RRSPPN
Régime de rentes de la sécurité publique des Premières Nations

FNPSPP
First Nations Public Security Pension Plan

# ANNUAL REPORT
## DETAILS AND APPENDIX

2023

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# INVESTMENT PERFORMANCE BY ASSET CLASS

## A. FIXED INCOME SECURITIES

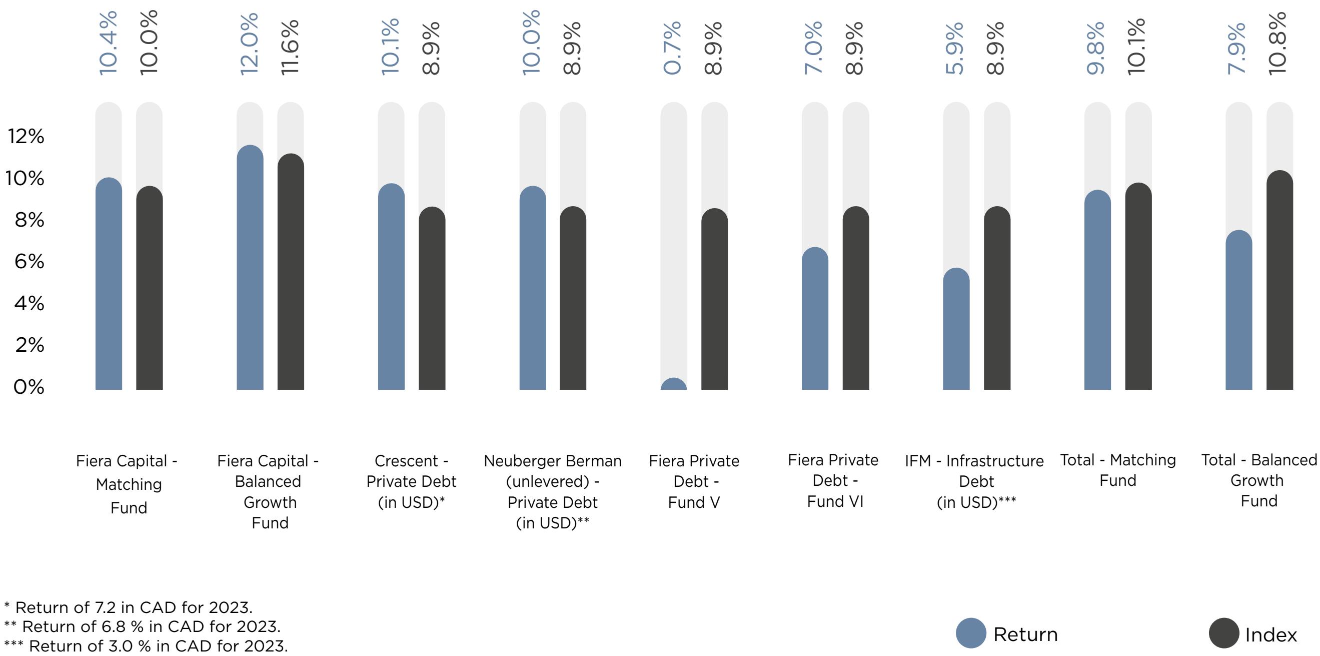
2023 was marked by high volatility in bond markets. Indeed, the year began with a decrease in rates for all maturities. Economic fears linked to turbulence in the banking sector led investors to lower their expectations for future interest rate hikes. In the second and third quarters, higher inflation and a more resilient economy than investors expected put upward pressure on interest rates, which explains the negative returns across all maturities. To close out the year, lower inflation in developed markets and weakening economic data around the world reinforced the idea that policy rates had peaked and would start to decline in 2024, putting downward pressure on market rates, which contributed to positive bond returns in the final quarter. The U.S. Federal Reserve increased its target interest rate range from 4.50% to 4.75% at the start of the year, to 5.25% to 5.50%. As for the Bank of Canada, it increased its target rate from 4.5% to 5.0% over the course of 2023.

The Matching Fund's fixed-income portfolio posted a returned of 9.8%, with a 0.3% subtracted value from the benchmark portfolio. The Growth Fund's fixed-income portfolio returned 7.9%, with a 2.9% subtracted value from the benchmark portfolio. These subtracted values are mainly due to the performance of private debt managers, who were generally negatively impacted by the decrease in rates, given that a significant portion of their portfolios are at floating rates. For its part, the Canadian bond manager added value in 2023.

As at December 31, 2023, fixed-income investments were managed by Fiera Capital, IFM, Crescent and Neuberger Berman. Mandates for private debt were introduced in 2015 to improve the current income return of the portfolio. Capital deployment for amounts committed in recent years continued in 2023.

With assets of $444.0M for the Master Trust, this asset class represents a target of 80% for the Matching Fund and 20% for the Balanced Growth Fund. The gradual, orderly and timely reduction of the portfolio's overall risk was carried out in line with the Plan's evolving maturity by transferring $140.0M assets from the Balanced Growth Fund to the Matching Fund. Given the rising interest rates environment of recent years, this additional segmentation was carried out in a favorable market context. The mandate of the Plan's bond manager, the majority of which are held in the Matching Fund, has evolved towards a strategy favoring the integration of impact bonds and green bonds in the portfolio. The addition of these types of bonds complements the Plan's sustainable investment initiatives.

## FIXED INCOME SECURITIES PERFORMANCE IN 2023




* Return of 7.2 in CAD for 2023.
** Return of 6.8 % in CAD for 2023.
*** Return of 3.0 % in CAD for 2023.

## B. STOCK MARKETS

Foreign Developed equity markets returned approximately 20.5% in Canadian dollars. As for the Canadian market, it recorded returns of 11.8% in 2023.

As at December 31, 2023, equities accounted for 50% of the Balanced Growth Fund's assets, including 10% in Canadian equities, 25% in global large capitalization equities, 7.5% in global small capitalization equities and 7.5% in emerging market equities. The market value of equity investments represented approximately 28.4% of the Plan's assets at the end of 2023.

### 1. Canadian equities performance in 2023

The S&P/TSX index returned 11.8% in 2023. For the Canadian market, returns varied by sector. The best performing sector was Information Technology (69.2%), mainly due to the performance of Shopify. The Communication Services sector (-3.9%) was the lowest performing sector.

