Financial Statements of

CANADIAN MENNONITE BRETHREN PENSION PLAN

Year ended December 31, 2017

CANADIAN MENNONITE BRETHREN PENSION PLAN

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Year ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Trustees of Canadian Mennonite Brethren Pension Plan

We have audited the accompanying financial statements of Canadian Mennonite Brethren Pension Plan, which comprise the statement of financial position as at December 31, 2017, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Mennonite Brethren Pension Plan as at December 31, 2017, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

KPMG LLP

Chartered Professional Accountants

May 3, 2018

Winnipeg, Canada

CANADIAN MENNONITE BRETHREN PENSION PLAN

Statement of Financial Position

December 31, 2017, with comparative information for 2016

	2017	2016
Assets		
Cash and short-term investments	$ 2,772,702	$ 2,565,962
Mutual funds	9,004,576	8,515,858
Fixed income and related securities	23,483,602	28,306,989
Preferred shares	8,249,308	–
Canadian equity and related securities	10,485,287	10,973,663
U.S. equity and related securities	16,166,257	15,443,458
International equity and related securities	15,130,016	13,760,687
	85,291,748	79,566,617
Net assets available for benefits	$ 85,291,748	$ 79,566,617

See accompanying notes to financial statements.

On behalf of the Board:

______________________________ Director

______________________________ Director

CANADIAN MENNONITE BRETHREN PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Increase in net assets:		
Contributions:		
Employer	$ 2,248,419	$ 2,109,478
Employees	2,248,419	2,109,478
Employee voluntary	52,823	1,445,630
Investment income (note 3)	1,813,125	1,822,919
Realized investment gains, net of realized losses	2,820,583	2,082,357
Unrealized investment gains, net of unrealized losses	1,307,528	435,427
	10,490,897	10,005,289
Decrease in net assets:		
Retirement withdrawals	4,559,808	5,140,621
Death withdrawals	–	183,031
Terminations	82,434	82,414
Trustee fees	123,524	118,754
	4,765,766	5,524,820
Increase in net assets available for benefits	5,725,131	4,480,469
Net assets available for benefits, beginning of year	79,566,617	75,086,148
Net assets available for benefits, end of year	$ 85,291,748	$ 79,566,617

See accompanying notes to financial statements.

1. Description of the Plan:

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

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

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

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

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

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

2. Significant accounting policies:

(a) Basis of presentation:

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

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

2. Significant accounting policies (continued):

(b) Financial instruments:

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

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

(c) Fair value measurement:

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

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

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

2. Significant accounting policies (continued):

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

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

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

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

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

Fair values of investments are determined as follows:

Bonds equities and preferred shares are valued at year-end closing market prices.

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

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

2. Significant accounting policies (continued):

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

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

(d) Foreign currency translation:

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

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

(e) Investment transactions and income recognition:

(i) Investment transactions:

Investment transactions are accounted for on a trade date basis.

(ii) Income recognition:

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

2. Significant accounting policies (continued):

(f) Contributions:

Employee and employer contributions are recognized on an accrual basis.

(g) Benefits:

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

(h) Use of estimates:

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

3. Investment income:

	2017	2016
Mutual funds	$ 15,667	$ 13,689
Fixed income and related securities	469,512	740,440
Canadian equity and related securities	605,794	356,860
U.S. equity and related securities	372,856	273,605
International equity and related securities	349,296	438,325
	$ 1,813,125	$ 1,822,919

4. Risk management:

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

4. Risk management (continued):

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

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

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

(ii) investments in fixed income and related securities, Canadian equity and related securities, U.S. equity and related securities, international equity and related securities and preferred shares.

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

(a) Market risk:

(i) Interest rate risk:

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. Interest rate risk arises when the Plan invests in interest-bearing financial assets. The Plan is exposed to the risk that the value of such financial assets will fluctuate due to changes in the prevailing levels of market interest rates. The Plan's exposure to interest rate risk is concentrated in its investments in fixed income funds and a money market mutual fund. To manage the Plan's interest rate risk, appropriate guidelines on the weighting and duration for fixed income investments are set by the Finance Committee and monitored by the investment manager. As at December 31, 2017, if the prevailing interest rates were raised or lowered by 100 basis points, with all other factors held constant, net assets would likely have decreased or increased, respectively, by approximately $1,029,000 (2016 - $1,220,000).

