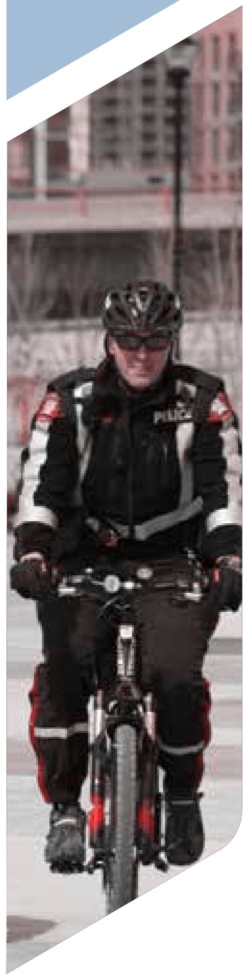




ANNUAL REPORT 2019

SFPP

SUMMARY HIGHLIGHTS

The Special Forces Pension Plan (SFPP) had a very active year working on behalf of our members. The year was filled with long-awaited changes, including how the Plan is managed and administered. Through all the changes, SFPP worked hard to ensure that Alberta's police members continue to receive the best pension information and support available. For details on any of the following points, refer to the "Achievements" section.

- SFPP became a jointly sponsored plan – members and employers now have decision-making authority with regards to Plan benefits.
- SFPP established a new Plan Text document, replacing legislation that originally set out Plan benefits and other key aspects of SFPP.
- SFPP now allows part-time police officers to participate in the Plan.
- SFPP entered into an Investment Management Agreement with the Alberta Investment Management Corporation (AIMCo).
- SFPP entered into a Pension Services Agreement with Alberta Pensions Services Corporation (APS).
- SFPP established a reciprocal agreement with the RCMP Pension Plan, allowing members to transfer pensionable service between the two Plans.

YEAR AT A GLANCE

SFPP NET ASSETS $3.45B

PENSION OBLIGATIONS $3.27B

SURPLUS $0.18B

ANNUAL INVESTMENT RETURN 13.53%

FUNDING STATUS 92%

Based on the actuarial valuation at December 31, 2018.

TOTAL MEMBERSHIP 7,506

4,570 Active	2,725 Retired	211 Deferred

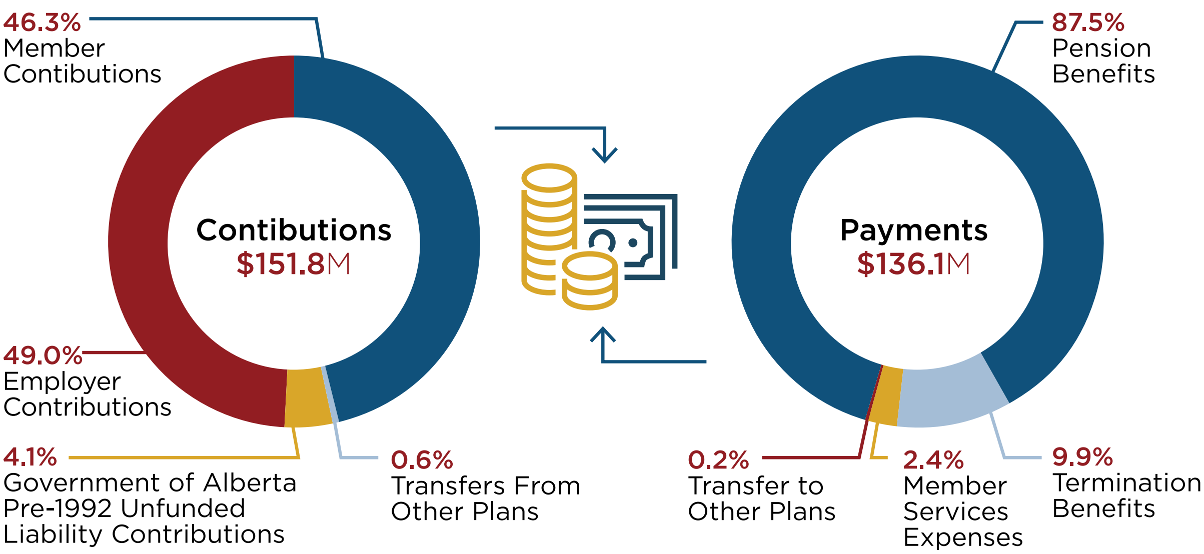
ACTIVE MEMBERS TO PENSIONERS RATIO 1.7

NEW PENSIONERS IN 2019:

Average Age **55.6 y/o**

Average Pension Amount **$56,471.28**

CONTRIBUTIONS & PAYMENTS 2019



For more details, see "Statement of Changes in Net Assets Available for Benefits" in "Financial Statements" section.


POLICE
EDMONTON

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SPECIAL FORCES PENSION PLAN

Providing pension security to over 7500 active and retired members, the Special Forces Pension Plan (SFPP) is a defined benefit pension plan established in 1979 for Alberta municipal police officers including those on contract, such as police chiefs and deputy police chiefs.

For nearly 40 years, the Government of Alberta held direct oversight of SFPP with the President of Treasury Board and Minister of Finance as legal trustee of the Plan, responsible for administering the Plan and managing its assets. This structure meant that government approval was required for making any changes to the Plan. This also meant that the scope and decision-making ability of the employer and employee representatives who sat on the Special Forces Pension Board was limited.

The way that SFPP is managed changed on March 1, 2019.

Through the *Joint Governance of Public Sector Pension Plans Act*, SFPP is now a jointly sponsored plan, which means that members and employers have a role in decision-making. Thanks to this change in legislation, the SFPP Sponsor Board, which is made up of representatives from SFPP employers and police associations, is now responsible for making decisions about Plan benefits.

SFPP Corporation became the trustee of the SFPP Fund and the administrator of the Plan, taking on the roles from the Minister of Finance. Acting in the best interests of all members, SFPP Corporation oversees the investments and administration of the Plan, and the Corporation assumes a more hands-on role, allowing the Plan to be more directly responsive to the needs of members and employers. The duties of SFPP Corporation include all corporate administrative functions of the Plan, such as overseeing external service providers, preparing the annual budget, and reporting to members. Joint governance allowed SFPP to keep service providers accountable and provided SFPP the ability to change service providers to control costs and services.

The *Reform of Agencies, Boards and Commissions and Government Enterprises Act,* 2019, also known as Bill 22, was enacted on November 22, 2019. This Bill, while preserving the joint governance model that SFPP had fought for years to earn, implemented changes related to the management of SFPP which removed some components of the joint governance model. Details of these changes will be discussed in the Governance section, under “Bill 22”.

ACHIEVEMENTS

SFPP achieved a great deal in 2019, owing in large part to successfully establishing joint sponsorship of the Plan. To do this, SFPP built up our staff and resources, established new policies and bylaws on how SFPP operates and developed strategies for the long-term future of SFPP. This involved a great deal of collaborative work between the Sponsor Board, the Corporate Board, the Corporation’s staff, and SFPP’s partners. Earning the ability for our members and employers to have a hand in deciding the structure and operation of the Plan was well worth the long hours that our team endured from years of working toward the goal of joint governance.

Beginning with the establishment of the joint governance structure on March 1, 2019, SFPP gained the ability to operate independently from the government. Where SFPP formerly only had the ability to determine contribution rates, we now have control over determining the Plan's benefits as well. Taking over the roles of trustee and administrator from the provincial government, SFPP undertook several new arrangements in 2019 and completed major achievements that we can all be proud of.

SFPP **established new plan documents** on September 1, 2019, which replaced SFPP's existing legislation on benefits and updated the Plan to operate under Alberta's pension standards legislation, the *Employment Pension Plans Act*. This document sets out Plan benefits and other key aspects of SFPP, including the long-awaited change to allow part-time police officers to participate in the Plan. Other SFPP benefits remain the same, and importantly, the Plan Text is written in plain language, replacing legislation that was written over 25 years ago. Through the changes in governance, SFPP now has the ability to be more responsive to members' needs than was previously experienced.

As SFPP Corporation **assumed the role of trustee,** a legal relationship had to be established with the investment manager of the Pension Plan, which, by legislation, is the Alberta Investment Management Corporation (AIMCo). In February 2019, SFPP Corporation and AIMCo entered into an Investment Management Agreement, which outlines the expectations that SFPP has of AIMCo. The Corporation has a duty to ensure that member contributions are well-cared for and this Agreement is the tool used to ensure that the funds are being invested in line with SFPP goals and direction.

SFPP Corporation also **assumed the role of administrator** from the Government and as such, entered into a Pension Services Agreement (PSA) with Alberta Pensions Services Corporation (APS), the service provider mandated by legislation. A PSA establishes the criteria by which the relationship is measured, including service level expectations, member satisfaction, and costs. APS carries out the day-to-day basic administrative functions for SFPP, including paying pensions, processing benefits, and answering member phone calls. By monitoring the efforts of APS on your behalf, SFPP can ensure that you receive the level of service that you deserve.

Through collaboration between the Corporation and the Sponsor Board, SFPP created the foundational Business Plan and Communications Plan for the organization, establishing the **groundwork for how SFPP will operate** for the foreseeable future. Details on these achievements are located in the "Administration" section.

Members in municipal police services may have earned service with the RCMP or vice versa. Until now, members in this situation had to keep two separate pensions. In July 2019, SFPP entered into an **agreement with the RCMP Pension Plan** which allows members to transfer pensionable service between the two Plans, simplifying members' retirement planning.

SFPP's actuary conducted a review of the Plan as at December 31, 2018 and concluded that the financial condition of the Plan had improved from 88.5% funded at December 31, 2016 to **92.4% funded** at December 31, 2018.

SFPP Corporation has brought various corporate services, such as payroll, human resources and other related functions in-house in order to **reduce expenses** and maintain tighter control on the work that is being done.

As extensive as this list is, it is hardly exhaustive. It was a very big year for the Plan and all of the people who collaborated to support it. As you read through this report, you will get a much clearer picture not only of what work was done to get us to this point, but how much work is done on behalf of members every year.

MESSAGE FROM THE CHAIR

SFPP reached two significant milestones in 2019.

First, it has been 40 years since the creation of SFPP in 1979. In that time, SFPP has supported the retirement of thousands of Alberta's police officers. It's incredible to think that there are people that joined SFPP on day one who are still serving as police officers. Dedication like that serves as an inspiration to us all.

Second, SFPP became jointly sponsored through the *Joint Governance of Public Sector Pension Plans Act* (JGA). The details of this and other important developments are described in the Annual Report, so I will not spend much time here discussing it beyond stating that I am very proud of the work that the SFPP team did to make Joint Governance a reality.

In addition to the change to joint governance, the Sponsor Board was changed to include member and employer representatives, putting the people who make the contributions to the pension plan in the position of being able to directly make decisions about the Plan. Wasting no time, SFPP has already made improvements to the Plan, including allowing part-time police officers to participate in the Plan and setting up a transfer agreement with the RCMP Pension Plan.

Beyond the changes to the governance of the Plan, there were some changes to the composition of the Corporate Board, too. My time on the Corporate Board finished at the end of 2019. My three years on the SFPP Corporate

Board and the previous Special Forces Pension Board have been a rewarding experience. In particular, it was a privilege to work with fellow Board members, our CEO, and her team on successfully implementing the governance changes that occurred on March 1. Their dedication and expertise inspired me throughout the process and continue to do so as I move on to the next opportunities in my life. In addition to the current team, there are so many individuals to recognize, who, for many years, lobbied for the changes that took place. If not for all their incredibly hard work, we would not be in this position today.

We saw two other departures from the Corporate Board in 2019. Vicky Grabb, the Government of Alberta nominee to the former Special Forces Pension Board, left when her term expired as part of the move to joint governance. Jodie Graham left the Corporate Board in 2019, and she subsequently was appointed as the City of Edmonton appointee to the Sponsor Board. I would like to thank both Vicky and Jodie for their dedication and work.

In 2019, Monica Storer and Denis Jubinville were appointed to the Corporate Board. Monica and Denis bring extensive governance experience as both were previously representatives on the SFPP Sponsor Board, and Denis was also on the former Special Forces Pension Board for 12 years. Denis became my successor as Chair on January 1, 2020. While I will miss working with this team of professionals, I know that I leave everyone in good hands.

2019 was an incredibly eventful year for SFPP, marked with many notable accomplishments and changes. With the COVID-19 pandemic and economic crisis, 2020 brings a new set of challenges for us all. I am confident the Board will be able to meet these challenges due in large part to the strong team at SFPP. I know they will continue to work for the pension security of every SFPP member. On behalf of everyone at SFPP, we hope you keep safe and in good health.