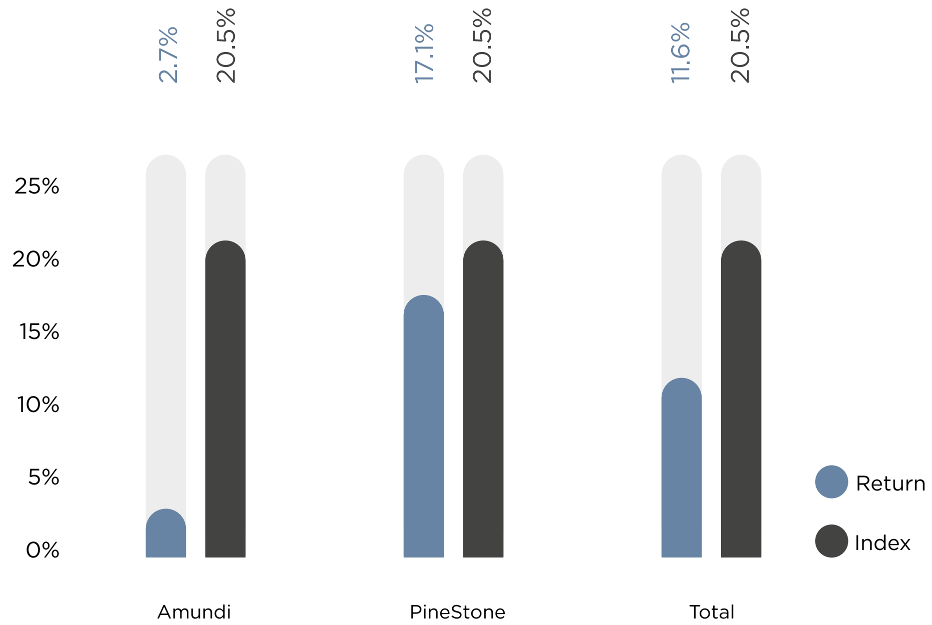
Canadian equities are managed by Fidelity. The Master Trust's Canadian equity portfolio posted an overall return of 10.7%, trailing the benchmark (S&P/TSX Composite) by 1.1%. The manager's underperformance was mainly due to an underweight position in Shopify.

## 2. Global equities performance in 2023

The MSCI World Net Index in Canadian dollars posted a return of 20.5% over 2023. The best performing sector was Information Technology (53.3% in local currency). Seven stocks representing approximately 20% of the index accounted for a large part of the index's performance in 2023. In fact, the performance of these seven stocks accounts for approximately 75% of the MSCI World's return in Canadian dollars as at December 31, 2023.

The Master Trust's global equity portfolio, mainly composed of U.S., European and Asian equities, returned 11.6% in Canadian dollars, with an 8.8% subtracted value compared to the benchmark (MSCI World net in Canadian dollars). Global equities are managed by two managers, PineStone and Amundi. This subtracted value is mainly explained by the manager Amundi who has a low volatility, defensive approach. This fund significantly underperformed in 2023, in a context where more volatile stocks were among the best performers in 2023. It should be remembered that this manager's fund had added almost 12% in 2022 in a context where markets were down.

In 2023, the U.S. dollar depreciated against the Canadian dollar, deteriorating returns when converted into Canadian dollars. USD currency hedging is in place in a context of risk management. Due to the depreciation of the U.S. dollar against the Canadian dollar, currency hedging helped (see section D for details) total returns during the year.




## 3. Global small capitalization equities performance in 2023

Global small capitalization equities are managed by Mawer. In 2023, the manager generated a return of 15,9%, with a value added of 3.3% compared to its benchmark (MSCI World Small Cap net in Canadian dollars). The manager's value added in 2023 positions them above the median of comparable managers.

### 4. Emerging market equities performance in 2023

Emerging market equities are managed by JP Morgan. Emerging markets equities generated a return of 5.4%, with a subtracted value of 1.5% compared to its benchmark (MSCI Emerging Markets net in Canadian dollars). JP Morgan is a conviction manager whose management approach means it can experience periods of higher subtracted value.

## C. ALTERNATIVE INVESTMENTS IN ALTERNATIVE HIGH-YIELD DEBT, DIRECT REAL ESTATE AND INFRASTRUCTURE

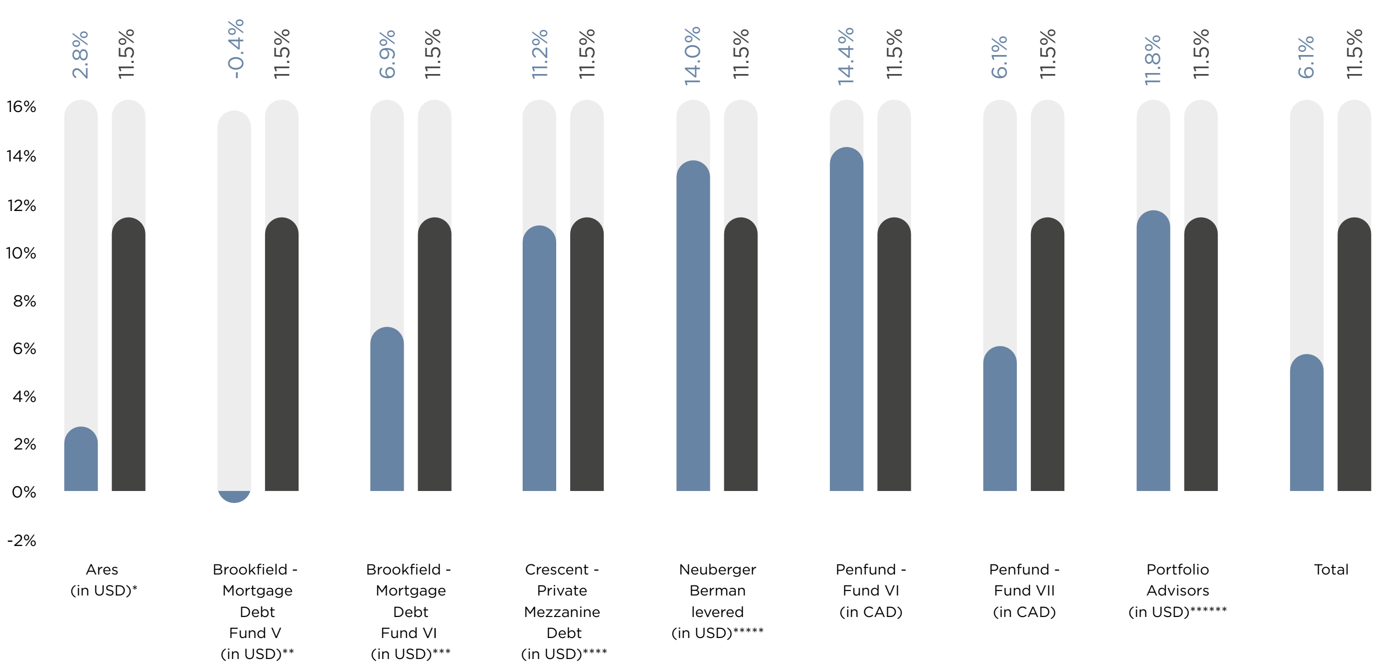
Target allocations to high-yield alternative debt, real estate and infrastructure represent 6%, 7% and 7%, respectively, of Matching Fund assets as at December 31, 2023, for a total market value of $81.3M. For the Balanced Growth Fund, target allocations to high-yield alternative debt, real estate and infrastructure represent 10% each, for a total market value of $232.7M.

