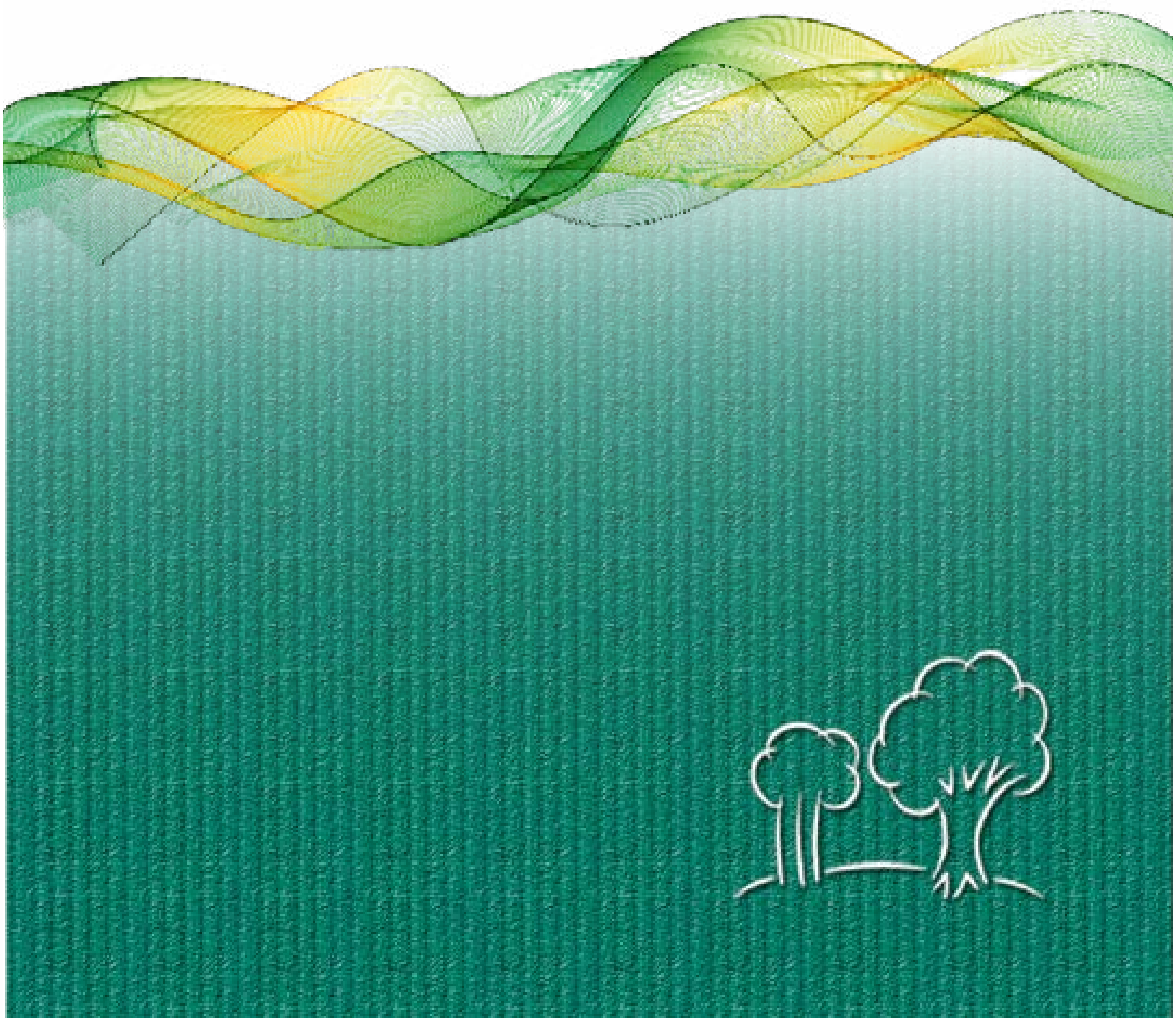
Teacher's Superannuation Fund

ANNUAL REPORT

2016-2017



Publication Date: October 2020

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, 2017.

Respectfully submitted,

Bethany MacLeod, Chair
Teachers' Superannuation Commission

Table of Contents

4,130 MEMBERS

1,936	ACTIVES
1,617	PENSIONERS
93	DEFERRED PENSIONERS
484	INACTIVE

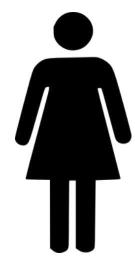
AVERAGE AGE OF ACTIVE MEMBER	AVERAGE AGE AT RETIREMENT	AVERAGE AGE OF PENSIONER
43	59.7	71

$27,636

AVERAGE ANNUAL PENSION

NEW MEMBERS	NEW PENSIONERS
100	80

Did you know?



