIP&P requires the Fund's investments to be highly liquid, so they can be converted into cash on short notice. The Fund has investment in highly liquid equities, and fixed income securities and therefore its exposure to liquidity risk is considered negligible. For liquidity risk of the Fund's pooled fund investment, the liquidity risk is managed by the investment manager of the pooled fund investment.

The following is a maturity analysis of the Fund's investments that are held both directly and indirectly through its investment in pooled funds for managing liquidity risk.

	Maturity				Total
	1 year or less	Over 1 to 5 years	Over 5 to 10 years	Over 10 years	
	\$	\$	\$	\$	\$
2019					
Pooled bond funds	2,832,145	43,687,784	15,399,852	30,926,807	92,846,588
Total	2,832,145	43,687,784	15,399,852	30,926,807	92,846,588
2018					
Pooled bond funds	3,356,576	43,554,723	18,124,636	34,553,754	99,589,689
Total	3,356,576	43,554,723	18,124,636	34,553,754	99,589,689

#### 5. FAIR VALUE MEASUREMENT

The following is a summary of the methods used to determine the fair value of the Fund's financial instruments and an analysis of those investments using the hierarchy set forth in IFRS 13, Fair Value Measurement. The hierarchy prioritizes the inputs to fair value measurement, placing the highest priority on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to inputs not based on observable market data (Level 3). The three levels of the fair value hierarchy are:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 asset and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

corroborated by observable market data. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

The following table presents as at December 31, the level within the fair value hierarchy for each of the financial assets and liabilities measured at fair value. The table excludes other assets and other liabilities that are valued at their carrying amount, which represents a reasonable approximation of fair value due to their short-term nature.

2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Canadian equities	9,908,859	-	-	9,908,859
Foreign equities	93,000	-	-	93,000
Pooled bond fund	-	92,846,588	-	92,846,588
Pooled equity fund	-	60,541,984	-	60,541,984
Pooled foreign equity	-	32,441,092	-	32,441,092
<b>Total</b>	<b>10,001,859</b>	<b>185,829,664</b>	<b>-</b>	<b>195,831,523</b>

  

2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Canadian equities	8,899,483	-	-	8,899,483
Foreign equities	29,965,020	-	-	29,965,020
Pooled bond fund	-	99,589,689	-	99,589,689
Pooled equity fund	-	25,162,489	-	25,162,489
Pooled foreign equity	-	26,538,079	-	26,538,079
<b>Total</b>	<b>38,864,503</b>	<b>151,290,257</b>	<b>-</b>	<b>190,154,760</b>

There have been no transfers between Levels in the reporting period.

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **Equities**

The Fund's equity investments are classified as Level 1 when the security is actively traded and a reliable quote is observable. Certain of the Fund's equities do not trade in an active market and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the investment is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the investment is classified as Level 3.

#### **Bonds and debentures**

Bonds, debentures and other interest bearing securities are classified as Level 1 when they are actively traded. They are classified as Level 2 when they are valued using observable inputs, including interest rate curves, credit spreads and volatilities. Bonds for which significant unobservable data is required in determining fair value have been classified as Level 3.

#### **Short-term notes and treasury bills**

Short-term notes and treasury bills are classified as Level 2. These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates fair value.

#### **Pooled Funds**

Pooled funds are classified as Level 2. Pooled funds are valued at the unit values supplied by the fund manager, which represent the underlying net assets at fair value, divided by the number of units outstanding. This is the value at which units of the pooled funds can be redeemed or subscribed for by the Fund as at the reporting date.