### 1. Alternative high-yield debt investment performance in 2023

As at December 31, 2023, managers of high-yield alternative debt are Ares, Barings, Brookfield, Crescent, Neuberger Berman, Penfund and Portfolio Advisors. Finally, since the amount committed to the Barings fund was called during the third quarter of 2023, the manager's performance does not represent a full year and is therefore not shown in the graph below.

The performance of alternative high-yield debt investments in Canadian dollars was 6.1% for 2023, 5.4% below the benchmark. The following graph shows returns in local currency for the year 2023. The benchmark index is the Secured Overnight Financing Rate Index + 6%. Despite a subtracted value compared to the benchmark over 1 year, it should be noted that the performance over the past three years for this asset class has is more than 16%, and represents a value added of more than 5%.

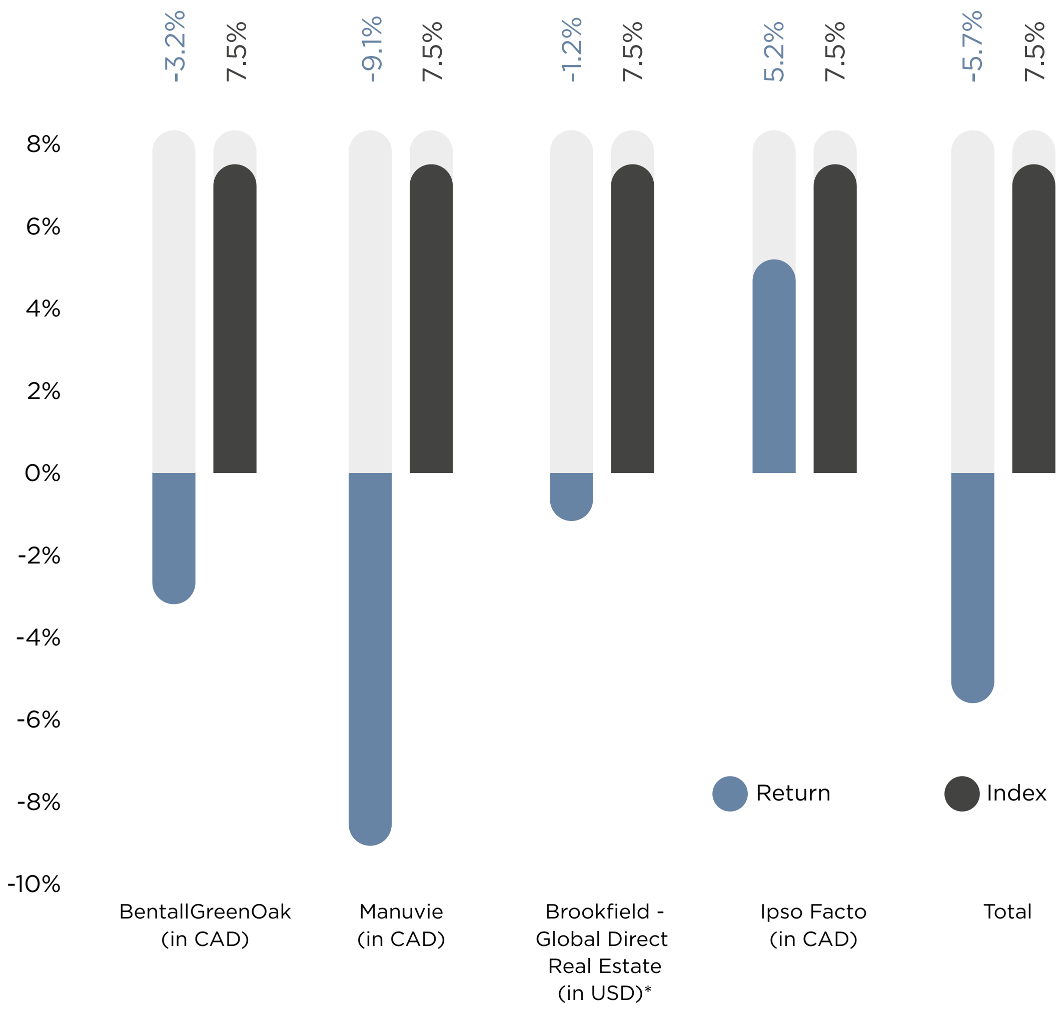
▷ *The following graph presents returns in local currencies for 2023. The benchmark index is the annual increase of CPI + 5%; it should be noted that manager performance comparison is more relevant in the longer term.*




* Return of 0.0 % in CAD for 2023.
** Return of -3.1 in CAD for 2023.
*** Return of 4.1 % in CAD for 2023.
**** Return of 8.1 % in CAD for 2023.
***** Return of 10.6 % in CAD for 2023.
****** Return of 8.7 % in CAD for 2023.

