Teacher's Superannuation Fund

ANNUAL REPORT

2018-2019

Publication Date: January 2021

The Honourable Brad Trivers
Minister of Education and Lifelong Learning
Province of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Sir:

In accordance with section 4.1 of the *Teachers' Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Teachers' Superannuation Fund for the fiscal year ended June 30, 2019.

Respectfully submitted,

Bethany MacLeod, Chair
Teachers' Superannuation Commission

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4,114 MEMBERS

1,731	ACTIVES
1,672	PENSIONERS
153	DEFERRED PENSIONERS
558	INACTIVE

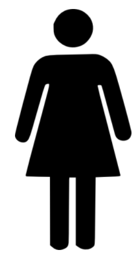
AVERAGE AGE OF ACTIVE MEMBER	AVERAGE AGE AT RETIREMENT	AVERAGE AGE OF PENSIONER
45	59.5	72

$28,702

AVERAGE ANNUAL PENSION

NEW MEMBERS	NEW PENSIONERS
99	49

Did you know?



73%
of active members are female

4
pensioners are over 100 years old

$80,612

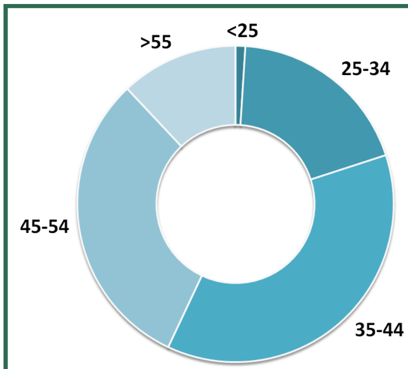
AVERAGE PENSIONABLE EARNINGS OF ACTIVE MEMBER

$57,400
x 8.30%
(contribution rate for pensionable earnings up to the 2019 YMPE)

+

$23,212
x 10.00%
(contribution rate for pensionable earnings over the YMPE)

= $7,085.40
Average annual contribution



ACTIVE MEMBERS BY AGE

<25	0%
25-34	15%
35-44	36%
45-54	36%
>55	12%

All figures as at April 1, 2019
The annual report is for convenience only. For an authoritative statement, refer to the actuarial valuation as at April 1, 2019.

FUNDED RATIO 122.0%

Plan Assets and Liabilities

$999 million

ASSETS

($819) million

LIABILITIES

Contributions Received and Benefits Paid

(Based on the valuation year of April 1, 2018 - March 31, 2019)

$25.16 million

MEMBER AND EMPLOYER CONTRIBUTIONS

($47.87) million

BENEFITS PAID TO RETIREES AND SURVIVORS

MASTER TRUST INVESTMENT RETURNS

As at
June 30, 2019

7.1%

↑ FISCAL YEAR ↑

6.3%

↑ 5 YEAR RATE ↑

7.9%

↑ SINCE INCEPTION ↑

About THE PLAN

The Teachers' Superannuation Fund (the Plan) is a Defined Benefit Registered Pension Plan that provides members with a lifetime of monthly payments upon retirement.

Members contribute to the Plan through regular payroll deductions, which are matched by the employer. Plan assets are invested by external investment managers to generate further earnings to support the Plan.

All permanent employees are required to contribute a percentage of their bi-weekly earnings to the Plan beginning upon employment. The employer matches these contributions each pay period.

The percentage of contributions for 2018 - 2019 is as follows:

8.30%
of pensionable earnings up to the YMPE

and

10.00%
of pensionable earnings in excess of the YMPE

The YMPE is the Year's Maximum Pensionable Earnings, which is an amount determined by the CPP.

The YMPE is $57,400 for 2019.

Please note:

In the event of a discrepancy between the annual report and Teachers' Superannuation Act, the legislation shall prevail.

Pension FORMULA

Your TSF pension will likely be one of your most valuable financial assets in retirement.

Your pension is calculated using this simplified formula, which does not reflect the offset at age 65 for Canada Pension Plan (CPP) benefits:

Average indexed earnings x **Years of service** x **2%**

* For salaries below the CPP's YMPE, the 2% benefit is comprised of a 1.3 percent lifetime benefit and a 0.7 percent temporary bridge benefit, payable from the date of retirement to age 65.

Members are eligible to retire as early as their 55th birthday, which may involve a reduced pension.

As of January 1, 2019, members can access an unreduced pension under the Rule of 32/62*:

- attain 32 or more years of pensionable service (while being at least 55 years old); or
- attain the age of 62 with a least two years of pensionable service.

A member who is at least 55 years old and does not meet the Rule of 32/62 can still opt to retire and will receive a reduced pension. The total pension amount is reduced by the lesser of:

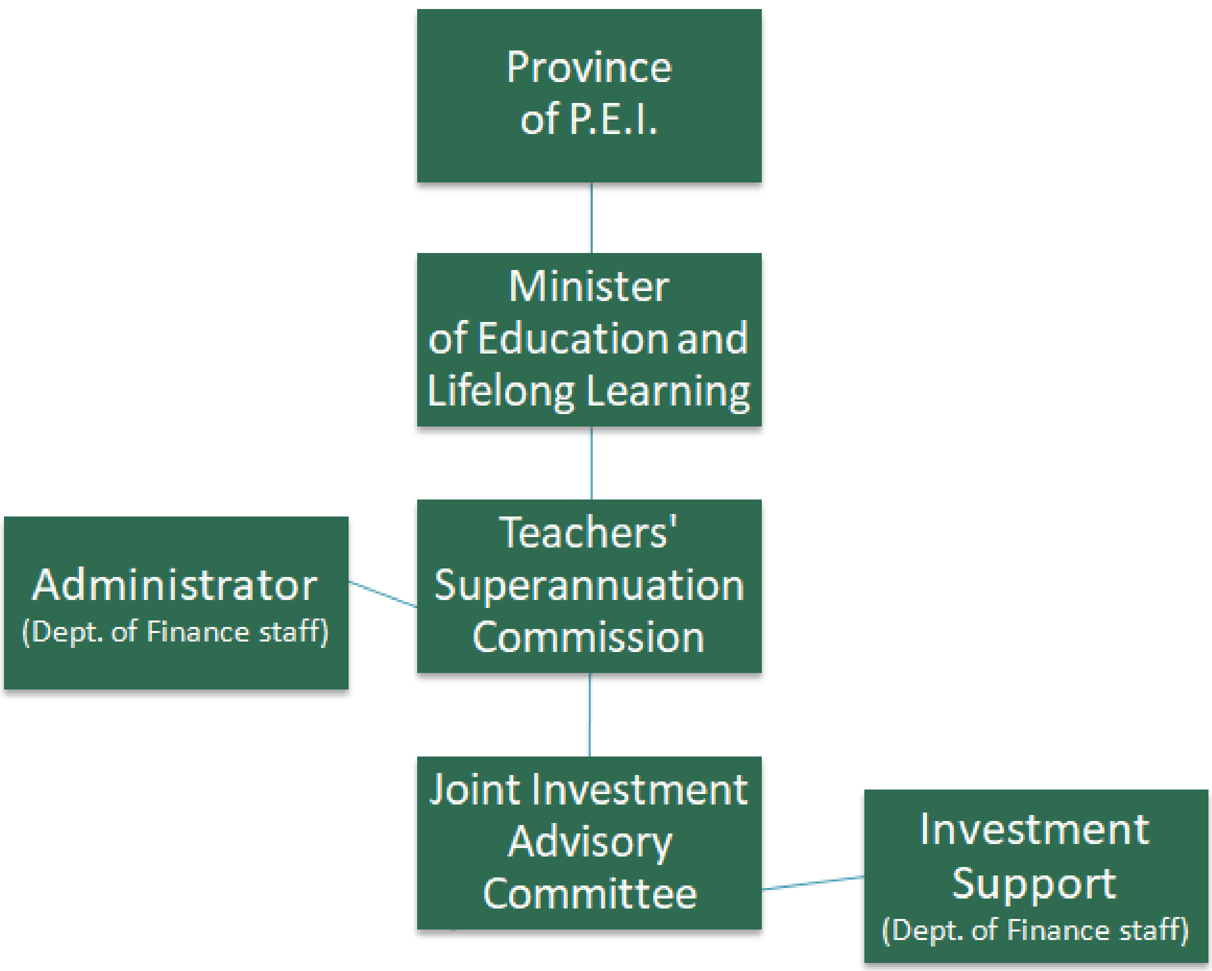
- 3.0 percent for each year prior to attaining 32 years of pensionable service, or
- 3.0 percent for each year prior to age 62.

** All service prior to 2019 will be assessed using the 30 years of service or 60 years of age rule. This may result in a minimal reduction if most service took place prior to 2019.*

Governance
& ADMINISTRATION

The TSF is governed by the Teachers' Superannuation Act (TSA) and is sponsored by the Government of Prince Edward Island.

The Minister of Finance is responsible for the administration of the Plan. The day-to-day administrative duties have been assigned to the Pensions & Benefits and Fiscal Management divisions.



... GOVERNANCE

The Teachers' Superannuation Commission was established to assist and advise the Minister in certain aspects of plan administration and investment monitoring. The Commission strengthens governance by providing a forum which facilitates open consultation and communication among those parties who have a primary interest in the smooth functioning of the Act.

The Commission is made up of representatives from the employers, participating unions and retirees whose pension funds are invested in the Plan, as well as government staff.

The Commission held three meetings during the 2018-2019 fiscal year.

As of June 30, 2019, the Commission had the following 8 members:

Employer Representatives:		
Chairperson - Deputy Minister of Education and Lifelong Learning	**Bethany MacLeod***	**Attended: 1 of 1**
Department of Education and Lifelong Learning	**Chris DesRoche**	**Attended: 2 of 3**
Department of Finance	**Gordon MacFadyen**	**Attended: 3 of 3**
Department of Justice and Public Safety	**Blair Barbour**	**Attended: 2 of 3**
Employee Representatives:		
PEI Teachers' Federation	**Mary Hart** **Shaun MacCormac** **Patrick MacFadyen**	**Attended: 3 of 3** **Attended: 1 of 3** **Attended: 3 of 3**
Retiree	**Michel Plamondon**	**Attended: 3 of 3**

* *Chairperson was appointed in June 2019*

Commissioners are not paid for their service but they are reimbursed for any eligible travel and training fees they incur.

Upon joining the Commission, a Commissioner is expected to attain a basic level of knowledge on pension matters by participating in approved education programs. Each Commissioner is expected to participate in at least 15 hours of training in a three-year cycle.

Plan VALUATION

An actuarial valuation is a mathematical report that measures the financial health of a pension plan. It evaluates the funded status of the Plan by calculating the value of pension promises made to members and comparing it to the assets set aside to pay for those promises.

Funded status has an impact on things such as indexation to be applied to annual pensionable earnings for active members, fund contribution rates for employees and employers, and adjustments to pension benefits for retirees.

The funded status is calculated by dividing the assets by the liabilities. When the result is expressed as a percentage, it is known as the funded ratio.

ASSETS Contributions & investment income	÷	**LIABILITIES** Benefits to be paid & expenses	=	**FUNDED RATIO** %

The Plan is fully funded at 100%, but cannot award indexation. A funded ratio greater than 100% means the Plan has a surplus, which must be used to award indexation. If the funded ratio is less than 100%, the Plan is in a deficit, does not have sufficient assets to fund its liabilities, and cannot award indexation.

The funded ratio of the Plan as at April 1, 2019, is as follows:

$999M Assets	÷	**$819M** Liabilities	=	**122.0%** Funded Ratio

*Figures shown above are rounded to the nearest $1 million.

... VALUATION

The April 1, 2019, actuarial valuation was based, in part, on the following data and statement of financial position:

Table 1 - Going-Concern Financial Position

Value of Assets		
Market Value	**$999,886,100**	
Actuarial Liability		**Percentage of Total Liabilities**
Active Members	**289,001,300**	**35.27%**
Deferred Members	**6,605,100**	**0.81%**
Retired Members and Beneficiaries	**523,746,900**	**63.92%**
Total	**$819,353,300**	
Actuarial Surplus (Unfunded Liability)	**180,532,800**	
Funded Status (amount in excess of 100% represents indexation reserve)	**122.0%**	

Revenue
& Expenses

During the July 1, 2018 - June 30, 2019 fiscal year, there was a net increase to TSF assets of approximately $37 million.

