

Financial Statements of

**THE EDMONTON PIPE INDUSTRY
HEALTH AND WELFARE FUND**

Year ended December 31, 2020



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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of The Edmonton Pipe Industry Health and Welfare Fund

Opinion

We have audited the financial statements of The Edmonton Pipe Industry Health and Welfare Fund (the Entity), which comprise:

- the statement of net assets available for benefits as at December 31, 2020
- the statement of changes in net assets available for benefits for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

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

Basis for Opinion

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

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

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

Other Information

Management is responsible for the other information. Other information comprises the information, other than the financial statements and the auditors’ report thereon, included in a document likely to be entitled the “2020 - Annual Report”.



Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our 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 our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "2020 - Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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



We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P', with a small upward tick at the end.

Chartered Professional Accountants

Edmonton, Canada

May 12, 2021

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Financial Statements

Year ended December 31, 2020

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THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Statement of Net Assets Available for Benefits

December 31, 2020, with comparative information for 2019

	2020	2019
ASSETS		
Cash and cash equivalents	\$ 4,333,726	\$ 4,724,934
Investments (note 4)	107,573,717	114,725,706
Contributions receivable	1,216,241	1,735,279
Accrued investment income	1,666	11,107
Prepaid expenses and deposits	2,420,939	2,422,998
Due from The Edmonton Pipe Industry Pension Trust Fund (note 5)	5,357	2,894
	<u>115,551,646</u>	<u>123,622,918</u>
LIABILITIES		
Accounts payable and accrued liabilities	2,688,487	3,052,751
Amounts due to other health and welfare funds (note 6)	159,816	248,356
Provision for unpaid claims	737,098	1,086,020
Provision for advance contributions	29,977	41,048
	<u>3,615,378</u>	<u>4,428,175</u>
Net assets available for benefits (note 7)	<u>\$ 111,936,268</u>	<u>\$ 119,194,743</u>

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Statement of Changes in Net Assets Available for Benefits

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

	2020	2019
Increase in net assets:		
Investment and other income, net (note 8)	\$ 30,406	\$ 12,551,262
Employer contributions	15,154,762	17,690,600
Members' and pensioners' cash contributions	3,222,543	1,724,749
Members' optional insurance contributions	37,939	48,728
Reciprocal transfers from other health and welfare funds (note 6)	1,361,251	1,385,717
Transfers from the Alberta Refrigeration Industry Health and Welfare Trust Fund	587,166	2,182,766
Decrease in provision for unpaid claims	348,922	424,062
	<u>20,742,989</u>	<u>36,007,884</u>
Decrease in net assets:		
Health, dental, vision and short-term disability claims	20,813,839	26,429,111
Long-term disability premiums	2,140,188	2,915,545
Life insurance premiums	1,268,685	2,025,644
Accidental death and dismemberment premiums	211,260	298,017
Claims administration fees	1,137,072	1,359,638
Employee assistance program	260,845	385,223
Out-of-country insurance premiums	376,594	148,158
Members' optional life insurance premiums	42,763	47,309
Reciprocal transfers to other health and welfare funds (note 6)	584,904	858,782
Investment manager and custodian fees	264,668	299,926
Administrative expenses (note 9)	900,646	922,824
	<u>28,001,464</u>	<u>35,690,177</u>
(Decrease) increase in net assets available for benefits	(7,258,475)	317,707
Net assets available for benefits, beginning of year	119,194,743	118,877,036
Net assets available for benefits, end of year	<u>\$ 111,936,268</u>	<u>\$ 119,194,743</u>

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements

Year ended December 31, 2020

1. Nature of The Edmonton Pipe Industry Health and Welfare Fund:

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, Local 488 (the "Union") and the Construction Labour Relations - an Alberta Association Mechanical (Provincial) Trade Division Pursuant to Registration Certificate No. 27 (the "Party Employers") entered into an agreement and declaration of trust dated May 7, 1965 (the "Health and Welfare Trust Agreement") which has been amended and restated as of August 13, 2007. The Health and Welfare Trust Agreement provides for the establishment, maintenance, investment and administration of a fund known as The Edmonton Pipe Industry Health and Welfare Fund (the "Health and Welfare Fund"), created pursuant to The Edmonton Pipe Industry Health and Welfare Plan (the "Health and Welfare Plan") which includes all restatements and amendments to January 1, 2019. The Health and Welfare Plan was further amended effective January 1, 2020. The Health and Welfare Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 7, 1965 (the "Collective Agreement") which expired on April 30, 2019. An updated Collective Agreement is currently under negotiation.