## 2. Real estate investment performance in 2023

As at December 31, 2023, the real estate managers were BentallGreenOak, Manulife, Brookfield and Ipso Facto, and they posted a Canadian dollar return of -5.7% for the year 2023, with a subtracted value of 13.2% compared to the benchmark. The benchmark index is the annual increase in the CPI + 4%. The absolute performance of real estate funds in 2023 is explained mainly by downward pressure on property valuations in a context of rising interest rates in recent years. As for the benchmark index, it does not reflect the short-term market environment. The index is a better medium- and long-term comparison. Over longer periods, the returns of the Master Trust's real estate investments are more closely aligned with those of the benchmark.

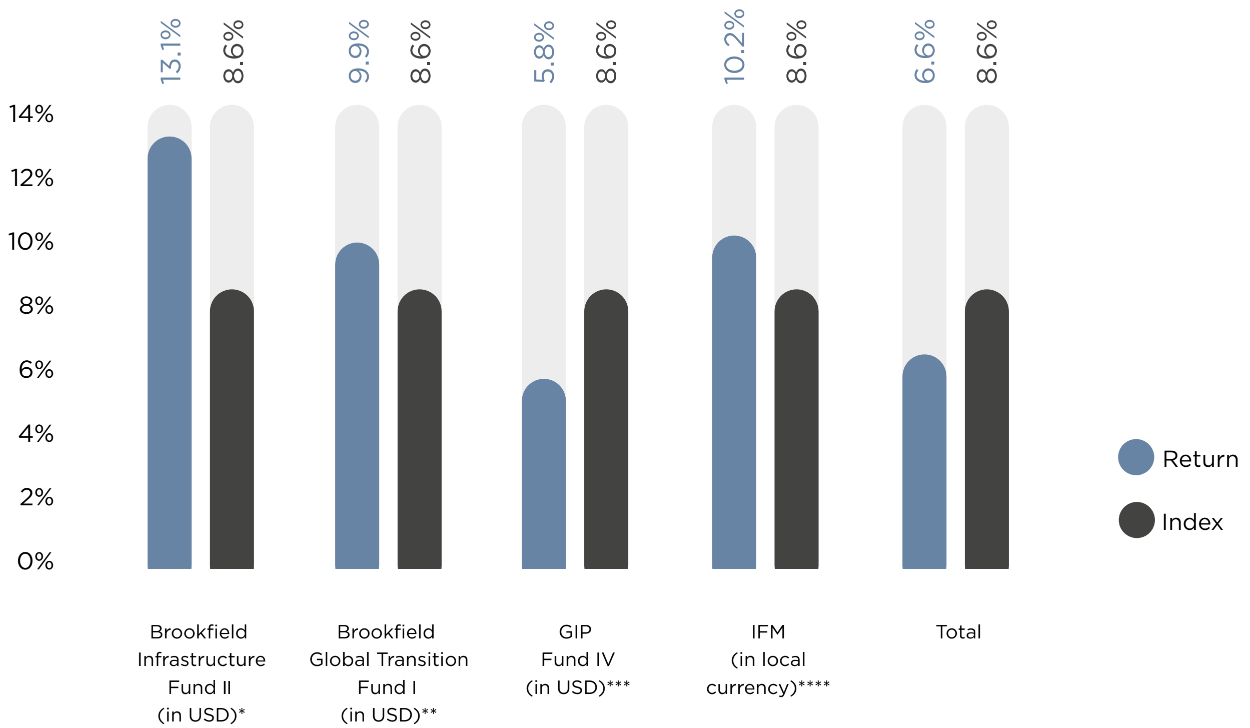



* Return of -3.9 % in CAD for 2023.

### 3. Infrastructure investment performance in 2023

As at December 31, 2023, infrastructure investments are managed by Brookfield, IFM and GIP. Since the Brookfield Infrastructure V fund is in its early stages, the manager's performance is not yet representative and is therefore not shown in the graph below.

The performance of infrastructure investments in Canadian dollars was 6.6% in 2023, with a subtracted value of 2.0% compared to the benchmark. The following graph shows returns in local currency for the year 2023. The benchmark is the annual increase in the CPI + 5%, and it should be noted that a comparison of managers' performance is more relevant over the medium and long term. It is also interesting to note that the Master Trust's infrastructure managers are outperforming their peers in the short, medium and long term.




* Return of 13,1 % in Canadian currency.
** Return of 9,9 % in Canadian currency.
*** Return of 5,8 % in Canadian currency.
**** Return of 10,2 % in Canadian currency.

## D. IMPACT OF THE U.S. DOLLAR

The Master Trust is exposed to several currencies, including the U.S. dollar, which accounts for the largest exposure after the Canadian dollar. The total exposure used for hedging at the end of 2023 was US$290 million. In order to manage the risk associated with the variation in the exchange rate between the U.S. and Canadian dollars for the Master Trust, a hedging strategy for a portion of U.S. dollar exposure is in place.

Currency hedging level was maintained at 50% for 2023 and a dynamic hedging policy is maintained.

During the year 2023, the Canadian dollar appreciated against the U.S. dollar from $0.74 to $0.76. In this context of global appreciation of the Canadian dollar, investments exposed to the U.S. dollar generated lower returns when converted into Canadian dollars. That said, in this context, the U.S. currency hedging strategy helped overall performance (contribution of +0.5%).

Global equities include approximately 70% exposure to the U.S. dollar. Currency fluctuations reduced the return of the global equity index from 23.1% in local currency to 20.5% when foreign currency exposure is considered.

Several investments in global infrastructure and real estate are made in U.S. dollars and have been negatively impacted by the appreciation of the Canadian dollar. For example, Brookfield Global Transition Fund's return in infrastructure is 9.9% in U.S. dollars and 7.3% in Canadian dollars.

# FINANCIAL STATEMENTS OF THE FUND

FIRST NATIONS
PUBLIC SECURITY PENSION PLAN
DECEMBER 31, 2023

# INDEPENDENT AUDITOR'S REPORT

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To the members of the Pension Committee of
First Nations Public Security Pension Plan
(Régime de rentes de la sécurité publique des Premières Nations)

## Opinion

We have audited the financial statements of the fund of First Nations Public Security Pension Plan (Régime de rentes de la sécurité publique des Premières Nations) (the "Plan"), which comprise the statement of net assets available for benefits as at December 31, 2023, and the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements of the fund, including a summary of significant accounting policies (collectively referred to as the "financial statements of the fund").

In our opinion, the accompanying financial statements of the fund present fairly, in all material respects, the net assets available for benefits of the Plan as at December 31, 2023, and the changes in its net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 12 of the *Pension Benefits Standards Act, 1985* (Canada).