75%
of active members are female

100

9
pensioners are over 100 years old

$73,688

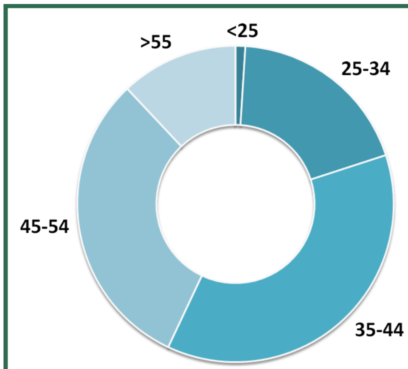
AVERAGE PENSIONABLE EARNINGS OF ACTIVE MEMBER

$55,300
x 8.30%
(contribution rate for pensionable earnings up to the 2017 YMPE)

+

$18,388
x 10.00%
(contribution rate for pensionable earnings over the YMPE)

= $6,429
Average annual contribution

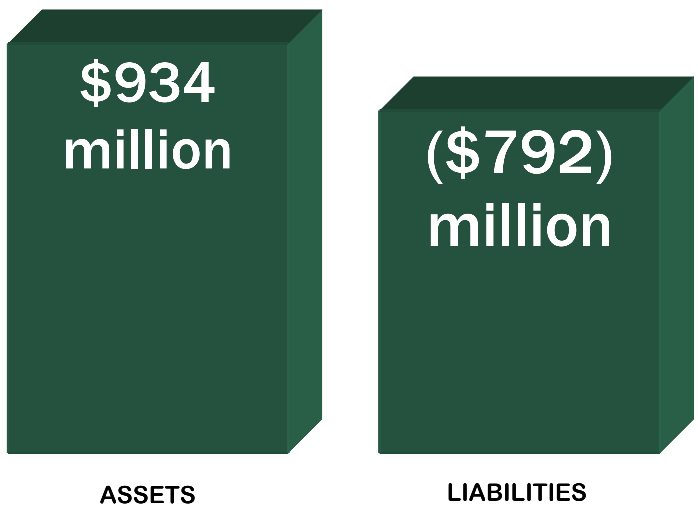


ACTIVE MEMBERS BY AGE	
<25	1%
25-34	19%
35-44	37%
45-54	31%
>55	12%

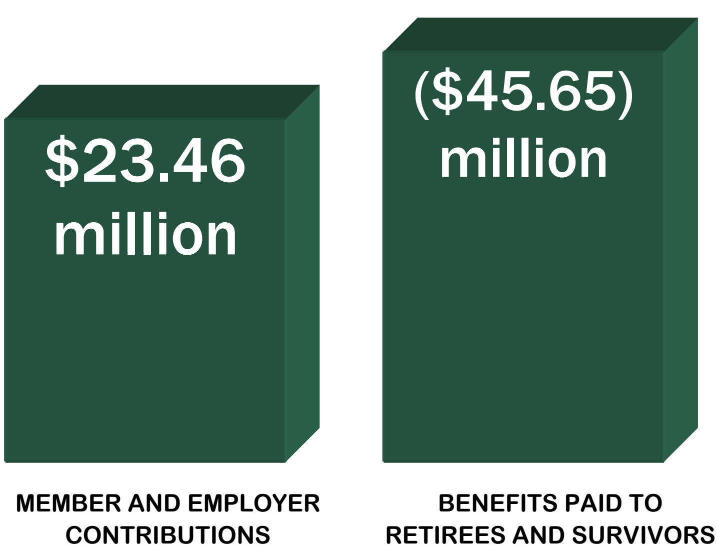
All figures as at April 1, 2017
The annual report is for convenience only. For an authoritative statement, refer to the actuarial valuation as at April 1, 2017.

FUNDED RATIO 118.0%

Plan Assets and Liabilities



Contributions Received and Benefits Paid



MASTER TRUST INVESTMENT RETURNS

As at
June 30, 2017

10.6%

↑ FISCAL YEAR ↑

9.3%

↑ 5 YEAR RATE ↑

5.1%

↑ 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 2016 - 2017 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 $54,900 for 2016 and $55,300 for 2017.

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.

Members who retire before 2019 can access an unreduced pension under the Rule of 30/60:

- attain 30 or more years of pensionable service (while being at least 55 years old); or
- attain the age of 60 with a least two years of pensionable service.