Type	Amount
Employee Contributions	$12,547,983
Employer Contributions	12,547,983
Transfers from Other Plans	261,520
Purchased Service	144,183
Interest Income	7,733,253
Market Value Increase	55,622,348
Total Revenue	**$88,857,270**

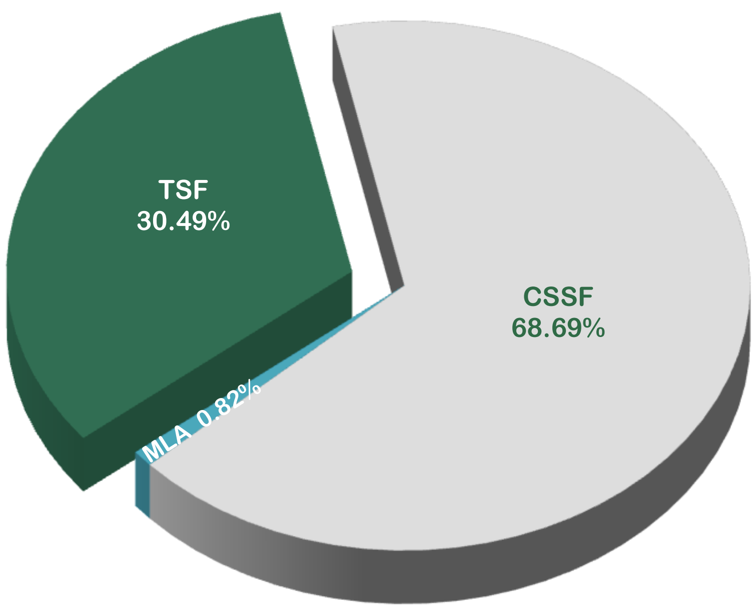
Table 3, on the left, shows the receipts and income, by source, for the fiscal year.
See Appendix.

Table 4, below, shows the expenses for 2018-2019.
See Appendix.

Type	Amount	Percentage of expenditure
Benefits Paid	$48,251,446	
Refund	3,870	
Transfers	-	
Total Benefit Expenses	**48,255,316**	**93.98%**
Benefit Administration	265,913	
System Fees	36,742	
Investment Administration	57,270	
Total Administrative Expenses	**359,925**	**0.70%**
Consulting Fees	331,123	
Total Consulting Fees	**331,123**	**0.65%**
Investment Manager Fees	2,304,594	
Monitoring Fees	72,834	
Custodial Fees	21,000	
Total Investment Expenses	**2,398,428**	**4.67%**
Total Expenses	**$51,344,792**	**100.00%**

Fund
Investment Management

The TSF's investment assets are managed by professional fund managers who must follow the Statement of Investment Policies and Procedures (SIP&P) approved by the Minister of Education and Lifelong Learning.



These investment assets are held in the Province of Prince Edward Island Master Trust. The TSF, Civil Service Superannuation Fund and the MLA Pension Fund participate in the Master Trust.

In 2018-2019, approximately 30.49% of the funds in the Master Trust were assets of the TSF. The total asset balance of the Master Trust as at June 30, 2019, was $3,186,881,000.

TSF Investment Fund Managers at June 30, 2019:

Canadian Equity:
Beutal Goodman & Company

Global Equity:
TD Asset Management
Baillie Gifford
Wellington Management

Fixed Income:
TD Asset Management
Goldman Sachs Asset Management

Canadian Real Estate:
Greystone Managed Investments

Global Real Estate:
State Street Global Advisors
Morgan Stanley
CBRE

Infrastructure:
Global Infrastructure Partners
Lazard Asset Management

** Province of PEI Promissory Notes also fall under the Fixed Income asset class.*

Joint Investment Advisory Committee

At June 30, 2019, the following were members of the Joint Investment Advisory Committee (JIAC):

Voting Members:		
Chairperson - Deputy Minister of Finance	Dan Campbell*	Attended: 1 of 1
Member of Legislative Assembly	Kathleen Casey**	Attended: 1 of 3
PEI Teachers' Federation	Shaun MacCormac Mary Hart Patrick MacFadyen	Attended: 2 of 4 Attended: 2 of 4 Attended: 4 of 4
Union of Public Sector Employees	Chris Oatway*** Mark Arsenault	Attended: 2 of 3 Attended: 4 of 4
International Union of Operating Engineers	Gerald Poirier	Attended: 4 of 4
Canadian Union of Public Employees	Leonard Gallant	Attended: 3 of 4
PEI Nurses Union	Blair MacDonald	Attended: 3 of 4
Provincial Government	Terry Hogan Gordon MacFadyen Cindy Harris**** Blair Barbour	Attended: 4 of 4 Attended: 4 of 4 Attended: 1 of 1 Attended: 3 of 4
Retirees	Michel Plamondon (TSF) Colin Younker (CSSF)	Attended: 4 of 4 Attended: 1 of 4
Non-voting members:		
Ex-Officios	Tim Van Alystyne, *Scotia Capital Inc.* Kevin Martin, *RBC Capital Markets*	
Consultants	Will DeSilva, *AON* Mario Delisle, *AON*	

** Appointed Chair in April 2019*
*** Left office in March 2019*
**** Appointed in November 2018*
***** Appointed in April 2019*

The JIAC provides advice to the Minister of Finance on the following items:

- Protection of the principal assets of the Master Trust and monitoring of costs
- Recommendations on investment fund asset mix
- Review of investment fund and fund manager performance standards
- Compliance with both federal and provincial requirements relating to ownership of foreign equities

Plan

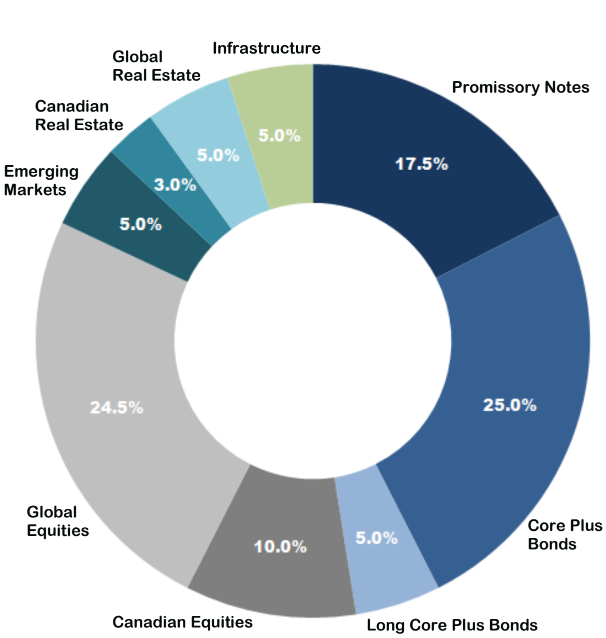
Asset Mix

The largest contributor to the growth of TSF assets is normally investment income.