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements of the Fund* section of our report. We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements of the fund 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.

## Emphasis of Matter – Basis of Accounting

We draw attention to Note 2 to the financial statements of the fund, which describes the basis of accounting. The financial statements of the fund are prepared to assist the administrator of the Plan in meeting the requirements of the Office of the Superintendent of Financial Institutions Canada. As a result, the financial statements of the fund may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements of the fund in accordance with the financial reporting provisions of Section 12 of the *Pension Benefits Standards Act, 1985* (Canada), and for such internal control as management determines is necessary to enable the preparation of financial statements of the fund that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements of the fund, management is responsible for assessing the 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 management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

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

## Auditor's Responsibilities for the Audit of the Financial Statements of the Fund

Our objectives are to obtain reasonable assurance about whether the financial statements of the fund as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS 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 of the fund.

As part of an audit in accordance with Canadian GAAS, 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 of the fund, 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 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 Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements of the fund or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

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

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

Deloitte LLP[1]

June 6, 2024

[1] CPA auditor, public accountancy permit No. A130560

# STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS OF THE FUND

December 31, 2023

| | Notes | 2023 | 2022 |
|---|---|---|---|
| | | **$** | $ |
| **Assets** | | | |
| Units held through the global trust | 3 | **51,356,135** | 45,947,527 |
| Accounts receivable | | | |
| Contributions receivable | 4 | | |
| Employees | | **146,410** | 174,701 |
| Employers | | **292,820** | 349,402 |
| Accrued interest and dividends | | **14,829** | 83,218 |
| Sales taxes receivable | | **33,937** | 32,993 |
| Related party – Native Benefits Plan | | **41,096** | — |
| Prepaid expenses | | **2,853** | 2,453 |
| Cash | | **484,535** | 333,162 |
| | | **52,372,615** | 46,923,456 |
| **Liabilities** | | | |
| Current liabilities | | | |
| Accounts payable | | | |
| Benefits and refunds payable | | **1,190** | 32,417 |
| Accounts payable and accrued liabilities | | **32,564** | 44,671 |
| Related party – Native Benefits Plan | | **—** | 499 |
| Related party – RBA Financial Group | | **17,725** | 51,739 |
| Current portion of long-term debt | 5 | **—** | 10,000 |
| | | **51,479** | 139,326 |
| Long-term debt | 5 | **—** | 6,667 |
| | | **51,479** | 145,993 |
| **Net assets available for benefits** | | **52,321,136** | 46,777,463 |

The accompanying notes are an integral part of the financial statements of the fund.

On behalf of the Pension Committee

Floyd McBride (Jun 17, 2024 07:41 EDT), member

Eric Cloutier (Jul 11, 2024 11:59 EDT), member

# STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS OF THE FUND

## Year ended December 31, 2023

| | | | |
|---|---|---|---|
| **Increase in net assets** | | | |
| Investment income from the units held through the global trust | 3 | **3,749,928** | (4,340,414) |
| Other revenues | | **27,634** | 11,733 |
| Contributions | 4 | | |
| Employees | | **1,081,445** | 949,656 |
| Employers | | **2,162,409** | 1,895,261 |
| Redemption of past services | | **5,848** | 186,319 |
| Transfers from other plans | | **605,492** | 684,773 |
| | | **7,632,756** | (612,672) |
| **Decrease in net assets** | | | |
| Administration expenses | | | |
| Management expenses | 8 | **185,000** | 180,000 |
| Management fees on investments | 9 | **123,082** | 118,718 |
| Professional fees – actuaries | | **68,846** | 90,523 |
| Professional fees – audit | | **20,000** | 20,000 |
| Professional fees – other | | **2,048** | 1,012 |
| Cost of meeting and committee meetings | | **96,538** | 55,285 |
| Office of the Superintendent of Financial Institutions | | **2,981** | 2,710 |
| Marketing and development | | **8,585** | 9,736 |
| | | **507,080** | 477,984 |
| Benefits paid | | **1,188,898** | 1,039,013 |
| Refunds and transfers | | | |
| Cash refunds | | **49,032** | 224,681 |
| Refunds to financial institutions | | **122,650** | 334,256 |
| Other transfers | | **221,423** | 206,078 |
| | | **2,089,083** | 2,282,012 |
| Net (decrease) increase in net assets | | **5,543,673** | (2,894,684) |
| Net assets available for benefits, beginning of year | | **46,777,463** | 49,672,147 |
| **Net assets available for benefits, end of year** | | **52,321,136** | 46,777,463 |

The accompanying notes are an integral part of the financial statements of the fund.

# NOTES TO THE FINANCIAL STATEMENTS

December 31, 2023

## 1. Description of the plan

The following description of First Nations Public Security Pension Plan (Régime de rentes de la sécurité publique des Premières Nations) (the "Plan") is a summary only. For more complete information, refer to the Plan Agreement.

*General*

The Plan offers to all policemen, firemen and special constables a contributory defined benefit pension plan. In accordance with the Plan, the contributions are paid by the employers and the participants. Eligible employer is, generally, a native band or organization whose membership request has been accepted by the Pension Committee. The Plan is registered under the*l Pension Benefits Standards Act, 1985* (Canada), registration number 55864.

*Funding policy*

In accordance with the *Pension Benefits Standards Act, 1985* (Canada), participating employers in the Plan must fund the benefits determined under the Plan. The determination of the value of these benefits is made on the basis of an annual actuarial valuation or according to the Pension Committee's approval (Note 4).

*Normal date of retirement*

The normal date of retirement is the year when participants reach the age of 65.

*Service pension*

A service pension is available based on the number of years of service multiplied by 2.00% of the best three years' average salary for all years of participation. In addition to the pension base, a temporary pension is paid up to 65 years old based on 0.25% of the best three years' average salary multiplied by the number of recognized years of contribution as at December 31, 2001.

*Survivor pension*

The spouse will receive a pension equal to 66⅔% of the calculated pension, plus an increase of 33⅓% for each child up to 100%. If there is no spouse, the value of acquired pension is payable to beneficiaries.

*Benefit for early retirement*

Any participant can take an early retirement without actuarial reduction if he or she respects certain conditions. Furthermore, it is also possible to take an early retirement with reduction 10 years from the normal date of retirement without reduction.