Members are not required to contribute to the Health and Welfare Fund. Employers contribute to the Health and Welfare Fund at the rate specified in a collective agreement. Benefits provided under the Health and Welfare Plan are paid from the Health and Welfare Fund.

Up to and including the year ended December 31, 2015, the Union sponsored two separate health and welfare plans: The Edmonton Pipe Industry Health and Welfare Plan and the Alberta Refrigeration Industry Benefit Plan. Effective May 1, 2016, the two plans sponsored by the Union amalgamated and all members of both plans now obtain their benefits through The Edmonton Pipe Industry Health and Welfare Fund. The Edmonton Pipe Industry Health and Welfare Fund invoices, on a monthly basis, the Alberta Refrigeration Industry Benefit Plan for the costs of claims for the former Alberta Refrigeration Benefit Plan members until the Alberta Refrigeration Industry Benefit Plan's net assets are fully expended. After those net assets have been fully exhausted The Edmonton Pipe Industry Health and Welfare Fund will assume liability for all costs and expenses related to the former Alberta Refrigeration Benefit Plan members.

The following is a brief summary of the main benefits of the Health and Welfare Plan in effect at December 31, 2020. For more complete information, reference should be made to the Health and Welfare Trust Agreement, and the Health and Welfare Plan documents.

- (a) health, dental, short-term disability and out-of-country benefits are funded solely by the assets of the Health and Welfare Fund except that effective January 1, 2020 out-of-country benefits are insured;
- (b) long-term disability, accidental death and dismemberment, and optional life insurance benefits are provided by Canada Life or Chubb under a contract of insurance which uses a pooled funding method;

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

1. Nature of The Edmonton Pipe Industry Health and Welfare Fund (continued):

- (c) member and dependent life insurance benefits are provided under contract with Canada Life. This contract has a hold-harmless provision which may require that the Health and Welfare Fund pay any shortfall of premiums which are insufficient to pay claims;
- (d) administration of the out-of-country benefit is arranged through a contract with RSA Canada; and
- (e) the employee assistance program is administered by the Construction Employees Family Assistance Program. (effective March 1, 2021 the employee assistance program is administered by the United Association's Member Assistance Plan).

The Board of Trustees reserves the right to amend or terminate any of the benefits under the Health and Welfare Plan. The Board of Trustees have engaged McAteer – Employment Benefit Plan Services Limited as administration services provider for the Health and Welfare Fund.

2. Basis of preparation:

(a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans, which are also applicable to entities such as the Health and Welfare Fund that provide benefits other than pensions, and present information about the net assets available for benefits of the Health and Welfare Fund.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Health and Welfare Fund to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of The Chartered Professional Accountants' of Canada ("CPA") Handbook - Accounting or Canadian accounting standards for private enterprises in Part II of the CPA Handbook - Accounting. The Health and Welfare Fund has chosen to comply on a consistent basis with IFRS.

These financial statements are prepared to assist Health and Welfare Plan members and others in reviewing the financial activities of the Health and Welfare Fund for the fiscal period but they do not portray the financial position of the Health and Welfare Plan, its funding requirements nor the benefit security of individual Health and Welfare Plan members.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for investments and derivative financial instruments which are measured at fair value through the statement of changes in net assets available for benefits.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

2. Basis of preparation (continued):

(c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Health and Welfare Fund's functional currency.

(d) Use of estimates and judgments:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Measurement uncertainty exists in the valuation of the Health and Welfare Fund's Level 3 investments. Measurement uncertainty arises because the estimated fair values of the Health and Welfare Fund's Level 3 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 Health and Welfare Fund's Level 3 investments, management considers that 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 the estimated fair values and the amount ultimately realized for investments are included in investment and other income, net in the year when the ultimate realizable values are known.

3. Significant accounting policies:

These financial statements have been prepared in accordance with the significant accounting policies set out below:

(a) Foreign currency:

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

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits as changes in net unrealized gains (losses) on investments.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(b) Income recognition:

Investment income is recorded on an accrual basis and includes interest, dividends and other income.

(c) Financial assets and financial liabilities:

(i) Financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Health and Welfare Fund becomes a party to the contractual provisions of the instrument. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred.

The Health and Welfare Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Health and Welfare Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset, and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain (loss) on sale of investments.

(ii) Financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Health and Welfare Fund becomes a party to the contractual provisions of the instrument.

The Health and Welfare Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

(iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(c) Financial assets and financial liabilities (continued):

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits when the Health and Welfare Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(d) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In determining fair value, the Health and Welfare Fund has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook as required by Section 4600. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Health and Welfare Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Health and Welfare Fund 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 Health and Welfare Fund 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.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in net unrealized gains (losses) on investments.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

Fair values of investments are determined as follows:

Cash and cash equivalents are stated at cost, which together with accrued investment income approximates fair value given the short-term nature of these investments.