MESSAGE FROM THE CEO

It feels like 2019 was years ago. With the COVID-19 global pandemic and the economic and social crises that it helped to accelerate, the world is seeing a lot of change and challenge. SFPP faced a lot of change and challenge in 2019 as well, as part of our commitment to ensuring that SFPP's members have a pension plan that they can rely upon in their retirement years. Municipal police officers are an integral part of Alberta's front line and we greatly appreciate the work you do to protect the community. Above all we hope that you and your loved ones are safe.

SFPP is now more responsive to member needs and better able to protect member interests. The *Joint Governance of Public Sector Pension Plans Act* brought significant and important changes to how SFPP is managed: members and employers now play a direct role in making decisions about the Plan. SFPP worked for years, collaborating with the Government of Alberta and SFPP's Sponsors (employers and police associations) to determine how the Plan should be managed, and the Act was both the culmination of that effort, and the starting point for a new way of operating for SFPP.

In 2019, we managed the appointments to the new SFPP Sponsor Board and the SFPP Corporation Board of Directors, as well as established all the necessary governance policies, bylaws and other documents required by the new structure. This effort was the groundwork which will enable SFPP to continue to do the work we need to do to protect your retirement.

In late 2019, the Provincial Government introduced Bill 22, which amended the *Joint Governance of Public Sector Pension Plans Act*, rolling back certain areas regarding how SFPP is managed – details on how this impacts SFPP and what it means to you are in the Annual Report.

In addition to managing the governance changes in 2019, SFPP reviewed the Plan's financial condition as of December 31, 2018 through an actuarial valuation. This study looks at how much money is in SFPP's fund compared to how much money is estimated to be needed for SFPP to pay pensions today and into the future. The financial condition of the Plan improved from 88.5% funded at December 31, 2016 to 92.4% at December 31, 2018.

Based on this review, the Sponsor Board decided to maintain the current contribution rates for 2020 and provide a cost-of-living adjustment for January 1, 2020 of 30% of the increase in the Alberta Consumer Price Index. Considering the economic environment, SFPP also increased the investment buffer to protect the Plan investments against adverse experiences. This decision helped to shield SFPP from some effects of the economic crisis that we are seeing now in 2020.

After a disappointing 2018, which saw the Plan post a small positive return of 0.5%, SFPP's 2019 investments earned 13.5%. Despite the relatively strong return, however, the SFPP investment portfolio underperformed the passive-investment benchmark return of 14.4%.

The SFPP Sponsor Board has now authorized an actuarial valuation as at December 31, 2019, so we can better track the Plan's funding status and potential risks the Plan may face. Results will be communicated later in 2020.

SFPP continues to work to provide Alberta's municipal police officers with the information you need to better understand your pension and help you make your decisions. Pensions can seem like cumbersome, complicated beasts, but we are here to help make sense of it all for you, regardless of the challenges we as a province and a society may face.

The changes enabled by the *Joint Governance of Public Sector Pension Plans Act*, as well as all the work that has taken place as a result of that legislation, have created a foundation for SFPP's ongoing success. The collaboration between the SFPP Sponsor Board, SFPP Corporation, and our partners will build onto that foundation, providing pension protection for those who protect Alberta.

PLAN GOVERNANCE

Prior to March 1, 2019, the provincial government, through the Minister of Finance acting as trustee and administrator of SFPP, controlled the decision-making for benefits and management of the Plan. Members and employers could advocate for changes for the Plan but had limited ability to affect the Plan directly. On that date, the *Joint Governance of Public Sector Pension Plans Act* was passed that handed the roles of trustee and administrator to the Plan, as well as giving SFPP the ability to determine Plan benefits.

In order to properly undertake these new roles, the Special Forces Pension Board was dissolved and the SFPP Sponsor Board (a representative Board composed of employer and police association nominees) and SFPP Corporation were created. The SFPP Sponsor Board holds responsibility for deciding on Plan benefits, meaning that police associations and employers are now directly involved in making these decisions. SFPP Corporation acts as the trustee and administrator, and is responsible for ensuring that the Plan's investments, administration and other functions are dealt with appropriately. Additionally, SFPP Corporation is governed by a Corporate Board made up of directors nominated by SFPP employers and police associations, who act in the best interests of all members.

Bill 22 amended some of these changes. While the joint governance model was retained, other differences were put into place which affect the operation of SFPP and are noted below.

BILL 22

The *Reform of Agencies, Boards and Commissions and Government Enterprises Act*, 2019, also known as Bill 22, was enacted on November 22, 2019 and reversed some of the changes that were implemented by the *Joint Governance of Public Sector Pension Plans Act.*

The SFPP Sponsor Board was largely unaffected by the Bill, retaining the ability of the member and employer representatives on the Board to decide on Plan benefits and contributions.

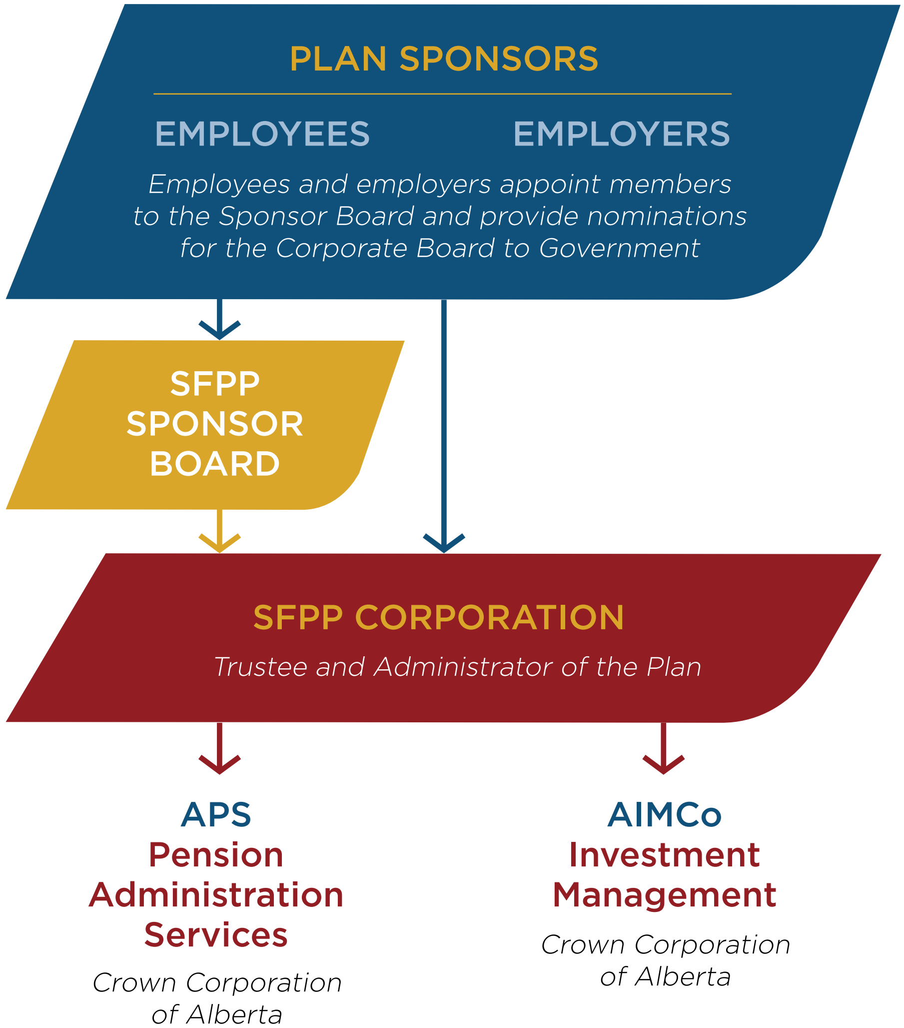
The Bill implemented two basic changes on SFPP Corporation which have important impacts on how the Corporation operates.

As a result of Bill 22, while SFPP remains jointly sponsored and can still make decisions about the Plan, the Corporation is now an agency of the provincial government. As a government agency, SFPP Corporation is accountable to the Government of Alberta and is subject to additional rules and legislation that did not apply to the Corporation previously, such as compensation disclosure and additional conflict of interest requirements, and a line of reporting to the Government. SFPP Corporation and the Government of Alberta will establish a Mandate and Roles Document (MRD) by December 31, 2020 to clearly articulate the mandate, roles and responsibilities of the Corporation as a government agency, including any Government direction. The document will also delineate the relationship between the Board and the Government, including accountability and the annual reaffirmation process.

Bill 22 also means that Government has the final say on nominations to the SFPP Corporate Board. Previously, SFPP employers and police associations would appoint a person directly to the Corporate Board, but under the new legislation, SFPP employers and police associations are required to deliver nominations for the SFPP Corporation's Board of Directors to the Government for consideration by the Lieutenant Governor. Approved Corporate Board Directors will be appointed by an Order in Council.

Further, Bill 22 mandates that SFPP use Alberta Investment Management Corporation (AIMCo) and Alberta Pensions Services Corporation (APS) as the investment service provider and the pension service provider, respectively. Both AIMCo and APS are Crown Corporations, accountable to the President of Treasury Board and Minister of Finance. Legislation requires agreements with each of these service providers to be renegotiated by December 31, 2020.

The Plan is a jointly sponsored plan with authority to make all decisions except those decisions specified by the reform legislation (Bill 22) as mentioned earlier. The graphic to the right illustrates the governance of SFPP.



SFPP CORPORATION

SFPP Corporation was established in 2018 in advance of taking on the management and administration of the Plan in March 2019. The Corporation was provided the fiduciary roles of Plan trustee and administrator from the Minister of Finance, meaning the Corporation is now responsible for all functions of the Plan, such as the Plan Fund and investment of assets, overseeing external service providers, strategic risk management, financial reporting, audit, legal liability, indemnification and more. Further, the Corporation supports the SFPP Sponsor Board in its role with setting Plan benefits and contribution rates. SFPP Corporation is governed by a six-member Board of Directors.

PLANNING

As part of the foundational work in 2019, SFPP Corporation developed the SFPP 2019-2021 Business Plan. This is the document which outlines how we will carry out our business for the next three years, as well as identifying goals and objectives we expect to reach on behalf of our membership. The plan was revised and adapted following the release of Bill 22 and the changes and additional work that it necessitated (as noted in the "Bill 22" section previous), such as creating a Mandate and Roles Document and revisiting the relationships with our investment manager, Alberta Investment Management Corporation (AIMCo), and our pensions services provider, Alberta Pensions Services Corporation (APS). We continue to use the Business Plan to guide our work and look forward to ensuring our service providers continue to support us as we look after your pension.

Along with the Business Plan, we developed a Communications Policy. When familiar structures change, stakeholders need to know who to trust and this policy was developed to make it clear that maintaining the trust we have worked hard to build over decades is a top priority. Sponsors, stakeholders, and members need to know where to get the information they need and who is looking out for their interests. That is what makes this document so important and that is why SFPP, has three main focuses:

- Clarify who is responsible for communicating what and when on behalf of the Plan. By establishing dedicated points of contact, we can help ensure consistency of information for stakeholders.
- Establish clear communications between the Sponsor Board and the Corporate Board. Although the Plan leadership is now split into two entities, consistency of vision and shared focus on serving members and employers is as important as ever. Maintaining strong lines of communication will help make sure the Plan supports its membership as best it can.
- Provide the support that the Sponsor Board members need in communicating to their sponsor organizations. SFPP's success relies on the participation and support of sponsor organizations and their participation on the Sponsor Board. Sponsor organizations need to have good information to be able to make informed decisions about their role on the Board. Therefore, it is critical that the information that Sponsor Board members need is provided quickly and consistently.

Periodically, SFPP conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan, taking into account the nature of the Plan's benefit structure, financial assets, and the most up-to-date expectations for the financial markets. These studies are then considered in relation to the fund objectives, and if changes are appropriate, SFPP updates the Statement of Investment Policies and Procedures (SIPP), which is a document that explains SFPP investment strategy and outlines investment goals, beliefs and philosophy. The SIPP also includes information such as risk tolerance, return objectives and asset mix policy, as well as permitted investments and the Corporation's approach to responsible investment.

In addition to reviewing the SIPP annually, SFPP evaluates investment management and monitors the performance of the investment portfolio and compliance with policies on a quarterly basis. SFPP accomplishes this through the Investment Management Agreement (IMA) that it established with AIMCo, SFPP's government-mandated investment service provider. This Agreement stipulates services provided and charges for those services, and together with the SIPP, the performance standards that are placed upon AIMCo. Because of the changes in Bill 22, this Agreement is set to be renegotiated by the end of 2020.