*Benefit and reimbursement in case of departure*

A participant who ceases to be an employee is entitled to the value of his or her assets. However, if eligible to receive a pension, he or she cannot obtain a refund, unless the pension is less than 4% of the maximum pensionable earnings.

*Income taxes*

The Plan is a registered pension trust as defined in the *Income Tax Act* and is not subject to income taxes.

## 1. Description of the plan (continued)

*Asset management entrusted to the global trust*

Investments are expressed as the number of units held in the matching fund and the balanced growth fund through the matching fund and the balanced growth fund through the global trust. Each unit allows its holder to participate in the net assets and returns in the funds held. The global trust was created with Fiducie Desjardins as its custodian of values in order to administer other pension plans within a shared structure.

## 2. Accounting policies

*Basis of presentation*

These financial statements of the fund have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by Section 12 of the *Pension Benefits Standards Act, 1985* (Canada). The basis of accounting used in these financial statements of the fund materially differs from Canadian accounting standards for pension plans because it does not include information with respect to pension obligations and related disclosures. Consequently, these financial statements of the fund do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

The Plan has chosen to comply with Canadian accounting standards for private enterprises contained in Part II of the *CPA Canada Handbook* for accounting methods that do not concern its investment portfolio, as long as these standards do not conflict with the requirements of Section 4600.

*Investments*

Investments are accounted for at fair value. The variance between the fair value of investments and their carrying value at the beginning and at the end of the year is accounted for as *Investment income from the units held through the global trust.*

*Other financial instruments*

Financial assets and financial liabilities are initially recognized at fair value when the Plan becomes a party to the contractual provisions of the financial instrument. Subsequently, all financial instruments are measured at amortized cost with the exception of investments and derivative financial instruments. The fair value quote received from the bank counterparty is used as a proxy for the fair value of derivative financial instruments.

*Foreign currency translation*

Monetary assets and liabilities in foreign currencies are translated in Canadian dollars at the exchange rate in effect at the end of the year. The elements of the changes in net assets available for benefits are translated at the exchange rate when the transactions occur. The gains or losses from the fluctuation of the exchange rate are accounted for in the statement of changes in net assets available for benefits under the *Investment income from the units held through the global trust* account.

*Use of estimates*

The preparation of financial statements of the fund requires management to make estimates that affect the amounts of assets and liabilities reported in the financial statements of the fund. Those estimates also affect the disclosure of contingencies at the date of the financial statements of the fund. The fair value of investments is included among the major components of the financial statements of the fund requiring management to make estimates. Actual results could differ from those estimates.

## 3. Units held through the global trust

The investment structure of the global trust was changed in 2018. The Plan's assets are now invested in two distinct funds created within the global trust: a matching fund and a balanced growth fund. Fiducie Desjardins has custody of the securities. Units held by the Plan in the global trust's funds are detailed as follows:

| | **2023** | 2022 |
|---|---|---|
| | **$** | $ |
| Matching fund (2,069,558.7243 units held representing 5.49%), (1,592,776.3677 units held in 2022 representing 6.05%) | **21,358,885** | 14,960,848 |
| Balanced growth fund (2,940,240.6627 units held representing 4.32%), (3,058,165.994 units held in 2022 representing 4.21%) | **29,997,250** | 30,986,679 |
| | **51,356,135** | 45,947,527 |

The composition of the investments held by the Plan via the units held in the matching fund and the balanced growth fund through the global trust is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **$** | $ |
| Cash held for investments | **858,259** | 729,390 |
| Money market | **25,328** | 3,065 |
| Canadian bonds (yield between 1.55% and 6.55%) | **17,227,866** | 12,072,546 |
| Private debt | **5,462,576** | 5,233,952 |
| Canadian shares | **2,592,894** | 3,383,924 |
| International shares | **4,533,358** | 4,654,256 |
| Foreign investment funds | | |
| Global large cap funds | **2,223,754** | 2,822,469 |
| Global small cap funds | **2,156,356** | 2,263,572 |
| Emerging market funds | **1,735,569** | 1,855,323 |
| Alternative investments | | |
| Real estate funds | **4,746,438** | 6,237,078 |
| Infrastructure funds | **5,132,507** | 3,626,252 |
| Alternative high yield debt | **4,546,563** | 3,058,439 |
| Foreign exchange contract (Note 11) | **114,667** | 7,261 |
| | **51,356,135** | 45,947,527 |

## 3. Units held through the global trust (continued)

Revenue generated by the composition of investments held by the Plan is as follows:

| | **2023** | 2022 |
|---|---|---|
| | **$** | $ |
| Revenues on investments | **906,555** | 344,086 |
| Current period change in fair value of investments and gain on sale of investments | **2,843,373** | (4,684,500) |
| | **3,749,928** | (4,340,414) |

## 4. Funding policy

Under the terms of the Plan, member participants' contributions are 9.5% for employees who do not contribute to Retraite Québec and 8.0% for employees contributing to Retraite Québec. Employers must provide the balance of funding needed, as determined by actuarial valuations, so that benefits are fully formed at the time of retirement of members.

Until the next actuarial valuation, the employer's contribution is set to 200.0% of the member participants' contributions. The most recent actuarial valuation of capitalization was carried out by Normandin Beaudry on January 1, 2023.

## 5. Long–term debt

In 2022, the Plan received funding of $40,000 consisting of a $30,000 non-interest bearing loan (0%), payable in 36 equal and consecutive monthly payments, and a non-repayable contribution of $10,000.

In 2023, a $15,000 grant was given to reimburse the balance of the loan.

## 6. Commitments

Under agreements with portfolio managers and a security custodian, the Plan has committed to pay management fees based on the fair value of the Plan's assets. Those agreements can be terminated upon a 30-day notice.

The Pension Committee committed, via the global trust, to investing some amounts in private investments through a call for capital. As at December 31, 2023, the following amounts remain to be called:

- $4,200,000 in Partnership Ipso Facto VII;
- US$13,100,000 in Brookfield Global Transition Fund;
- US$600,000 in Brookfield Infrastructure Fund II;
- US$17,600,000 in Brookfield Infrastructure Fund V;
- US$15,400,000 in Crescent Fund – CDL III;
- US$13,600,000 in Crescent Fund – CCS VIII;
- US$6,000,000 in Brookfield Real Estate Finance Fund V;
- US$16,900,000 in Brookfield Real Estate Finance Fund VI;
- US$3,800,000 in Brookfield Strategic Real Estate Partners Fund II;
- $6,900,000 in Penfund VI;
- $16,500,000 in Penfund VII;
- US$4,900,000 in GIP Infrastructure Fund IV;
- US$11,700,000 in Neuberger Berman Fund IV (without financial leverage);
- US$2,100,000 in Neuberger Berman Fund IV (with financial leverage);
- US$8,500,000 in Portfolio Advisors PADCOF III; and
- US$1,200,000 in Ares Fund IV.