4. Risk management (continued):

(ii) Foreign currency risk:

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

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

As at December 31, 2017	Actual currency exposure	%
Canadian	$ 51,593,806	60.49
U.S. dollar	33,697,942	39.51
	$ 85,291,748	100.00

As at December 31, 2016	Actual currency exposure	%
Canadian	$ 48,373,633	60.80
U.S. dollar	31,192,984	39.20
	$ 79,566,617	100.00

A 10 percent increase or decrease in exchange rates at December 31, 2017, with all other variables held constant, would have resulted in a change in unrealized gains (losses) of approximately $3,370,000 (2016 - $3,119,000).

(iii) Other price risk:

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

4. Risk management (continued):

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

As at December 31 2017, a decline of 10 percent in equity values, with all other variables held constant, would have impacted the Plan's equity investments by an approximate unrealized loss of $4,178,000 (2016 - $4,018,000).

(b) Credit risk:

The Plan is exposed to credit risk through its investment in fixed income securities, which is the risk that a counterparty will be unable to pay amounts in full when due. All transactions in listed securities are settled upon delivery using approved investment managers. The risk of default is considered minimal, as delivery of securities sold is only made once the investment manager has received payment. Payment is made on a purchase once the securities have been received by the investment manager. The trade will fail if either party fails to meet its obligation. The Plan utilized multiple counterparties and those that have a high credit rating in order to minimize credit risk.

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

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

	2017		2016	
Credit rating	Carrying value	Coupon rate	Carrying value	Coupon rate
AAA	$ 10,569,836	2.24%	$ 4,673,387	2.44%
AA	7,689,643	2.00%	7,356,978	1.97%
A	1,917,541	2.25%	12,952,695	2.69%
BBB	3,306,582	3.05%	3,323,929	3.30%
	$ 23,483,602		$ 28,306,989	

4. Risk management (continued):

Credit risk associated with contributions receivable is minimized due to their nature. No provision for doubtful contributions has been recorded in either 2017 or 2016.

(c) Liquidity risk:

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

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

	2017	2016
Less than one year	$ 876,635	$ 1,391,321
One to five years	8,470,386	21,871,300
After five years	14,136,581	5,044,368
Total fair value	$ 23,483,602	$ 28,306,989

5. Disclosures relating to fair value measurements:

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

December 31, 2017	Level 1	Level 2	Level 3	Total
Cash and short-term investments	$ 2,772,702	$ –	$ –	$ 2,772,702
Mutual funds	2,016,225	–	6,988,351	9,004,576
Fixed income and related securities	–	23,483,602	–	23,483,602
Preferred shares	8,249,308	–	–	8,249,308
Canadian equity and related securities	10,485,287	–	–	10,485,287
U.S. equity and related securities	16,166,257	–	–	16,166,257
International equity and related securities	15,130,016	–	–	15,130,016
	$ 54,819,795	$ 23,483,602	$ 6,988,351	$ 85,291,748

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

December 31, 2016	Level 1	Level 2	Level 3	Total
Cash and short-term investments	$ 2,565,962	$ –	$ –	$ 2,565,962
Mutual funds	1,863,156	–	6,652,702	8,515,858
Fixed income and related securities	–	28,306,989	–	28,306,989
Canadian equity and related securities	10,973,663	–	–	10,973,663
U.S. equity and related securities	15,443,458	–	–	15,443,458
International equity and related securities	13,760,687	–	–	13,760,687
	$ 44,606,926	$ 28,306,989	$ 6,652,702	$ 79,566,617

During the years ended December 31, 2017 and 2016, there were no transfers between levels.

Level 3 fair values

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

Contingent consideration	2017	2016
Balance, beginning of period	$ 6,652,702	$ 5,283,685
Unrealized gains	335,649	1,369,017
Balance, end of period	$ 6,988,351	$ 6,652,702

6. Capital management:

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

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

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