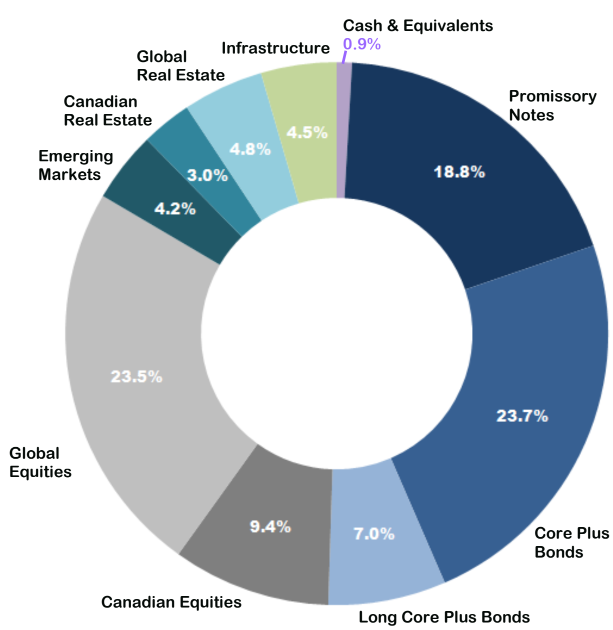
Our investment strategy, which is guided by the SIP&P, aims to maximize returns within a reasonable level of risk in order to meet our pension obligation. The target asset mix is a vital element of our investment strategy and is determined by the TSF Commission through an exercise called an Asset Liability Modeling Study (ALM Study). The last ALM Study was conducted in 2015.

Asset Classes	Target Allocation from ALM	Actual Allocation as at June 30, 2019
Cash and Cash Equivalents	0.0%	0.9%
Promissory Notes	17.5%	18.8%
Core Plus Bonds	25.0%	23.7%
Long Core Plus Bonds	5.0%	7.0%
Canadian Equities	10.0%	9.4%
Global Equities	24.5%	23.5%
Emerging Markets	5.0%	4.2%
Canadian Real Estate	3.0%	3.0%
Infrastructure	5.0%	4.8%
Global Real Estate	5.0%	4.5%

Target Asset Mix



Actual Asset Mix



Audit Requirements

In accordance with section 31 of the *Teachers' Superannuation Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in the appendix of annual report.

Contact Information

For further information concerning the administration of the ***Teachers' Superannuation Act***, please contact:

Pensions and Benefits
Department of Finance
3rd floor Sullivan Building, 16 Fitzroy Street
PO Box 2000
Charlottetown, PE C1A 7N8
Telephone: (902) 368-4200
Fax: (902) 620-3096

Terry Hogan, Manager
Pamela MacEachern, Supervisor

For further information concerning the **Master Trust Fund**, please contact:

Ryan Bradley, Investment Officer
Debt and Investment Management
Department of Finance
Telephone: (902) 368-4167

Appendix

Audited Financial Statements
for
2018-2019

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Financial Statements
June 30, 2019

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

The Teachers' Superannuation Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Office of the Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses their opinion on the financial statements. The Office of the Auditor General has full and free access to financial information and management of the Prince Edward Island Teachers' Superannuation Fund to meet as required.

On behalf of the Prince Edward Island Teachers' Superannuation Fund

Mr. Dan Campbell, CFA
Deputy Minister
Department of Finance

Mr. Terry Hogan
Manager, Pensions and Benefits
Department of Finance

October 30, 2020

Prince Edward Island Île-du-Prince-Édouard

Office of the
Auditor General

Bureau du
vérificateur général

PO Box 2000, Charlottetown PE
Canada C1A 7N8

C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Prince Edward Island Teachers' Superannuation Fund

Opinion

I have audited the financial statements of the **Prince Edward Island Teachers' Superannuation Fund**, which comprise the statement of financial position as at June 30, 2019, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2019, and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

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

Responsibilities of Management and Those Charged with Governance 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.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

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

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

Darren Noonan, CPA, CA
Auditor General

Gerri Russell, CPA, CA
Audit Director

Charlottetown, Prince Edward Island
October 30, 2020

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Statement of Financial Position
June 30, 2019

	2019	2018
	$	$
Assets		
Cash	2,111,490	2,326,358
Investments (Note 3)	826,816,244	781,341,676
Notes receivable (Note 5)	188,750,800	196,787,700
Receivables		
Contributions - employee	1,295,906	1,232,751
- employer	1,326,480	1,266,289
Accrued interest	3,581,897	3,639,846
Other	240,666	261,600
Total Assets	1,024,123,483	986,856,220
Liabilities		
Accounts payable and accrued liabilities	1,415,998	1,713,457
Remittances payable	875,766	864,943
Investment fees payable	686,954	645,533
Total Liabilities	2,978,718	3,223,933
Net Assets Available for Benefits	1,021,144,765	983,632,287
Accrued Pension Obligation (Note 4)	1,021,144,765	983,632,287
Net Surplus (deficit)	-	-

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

Approved on behalf of the Prince Edward Island Teachers' Superannuation Fund

B MacLeod
Chairperson

Michel Lamondon
Commissioner

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Changes in Net Assets Available for Benefits
for the year ended June 30, 2019