As noted in "Achievements", SFPP works with the government-mandated service provider, APS, which is responsible for the day-to-day administrative functions for SFPP. SFPP also establishes and maintains relationships with other service providers, such as legal, investment consulting, and actuarial services.

EDUCATION

Corporate Board members, in their role as fiduciaries, continually seek to expand their knowledge of pension and investment issues and trends, in order to act in the best interests of Plan members. They do this by attending industry education events, presentations from advisors, and from self-directed learning using published industry research on the pension environment, investments, and best practices. SFPP sets individual learning frameworks for each Board member. By ensuring that Directors have the information and training they need to maximize their effectiveness on their Board, SFPP builds a leadership team that is best-equipped to manage SFPP in the most responsible, forward-looking, and member-centric way.

Corporate Board members received education regarding their fiduciary responsibilities, investment assets and plan funding. This strong foundation in corporate governance gave the Directors the support they needed to successfully oversee the actuarial valuation report, approve the SIPP, rework the relationships with AIMCo and APS, and any number of other duties required of the Corporate Board.

In addition, Sponsor Board members have so far received education on plan funding, plan maturity, and funding risk management, as well as what their important role is in the new governance arrangements. As a result of the education that the Sponsor Board members undertook in 2019, they were able to establish an updated Funding Policy, establish the Plan's risk appetite, and take part in the assessment of the actuarial valuation.

Both Boards received education related to SFPP's benefit design as compared to the Plan's peers across Canada. This gives the Board members insight into opportunities for growth in our own Plan design as well as exposure to trends and best practices that may otherwise not be available to us.

RISK MANAGEMENT

Risk is inherent in pensions, and it is one of the main roles of the Board to manage and mitigate any risks that the Plan may face. With the creation of SFPP Corporation, we continue to enhance our risk management practices, ensuring that all relevant risk is taken into account with each and every decision. By adopting a risk-focused approach, in 2019 we minimized potentially negative impacts to the Plan and maximize our ability to make responsible decisions on behalf of stakeholders. Risks are reviewed at every Corporate Board meeting, with short-term focus on the execution of the IMA, PSA and MRD, including how these documents meet our fiduciary responsibilities. All three of these documents are due for renegotiation or confirmation by December 31, 2020.

In addition to the SFPP risk management framework, SFPP created a Statement of Funding Risk Appetite. This document articulates the Plan's view on risk-taking, risk-mitigation and risk-avoidance when it comes to funding of the Plan. Specifically, it lays out the amount and type of risk that the Plan is willing to accept. This Statement is used to set the SFPP's Funding Policy, which was approved in October 2019. As a core document that the Plan relies on, the Funding Policy has three main functions:

1. The Funding Policy is used to prepare the Plan's actuarial valuation reports.

2. SFPP uses the Funding Policy when making decisions about contribution rates and cost-of-living adjustments (COLA).

3. SFPP used the Funding Policy to determine the Statement of Investment Policies and Procedures (SIPP). The table shown in "Asset Mix" demonstrates how the SIPP puts the Funding Policy into action and lays out the guidelines for investing to our investment services provider.

LOOKING FORWARD

SFPP's design has remained essentially unchanged since its inception in 1979. Prior to 2019, the only significant changes have been the COLA changes in post-2000 service. The legislative changes that took place in 2019 made for large changes in how the Plan is managed and created the ability for police associations and employers to jointly play a significant role in the future of the Plan.

SFPP is looking at the Plan's long-term needs, the evolving requirements of policing, the economy and peer plans across Canada. As this governance structure is new, we will have some learning to do, but we have also done a lot of preparation to get to this point. We have set the structures in place that are required to support us as we move forward, as we have assembled a team that is ready to take on the challenges that face us.

Joint governance is an opportunity for us to establish the value of having invested members and representatives at the table, making decisions for fellow Plan members. All of the work that we have done this year (as well as the preparatory work in the years leading up to the governance change) has been done to prepare us for this year to come.

BENEFIT ADMINISTRATION

ALBERTA PENSIONS SERVICES CORPORATION (APS)

APS, founded in 1995 as a Corporation with the Government of Alberta as its sole shareholder, provides pension benefit administration to many public sector pension plans in Alberta, and is the government-mandated provider of these services for SFPP and all our members and pensioners.

Under the Pension Services Agreement (PSA) negotiated between APS and SFPP, APS provides the following services for SFPP:

- Receiving contributions and data from employers
- Benefit calculations
- Benefit disbursements
- Member, pensioner, and employer information management
- Member and employer communications on pension transactions, with strategic direction from SFPP Corporation

SFPP's share of operating and Plan-specific expenses is based on activity and transactional-based costing using the methodology outlined in the PSA. Based on average membership numbers, SFPP's operating expenses lead to a cost-per-member of $440. The changes in legislation this year, along with the commensurate establishment of the joint governance model, creation of the new Plan Text document, and other activities have resulted in an increase in the cost per member for 2019, as shown in "Note 12" in "Financial Statements".

PLAN EXPENSES ($)		2019		2018
Total Operating Expenses	$	3,299,000	$	2,606,000
Operating Expenses Per Member	$	440	$	353
Investment Expenses (AIMCo)	$	20,519,000	$	18,202,000
Investment Expenses Per Member	$	2,734	$	2,468
Total Plan Expenses	$	23,818,000	$	20,808,000

The PSA outlines a series of service levels expected from APS by SFPP for Plan members. The chart below is a snapshot of the service levels negotiated for 2019. The PSA is scheduled for renegotiation by December 31, 2020.

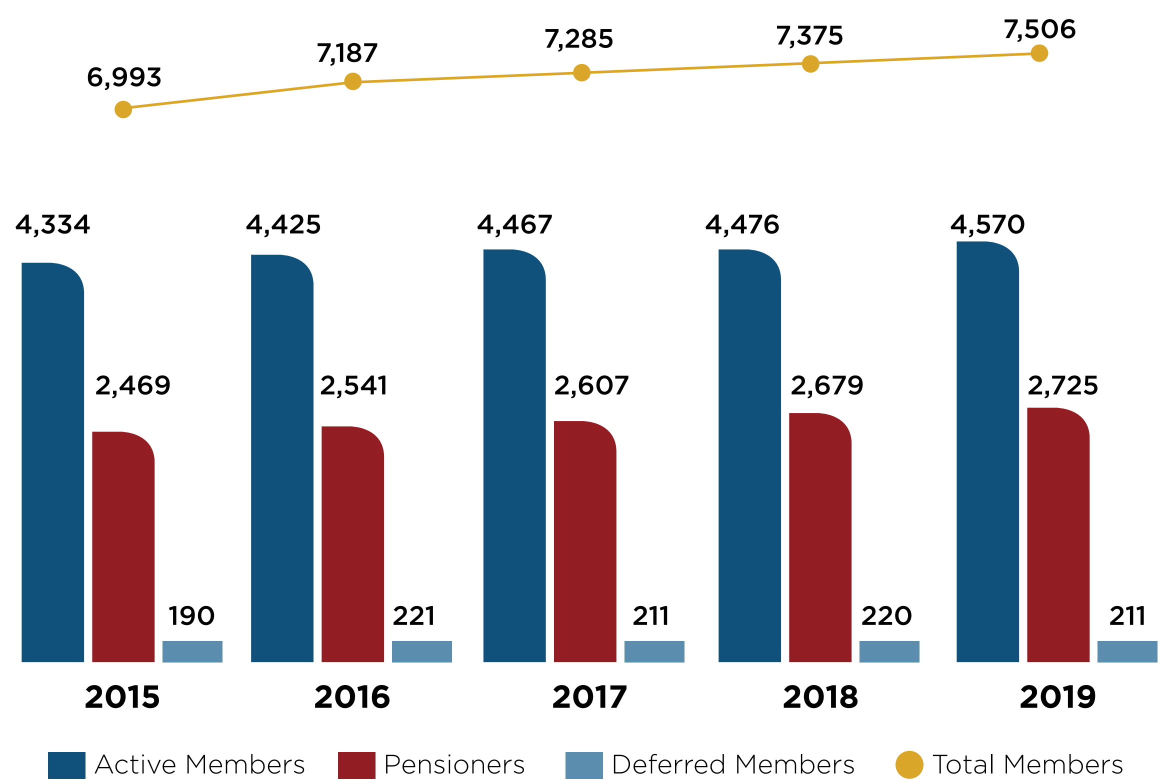
PENSION SERVICE PROVIDED	SERVICE LEVEL	TARGET	AVERAGE ELAPSED TIME	% THAT MET TARGET
Pension Estimate	Within 7 days if the request is within 6 months of retirement. Otherwise 30 days.	95%	4.7 days	95%
Pensions Options Package	Within 14 days of receiving termination notice from the employer or all information in.	95%	5.5 days	98%
Pension Payment for new Retirees	Within 30 days of retirement or all information in.	95%	26.3 days	95%
Monthly Pension Payments	Second last business day of the month, with exception to December	100%		100%
Termination Package	Within 30 days of receiving termination notice from the employer or all information in.	90%	2.6 days	98%
Termination Payments	Within 30 days of receiving all required documentation or all information in.	90%	7.3 days	100%
Email responses	Within 2 business days	100%	2.2 Days	91.74%
Telephone inquiries	Retirements: 80% in 135 seconds			81.7%
	Other calls: 80% in 180 seconds			77.9%
Call abandonment rate	Defined as any abandoned call	5%		11.04%

MEMBERS

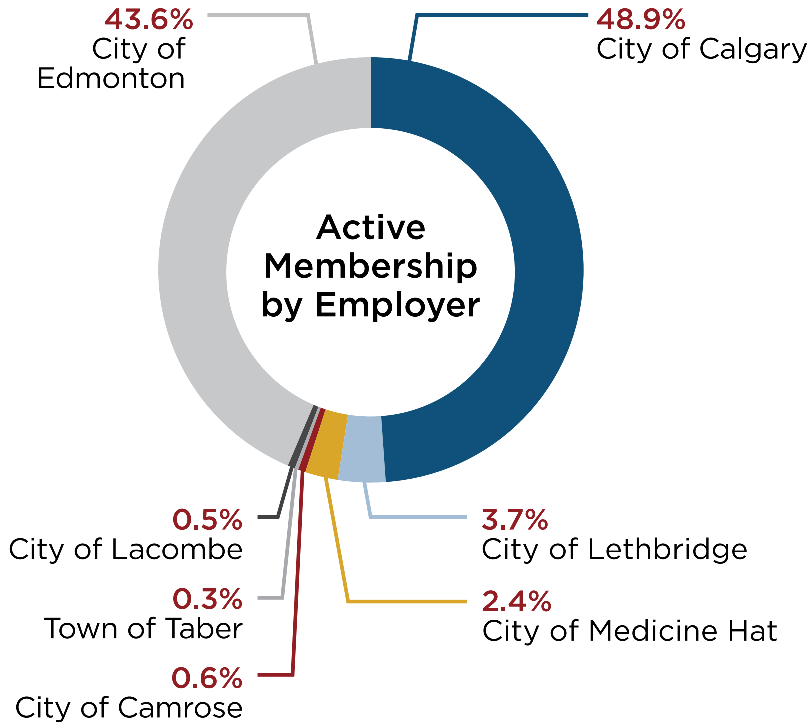
Ensuring that the Plan is able to support the needs of current and future members and pensioners is the primary concern of SFPP. To maintain the health of the Plan, from both a member and a financial position, statistical membership trends are monitored constantly. Reviewing and analyzing the trends and comparing them to the performance of the Plan provides SFPP with valuable insight that is used to manage the Plan in the way best protects the interests of members.

- SFPP saw 208 new members join the Plan in 2019, as well as 92 members commencing a pension from the Plan and 60 members, who were no longer municipal police officers, removing their benefits the Plan.
- Total SFPP membership climbed in 2019 from 7,375 to 7,506, an increase of 1.8%.
- The total number of active members (those currently contributing to the Plan) grew in 2019 from 4,476 to 4,570 members, an increase of 2.1%.
- The total number of retired members (those collecting a pension from the Plan) also grew in 2019, from 2,679 to 2,725, an increase of 1.7%.

MEMBERSHIP TRENDS – FIVE-YEAR COMPARISON



As can be seen in the graphic below, the vast majority of members come from the two largest cities in the province.



The ratio of active members (those contributing to the Plan) to retired members (those receiving benefits from the Plan) has remained stable at 1.7 active members for every 1 retired member, as noted below. This is a healthy ratio, as more money is coming into the Plan via contributions than is going out via disbursements.