These amounts represent the total commitments to be deployed by the global trust through the matching fund and the balanced growth fund. The Plan holds some 5.49% of the total number of units in the matching fund and 4.32% of the total number of units in the balanced growth fund.

## 7. Capital management

The Plan's objective when managing capital is to guarantee the integral capitalization of the long-term benefits. The Plan manages its investments in order to generate a return making it possible to achieve this goal. The Pension Committee established an investment policy in order to guide the portfolio managers toward the realization of this objective.

An actuarial valuation must be filed with the authority of regulation at least every three years. If the Plan is overdrawn, an actuarial valuation including a plan of elimination of any deficit must be filed with the authority of regulation every year.

## 8. Related party transactions

In 2023, the Plan paid management fees of $185,000 ($180,000 in 2022) to RBA Financial Group. Related party transactions also took place between the Plan and Native Benefits Plan. These transactions took place in the normal course of business and were measured at the exchange amount.

## 9. Investment management fees

The investment management fees, shown in the statement of changes in net assets available for the service of pension fund benefits, represent the management fees paid directly by the Global Trust of the Native Benefits Plan. For certain investments in mutual funds and private investments (real estate, infrastructure, alternative high yield debt and private debt), the base and performance fees of the managers are taken from the market value of the units held by the Global Trust in the current year in which they occur.

## 10. Financial instruments

The Plan has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity risk. The following analysis provides a measurement of risk as at December 31, 2023.

The objective of risk management is to achieve a diversification of risks and returns in order to minimize the likelihood of an overall reduction in total Plan value and maximize the opportunity for gains over the entire portfolio. The trustees also manage the liquidity risk so that there is sufficient liquidity to meet current benefit payments and to give the Plan the ability to adjust the asset mix in response to the changes in the market conditions.

*Policies*

Through its Investment Committee, the Pension Committee has developed an investment policy addressing the manner in which the Plan shall be invested. Investments shall be selected and held in accordance with the criteria and limitations set forth in the policy and in accordance with the relevant legislation. The policy is reviewed at least annually.

The investment policy includes guidelines on asset mix and risk allocation. The document lists the investment constraints, for example, the maximum exposure permitted for a single issuer, the liquidity requirements, and currency management. The policy also identifies the authorized counterparties and includes the approval requirements and trading limits.

The Investment Committee meets regularly to assess the investment risk associated with the portfolio and determine action plans, if required.

The risk management strategy of the Plan has not changed during the year ended December 31, 2023.

## 10. Financial instruments (continued)

*Market risk*

Market risk is the risk that the fair value or future cash flows of the Plan's financial instruments will fluctuate because of changes in market prices. Market risk is composed of currency risk, interest rate risk and other price risk. The Plan is exposed to certain of these risks, as described below.

a) Currency risk

Currency risk arises from the Plan’s holdings of foreign currency-denominated investments through units held in the matching fund and the balanced growth fund through the global trust. As at December 31, 2023, the Plan’s exposure to currency risk in Canadian dollars is $21,922,441 ($17,348,972 as at December 31, 2022). The U.S. dollar currency is covered for 50% by a foreign exchange contract (Note 11). As at December 31, 2023, a 1% change in exchange rate between the Canadian dollar and any other currency would have a $217,054 ($171,772 as at December 31, 2022) impact on the Plan’s foreign currency-denominated investments through units held in the global trust and net assets.

b) Interest rate risk

Interest rate risk refers to the effect on the fair value of the Plan’s assets due to fluctuations in interest rates. The fair value of the Plan’s assets is affected by short-term changes in interest rates.

A 1% increase or decrease in interest rates would result respectively in a decrease or an increase of $3,728,904 ($2,202,001 as at December 31, 2022) in the value of the units held in the matching fund and the balanced growth fund through the global trust in fixed income securities and net assets as at December 31, 2023.

c) Other price risk

The Plan manages the other price risk primarily through diversifying the investments held through the global trust across industry sectors and through investment strategies.

As at December 31, 2023, a 10% change in market prices of units held in the balanced growth fund would result in a $1,324,193 ($1,492,929 as at December 31, 2022) change in investments in shares and net assets of the Plan.

*Credit risk*

The concentration of credit risk exists when a significant part of the portfolio is invested in securities having similar characteristics or subject to similar variations linked to the economical or political conditions. The Plan established an investment policy to which portfolio managers must conform, which allows it to minimize the credit risk.

The Plan’s principal financial assets are cash, accounts receivable and investments held in the global trust, which are subject to credit risk directly and indirectly. The carrying amounts of financial assets on the statement of net assets available for benefits represent the Plan’s maximum credit exposure at the year-end date.

The Plan’s indirect credit risk is primarily attributable to its investments in bonds held through units in the matching fund and the balanced growth fund through the global trust.

The indirect credit risk associated with units held in the global trust and represented by bonds is limited, since the investment policy requires that bonds be issued or guaranteed by either the federal or provincial government, a city or a company (which can be issued in foreign currencies). Further, all bonds shall be made up of investments rated above a “DBRS” or “Standard & Poor’s” credit rating of BBB or equivalent.

## 10. Financial instruments (continued)

*Credit risk (continued)*

As at December 31, 2023, the Plan has a significant concentration of indirect risk with provincial governments, cities and other companies. This concentration relates primarily to the holding, through units held in the matching fund and the balanced growth fund through the global trust, of $66,914 ($76,554 as at December 31, 2022) of securities issued by the federal government, $15,491,801 ($10,216,566 as at December 31, 2022) of securities issued by provincial governments and $1,669,151 ($1,779,426 as at December 31, 2022) of securities issued by cities and other companies.

*Liquidity risk*

Liquidity risk refers to the risk that the Plan does not have sufficient cash to meet its current payment liabilities, including benefit payments, and to acquire investments in a timely and cost-effective manner.