	2019	2018
	$	$
Increase in Assets		
Investment income (Note 3(a))	33,130,746	36,392,629
Change in fair value of investments (Note 3(a))	22,491,602	16,798,960
	55,622,348	53,191,589
Interest income on notes receivable	7,733,253	7,947,601
Contributions		
Employee	12,547,983	12,047,989
Employer	12,547,983	12,047,989
Transfers from other plans	261,520	438,049
Purchased service	144,183	256,003
	88,857,270	85,929,220
Decrease in Assets		
Benefits paid	48,251,446	46,858,199
Operating expenses (Note 6)	3,089,476	3,293,075
Refunds	3,870	663,139
Transfers	-	179,799
	51,344,792	50,994,212
Change in Net Assets	37,512,478	34,935,008
Net Assets Available for Benefits, beginning of year	983,632,287	948,697,279
Net Assets Available for Benefits, end of year	1,021,144,765	983,632,287

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

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Changes in Pension Obligation
for the year ended June 30, 2019

	2019	2018
	$	$
Accrued Pension Obligation, beginning of year	983,632,287	948,697,279
Change in Accrued Pension Obligation		
Interest accrued on benefits	55,019,985	50,436,775
Benefits accrued	16,987,067	16,660,994
Increase due to purchased service	405,702	694,052
Benefits paid	(48,255,316)	(47,701,137)
Loss on experience and assumption changes and contingent indexation	13,355,040	14,844,324
Change in Accrued Pension Obligation	37,512,478	34,935,008
Accrued Pension Obligation, end of year (Note 4)	1,021,144,765	983,632,287

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

1. Plan Description

The following description of the Prince Edward Island Teachers' Superannuation Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Superannuation Act* and *Regulations.*

a) General

The Plan is a contributory defined benefit plan covering members as defined in the *Teachers' Superannuation Act.*

b) Contributions

Under the Plan, members make contributions amounting to 8.3 percent of that part of the members' salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 10.0 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. Beginning January 1, 2017, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

Funded Benefits Ratio	Employee Contributions[1]	Participating Employer Contributions[1]
<100% [2]	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% [3]	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% [4]	Base Contributions less 1%	Base Contributions less 2%
145% + [5]	Base Contributions less 1%	Base Contributions less 4%

1. *Subject to the Income Tax Act Rules for maximum contributions.*
2. *If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.*
3. *If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.*
4. *If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.*
5. *If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.*

c) Retirement Benefits

Pension Formula: The annual pension is based on the number of years of service times two percent of average salary with a reduction at age 65 for estimated Canada Pension Plan ("CPP") benefits. The reduction is referred to as a bridge pension and only payable to age 65. The bridge is based on the number of years of service times 0.7% of average salary to a maximum of the average CPP year's maximum pensionable earnings. For Service prior to December 31, 2013, average salary and year's maximum pensionable earnings is based on the best five-year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

1. Plan Description (continued...)

Pre-Retirement Indexation: Benefits earned during 2014 to 2016, were automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada. However, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

Post-Retirement Indexation: For 2014 to 2016, post-retirement indexation was automatically awarded at 0.9 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of Consumer Price Index (CPI); however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation.

Retirement Age: For pensionable service prior to January 1, 2019, the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age is 55 with two years of continuous service.

d) Disability Benefits

Disability benefits are available at any age to a member who retires from teaching service because of total and permanent disability provided the member contributed to the Plan for two or more years.

e) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, the member's accumulated contributions with interest will be refunded.

1. Plan Description (continued...)

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate lifetime pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to ten percent of the members' or vested former members' pension entitlement at death prior to retirement is payable in respect of each dependent child, up to a maximum of four children, until the child is no longer a dependent child or upon the death of the dependent child. Where a member dies after two years of service and before retirement and does not leave a surviving spouse or dependent children, the personal representative of the member shall receive a lump sum amount equal to one and a half times the member's accumulated contributions plus interest.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the sixty percent pension that was payable to the spouse will be paid to the dependent child or the guardian of that child, if the member or vested former member is survived by only one dependent child, or the oldest dependent child or the guardian of that child.

f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest; or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the *Retirement Age* section above.

Where there are portability arrangements between the Plan and other plans, members may be able to carry certain pension benefits to those other plans or transfer contributions and service from those other plans to increase pension benefits under the Plan.

g) Marriage Breakdown

Upon application, the pension benefits to which a person is entitled may be divided between the person and the spouse or former spouse.

h) Income Tax

The Fund is a registered pension plan as defined under the federal *Income Tax Act* and is not subject to taxation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Fund has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) in Part I of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued benefit obligation for pension retirement benefits is a liability for contingent indexation.

For the year ended June 30, 2019, the contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation on base benefits assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns, and new benefit accruals.

Significant judgment is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for pension plans 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 revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

2. Summary of Significant Accounting Policies (continued...)

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

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.

When available, the 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 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, and/or discounted cash flow analysis.

d) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, investment fees payable, and remittances payable. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximates their fair values. Investments are carried at fair value and are subject to interest rate, credit, foreign currency, price, and liquidity risks as described in Note 3.

e) Investments

Investments represent a pool of assets held in a master trust and allocated to each member by units of participation. The Prince Edward Island Master Trust represents a contract between the members (contributors) and the trustee (Minister of Finance). All investments held by the Master Trust are classified as held for trading. Investments are designated at fair value through the statement of changes in net assets available for benefits. Investment purchase and sale decisions are based on their fair value in accordance with the Master Trust's Statement of Investment Policies and Procedures.

2. Summary of Significant Accounting Policies (continued...)

Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment transactions
Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at June 30, 2019, for interest, dividends, and settled derivative contracts.

(ii) Income recognition
Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments.

(iii) Investment valuation

Equity and debt
Equity and debt investments are valued at fair value based on quoted market values. Changes in the market value of investments, including realized and unrealized gains and losses, are reflected in the financial statements as a change in the fair value of investments.

Equity investment in real estate
Investment in real estate is represented by an equity investment in a corporation that invests in real estate, participating mortgages, and property for development or resale. Properties within the corporation are valued annually by independent appraisers in accordance with generally accepted appraisal practices and procedures. The appraisal methodology followed is an income approach which is mainly based on discounted cash flows. In estimating future cash flows, certain assumptions are made with respect to future economic conditions and rates of return.

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

Derivative contracts
The derivative contracts held by the Fund are stated at fair value and are valued using quoted market indices. Realized and unrealized gains or losses on investments from derivative contracts are included in the change in the fair value of investments.