ACTIVE MEMBERS	2019	2018	2017	2016	2015
Average Age	40.6	40.3	39.9	40.1	39.4
Average Years of Service	12.4	12.2	11.7	10.6	10.1
Active Member to Pensioner Ratio	1.7	1.7	1.7	1.7	1.8

PENSIONERS

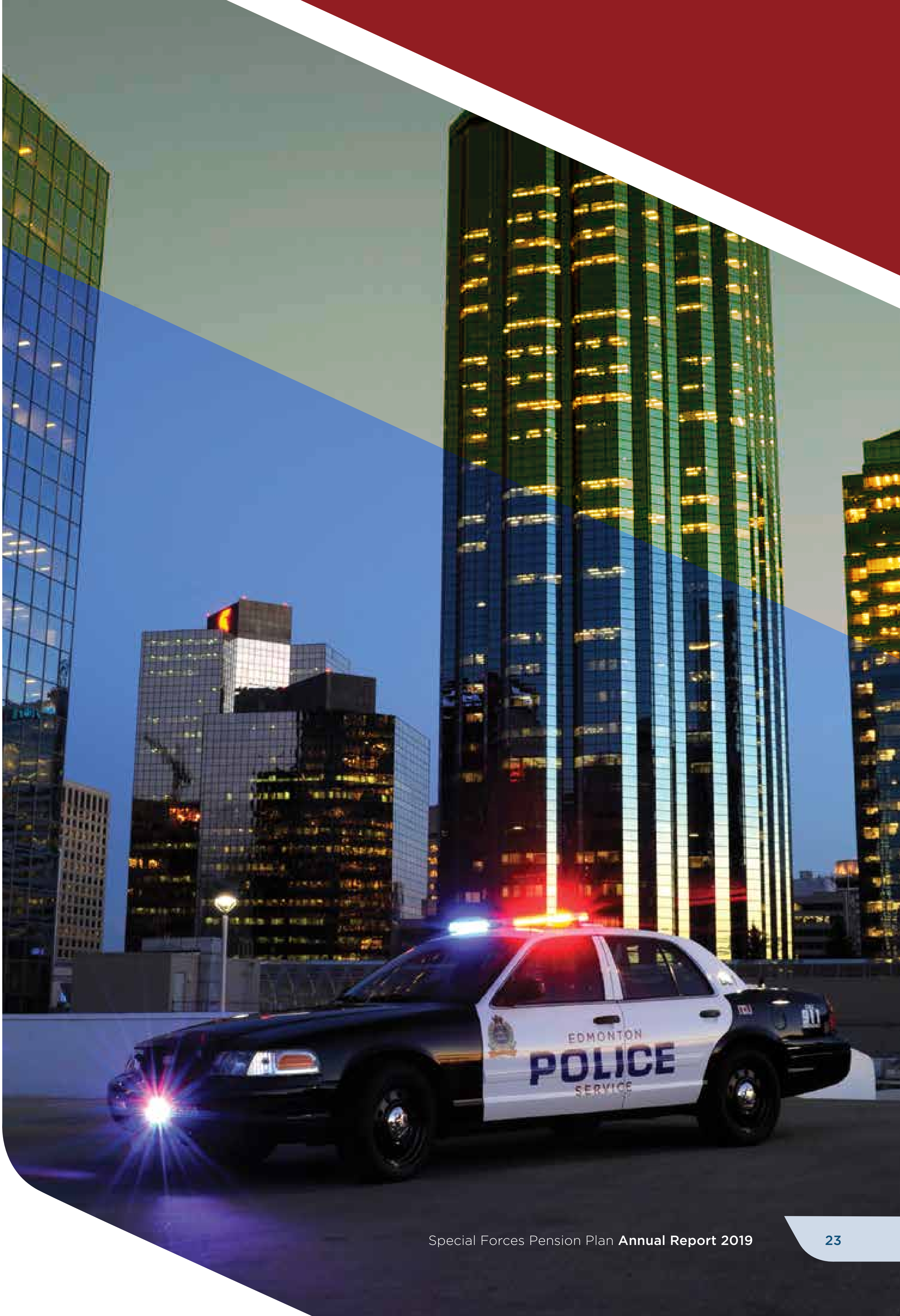
The number of total pensioners, including spousal survivor pensions, increased by 46 to 2,725 in 2019 compared to 2,679 in 2018, an increase of 1.7%. Total payments of pension benefits rose from $113 million in 2018 to $117 million in 2019.

SFPP PENSIONER PROFILE

NEW PENSIONERS	2019	2018	2017
Number of New Pensioners	92	114	106
Average Age of New Pensioners	55.6	54.9	55.4

ALL PENSIONERS	2019	2018	2017
Average Annualized Yearly Pension Paid Out (Gross)*	$ 43,762.75	$ 42,280.01	$ 41,184.14
Current Pension Choices in Payment			
Joint Life Options	90.2%	90.3%	90.5%
Single Life Options	9.8%	9.7%	9.5%

**Only original pensioners are considered in the calculation of average yearly pension amount. Including spouses and beneficiaries, who may be splitting the pension among themselves, deflates the average pension amount.*


EDMONTON
POLICE
SERVICE

INVESTMENT SUMMARY

ALBERTA INVESTMENT MANAGEMENT CORPORATION (AIMCo)

AIMCo is an Alberta Crown corporation and the government-mandated investment manager for SFPP. AIMCo invests SFPP's assets for the benefit of Plan members, subject to SFPP's investment policies. Most of the Plan's investments are managed by AIMCo internally through pooled investment funds. However, to achieve greater diversification, access external expertise and specialized knowledge, and reduce operational complexity, some investments are managed by third-party investment managers selected and monitored by AIMCo.

STATEMENT OF INVESTMENT POLICIES AND PROCEDURES

Plan assets are invested in accordance with the SFPP Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed and updated annually by SFPP, considering the requirements of the SFPP's Funding Policy. The SIPP sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics, financial obligations, market expectations, and asset mix. It also defines the management structure and monitoring procedures. AIMCo is responsible for making decisions on where and how to invest the Fund in alignment with the investment policy.

PLAN PERFORMANCE

The Plan's actuary conducted a valuation in 2019 of SFPP's financial condition as at December 31, 2018. Overall, SFPP's financial condition improved from 88.5% funded (December 31, 2016) to 92.4% (December 31, 2018):

Actuarial Valuation of SFPP's Financial Condition

($MILLIONS)	December 31, 2018	December 31, 2016
Market value of assets	$3,028.3	$2,690.9
Smoothing adjustment	$42.4	($35.7)
Total smoothed value*	$3,070.7	$2,655.2
Funding target**	$3,323.9	$3,000.0
Funding excess (unfunded liability)	($253.2)	($344.8)
Funded ratio	92.4%	88.5%

* ***Total smoothed value*** *is the market value of SFPP, with any investment gains and losses smoothed across three years.*

** ***Funding target*** *is how much money SFPP needs to pay benefits if the Plan continues indefinitely. If there is not enough money, then there is an "unfunded liability".*

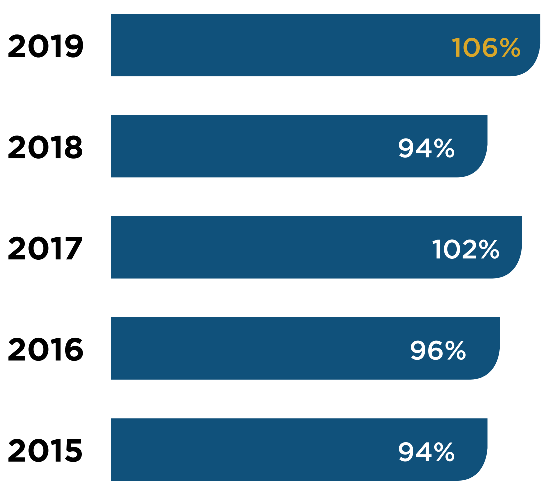
While SFPP still has an unfunded liability, the funded position has improved mainly due to positive investment returns and contributions made to the Plan.

As part of the Plan's financial statements, SFPP compares the fair market value of the Plan's assets with an extrapolation of the Plan's funding targets (pension obligations). This extrapolation uses projections though does not update the member data from the last actuarial valuation. This financial statement assessment cannot replace an actuarial valuation.

In the 2019 financial statements, at December 31, 2019, the fair value of the Plan's net assets increased to $3.45 billion. The pension obligation was projected to increase to $3.27 billion. This resulted in an estimated surplus funded position of $0.18 billion. Refer to the "Statement of Financial Position" table in the "Financial Statements" section at the end of this Annual Report for more details on this comparison for 2019.

Percent of Pension Obligations Supported by Net Assets

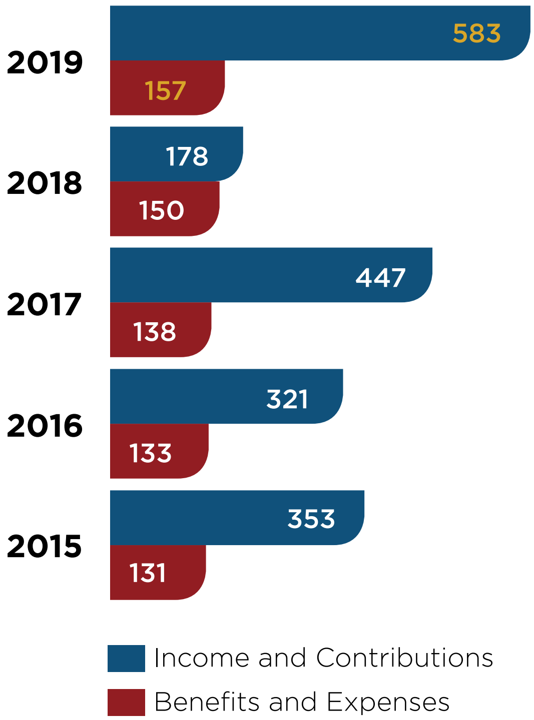
(per audited financial statements)



The graphic above illustrates how the percent of pension obligations supported by net assets has changed over the years, based on the financial statements. As can be seen, despite steady improvement each year, net assets were lower than the pension obligation by the end of 2018. This was as a result of low investment income in 2018 from poor market conditions. By the following year however, net assets were again greater than pension obligations. The Plan's actual funding position is assessed through an actuarial valuation.

SFPP Inflows and Outflows

(in millions of dollars)
(per audited financial statements)



In 2019, investment income and contributions of $582 million were significantly higher than benefit payments and expenses of $157 million. The substantial increase is due to increased investment income resulting from a strong market turnaround in 2019. For more information on this, refer to the "Statement of Changes in Net Assets for Benefits" table in the "Financial Statement" section at the end of this Annual Report.


EVIDENCE

INVESTMENT PERFORMANCE

YEAR IN REVIEW

The growth in net assets in 2019 was almost entirely due to return on investments, which, net of expenses, was 13.5%.

After a disappointing 2018, which saw the Plan post a small positive return, markets seemed intent on starting 2019 strongly. SFPP benefited from this with a gain of 6.6% in the first quarter. Unfortunately, the market was not able to maintain its momentum and returns dipped and leveled out for the remainder of the year, with a slight uptick in the final quarter. As seen in the table, quarterly returns for the final three quarters were 2.0%, 1.6% and 2.7%.

The strong gains that the Plan enjoyed in 2019 were driven primarily by strength in the equity markets. SFPP realized a gain of 18.7% on equity investments in 2019 compared to a loss of 4.2% on the same portfolio in the previous year.

Despite the relatively strong return of 13.5%, the SFPP investment portfolio underperformed the passive-investment benchmark return of 14.4%.

SFPP Investment Returns	
1st Quarter	6.6%
2nd Quarter	2.0%
3rd Quarter	1.6%
4th Quarter	2.7%
Annual 2019	13.5%

The quarterly rates of return do not add up to the annual rate of return because the quarterly rates continue to accrue interest through the subsequent quarters.

INVESTMENTS BY CURRENCY

Selecting a range of investments from around the world allows the Plan to take advantage of differences in the value of different nations' currency as well as to protect against issues that could arise from investing in a single source – this is the essence of diversification. At December 31, 2019, 62% (2018: 65%) of the Plan's investments were denominated in Canadian currency, followed by 20% (2018: 19%) in U.S. currency and 18% (2018: 16%) in currencies outside North America. The value of the Plan's foreign investment portfolio is exposed to foreign currency risk (i.e. potential loss) when the value of the Canadian dollar strengthens against other currencies. At year-end, the Canadian dollar was weaker against the U.S. dollar (1 USD = 1.3 CDN compared to 1 USD = 1.4 CDN at the start of the year), meaning U.S. dollar investments were worth more when translated into Canadian dollars, however, as can be seen by the relative change in currency class investments, this increase in strength in the Canadian dollar is not expected to continue.