## Toronto Fire Department Superannuation and Benefit Fund

### NOTES TO FINANCIAL STATEMENTS

#### 6. FUND EXPENSES

The Fund's administrative expenses consist of the following:

	Management	Custodial	2019	2018
	\$	\$	Total	Total
			\$	\$
<b>Bond managers</b>				
Connor Clark & Lunn	81,990	4,221	86,211	89,301
Phillips Hager & North	142,550	4,211	146,761	157,972
Subtotal	<u>224,540</u>	<u>8,432</u>	<u>232,972</u>	<u>247,273</u>
<b>Equity managers</b>				
Sprucegrove	191,240	2,954	194,194	197,210
Connor Clark & Lunn	114,876	3,012	117,888	122,647
Mackenzie Institutional	55,512	11,443	66,955	75,737
Intech	89,134	30,510	119,644	158,717
TDAM	3,974	1,122	5,096	-
Subtotal	<u>454,736</u>	<u>49,041</u>	<u>503,777</u>	<u>554,311</u>
<b>Other</b>				
CIBC Mellon Operating Account	-	1,830	1,830	1,613
Investment consulting fees	-	69,300	69,300	66,631
Actuary fees	-	65,145	65,145	41,417
Chair honorarium	-	7,500	7,500	7,500
Members' honorarium	-	4,050	4,050	3,600
HST rebate	-	(21,710)	(21,710)	(22,743)
Other	-	73,892	73,892	6,388
Subtotal	<u>-</u>	<u>200,008</u>	<u>200,008</u>	<u>104,406</u>
<b>Total administrative expenses</b>	<u>679,276</u>	<u>257,480</u>	<u>936,756</u>	<u>905,990</u>

#### 7. AUDIT FEES

The sponsor is paying the annual audit fees of \$8,500 (2018 - \$8,500).

#### 8. ACTUARIAL VALUATION

The most recent actuarial valuation of the Fund by Buck Canada HR Services was completed as of December 31, 2019 using actual data and indicated a going concern basis surplus of \$33,410,000 and a solvency basis surplus of \$14,783,000.

The next required valuation to be filed with the regulator is December 31, 2020.

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **9. CAPITAL MANAGEMENT**

The capital of the Fund is represented by the net assets available for benefits. The Fund's objective when managing the capital is to safeguard the ability to continue as a going concern in order to maintain adequate assets to support investment activities of the Fund.

Management monitors capital on the basis of the value on net assets available for benefits.

The administrator has adopted a Statement of Investment Policies and Procedures (the SIP&P) which states investment objectives, guidelines and benchmarks used in investing the capital of the Fund, permitted categories of investments, asset-mix diversification and rate of return expectations. The SIP&P was established in 1997 and was last amended effective September 30, 2019. The amendments include some clarifying changes to the terms within the SIP&P.

The Fund's absolute return expectation over a five-year horizon has been set in the SIP&P at 5.5% annualized rate of return, net of investment management fees. The Fund's annualized five-year average rate of investment return (net of fees) as of December 31, 2019 was 5.95% (2018 – 5.45%).

The employer is required under the Pensions Benefit Act of Ontario to pay contributions, based on actuarial valuations, necessary to ensure the benefits are funded. More details on members and employer contributions that were paid during the period can be found in Note 10 – Funding Policy. No contributions remain past due as of the end of the period covered by the financial statements.

#### **10. FUNDING POLICY**

The Pension Benefits Act of Ontario requires that the sponsor fund the Fund's benefits obligation as determined by an annual actuarial valuation. As the Fund has a going concern surplus, there are no special payments required.

#### **11. RELATED PARTY TRANSACTIONS AND BALANCES**

The sponsor provides administrative services to the Fund and pays the annual audit fees. These services are not charged to the Fund.

#### **12. REGULATOR CHANGE**

Effective June 8, 2019, Financial Services Regulatory Authority of Ontario (FSRA) assumed the regulatory responsibilities of the Financial Services Commission of Ontario (FSCO) and therefore any pension related regulatory filings or references made to FSCO will therefore apply to FSRA upon this change. The responsibility for administration of the Pension Benefits Act (Ontario), as it relates to the Fund transferred to FSRA at that date.

## **Toronto Fire Department Superannuation and Benefit Fund**

### **NOTES TO FINANCIAL STATEMENTS**

#### **13. SUBSEQUENT EVENTS**

The extent of the impact of the coronavirus (“COVID-19”) outbreak on the financial results of the Fund will depend on future developments, including the duration and spread of the outbreak and related advisories and restrictions. These developments and the impact of COVID-19 on the financial markets and the overall economy are highly uncertain and cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the future financial results of the Fund may be materially adversely affected.