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Health and Welfare Fund's proportionate share of the underlying net assets at fair values determined using closing market prices.

Private equity investments are held through ownership in limited partnership arrangements or other similar investment vehicles. Fair value is determined based on relevant information reported by the General Partner using accepted industry valuation methods using valuations as of December 31 being the most recently available market information. These methods include considerations such as earnings multiples of comparable publicly traded companies, discounted cash flows and third-party transactions, or other events which would suggest a change in value of the investment.

(e) Net realized gain on sale of investments:

The net realized gain on sale of investments is the difference between proceeds received and the average cost of investments sold.

(f) Common expenses:

Certain expenses are shared equally between the Health and Welfare Fund and The Edmonton Pipe Industry Pension Trust Fund (the "Pension Trust Fund"), which operate out of the same premises and under the same Board of Trustees and management.

(g) Income taxes:

The Health and Welfare Fund is a trust recognized administratively by the Canada Revenue Agency. In 2019, the Health and Welfare Fund was converted to an Employee Life and Health Trust.

Investment income earned by the Health and Welfare Fund, net of eligible deductions, is subject to income taxes.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

4. Investments:

	2020	2019
Phillips, Hager & North Short-Term Bond and Mortgage Fund	\$ 21,112,890	\$ 25,651,555
Phillips, Hager & North Mortgage Pension Trust	28,608,155	27,050,877
TD Emerald Low Volatility Canadian Equity Pooled Fund Trust	26,417,452	30,701,303
TD Emerald Low Volatility Global Equity Pooled Fund Trust	25,485,686	31,321,971
Northleaf Capital Partners Northleaf Senior Private Credit LP, including transfers in transit	5,949,534	-
	<u>\$ 107,573,717</u>	<u>\$ 114,725,706</u>

In the prior year, the Health and Welfare Fund committed to make an investment of \$7,500,000 US in Northleaf Capital Partners Northleaf Senior Private Credit LP. During the year, a total of \$4,500,000 US was invested leaving an outstanding commitment of \$3,000,000 US at year end.

In addition, the Health and Welfare Fund committed to make an investment of \$7,500,000 US in CBRE Global Investment Partners Global Alpha Fund FCP SIF – Global Alpha Open Ended Fund. Subsequent to year end, a total of \$2,475,000 US was invested.

5. Due from The Edmonton Pipe Industry Pension Trust Fund:

The amount due from the Pension Trust Fund is non-interest bearing, unsecured and has no set terms of repayment.

6. Reciprocal agreements with other health and welfare funds:

The Health and Welfare Fund has entered into reciprocal agreements with other health and welfare funds. These agreements provide that contributions received on account of employees working in a jurisdiction other than their local union are remitted on a monthly basis to the local union of which they are a member.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

7. Net assets available for benefits:

	Balance, January 1, 2020	Decrease in net assets available for benefits	Transfers	Balance, December 31, 2020
Reserve for future plan benefits	\$ 44,833,336	\$ -	\$ (9,167,203)	\$ 35,666,133
Reserve for adverse claims fluctuations	3,962,692	-	(840,616)	3,122,076
Unallocated	70,398,715	(7,258,475)	10,007,819	73,148,059
	\$ 119,194,743	\$ (7,258,475)	\$ -	\$ 111,936,268

The reserve for future plan benefits is a provision established by the Trustees to support the payment of benefits to members and their beneficiaries. The reserve for future plan benefits is comprised of two components calculated as follows:

- (a) For active members, an estimated provision based on (i) the average actual cost of benefits for such members for the 12 months ended December 31, 2020 multiplied by (ii) the estimated number of months of coverage determined by dividing the accumulated hour bank for all active members by 130 hours; and
- (b) For retired, disabled and spouses of deceased members, an estimated provision based on (i) the average monthly actual cost of benefits for such group of persons for the 12 months ended December 31, 2020 multiplied by (ii) 60 months.

The reserve for adverse claims fluctuations was established by the Trustees to consider the risk that future claims in the aggregate will be higher than the amount supported by current funding rates. The reserve for adverse claims fluctuations has been established at approximately 15% of benefit claims paid in the most recent fiscal year.