62% Canadian Dollar (CAD)

8% Other foreign currencies

3% Japanese Yen (JPY)

3% British Pound (GBP)

4% Euro (EUR)

20% United States Dollar (USD)

ASSET MIX

The table below shows the long-term policy asset weight for each class of investments held in the Plan, as ascribed in SFPP's Statement of Investment Policies and Procedures (SIPP), compared to the actual asset mix for 2019 and 2018.

ASSET CLASS	LONG-TERM POLICY WEIGHT (%)	POLICY RANGE		ACTUAL	
		MINIMUM (%)	MAXIMUM (%)	2019 (%)	2018 (%)
Money market	1.0	0.0	10.0	1.1	1.1
Fixed income	24.0			24.2	25.4
Universal bonds, mortgage, private debt [(1)]	8.0	4.0	18.0	8.6	9.6
Universal bonds				5.7	6.5
Private debt				1.0	1.3
Private mortgage				2.0	1.8
Long government bonds	16.0	12.0	22.0	15.6	15.8
Equities [(2)]	50.0			52.0	49.1
Canadian	14.0	8.0	20.0	14.1	13.6
Global developed	24.0	14.0	34.0	27.8	26.1
Emerging markets	4.0	0.0	8.0	4.1	4.0
Global small cap	3.0	0.0	6.0	3.2	2.8
Private equity	5.0	0.0	8.0	2.8	2.6
Inflation sensitive	25.0			22.0	23.4
Real return bonds	5.0	2.0	10.0	4.6	4.8
Real estate (Canadian) [(3)]	7.0	5.0	9.0	6.9	7.7
Real estate (foreign) [(3)]	3.0	1.0	5.0	2.5	2.9
Infrastructure and timberland	10.0	7.0	13.0	8.0	8.0
Infrastructure				5.9	5.9
Timberland				2.1	2.1
Strategic, tactical and currency investments	-	-	-	0.7	1.0
Grand Total	100.0			100.0	100.0

(1) The combined allocation to private mortgages and private debt is restricted to a range of 0% to 6%.

(2) The combined allocation to public and private equities is restricted to a maximum limit of 72%.

(3) Two separate allocations to Canadian and Foreign comprise the long-term strategic allocation of 12.5% to real estate.

ASSET CLASS SUMMARY DESCRIPTIONS

As can be seen in the table on the previous page, there are five general asset classes that the Plan participates in, to varying degrees, in accordance with the SIPP and AIMCo management discretion. What follows is an explanation of what each asset class entails and what its value to a diversified portfolio is.

- **Money market:** These investments are typically characterized by safety and liquidity. The short-term nature of this investment and low absolute volatility makes it generally low risk, but that also gives it relatively low rates of return.
- **Fixed income:** There are a variety of instruments that fall under this category, as noted in the table on the previous page, but this asset class consists of investments that pay out a set level of cash flows to the Plan, typically in the form of fixed interest or dividends for a fixed term. At maturity, these debt instruments usually also repay the principal that the Plan invested to begin with. Fixed income securities align closely with the interest rate risk associated with the Plan's pension obligation.
- **Equities:** Equities are shares of ownership in both publicly traded and private companies. To enhance stability through diversification, these instruments are further divided by geographical / economic region (Canadian, global developed, emerging market) and market capitalization, or size of business. These investments are intended to provide long-term growth which will enable the Plan to meet the funding requirements of its pension obligation.
- **Inflation sensitive:** These investments include any publicly traded or privately held investment that provides inflation-based returns, seen as protection against inflation. This typically consists of tangible assets such as investments in real estate, infrastructure or renewables or real return bonds, which are bonds that pay a rate of return adjusted for inflation. The goal of this asset class is protecting the Plan's assets against inflation.
- **Strategic, tactical and currency investments:** SFPP provides AIMCo with the autonomy to invest up to 5% of total assets in certain strategic opportunities that are outside the asset classes listed on the previous page. This gives our investment manager with opportunities which may arise that they deem appropriate to the Plan's mandate and which could yield a higher-than-average return, although that is usually associated with a higher-than-average risk profile.

INVESTMENT RESULTS IN RELATION TO THE BENCHMARKS

SFPP entered into an Investment Management Agreement (IMA) with AIMCo this year. The IMA is a legal agreement with SFPP's mandated investment manager that sets the terms under which AIMCo is authorized to manage the assets of the Fund. In addition to setting our investment asset mix, SFPP's SIPP is a tool used to evaluate performance and measure the value added by the investment manager. Included in the SIPP are the benchmark returns and value-add target, which allow SFPP to determine whether the Plan is benefiting from AIMCo's active investment decisions, such as security selection. The benchmark return, also referred to as a passive-investment benchmark return, represents what could reasonably be earned without active management if invested in market indices in proportion to the policy asset mix laid out in the SIPP. The actual investment results are compared to the investment policy benchmark to determine the performance of AIMCo.

Investment managers strive to earn more than market returns by working within the guidelines of the SIPP (see the table in "Asset Mix" for SFPP policy minimum and maximum ranges for each asset class). By utilizing their information and knowledge of investing and the marketplace, AIMCo will invest more in one asset class and less in another to beat the market and the benchmark return laid out by SFPP. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: *FTSE Canada 91-Day T-Bill*

Index, FTSE Canada Universe Bond Index, FTSE Canada Long Term All Government Bond Index, FTSE Canada Real Return Bond Index, S&P/TSX Composite Index, MSCI World, EM net and World Small Cap Indexes, IPD Large Institutional All Property Index, IPD Global Region Property Index and the blended Private Income Index to measure Infrastructure and Timberland.

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its investment management decisions. Performance is reviewed quarterly, with an emphasis on four-year returns due to the long-term nature of pension investing. SFPP should be able to expect returns higher than the benchmarks, owing to the fact the AIMCo takes an active-management approach, and the benchmark is based on a passive approach to investing in the indexes noted above. According to the Plan's SIPP and reflecting AIMCo's active-management approach, the Board expects that investments held by the Plan will return at least 100 basis points (1.0%) per year, above the policy passive-management benchmark return over the long term.

As can be seen in the table below, AIMCo did not meet the passive-investment benchmark return in 2019 and has beaten the benchmark twice in the last four years. As AIMCo is the government-mandated investment manager of the Plan, we will continue to work closely with them to ensure that they are able to meet expectations in the future.

Investment Returns	Annual Returns (%)				Annualized Returns (%)		
	2019	2018	2017	2016	4-Years	10-Years	20-Years
Actual Return	13.5	0.5	10.9	6.8	7.8	9.2	6.6
Policy Benchmark Return	14.4	(0.1)	9.6	6.8	7.5	8.4	6.1
Value Added	-0.9	0.6	1.3	0.0	0.3	0.8	0.5

SFPP

FINANCIAL STATEMENTS

Year Ended December 31, 2019

INDEPENDENT AUDITOR'S REPORT

Auditor General
OF ALBERTA

To the SFPP Corporation Board of Directors

REPORT ON THE FINANCIAL STATEMENTS

OPINION

I have audited the financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2019, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2019, and the changes in net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

BASIS FOR OPINION

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Special Forces Pension Plan, in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and my auditor's report thereon. The Annual Report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

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 the 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 Special Forces Pension 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 an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Special Forces Pension Plan's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Special Forces Pension Plan's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Special Forces Pension Plan to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I 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 I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

May 22, 2020
Edmonton, Alberta

SPECIAL FORCES PENSION PLAN
STATEMENT OF FINANCIAL POSITION

As at December 31, 2019

($ thousands)	2019	2018
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 3,444,647	$ 3,024,643
Contributions receivable		
Employers	5,157	2,390
Employees	4,774	2,191
Province of Alberta	463	457
Accounts receivable	844	534
Total Assets	3,455,885	3,030,215
Liabilities		
Accounts payable	1,508	1,944
Total Liabilities	1,508	1,944
Net assets available for benefits	$ 3,454,377	$ 3,028,271
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 3,269,746	$ 3,219,466
Surplus (deficit) (Note 6)	184,631	(191,195)
Pension obligation and surplus or deficit	$ 3,454,377	$ 3,028,271

The accompanying notes are part of these financial statements.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2019

($ thousands)	**2019**	**2018**
Increase in assets		
Contributions (Note 7)	$ 150,937	$ 142,438
Transfers from other plans	871	628
Investment income (Note 8)	430,989	35,024
	582,797	178,090
Decrease in assets		
Benefit payments (Note 10)	132,638	129,092
Transfer to other plans	235	109
Investment expenses (Note 11)	20,519	18,202
Administrative expenses (Note 12)	3,299	2,606
	156,691	150,009
Increase in net assets	426,106	28,081
Net assets available for benefits at beginning of year	3,028,271	3,000,190
Net assets available for benefits at end of year	$ 3,454,377	$ 3,028,271

The accompanying notes are part of these financial statements.

SPECIAL FORCES PENSION PLAN
STATEMENT OF CHANGES IN PENSION OBLIGATION

Year ended December 31, 2019

	2019			2018
($ thousands)	**Pre-1992**	**Post-1991**	**Total**	**Total**
Increase in pension obligation				
Interest accrued on opening pension obligations	$ 44,219	$ 139,258	$ 183,477	$ 175,792
Benefits earned	-	113,827	113,827	100,968
Net loss due to actuarial assumptions changes (Note 5a)	-	-	-	144,068
	44,219	253,085	297,304	420,828
Decrease in pension obligation				
Benefits, transfers and interest	62,072	71,731	133,803	130,409
Net gain due to actuarial assumption changes (Note 5a)	320	91,658	91,978	-
Net experience gains (Note 5b)	533	20,710	21,243	-
	62,925	184,099	247,024	130,409
Net (decrease) increase in pension obligation	(18,706)	68,986	50,280	290,419
Pension obligation at beginning of year	789,621	2,429,845	3,219,466	2,929,047
Pension obligation at end of year (Note 5)	$ 770,915	$ 2,498,831	$ 3,269,746	$ 3,219,466

The accompanying notes are part of these financial statements.

SPECIAL FORCES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2019

(All dollar amounts in thousands, except per member data)

NOTE 1 – SUMMARY DESCRIPTION OF THE PLAN

The Special Forces Pension Plan (the Plan) is registered under the *Employment Pension Plans Act* (Alberta). The Plan is also registered under the *Income Tax Act* (Canada) with the registration number 0584375. The following description of the Special Forces Pension Plan (the Plan) is a summary only. A complete description of the Plan can be found in the SFPP plan text document.

Prior to March 1, 2019, the terms of the Plan were set out in the *Public Sector Pension Plans Act* (Alberta), the *Public Sector Pension Plans (Legislative Provisions) Regulation* Alberta Regulation 365/1993, and the *Special Forces Pension Plan* Alberta Regulation 369/93.

Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the plan text and applicable pension laws, the plan documents and legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta.

Prior to March 1, 2019, the President of Treasury Board and Minister of Finance was the legal trustee for the Plan. As of March 1, 2019, SFPP Corporation is the legal trustee of the Fund and administrator of the Plan. SFPP Corporation oversees all administrative functions of the Plan, such as the Plan Fund and investment of assets, supervising external service providers, preparing the annual budget, and more.

The Corporation is governed by a Board of Directors. The board members are nominated by the Plan's sponsors and are appointed by Government.

The Sponsor Board is responsible for plan design and funding risk appetite. The Sponsor Board is supported by SFPP Corporation.

The *Reform of Agencies, Boards and Commissions and Government Enterprises Act,* 2019 came into force on November 22, 2019, making the SFPP Corporation a "Government agency".

NOTE 1 – SUMMARY DESCRIPTION OF THE PLAN *(continued)*

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Sponsor Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2018. Under the *Joint Governance of Public Sector Pension Plans Act,* no solvency funding requirements prescribed by the *Employment Pension Plans Act* apply to the Plan.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from employees, employers and the Province of Alberta. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2019 were 0.75% each for employers and employees, and 1.25% of pensionable salary for the Province of Alberta.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees.

The contribution rates in effect at December 31, 2019 for current service and post-1991 actuarial deficiency were 13.80% of pensionable salary for employers and 12.70% for employees. Of this, contribution rates towards current service were 12.56% of pensionable salary for employers and 11.46% for employees. Contributions towards the post-1991 actuarial deficiency were 1.24% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2019 were 14.55% of pensionable salary for employers and 13.45% for employees and includes the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Prior to January 1, 2019, benefit payment increases for post-1991 COLA were funded by employee and employer contributions to the Indexing Fund and earnings from investments. The indexing fund was collapsed into the main SFPP fund on March 1, 2019.

c) RETIREMENT BENEFITS

A member can commence their pension after 25 years of pensionable service or from age 55 and being vested. A member is vested for a retirement benefit when they have at least five years of pensionable service. A member is immediately vested if they are a participant in the Plan on or after attaining age 65.