The liquidity position of the Plan is analyzed weekly to ensure the Plan maintains a sufficient percentage of its net assets in very liquid assets such as cash. The Plan maintains, through units held in the matching fund and the balanced growth fund in the global trust, a portfolio of highly marketable assets, specifically federal and provincial government bonds that can be sold or funded on a secured basis as protection against any unforeseen interruption to cash flows.

*Fair value*

The fair value of cash, accounts receivable and accounts payable approximates their carrying value due to their short-term maturity.

*Fair value hierarchy*

Financial instruments recorded at fair value on the statement of net assets available for benefits are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices);

Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

## 10. Financial instruments (continued)

*Fair value hierarchy (continued)*

The following tables present the composition of investments held by the Plan through units in the matching fund and the balanced growth fund issued by the global trust. These units are recorded at fair value in the statement of net assets available for benefits:

| | | | | **2023** |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **$** | **$** | **$** | **$** |
| Investments held in the global trust | | | | |
| Cash held for investments | **858,259** | — | — | **858,259** |
| Money market | **25,328** | — | — | **25,328** |
| Canadian bonds | — | **17,227,866** | — | **17,227,866** |
| Private debt | — | — | **5,462,576** | **5,462,576** |
| Canadian shares | **2,592,894** | — | — | **2,592,894** |
| International shares | **4,533,358** | — | — | **4,533,358** |
| Global large cap funds | **2,223,754** | — | — | **2,223,754** |
| Global small cap funds | — | **2,156,356** | — | **2,156,356** |
| Emerging market funds | — | **1,735,569** | — | **1,735,569** |
| Real estate funds | — | — | **4,746,438** | **4,746,438** |
| Infrastructure funds | — | — | **5,132,507** | **5,132,507** |
| Alternative high yield debt | — | — | **4,546,563** | **4,546,563** |
| Foreign exchange contract | — | **114,667** | — | **114,667** |
| Total investments | **10,233,593** | **21,234,458** | **19,888,084** | **51,356,135** |

## 10. Financial instruments (continued)

*Fair value hierarchy (continued)*

| | | | | 2022 |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | $ | $ | $ | $ |
| Investments held in the global trust | | | | |
| Cash held for investments | 729,390 | — | — | 729,390 |
| Money market | 3,065 | — | — | 3,065 |
| Canadian bonds | — | 12,072,546 | — | 12,072,546 |
| Private debt | — | — | 5,233,952 | 5,233,952 |
| Canadian shares | 3,383,924 | — | — | 3,383,924 |
| International shares | 4,654,256 | — | — | 4,654,256 |
| Global large cap funds | 2,822,469 | — | — | 2,822,469 |
| Global small cap funds | — | 2,263,572 | — | 2,263,572 |
| Emerging market funds | — | 1,855,323 | — | 1,855,323 |
| Real estate funds | — | — | 6,237,078 | 6,237,078 |
| Infrastructure funds | — | — | 3,626,252 | 3,626,252 |
| Alternative high yield debt | — | — | 3,058,439 | 3,058,439 |
| Foreign exchange contract | — | 7,261 | — | 7,261 |
| Total investments | 11,593,104 | 16,198,702 | 18,155,721 | 45,947,527 |

During the year, there has been no significant transfer of amounts between Level 1 and Level 2.

## 10. Financial instruments (continued)

*Fair value hierarchy (continued)*

The following tables reconcile the fair value of financial instruments classified in Level 3 from the beginning balance to the ending balance:

| | | | | **2023** |
|---|---|---|---|---|
| | **Private debt** | **Real estate funds** | **Infrastructure funds** | **Alternative high yield debt** |
| | **$** | **$** | **$** | **$** |
| Fair value, beginning of year | **5,233,952** | **6,237,078** | **3,626,252** | **3,058,439** |
| Changes in fair value | **55,252** | **(646,641 )** | **152,199** | **(150,511)** |
| Purchases / sales / distributions / reinvested dividends | **173,372** | **(843,999 )** | **1,354,056** | **1,638,635** |
| Fair value, end of year | **5,462,576** | **4,746,438** | **5,132,507** | **4,546,563** |

| | | | | | 2022 |
|---|---|---|---|---|---|
| | Canadian bonds | Private debt | Real estate funds | Infrastructure funds | Alternative high yield debt |
| | $ | $ | $ | $ | $ |
| Fair value, beginning of year | 59,970 | 2,917,989 | 5,930,556 | 2,587,326 | 1,705,494 |
| Changes in fair value | — | 554,230 | 23,023 | 311,261 | 779,721 |
| Purchases / sales / distributions / reinvested dividends | (59,970 ) | 1,761,733 | 283,499 | 727,665 | 573,224 |
| Fair value, end of year | — | 5,233,952 | 6,237,078 | 3,626,252 | 3,058,439 |

## 11. Derivative financial instruments

As at December 31, 2023, the Plan, through units held in the matching fund through the global trust, held a foreign exchange contract (U.S. dollar currency sale contract), ended March 20, 2024, for a notional amount of US$37,825,000. This amount represents the total detention of the global trust while the Plan holds approximately 5.49% of the total units issued by the matching fund.

As at December 31, 2023, the Plan, through units held in the balanced growth fund through the global trust, held a foreign exchange contract (U.S. dollar currency sale contract), ended March 20, 2024, for a notional amount of US$122,595,000. This amount represents the total detention of the global trust while the Plan holds approximately 4.32% of the total units issued by the balanced growth fund.

As at December 31, 2022, the Plan, through units held in the matching fund through the global trust, held a foreign exchange contract (U.S. dollar currency sale contract), ended March 16, 2023, for a notional amount of US$26,700,000. This amount represents the total detention of the global trust while the Plan holds approximately 6.05% of the total units issued by the matching fund.

As at December 31, 2022, the Plan, through units held in the balanced growth fund through the global trust, held a foreign exchange contract (U.S. dollar currency sale contract), ended March 16, 2023, for a notional amount of US$107,700,000. This amount represents the total detention of the global trust while the Plan holds approximately 4.21% of the total units issued by the balanced growth fund.

The gains or losses from the fluctuation of the fair value of these contracts are accounted for in the statement of changes in net assets available for benefits under the *Investment income from the units held through the global trust and other investments* account.

## 12. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.

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