Investment in foreign infrastructure
The Fund owns units in a foreign infrastructure partnership. The partnership invests in portfolio companies that own, operate, develop, manage, and support infrastructure assets. Fair value is based upon a number of factors, including readily available market quotes with appropriate adjustments for trading restrictions, the most recent round of financings, earnings-multiple analysis using comparable companies, or discounted cash flow analysis.

2. Summary of Significant Accounting Policies (continued...)

(iv) Transaction costs

Investment management fees are costs directly attributable to the external management of the assets. Fees incurred on the management of equity holdings in real estate and foreign infrastructure investments are paid directly as a reduction in the fair value of the investment. Fees incurred on the management of other investments are recorded as an investment expense.

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred.

g) Accrued Pension Obligation

The value of the accrued pension obligation of the Fund is based on an annual actuarial valuation prepared on an accounting basis by an independent actuary using the projected unit credit method pro-rated on service and best estimate assumptions. The accrued pension obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Fund.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 582,736.096 units held in the Master Trust (2018 - 562,602.262) with a fair value of $1,418.85 (2018 - $1,388.80) per unit.

Investments of the Master Trust consist of the following listed assets:

	2019 $	%	2018 $	%
Cash and Short-Term Investments	21,262,770	0.8	12,716,045	0.5
Long Core Plus Bond	235,589,010	8.7	187,258,532	7.4
Core Plus Bond	794,729,532	29.3	751,456,170	29.5
Canadian Equities	301,030,501	11.1	300,655,195	11.9
Global Equities	928,410,790	34.2	891,819,289	35.0
Canadian Real Estate	101,123,633	3.7	79,059,986	3.1
Global Real Estate	152,038,432	5.6	171,766,367	6.8
Global Infrastructure	161,513,169	6.0	153,368,341	6.0
Currency Overlay	16,970,553	0.6	(5,893,616)	(0.2)
Total	2,712,668,390	100.0	2,542,206,309	100.0
Fund's pro-rated share	30.4798%		30.7348%	
Fund investments*	826,816,244		781,341,676	

*Rounded

3. Investments and Derivatives (continued...)

Investment income and realized and unrealized gains (losses) of the Master Trust consist of the following:

	Investment Income 2019 $	Change in Fair Value of Investments* 2019 $	Investment Income 2018 $	Change in Fair Value of Investments* 2018 $
Cash and Short-Term Investments	260,775	7,560,829	1,891,810	(165,370)
Long Core Plus Bond	5,523,098	18,807,380	4,257,763	914,291
Core Plus Bond	24,789,307	35,401,058	21,265,752	(16,467,072)
Canadian Equities	9,436,440	(3,733,037)	8,920,023	25,606,791
Global Equities	58,511,180	(11,919,679)	67,582,166	40,802,034
Canadian Real Estate	-	6,469,647	-	7,200,400
Global Real Estate	3,975,307	3,605,844	1,163,097	8,198,567
Global Infrastructure	5,937,240	14,138,438	14,406,724	(4,063,173)
Currency Overlay	85	3,232,507	-	(7,622,108)
Total	108,433,432	73,562,987	119,487,335	54,404,360
Fund's pro-rated share	30.5540%	30.5746%	30.4573%	30.8780%
Fund investments**	33,130,746	22,491,602	36,392,629	16,798,960

*Includes realized gains of $15.0 million (2018 - gains of $58.1 million) and unrealized gains of $58.6 million (2018 - losses of $3.7 million).
**Rounded

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	2019 $	2018 $
Baillie Gifford Overseas Limited	289,686,078	275,624,408
Beutel, Goodman & Company Limited	39,416,438	30,679,394
CBRE Global Investment Management	72,488,781	69,718,853
Global Infrastructure Partners (GIP)	130,984,313	99,588,920
Goldman Sachs Asset Management	499,515,743	468,299,761
Greystone Management Investments Inc.	133,113,480	79,059,986
Lazard Asset Management	30,528,856	53,779,421
Morgan Stanley Prime Property Fund	76,193,740	71,553,284
State Street Global Advisors Ltd.	3,355,912	30,494,231
TD Asset Management	968,485,052	900,318,467
Wellington Global PERSP (CAD)	169,052,611	186,291,356
Total	2,412,821,004	2,265,408,081
Fund's pro-rated share	30.4798%	30.7348%
Fund's pooled funds*	735,423,322	696,268,332
Fund's non-pooled investments*	91,392,922	85,073,344
Fund investments*	826,816,244	781,341,676

*Rounded

3. Investments and Derivatives (continued...)

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The details of the Master Trust's derivative contracts are as follows:

	2019 $	2018 $
Notional Amount	593,260,152	565,472,867
Fair Value	16,970,553	(5,893,616)

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy on significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at June 30, 2019.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities, investments in real estate and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgment and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

3. Investments and Derivatives (continued...)

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at June 30.

	2019			
	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and Short-Term Investments	21,262,770	-	-	21,262,770
Long Core Plus Bond	-	235,589,010	-	235,589,010
Core Plus Bond	-	794,729,532	-	794,729,532
Canadian Equities	301,030,501	-	-	301,030,501
Global Equities	928,410,790	-	-	928,410,790
Canadian Real Estate	-	101,123,633	-	101,123,633
Global Real Estate	-	152,038,432	-	152,038,432
Global Infrastructure	30,528,856	-	130,984,313	161,513,169
Currency Overlay	-	16,970,553	-	16,970,553
Totals	1,281,232,917	1,300,451,160	130,984,313	2,712,668,390
Total financial assets at fair value				2,712,668,390
Fund's pro-rated share				30.4798%
Fund investments*				826,816,244

*Rounded

	2018			
	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and Short-Term Investments	12,716,045	-	-	12,716,045
Long Core Plus Bond	-	187,258,532	-	187,258,532
Core Plus Bond	-	751,456,170	-	751,456,170
Canadian Equities	300,655,195	-	-	300,655,195
Global Equities	891,819,289	-	-	891,819,289
Canadian Real Estate	-	79,059,986	-	79,059,986
Global Real Estate	-	171,766,367	-	171,766,367
Global Infrastructure	53,779,421	-	99,588,920	153,368,341
Currency Overlay	-	(5,893,616)	-	(5,893,616)
Totals	1,258,969,950	1,183,647,439	99,588,920	2,542,206,309
Total financial assets at fair value				2,542,206,309
Fund's pro-rated share				30.7348%
Fund investments*				781,341,676

*Rounded

There were no significant transfers between any financial instruments during the year.