The Plan provides for a pension of 1.4% for each year of pensionable service based on highest average salary over five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the salary above average YMPE, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65. The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE. The maximum pensionable service allowable under the Plan is 35 years.

d) DISABILITY PENSIONS

Members who become disabled and are in receipt of benefits from an approved disability plan continue to earn pensionable service credits under the Plan.

Individuals who became members before July 1, 2007, have a vested benefit in SFPP, and are totally or partially disabled may be entitled to an SFPP disability pension. Pensions may be payable to vested members who become totally disabled and retire early. Reduced pensions may be payable to vested members who become partially disabled and retire early.

e) DEATH BENEFITS

Benefits are payable on the death of a member.

If the member is vested, dies prior to commencing to receive a pension and has a pension partner, the surviving pension partner may choose to receive either a survivor pension or a lump-sum payment. If there is no surviving pension partner, the beneficiary(ies) would receive a lump-sum payment. There are additional benefits for any dependent minor children with respect to pre-1992 service.

If the member is not vested, the pension partner or beneficiary(ies) is entitled to receive death benefits in the form of a lump-sum payment. There are additional benefits for dependent minor children with respect to pre-1992 service.

If the member is vested and dies after commencing to receive a pension, the death benefit will depend on the pension option selected at retirement and can include a lifetime pension payable to a surviving pension partner or a pension or lump-sum benefit payable to the surviving beneficiary(ies) based on any remaining guaranteed term.

NOTE 1 – SUMMARY DESCRIPTION OF THE PLAN *(continued)*

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Vested members who terminate before accumulating 25 years of pensionable service and age 55 may choose to withdraw their funds from the Plan and receive a refund of their contributions and interest on service prior to 1992 and a lump-sum payment equal to the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any service purchased by the member on an elective basis that was wholly funded by the member is not included in the commuted value and is instead refunded as contributions with interest. If the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who are not vested when they terminate are entitled to receive a refund of the employee contributions with interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 38 of Schedule 3 of the *Joint Governance of Public Sector Pension Plans Act.*)

h) PURCHASED SERVICE AND TRANSFERS

Leaves of absence without salary which occur before the Plan's deadline are costed on a contribution basis. All other leave and eligible service purchases are costed on an actuarial reserve basis and are cost neutral to the Plan.

The Plan also allows for the transfer of entitlements into the Plan under a transfer agreement. Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transferred-out service receive the greater of the commuted value or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

For pre-2001 service, pensions payable is increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The increase is prorated on a monthly basis for pensions that became payable within the previous year.

For post-2000 service, the SFPP Sponsor Board determines each year whether COLA can be granted based on the Plan's financial condition. Currently, COLA for post-2000 service is at 30% of the increase in the Alberta Consumer Price Index.

The increase is prorated on a monthly basis for pensions that became payable within the previous year.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* (Alberta), and the *Alberta Investment Management Corporation Act* (Alberta). Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES *(continued)*

Investments in units are recorded in the Plan's accounts on a trade date basis. All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

c) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools based on the Plan's pro-rata share of total units issued by the pools; and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

d) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

e) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is performed at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and SFPP Corporation's best estimate, as at the measurement date, of various economic and non-economic assumptions.

f) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and renewable investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and renewable investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and renewable investments, it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

g) INCOME TAXES

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

NOTE 3 – INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Procedures (SIPP) approved by the Board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market-based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)	Fair Value Hierarchy[(a)]		2019	2018
Asset class	**Level 2**	**Level 3**	**Fair Value**	**Fair Value**
Interest-bearing securities				
Cash and short-term securities	$ 37,000	$ -	$ 37,000	$ 33,813
Bonds, mortgages and private debt and loans	733,294	101,697	834,991	767,217
	770,294	101,697	871,991	801,030
Equities				
Canadian	487,316	-	487,316	409,976
Global developed	920,165	37,504	957,669	789,290
Private	1	96,613	96,614	79,387
Emerging markets	140,217	-	140,217	120,482
Global small cap equity	108,954	-	108,954	85,535
	1,656,653	134,117	1,790,770	1,484,670
Inflation sensitive				
Real estate	-	323,071	323,071	321,590
Infrastructure	-	202,995	202,995	178,654
Real return bonds	157,620	-	157,620	144,437
Renewable	-	73,091	73,091	63,999
	157,620	599,157	756,777	708,680
Strategic, tactical and currency investments*	514	24,595	25,109	30,263
Total investments	$ 2,585,081	$ 859,566	$ 3,444,647	$ 3,024,643

* *This asset class is not listed separately in the SIPP as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).*

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- **Level 1** - fair value is based on quoted prices in an active market. Although the pools may ultimately hold publicly traded listed equity investments, the pool units themselves are not listed in an active market and therefore cannot be classified as Level 1 for fair value hierarchy purposes. Pool units classified by the Plan as Level 2 may contain investments that might otherwise be classified as Level 1.
- **Level 2** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes pool units that hold public equities, debt securities and derivative contracts totaling $2,585,081 (2018: $2,209,024).
- **Level 3** - fair value is estimated using inputs based on non-observable market data. This level includes pool units that hold private mortgages, hedge funds, private equities and inflation sensitive investments totaling $859,566 (2018: $815,619).

Reconciliation of Level 3 Fair Value Measurements:

($ thousands)	2019	2018
Balance, beginning of year	$ 815,619	$ 697,156
Investment income*	62,465	80,512
Purchases of Level 3 pooled fund units	144,719	112,008
Sale of Level 3 pooled fund units	(163,237)	(74,056)
Level 3 transfers out	-	(1)
Balance, end of year	$ 859,566	$ 815,619

* Investment income includes unrealized losses of $(6,677) (2018: $60,197 gain).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools are explained in the following paragraphs:

- **Interest-bearing securities:** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.

NOTE 3 – **INVESTMENTS** *(continued)*

- **Equities:** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- **Inflation sensitive:** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of renewable investments is appraised annually by independent third-party evaluators. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest-bearing securities.

- **Strategic, tactical and currency investments:** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- **Foreign currency:** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- **Derivative contracts:** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 – INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIPP approved by the Board. The purpose of the SIPP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix long term policy weight:

Asset class	Long-term Policy Weight	Actual Asset Mix 2019		Actual Asset Mix 2018	
		($ thousands)	*%*	*($ thousands)*	*%*
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 37,000	1.1	$ 33,813	1.1
Fixed income (bonds and mortgages)	24%	834,991	24.2	767,217	25.4
Equities	50%	1,790,770	52.0	1,484,670	49.1
Inflation sensitive	25%	756,777	22.0	708,680	23.4
Strategic, tactical and currency	(a)	25,109	0.7	30,263	1.0
		$ 3,444,647	100.0	$ 3,024,643	100.0

(a) In accordance with the SIPP, AIMCo may invest up to 5% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

NOTE 4 – INVESTMENT RISK MANAGEMENT *(continued)*

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors.

Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade.

Unrated debt securities consist primarily of mortgages and private debt placements.

The table below summarizes the Plan's investments in debt securities by credit rating at December 31, 2019:

Credit rating	2019	2018
Investment Grade (AAA to BBB-)	88.9%	88.9%
Speculative Grade (BB+ or lower)	0.3%	0.2%
Unrated	10.8%	10.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty risk by requiring that counterparties collateralize mark-to-market gains for the Plan.

Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2019, the Plan's share of securities loaned under this program is $183,406 (2018: $230,498) and collateral held totals $196,201 (2018: $246,042). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 38% (2018: 35%) of the Plan's investments, or $1,299,541 (2018: $1,077,407), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2018: 19%) and the Euro, 4% (2018: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.8% (2018: 3.5%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2019:

($ thousands)	2019		2018	
Currency[a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 671.782	$ (67,178)	$ 566,684	$ (56,668)
Euro	144,748	(14,475)	115,241	(11,524)
Japanese yen	98,713	(9,871)	81,671	(8,167)
British pound	88,884	(8,888)	82,155	(8,215)
Other foreign currency	295,414	(29,542)	231,656	(23,166)
Total foreign currency investments	$ 1,299,541	$ (129,954)	$ 1,077,407	$ (107,740)

a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

NOTE 4 – **INVESTMENT RISK MANAGEMENT** *(continued)*

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.4% (2018: 3.4%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.2% (2018: 6.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, renewable,infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	**Number of counterparties**	**2019**	**2018**
Contracts in net favourable position (current credit exposure)	97	$ 134,255	$ 84,303
Contracts in net unfavourable position	10	(122,193)	(124,379)
Net fair value of derivative contracts	107	$ 12,062	$ (40,076)

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $134,255 (2018: $84,303) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

NOTE 4 – INVESTMENT RISK MANAGEMENT *(continued)*

	Plan's Indirect Share *($ thousands)*	
Types of derivatives used in pools	**2019**	**2018**
Structured equity replication derivatives	$ 6,945	$ (22,033)
Foreign currency derivatives	7,572	(18,198)
Interest rate derivatives	(2,905)	(59)
Credit risk derivatives	450	214
Net fair value of derivative contracts	$ 12,062	$ (40,076)

i) Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivatives. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) At December 31, 2019, deposits in futures contracts margin accounts totaled $6,499 (2018: $11,980). Cash and non-cash collateral for derivative contracts pledged and received, respectively, totaled $(19,003) (2018: $(37,262)) and $nil (2018: $494).

SPECIAL FORCES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2019

NOTE 5 – PENSION OBLIGATION

a) Actuarial Valuation and Extrapolation Assumptions

An actuarial valuation of the Plan was carried out as at December 31, 2018 by Mercer (Canada) Limited and was then extrapolated to December 31, 2019.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $3,269,746 (2018: $3,219,466) reflect management's best estimate, as at the measurement date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is determined by taking the plan specific asset allocation and applying the expected long-term asset returns determined by independently developed investment model, less expected plan investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

(%)	2019	2018
Discount rate	5.60	5.60
Inflation rate	2.00	2.00
Salary escalation rate*	2.00-2.75**	3.00

Mortality rate — 120% of the 2014 Canadian Pension Mortality Table (Public Sector)

** In addition to age specific merit and promotion increase assumptions.*

*** 2.00% per annum for 5 years from December 31, 2018 and 2.75% per annum thereafter*

In 2019, net gain due to actuarial assumption changes of $91,978 primarily resulted from decreases in the salary escalation rate. In 2018, net loss due to actuarial assumption changes of $144,068 primarily resulted from a decrease in the discount rate.

An actuarial valuation of the Plan as at December 31, 2019 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2020.

NOTE 5 – PENSION OBLIGATION *(continued)*

b) Net Experience Gains

Net experience gains of $21,243 (2018: $nil) arose from actual experience deviating from expected.

c) Plan Provision Changes

Changes in plan provisions due to legislation changes were insignificant. The primary change uses the going concern assumption in calculating commuted values effective April 1, 2020.

d) Sensitivity of Changes in Major Assumptions

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2019:

($ thousands)	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings[1]
Inflation rate increase holding discount rate and salary escalation assumptions constant	+1%	176,562	0.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	+1%	131,552	2.2%
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1%)	561,201	5.8%

(1) The current service cost as a percentage of pensionable earnings as determined by the December 31, 2019 extrapolation was 21.75%.