Transfers from the reserve for future plan benefits and the reserve for adverse claims fluctuations to the unallocated net assets available to benefits were approved by the Trustees during the year. Transfers from the reserve for future plan benefits reflect a drawdown from member hour banks to pay for benefits received during the year.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

8. Investment and other income, net:

	2020	2019
Interest and other income	\$ 40,882	\$ 126,380
Phillips, Hager & North Short Term Bond and Mortgage Fund and Mortgage Pension Trust - interest and realized capital gains	1,541,355	1,647,690
TD Emerald Low Volatility Canadian Equity and Global Equity Pooled Fund Trusts - dividends and net realized gains	1,921,967	3,824,881
Northleaf Capital Partners Northleaf Senior Private Credit LP – interest and net realized gains	247,621	-
Change in unrealized foreign currency and other (losses) gains	(3,721,419)	6,952,311
	\$ 30,406	\$ 12,551,262

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

9. Administrative expenses:

	2020	2019
Direct expenses:		
Administration services provider fees	\$ 509,307	\$ 462,866
Non-deductible GST and HST	49,893	46,072
Audit	42,248	33,955
Independent trustees' fees	38,000	38,000
Consulting fees	29,663	88,455
Insurance	27,599	27,143
Legal	26,374	16,806
Computer maintenance	12,180	15,650
Bank charges	11,715	17,764
Office expenses	298	17,901
	<u>747,277</u>	<u>764,612</u>
Common expenses shared equally with the Pension Trust Fund (note 3(f)):		
Rent	121,840	121,840
Office expenses	97,240	82,609
Postage	42,793	45,844
Annual report to members	25,012	22,900
Non-deductible GST and HST	14,379	13,963
Other shared expenses	4,030	4,834
Travel, conferences and meeting expenses	1,444	24,435
	<u>306,738</u>	<u>316,425</u>
Less Pension Trust Fund share	<u>(153,369)</u>	<u>(158,213)</u>
	153,369	158,212
	<u>\$ 900,646</u>	<u>\$ 922,824</u>

The Health and Welfare Fund defines its key management personnel as members of the Board of Trustees and its administration services provider who are responsible for planning, controlling and directing the activities of the Health and Welfare Fund.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

10. Capital risk management:

The capital of the Health and Welfare Fund is represented by the net assets available for benefits. The main objective of the Health and Welfare Fund is to sustain a certain level of net assets in order to meet the health and welfare obligations of the Health and Welfare Plan, which are not presented or discussed in these financial statements.

The Health and Welfare Fund fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the Health and Welfare Fund Trustees. The Health and Welfare Fund's risk management strategy has not changed due to the COVID-19 pandemic. The SIPP was established on May 27, 2015 and was last amended on December 10, 2020.

The SIPP permits four broad categories of assets. The Health and Welfare Fund's investment was allocated within the allowed asset categories range, as of the date of The Health and Welfare Fund's financial statements. The following tables present the asset allocation for each asset category and total investments, along with appropriate benchmarks, based on the SIPP in effect at the end of December 31, 2020 and December 31, 2019.

2020	Benchmark	Target Range (%)	Actual (%)
Short Term Fixed Income	FTSE Canada Short Term Bond Index	10.0 - 40.0	19.6
Mortgages	FTSE TMX Canada Short Term Bond Index	15.0 – 40.0	26.6
Alternative Fixed Income	FTSE Canada Universe Bond Index	0.0 – 20.0	5.5
Canadian Equity	S&P TSX Composite	0.0 – 50.0	24.6
Global Equity	MSCI World Index	0.0 – 50.0	23.7
Real Estate	Canadian CPI + 5%	0.0 – 20.0	0.0
Total investments		100.0	100.0

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

10. Capital risk management (continued):

2019	Benchmark	Target Range (%)	Actual (%)
Short Term Fixed Income	FTSE Canada Short Term Bond Index	10.0 - 40.0	22.4
Mortgages	FTSE TMX Canada Short Term Bond Index	15.0 – 40.0	23.6
Alternative Fixed Income	FTSE Canada Universe Bond Index	0.0 – 20.0	0.0
Canadian Equity	S&P TSX Composite	0.0 – 50.0	26.7
Global Equity	MSCI World Index	0.0 – 50.0	27.3
Real Estate	Canadian CPI + 5%	0.0 – 20.0	0.0
Total investments		100.0	100.0

The Health and Welfare Fund's investments are within the asset allocation target ranges as at December 31, 2020 and 2019.

The Health and Welfare Fund's investment positions expose it to a variety of financial risks which are discussed in note 11. The Health and Welfare Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employer contributions) in accordance with the approved SIPP. The allocation of assets among various asset categories is monitored by The Health and Welfare Fund Trustees on a monthly basis. A comprehensive review is conducted quarterly, which includes measurement of returns, comparison of returns to appropriate benchmarks, ranking of returns and risk analysis.