3. Investments and Derivatives (continued...)

The following table details changes in fair value measurement in Level 3 of the fair value hierarchy:

	2019 $	2018 Restated $
Level 3 investments, July 1	99,588,923	60,022,310
Net purchases	19,244,360	36,391,239
Realized gains	2,440,830	488,686
Unrealized gains	9,710,200	2,686,685
Level 3 investments at fair value	130,984,313	99,588,920
Fund's pro-rated share	30.4798%	30.7348%
Level 3 investments, June 30*	39,923,757	30,608,443

*Rounded

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, price, credit, and liquidity risks. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties.

Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance, and the Master Trust Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Fund by $30.4 million (2018 - $24.6 million).

3. Investments and Derivatives (continued...)

	Value of Fixed Income Securities	Weighted Average Duration	Percentage Point Change	Impact on Fair Value of the Master Trust	Fund's Pro-rated Share	Pro-rated Impact on Fair Value of the Fund
	$	yrs	%	$	%	$
2019	1,030.3 m	9.69	1	99.8 m	30.4798	30.4 m

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk is managed by the Fund through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a 10 percent change in market values of all public equities would change the fair value of the Fund by $45.2 million (2018 - $44.4 million).

	Value of Public Equities	Percentage Change	Impact on Fair Value of the Master Trust	Fund's Pro-rated Share	Pro-rated Impact on Fair Value of the Fund
	$	%	$	%	$
2019	1,482.6 m	10	148.3 m	30.4798	45.2 m

(iii) Credit Risk

Credit risk is the risk of loss in the event the counter party to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk associated with the Fund is periodically assessed in consultation with external consultants, the Department of Finance, and the Master Trust Investment Advisory Committee.

Fixed Income

The Fund is exposed to credit risk from interest earning investments at June 30 as follows:

	2019 (millions) $	2018 (millions) $
Federal government	82.6	70.5
Provincial government	397.9	350.4
Corporate	544.9	503.2
Government Agencies	4.9	14.6
Total investment credit risk exposure	1,030.3	938.7
Fund's pro-rated share	30.4798%	30.7348%
Fund's investment credit risk exposure	314.0	288.5
Provincial government promissory notes	188.8	196.8
Fund's total credit risk exposure	502.8	485.3

All fixed income investments are considered to have low credit risk.

3. Investments and Derivatives (continued...)

Security Lending

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent when the value of the securities lent is denominated in a different currency and 102 percent when denominated in the same currency. The market value of the collateral is monitored by the custodian at least daily to ensure that the security thresholds are maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage, which mitigates the credit and market risk on the collateral.

The fair value of the security loans outstanding and collateral held is as follows:

	2019 $	2018 $
Total security loans outstanding	16,793,820	46,144,752
Fund's pro-rated share	30.4798%	30.7348%
Fund's security loans outstanding*	5,118,723	14,182,497
Total collateral held	17,801,281	49,217,196
Fund's pro-rated share	30.4798%	30.7348%
Fund's collateral held*	5,425,795	15,126,807

*Rounded

Derivatives

The Fund is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A-/A3" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Fund is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the

3. Investments and Derivatives (continued...)

portion of the Fund's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A strategy of hedging a portion of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets is summarized as follows:

	2019 (millions) $	2018 (millions) $
Currency		
China	20.6	21.2
Euro Zone	20.0	22.1
United Kingdom	25.2	24.6
India	13.2	10.0
Japan	79.9	85.5
Sweden	18.0	24.0
Taiwan	26.9	29.6
United States	190.7	178.5
South Africa	11.6	11.3
Other	63.0	62.5
Total	469.1	469.3
Fund's pro-rated share	30.4798%	30.7348%
Fund's foreign currency exposure*	143.0	144.2

*Rounded

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Fund by $14.3 million (2018 - $14.4 million).

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund, and dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolio are consistent with the needs of the Fund.

4. Accrued Pension Obligation

a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on service and management's best estimate, as at the valuation date, of future economic events and involves economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

The most recent actuarial valuation for accounting purposes, prepared by the actuarial consulting firm Morneau Shepell, disclosed a base benefit liability of $819,353,300 as at April 1, 2019.

The actuarial valuation on April 1, 2019 was based on data as at September 1st of the previous year and the actuarial liability was then extrapolated to April 1st, based on current period benefit cost, benefit payments and interest and adjusted for changes in actuarial assumptions. An actuarial valuation of the Teachers' Superannuation Fund is performed annually as at April 1st.

The total accrued benefit obligation as at April 1st, 2019, consists of the following:

	2019
Base benefit liability	$819,353,300
Contingent indexation liability[1]	180,532,800
Total accrued pension obligation	$999,886,100

[1] The contingent indexation liability is calculated based on total plan assets less the accrued pension obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns and new benefit accruals.

4. Accrued Pension Obligation (continued...)

The assumptions used in the valuations performed as at April 1st, are as follows:

	2019	2018
Inflation	2.10%	2.15%
Discount Rate	5.70%	5.60%
Expected Rate of Return of Plan Assets	5.70%	5.60%
Salary Escalation	Basic increase of 2.60% per annum + promotional scale	Basic increase of 2.65% per annum + promotional scale
Pre-Retirement Indexation	2.43% per annum for 2019, 2.60% per annum for 17 years, 0% thereafter	0.70% per annum for 2018, 2.65% per annum for 16 years, 0% thereafter
Post-Retirement Indexation (includes deferred pensioners)	1.63% per annum for 2019, 2.10% per annum for 9 years, 0% thereafter	1.52% per annum for 2018, 2.15% per annum for 7 years, 0% thereafter
Mortality	Same	CPM2014Publ with future improvements based on CPM Scale B and size adjustments of 1.0 for males and 0.95 for females
Termination	Same	Tenure - based scale
Retirement Age	Same	Service and age - based scale
Proportion Married	Same	Males: 80% Females: 75%
Age Difference for Spouses	Same	Males 2 years older than female spouses

b) Extrapolation

The accrued benefit obligation at June 30, 2019 is estimated by the Fund, based on an extrapolation of the April 1, 2019 actuarial valuation. The total accrued benefit obligation as at June 30, 2019, consists of the following:

	2019
Base benefit liability	$823,250,416
Contingent indexation liability	197,894,349
Total accrued benefit obligation	$1,021,144,765

4. Accrued Pension Obligation (continued...)

c) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation and the extrapolation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Fund.