NOTE 6 – **SURPLUS (DEFICIT)**

In accordance with the requirements of the *Joint Governance of Public Sector Pension Plans Act,* a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

	2019			2018
($ thousands)	**Pre-1992**	**Post-1991**	**Total**	**Total**
(Deficit) Surplus at beginning of year	$ (198,758)	$ 7,563	$ (191,195)	$ 71,143
Increase in Plan Fund net assets available for benefits	-	426,106	426,106	22,086
Increase in Indexing Fund net assets	-	-	-	5,995
Net increase (decrease) in pension obligation	18,706	(68,986)	(50,280)	(290,419)
(Deficit) Surplus at end of year	$ (180,052)	$ 364,683	$ 184,631	$ (191,195)

	2019			2018
($ thousands)	**Pre-1992**	**Post-1991**	**Total**	**Total**
Plan opening net assets available for benefits	$ 590,863	$ 2,437,408	$ 3,028,271	$ 3,000,190
Increase in Plan net assets available for benefits	-	426,106	426,106	28,081
Plan closing net assets available for benefits	$ 590,863	$ 2,863,514	$ 3,454,377	$ 3,028,271

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 – CONTRIBUTIONS

($ thousands)	2019	2018
Current service		
Employers	$ 64,445	$ 60,464
Employees	58,842	55,158
Unfunded liability		
Employers	9,818	9,480
Employees	9,818	9,480
Province of Alberta	6,167	5,955
Past service		
Employers	257	266
Employees	1,590	1,635
	$ 150,937	$ 142,438

NOTE 8 – INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Change in Fair Value	2019 Total	2018 Total
Interest-bearing securities	$ 39,199	$ 44,281	$ 83,480	$ 14,727
Equities				
Canadian	51,011	36,271	87,282	(41,785)
Foreign	91,653	105,846	197,499	(22,825)
Private	7,051	795	7,846	13,890
	149,715	142,912	292,627	(50,720)
Inflation Sensitive				
Real estate	16,881	(1,491)	15,390	36,744
Real return bonds	7,500	4,764	12,264	303
Infrastructure	12,575	(1,162)	11,413	24,534
Renewable	5,284	5,615	10,899	8,721
	42,240	7,726	49,966	70,302
Strategic, tactical and currency investments	4,454	462	4,916	715
	$ 235,608	$ 195,381	$ 430,989	$ 35,024

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $18,759 and $176,782 respectively (2018: $5,847 and $(120,246) respectively). Realized and unrealized gains and losses on currency hedges total $(93) and $(67) respectively (2018: $124 and $(57) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis and income and expense on derivative contracts.

NOTE 9 – INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

(in per cent)	2019	2018	2017	2016	2015
Increase (decrease) in net assets attributed to: Investment income					
Policy benchmark return on investments	14.3	(0.1)	9.6	6.8	7.1
Value (lost) added by investment manager	(0.8)	0.6	1.3	-	2.2
Time weighted rate of return, at fair value [(a)]	13.5	0.5	10.9	6.8	9.3
Other sources [(b)]	0.6	0.4	0.6	0.7	0.4
Per cent change in net assets [(c)]	14.1	0.9	11.5	7.5	9.7
Per cent change in pension obligation [(c)]	1.6	9.9	4.6	5.0	7.8
Per cent of pension obligation supported by net assets	106	94	102	96	94

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 8.1% (PBR: 7.4%), ten years is 9.2% (PBR: 8.4%) and twenty years is 6.6% (PBR: 6.1%). The Plan's actuary estimates the long-term net investment returns on assets for funding purposes to be 5.3% (2018: 5.3%)

(b) Other sources include employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

SPECIAL FORCES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2019

NOTE 10 – BENEFIT PAYMENTS

($ thousands)	2019	2018
Retirement benefits	$ 116,823	$ 112,589
Disability pensions	296	263
Termination benefits	13,481	15,253
Death benefits	2,038	987
	$ 132,638	$ 129,092

NOTE 11 – INVESTMENT EXPENSES

($ thousands)	2019	2018
Amount charged by AIMCo for:		
Investment costs (a)	$ 12,506	$ 14,000
Performance based fees (a)	7,349	3,550
Goods and services tax	644	574
	20,499	18,124
Amounts charged by Treasury Board and Finance for: Investment accounting and Plan reporting	20	78
Total investment expenses	$ 20,519	$ 18,202
Increase in expenses (a)	12.7%	8.5%
Increase in average investments under management	9.6%	5.9%
(Decrease) increase in value of investments attributed to AIMCo Investment	(0.8%)	0.6%
Expenses as a percent of dollar invested	0.6%	0.6%
Investment expenses per member	$ 2,734	$ 2,468

(a) *Investment expenses are charged by AIMCo on a cost-recovery basis. Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance-based fees relate to external managers hired be AIMCo.*

The per cent increase in investment costs and performance-based fees is 13.1% (2018: 9.6%).

SPECIAL FORCES PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2019

NOTE 12 – ADMINISTRATIVE EXPENSES

($ thousands)		2019		2018
Pension administration costs				
Alberta Pensions Services Corporation (APS)	$	1,704	$	2,606
SFPP Corporation		1,533		-
Goods and services tax and other		62		-
	$	3,299	$	2,606
Expenses per member	$	440	$	353

Pension administration costs were paid to APS and SFPP Corporation on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on the cost allocation methodology included in the Pensions Services Agreement between APS and SFPP Corporation.

Goods and service tax reflects the amount not eligible for rebate under the *Excise Tax Act.*

NOTE 13 – TOTAL PLAN EXPENSES

Total Plan expenses comprise investment expenses per Note 11 and administrative expenses per Note 12 of $23,818 (2018: $20,808) or $3,174 (2018: $2,821) per member and 0.69% (2018: 0.69%) of net assets under administration.

NOTE 14 – **CAPITAL**

The Plan defines its capital as the funded status. The actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIPP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $3,331,554 at December 31, 2019 (2018 $3,070,679), comprising of $598,899 (2018: $599,044) Pre-1992 and $2,732,655 (2018: $2,471,635) Post-1991.

The unfunded liability for post- 1991 service as determined by actuarial funding valuation is financed by a special payment currently totaling 2.48% of pensionable salary shared equally between employees and employers (1.24% each) until December 31, 2019 and 1.86% of pensionable salary shared equally between employees and employers (0.93% each) effective January 1, 2020 up to December 31, 2022. The special payment is included in the rates in effect at December 31, 2019 (see Note 1b).

NOTE 15 – **SUBSEQUENT EVENT**

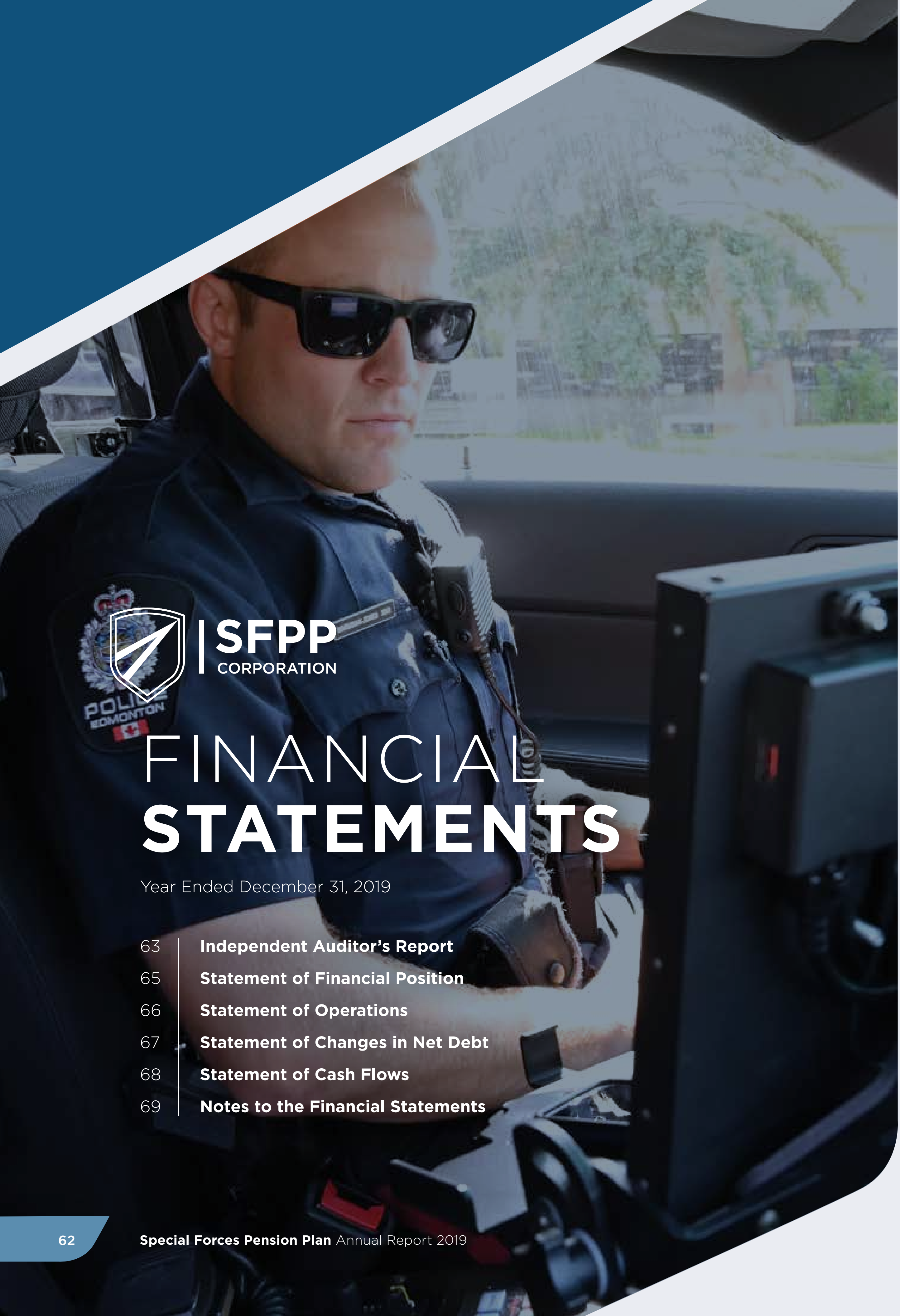
Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation is dynamic with various cities and countries around the world responding in different ways to address the outbreak. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the investments of the Plan. To the extent that investments of the Plan incur market-related losses, the funded status of the Plan would experience a correlated decline.

NOTE 16 – **COMPARATIVE FIGURES**

Comparative figures have been reclassified to be consistent with the current period presentation.

NOTE 17 – **RESPONSIBILITY FOR FINANCIAL STATEMENTS**

These financial statements were approved by the Board of Directors of the SFPP Corporation based on information provided by SFPP Corporation, APS, AIMCo and the Plan's actuary.



SFPP
CORPORATION

FINANCIAL **STATEMENTS**

Year Ended December 31, 2019

INDEPENDENT AUDITOR'S REPORT

Auditor General
OF ALBERTA

To the SFPP Corporation Board of Directors

REPORT ON THE FINANCIAL STATEMENTS

OPINION

I have audited the financial statements of SFPP Corporation which comprise the statement of financial position as at December 31, 2019, and the statements of operations, change in net debt and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SFPP Corporation as at December 31, 2019, and the results of its operations, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

BASIS FOR OPINION

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of SFPP Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the *Annual Report,* but does not include the financial statements and my auditor's report thereon. The *Annual Report* is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work I will perform on this other information, I conclude that there is a material misstatement of this other information, I am required to communicate the matter to those charged with governance.

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 public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of the 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 SFPP Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless an intention exists to liquidate or to cease operations, or there is no realistic alternative but to do so.

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 SFPP Corporation'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 SFPP Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause SFPP Corporation 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.

I 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 I identify during my audit.

[Original signed by W. Doug Wylie FCPA, FCMA, ICD.D]
Auditor General

May 22, 2020
Edmonton, Alberta

SFPP CORPORATION
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019

(in thousands)		**2019**
Financial assets		
Cash	$	22
Due from Special Forces Pension Plan (Note 5)		327
		349
Liabilities		
Due to Alberta Pensions Services Corporation (Note 6)		136
Accounts payable and accrued liabilities		222
Accrued salaries and benefits		17
		375
Net Debt		(26)
Non-financial assets		
Tangible capital assets (Note 9)		62
Prepaid expenses		26
		88
Net assets before spent deferred capital contributions		62
Spent deferred capital contributions (Note 9)		(62)
Net assets	$	-

Approved by the Board:

Original signed by

Denis Jubinville
Chair of the Corporate Board

Approved by Management:

Original signed by

Liz Doughty
Chief Executive Officer

Contractual obligations (Note 7)

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

SFPP CORPORATION
STATEMENT OF OPERATIONS
Year ended December 31, 2019

	2019	
(in thousands)	**Budget**	**Actual**
Expenses		
Salaries and benefits	$ 753	$ 617
General and administrative	486	265
Amortization	-	1
Contract services	712	581
Corporate board	155	62
Sponsor board	68	7
Total operating costs	2,174	1,533
Recovery of costs		
Recovery from the SFPP	2,174	1,532
Interest income	-	1
Recovery of costs from SFPP	2,174	1,533
Annual surplus (deficit)	-	-
Net assets at beginning of year	-	-
Net assets at end of year	$ -	$ -

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

SFPP CORPORATION
STATEMENT OF CHANGE IN NET DEBT

Year ended December 31, 2019

	2019	
(in thousands)	**Budget**	**Actual**
Annual surplus (deficit)	$ -	$ -
Acquisition of tangible capital assets (Note 9)	-	(63)
Amortization of tangible capital assets (Note 9)	-	1
Change in spent deferred capital contributions	-	62
Change in prepaid expenses	-	(26)
(Increase) Decrease in net debt	-	(26)
Net debt at beginning of year	-	-
Net debt at end of year	$ -	$ (26)