Increases (decreases) in net assets available for benefits are a direct result of investment income generated by investments held by the Health and Welfare Fund and contributions into the Health and Welfare Fund by the employers. The main use of net assets is for benefit payments to eligible Health and Welfare Plan members.

11. Financial instruments:

(a) Fair values:

Determination of fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash and cash equivalents, contributions receivable, accrued investment income, due from The Edmonton Pipe Industry Pension Trust Fund, accounts payable and accrued liabilities and amounts due to other health and welfare funds approximate their carrying values due to the short-term nature of these financial instruments.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

11. Financial instruments (continued):

(a) Fair values (continued):

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

The following table illustrates the classification of the Health and Welfare Fund's financial instruments using the fair value hierarchy as at December 31. There were no transfers between Levels during the years ended December 31, 2020 and 2019.

2020	Level 1	Level 2	Level 3	Total
Phillips, Hager & North Short Term Bond and Mortgage Fund	\$ -	\$ 21,112,890	\$ -	\$ 21,112,890
Phillips, Hager & North Mortgage Pension Trust	-	28,608,155	-	28,608,155
TD Emerald Low Volatility Canadian Equity Pooled Fund Trust	-	26,417,452	-	26,417,452
TD Emerald Low Volatility Global Equity Pooled Fund Trust	-	25,485,686	-	25,485,686
Northleaf Capital Partners Northleaf Senior Private Credit LP	-	-	5,949,534	5,949,534
	\$ -	\$ 101,624,183	\$ 5,949,534	\$ 107,573,717

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

11. Financial instruments (continued):

(a) Fair values (continued):

2019	Level 1	Level 2	Level 3	Total
Phillips, Hager & North Short Term Bond and Mortgage Fund	\$ -	\$ 25,651,555	\$ -	\$ 25,651,555
Phillips, Hager & North Mortgage Pension Trust	-	27,050,877	-	27,050,877
TD Emerald Low Volatility Canadian Equity Pooled Fund Trust	-	30,701,303	-	30,701,303
TD Emerald Low Volatility Global Equity Pooled Fund Trust	-	31,321,971	-	31,321,971
	\$ -	\$ 114,725,706	\$ -	\$ 114,725,706

The following table reconciles changes in the Health and Welfare Fund's Level 3 investments:

	2020	2019
Balance, beginning of year	\$ -	\$ -
Purchases and transfers, net of disposals	6,024,538	-
Interest and net realized gains	247,621	-
Investment manager and custodial fees	(18,615)	-
Change in unrealized foreign currency and other (losses) gains	(304,010)	-
Balance, end of year	\$ 5,949,534	\$ -

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

11. Financial instruments (continued):

(b) Associated risks:

(i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The COVID-19 pandemic and the measures taken to contain the virus continue to impact the market as a whole. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on the Health and Welfare Fund is not known at this time. As all of the Health and Welfare Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the Health and Welfare Fund through construction of a diversified portfolio of instruments traded on various markets and across various industries.

The Health and Welfare Fund's investments in equities are also sensitive to market fluctuations. An immediate hypothetical decline of 10% in Canadian and non-Canadian equity values will impact the Health and Welfare Fund's equity investments by an approximate loss of \$5,190,314 (2019 - \$6,202,327).

(ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities under both normal and stressed conditions.

The Health and Welfare Fund maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2020, the Health and Welfare Fund had cash and cash equivalents on hand in the amount of \$4,333,726 (2019 - \$4,724,934).

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Health and Welfare Fund holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Health and Welfare Fund is exposed to risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Health and Welfare Fund's assets or liabilities denominated in currencies other than the Canadian dollar. Such risk is mitigated by the diversification of the balanced fund's investments across many jurisdictions including Canada.

THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2020

11. Financial instruments (continued):

(b) Associated risks (continued):

(iv) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Health and Welfare Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Health and Welfare Fund's fixed income investments are primarily in Canadian-issued instruments and are diversified among federal, provincial, corporate and other issuers. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. The SIPP restriction prohibits directly or indirectly investing more than 10% of assets in any one entity. Furthermore, the SIPP limits the purchase of fixed income securities to those having a credit rating of BBB or higher by the Dominion Bond Rating Service. There were no significant concentrations of credit risk in the portfolio in 2020 or 2019.

(v) Interest rate risk:

Interest rate risk is the risk that the market value of the Health and Welfare Fund's investments will fluctuate due to changes in market interest rates. To properly manage the Health and Welfare Fund's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.