5. Funding Policy

a) Prior to plan amendments in 2014, the province was committed to make payments if the assets of the Fund were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the province to make special contributions when the Fund's funded level declined below 90 percent.

Special contributions made under this funding policy were as follows:

As a result of an unfunded liability at July 1, 2011, the province made a special contribution through the signing of a $80,369,000 promissory note. The note, issued December 11, 2012, is held by the Fund and is receivable in ten equal annual instalments of $8,063,900 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	Principal Payment $	April 1 $	October 1 $
April 1, 2012	-	-	1,165,351
April 1, 2013	8,036,900	1,165,351	1,048,815
April 1, 2014	8,036,900	1,048,815	932,281
April 1, 2015	8,036,900	932,281	815,746
April 1, 2016	8,036,900	815,746	699,210
April 1, 2017	8,036,900	699,210	582,675
April 1, 2018	8,036,900	582,675	466,140
April 1, 2019	8,036,900	466,140	349,605
April 1, 2020	8,036,900	349,605	233,070
April 1, 2021	8,036,900	233,070	116,535
April 1, 2022	8,036,900	116,535	-
	80,369,000	6,409,428	6,409,428

5. Funding Policy (continued...)

b) As part of the plan amendments in 2014, the province's requirement to make payments if the assets of the Fund were insufficient to provide for pension payments as they became due was removed and the funding policy was rescinded and was replaced by the following Government guarantee:

- Effective April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the province is required to make an additional contribution equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

In addition, the province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Fund would have equalled:

- 122 percent of the total liabilities of the Fund excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus

- 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015, and 2016.

The transitional government funding amount was contributed to the Fund by the Province of Prince Edward Island through the signing of a $164,640,100 promissory note. The note, issued December 22, 2014, is held by the Fund and is receivable in seven equal annual instalments of $23,520,014 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1.

5. Funding Policy (continued...)

The following is a schedule of principal and interest payments as disclosed in the promissory note:

Principal Payments		Interest Payments	
Date of Payment	**Principal Payment** $	**January 1** $	**July 1** $
January 1, 2014	-	-	3,408,050
January 1, 2015	-	3,408,050	3,408,050
January 1, 2016	-	3,408,050	3,408,050
January 1, 2017	-	3,408,050	3,408,050
January 1, 2018	-	3,408,050	3,408,050
January 1, 2019	-	3,408,050	3,408,050
January 1, 2020	-	3,408,050	3,408,050
January 1, 2021	-	3,408,050	3,408,050
January 1, 2022	-	3,408,050	3,408,050
January 1, 2023	23,520,014	3,408,050	2,921,186
January 1, 2024	23,520,014	2,921,186	2,434,321
January 1, 2025	23,520,014	2,434,321	1,947,457
January 1, 2026	23,520,014	1,947,457	1,460,593
January 1, 2027	23,520,014	1,460,593	973,729
January 1, 2028	23,520,014	973,729	486,865
January 1, 2029	23,520,016	486,865	-
	164,640,100	40,896,601	40,896,601

Subsection 9(5) of the *Teachers Superannuation Act* stipulates that none of the above promissory notes may be cancelled or recalled by the province prior to maturity unless the province contributes to the TSF assets equal to or greater than the value of the promissory notes on the date of cancellation or recall. The notes are non-transferrable.

6. Operating Expenses

The Fund is charged with administrative and operating expenses. The following is a summary of these expenses.

		2019 $	2018 $
Administrative expenses	- pension section	302,655	341,208
	- investment section	57,270	56,994
		359,925	398,202
Consulting fees*		273,845	346,622
Actuarial fees		57,278	75,181
Investment expenses			
Custodian		21,000	28,412
Monitoring		72,834	50,211
Management		2,304,594	2,394,447
		3,089,476	3,293,075

*Includes other actuarial services

7. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the province contributes regular bi-weekly employee and eligible prior period service contributions. Employer contributions receivable from the province as at June 30, 2019, totalled $1,322,556 (2018 - $1,262,023).

The province provides pension and investment administration services to the Fund. A portion of the province's costs relating to these services is recovered annually from the Fund. Costs recovered for the pension section totalled $248,420 (2018 - $289,680) and recoveries related to the investment section totalled $57,270 (2018 - $56,994). Other costs recovered by the province totalled $36,742 (2018 - $37,698).

Total notes, special contribution and interest receivable from the province at June 30, 2019, was $192,332,697 (2018 - $200,427,546).

8. Capital Management

The main objective of the Fund is to sustain a level of net assets in order to meet the pension obligations of the Fund. The Plan sponsor manages the contributions received and benefits issued as required by the *Teachers' Superannuation Act*.

8. Capital Management (continued...)

In an effort to utilize economies of scale, contributions for the province's three registered pension plans are pooled and invested together in the province's Master Trust. Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Master Trust Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the province's three registered pension plans.

9. Commitments

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP). GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors. The Master Trust has committed to invest $35 (US) million in its GIP II Fund; $31.8 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $75 (US) million in its GIP III Fund; $59.2 (US) million has been invested as of the audit report date. The Master Trust has committed to invest $60 (US) million in its GIP IV Fund; $0.1 (US) million has been invested as of the audit report date.

The Master Trust has also entered into an arrangement where it has committed to invest $90 (CDN) million with a commitment period of 18 months with TD Greystone Mortgage Fund Inc. Subsequent to year-end, the full amount has been invested.

10. Subsequent Event

On March 11, 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. As a result of this pandemic, the world is likely to experience a global recession. The subsequent event could have a material impact on the financial condition of the Plan. An estimate of the financial effect of this unusual event cannot be made at this time.

11. Comparative Figures

Certain prior period comparative figures have been restated to conform to the presentation format adopted in the current year.

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