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

SFPP CORPORATION
STATEMENT OF CASH FLOWS
Year ended December 31, 2019

(in thousands)		2019
Operating transactions		
Annual surplus (deficit)	$	-
Non-cash items included in annual surplus (deficit)		
Amortization of tangible capital assets (Note 9)		1
Amortization of spent deferred capital contributions		(1)
		-
Increase in prepaid expenses		(26)
Increase in due from Special Forces Pension Plan (Note 5)		(327)
Increase in due to Alberta Pensions Services Corporation (Note 6)		136
Increase in accounts payable and accrued liabilities		222
Increase in accrued salaries and benefits		17
Cash provided by operating transactions		22
Capital transactions		
Acquisition of tangible capital assets (Note 9)		(63)
Cash applied to capital transactions		(63)
Financing transactions		
Increase in spent deferred capital contributions (Note 9)		63
Cash provided by financing transactions		63
Increase in cash		22
Cash at beginning of year		-
Cash at end of year	$	22

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

SFPP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 1 – AUTHORITY

SFPP Corporation (Corporation) is a "Provincial Corporation" established on December 11, 2018 by the *Joint Governance of Public Sector Pension Plans Act* (Alberta) (*Joint Governance Act*) and commenced operations on March 1, 2019. The Corporation operates under the authority of the *Financial Administration Act* (Alberta), *Alberta Public Agencies Governance Act,* and the *Reform of Agencies, Boards and Commissions Compensation Act.*

NOTE 2 – NATURE OF OPERATIONS

The Corporation is the trustee and administrator of the Special Forces Pension Plan (SFPP). SFPP is registered under the *Employment Pension Plans Act* (Alberta) (EPPA). The functions of the Corporation include supporting the SFPP Sponsor Board in performing its statutory functions under the *Joint Governance Act.*

These financial statements reflect operations from December 11, 2018 (inception) to December 31, 2019. The Corporation and the SFPP Sponsor Board were established prior to the Corporation becoming the trustee of the SFPP on March 1, 2019. From the date of inception December 11, 2018 to March 1, 2019 there were no financial transactions or management related expenses, and as a result no prior year amounts are reported in the financial statements.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Recovery of costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for recovery of costs are recognized as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The Corporation's financial assets and liabilities are generally measured as follows:

Financial statement component	Measurement
Cash	Cost
Due to/from pension plan	Lower of cost or net recoverable value
Accounts payable, accrued liabilities, and accrued salaries and benefits	Cost

Financial assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets are the Corporation's financial claims on external organizations and individuals.

Cash and cash equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

Due from the pension plan

Amounts due from the pension plan are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Liabilities

Liabilities are present obligations of the Corporation to external organizations and individuals arising from past transactions or events occurring before the year end, the settlement of which is expected to result in the future sacrifice of economic benefits. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amounts.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Non-financial assets

Non-financial assets are acquired, constructed, or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver services;
(b) may be consumed in the normal course of operations; and
(c) are not for sale in the normal course of operations.

Non-financial assets are limited to tangible capital assets and prepaid expenses.

Tangible capital assets

Tangible capital assets are recognized at cost less accumulated amortization, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development.

The cost, less residual value, of the tangible capital assets, excluding land, is amortized on a straight-line basis over their estimated useful lives as follows:

Furniture and equipment	5 years
Computer hardware and software	3 years
Leasehold improvements	10 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

Prepaid expenses

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

Financial instruments

Financial instruments of the Corporation consist of cash, accounts receivable due from/to pension plan, due from/to Alberta Pensions Services Corporation, accounts payable and accrued liabilities and accrued salaries and benefits. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore, a statement of remeasurement gains and losses has not been presented.

SFPP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 4 – **BUDGET**

The Corporation's 2019 budget was approved by the Corporation's Board of Directors.

NOTE 5 – **RECOVERY OF COSTS** *(in thousands)*

The Corporation charges the SFPP for its operating costs, as authorized by the *Joint Governance Act*.

At December 31, 2019, $327 is receivable from the SFPP. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

NOTE 6 – **DUE TO ALBERTA PENSIONS SERVICES CORPORATION** *(in thousands)*

In addition to plan administration services, Alberta Pensions Services Corporation also provides a limited number of corporate services to the Corporation. The balance of these services at the end of the year was $136.

NOTE 7 – **CONTRACTUAL OBLIGATIONS** *(in thousands)*

Contractual obligations are obligations of the Corporation to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The Corporation has Agreements for administration of the Plan benefits and investment and management of the Plan's assets with Alberta Pensions Services Corporation and Alberta Investment Management Corporation, respectively.

The Corporation has minimum annual commitments for office space(1) and office services as follows:

Operating	
2020	$117
2021	$144
2022	$148
2023	$151
2024	$155
Thereafter	$835

(1) The Corporation entered into a lease agreement for a new facility commencing on March 1, 2020. This agreement is for 10 years.

SFPP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 8 – **TRUST FUNDS UNDER ADMINISTRATION** *(in thousands)*

Effective March 1, 2019, the Corporation administers trust funds in the SFPP on behalf of the beneficiaries in accordance with the EPPA.

These amounts are held on behalf of others with no power of appropriation and therefore are not reported in these financial statements. At December 31, 2019, trust funds under administration by the Corporation were $3,454,377.

NOTE 9 – **TANGIBLE CAPITAL ASSETS** *(in thousands)*

	Furniture and Equipment	Computer Hardware and Software	2019 Total
Estimated useful life	5 Years	3 Years	
Historical Cost			
Beginning of year	$ -	$ -	$ -
Additions (1)(2)	22	41	63
Disposals, including write-downs	-	-	-
	22	41	63
Accumulated Amortization			
Beginning of year	-	-	-
Amortization expense	-	1	1
Effect of disposals, including write-downs	-	-	-
	-	1	1
Net Book Value at December 31, 2019	$ 22	$ 40	$ 62

Financing obtained from the SFPP to acquire tangible capital assets is recognized as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

(1) Furniture and equipment includes office furniture and other equipment purchased for new office.

(2) Computer hardware and software includes desktop hardware, network infrastructure and cabling for new office.

NOTE 10 – SALARIES AND BENEFITS DISCLOSURE *(in thousands)*

The table below provides complete disclosure of salary, variable pay, employer portion of pension contributions and all other compensation paid during the 10 months ended December 31, 2019 to the Chief Executive Officer and Executive Directors.

Position *(in thousands)*	**Base salary**[1]	**Other cash benefits**[2]	**Other non-cash benefits**[3]	**2019 Total**
Chief Executive Officer[4]	$ 135	$ 48	$ 40	$ 223
Executive Director Finance and Risk[5]	74	0	20	94
Executive Director Policy and Communications[6]	74	0	19	93

(1) Base salary includes regular base pay.

(2) Other cash benefits includes a one time retroactive pay lump sum of $43 and $5 for prior year vacation payout from role on Special Forces Pension Board Staff.

(3) Other non-cash benefits includes: Corporation's share of contributions to the pension plans based on each individual's pensionable salary. Also included are payments made on employees' behalf including health care and dental coverage, group life insurance, long-term disability insurance, and professional memberships.

(4) Chief Executive Officer compensation commenced March 1, 2019.

(5) Executive Director Finance and Risk compensation commenced June 17, 2019.

(6) Executive Director Policy and Communications compensation commenced June 17, 2019.

Board remuneration (in thousands)

The Board Chair position received remuneration of $13. Five other board members received a combined total remuneration of $21. The remuneration is paid in accordance with the rates approved by the SFPP Sponsor Board and is subject to applicable withholdings.

SFPP CORPORATION
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2019

NOTE 11 – DEFINED BENEFIT PLANS *(in thousands)*

The Corporation participates in two multi-employer defined benefit public sector pension plans, the Management Employees Pension Plan (MEPP) and the Public Service Pension Plan (PSPP). The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the contributions of $68 for the year ended December 31, 2019. This amount is included in salaries and benefits.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2018, PSPP reported a surplus of $519,218 (2017 - surplus of $1,275,843), MEPP reported a surplus of $670,700 (2017 - surplus of $866,006) and SRP had a deficiency of $70,310 (2017 - deficiency of $54,984).

NOTE 12 – FINANCIAL INSTRUMENTS

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to the SFPP (Note 5).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

NOTE 13 – RELATED PARTY TRANSACTIONS

Related parties include the Government of Alberta, the Plan and key management personnel, close family members of those individuals, and entities that those individuals or their close family members may have significant control over.

All related party transactions are in the normal course of operations and consist of the recovery of the Corporation's operating expenses and tangible assets as disclosed in the financial statements.

NOTE 14 – APPROVAL OF FINANCIAL STATEMENTS

The Corporation's Board of Directors approved the financial statements on May 22, 2020.

TEN-YEAR OVERVIEW

MEMBERSHIP

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Member	4,570	4,466	4,467	4,416	4,334	4,270	4,180	4,139	4,067	3,986
Pensioner	2,725	2,683	2,607	2,533	2,469	2,426	2,341	2,261	2,175	2,114
Ratio	1.68	1.66	1.71	1.74	1.76	1.76	1.79	1.83	1.87	1.89

The member to pensioner ratio is a signal of a maturing pension plan. As the ratio decreases, funding and investment strategies would change (such as investments becoming a stronger tool compared to contributions) to ensure there is funding for benefits.

FUNDING

	2018	2016	2013	2011
Assets	$3,070.7	$2,655.2	$1,902.4	$1,566.1
Liabilities	$3,323.9	$3,000.0	$2,388.3	$2,079.0
Funded Ratio	92.4%	88.5%	79.7%	75.3%

($ millions)

The financial health of SFPP is determined using actuarial valuations (performed for 2011, 2013, 2016 and 2018. The funded ratio compares the market value of assets to the liabilities to pay benefits. Since the 2008 financial crisis, SFPP's funding ratio has been increasing. SFPP's margin (a cushion for adverse deviations in investment returns) increased in 2018, which slowed the growth of the funded ratio.

INVESTMENT RETURNS

		2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
1-year	Return	13.53%	0.50%	10.90%	6.80%	9.30%	12.00%	14.50%	11.40%	2.70%	10.20%
	Benchmark	14.36%	-0.10%	9.60%	6.80%	7.10%	12.20%	13.40%	9.20%	2.20%	10.50%
4-year	Return	7.84%	6.80%	9.80%	10.60%	11.80%	10.20%	9.70%	9.40%	1.40%	1.20%
	Benchmark	7.53%	5.80%	8.90%	9.80%	10.50%	9.20%	8.70%	8.80%	2.40%	2.10%
	Target	8.53%	6.80%	9.90%	10.80%	11.50%	10.20%	9.70%	9.80%	3.40%	3.10%

SFPP is a long-term investment. AIMCo's investment performance is measured based on a rolling four-year basis. SFPP's investment return objective is for AIMCo to earn a return, net of investment fees, that exceeds the benchmark return (based on the Plan's asset mix) plus 1%.

INVESTMENT MANAGEMENT EXPENSES

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
% of every dollar	0.6%	0.6%	0.6%	0.5%	0.6%	0.6%	0.5%	0.5%	0.3%	0.3%
Per member	$2,734	$2,468	$2,302	$1,925	$2,177	$1,909	$1,524	$1,144	$794	$783

AIMCo's investment management expenses are measured as a percentage of every dollar invested. AIMCo's expenses have remained stable since 2012.

PENSION SERVICES ADMINISTRATION EXPENSES (PER MEMBER)

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Basic pension services	$146	$144	$145	$149	$147	$134	$125	$124	$125	$135
Plan-specific costs	$89	$121	$83	$84	$86	$103	$110	$66	$30	$48
APS Total	$235	$265	$228	$233	$233	$237	$235	$190	$155	$183
SFPP Corporation Costs	$219	$93	$65	$39	$103	$106	$67	$89	$79	$49

APS's expenses are measured as a per member basis. The basic administration costs have increased slightly over the last ten years, while plan-specific costs (projects charged directly to SFPP) have increased notably. Costs for Special Forces Pension Board (prior to March 2019) and SFPP Corporation (from March 2019) vary each year, depending on the number of board meetings, whether there is an actuarial valuation, or other activities. SFPP Corporation costs in 2019 increased (compared to Plan Board costs before 2019) due to initial set-up costs for joint governance, including legal consultation, plan-text drafting, and other tasks.

Membership or Pension Inquiries

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1-877-809-7377

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Management of the Plan

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