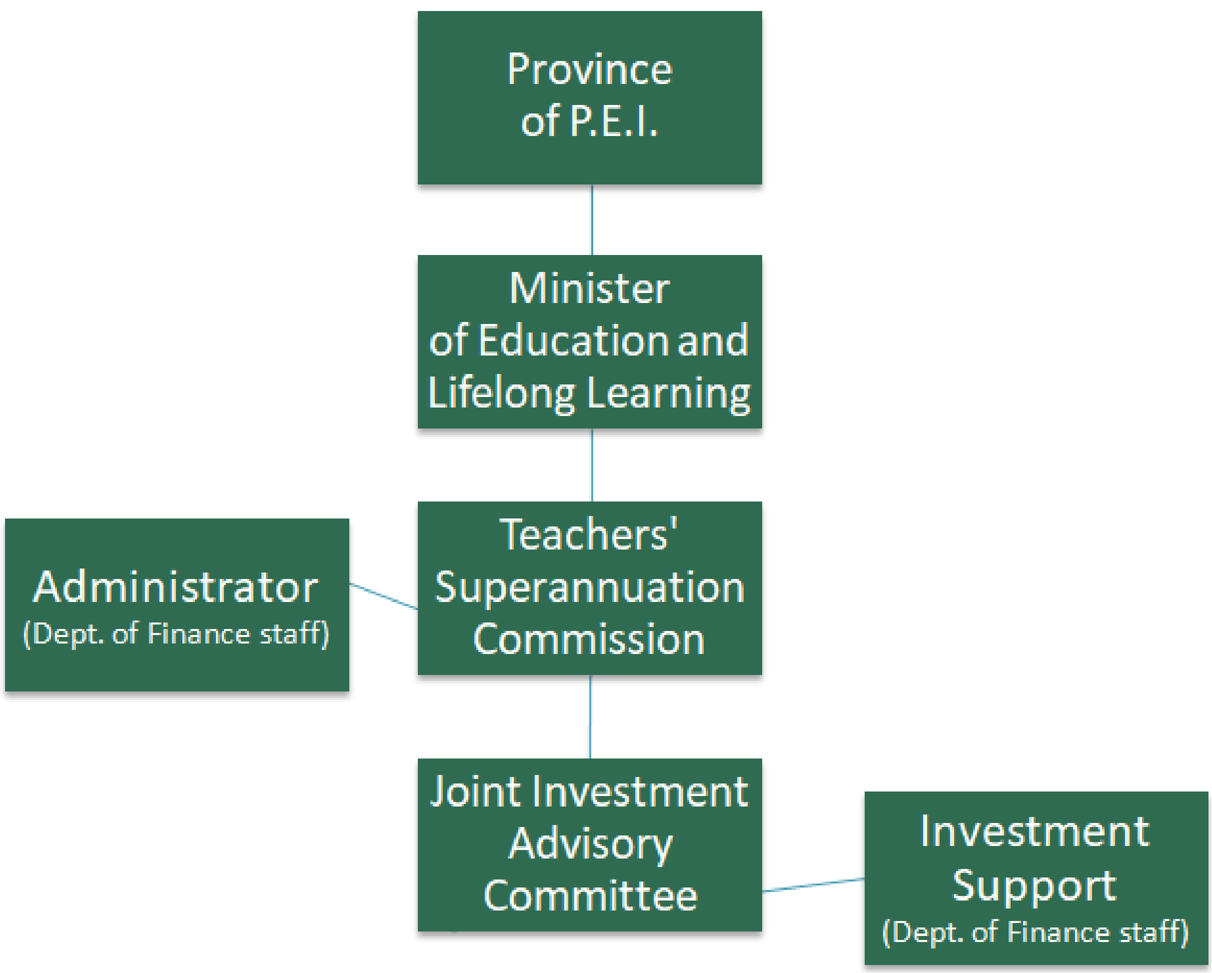
A member who is at least 55 years old and does not meet the Rule of 30/60 can still opt to retire and will receive a reduced pension. The total pension amount is reduced by the lesser of:

- 3.0 percent for each year prior to attaining 30 years of pensionable service, or
- 3.0 percent for each year prior to age 60.

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 four meetings during the 2016-2017 fiscal year.

As of June 30, 2017, the Commission had the following 8 members:

Employer Representatives:		
Chairperson - Deputy Minister of Education and Lifelong Learning	**Susan Willis**	**Attended: 3 of 4**
Department of Education and Lifelong Learning	**Blair Barbour** **Chris DesRoche**	**Attended: 4 of 4** **Attended: 3 of 4**
Department of Finance	**Gordon MacFadyen**	**Attended: 4 of 4**
Employee Representatives:		
PEI Teachers' Federation	**Mary Hart** **Shaun MacCormac** **Patrick MacFadyen**	**Attended: 4 of 4** **Attended: 3 of 4** **Attended: 4 of 4**
Retiree	**Michel Plamondon**	**Attended: 4 of 4**

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, 2017 is as follows:

$934M Assets	÷	$792M Liabilities	=	118.0% Funded Ratio

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

... VALUATION

The April 1, 2017, 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	**$934,367,500**	
Actuarial Liability		**Percentage of Total Liabilities**
Active Members	**$265,992,100**	**33.6%**
Deferred Members	**4,109,600**	**0.5%**
Retired Members and Beneficiaries	**521,647,400**	**65.9%**
Total	**$791,749,100**	
Actuarial Surplus (Unfunded Liability)	**142,618,400**	
Funded Status (amount in excess of 100% represents indexation reserve)	**118.0%**	

Assets
& Expenses

During 2016-2017, there was a net increase to TSF assets of approximately $64 million.

Type	Amount
Employee Contributions	$11,452,033
Employer Contributions	11,452,033
Transfers from Other Plans	0
Purchased Service	308,543
Interest Income	8,169,951
Market Value Increase	81,225,591
Total Revenue	**$112,608,151**

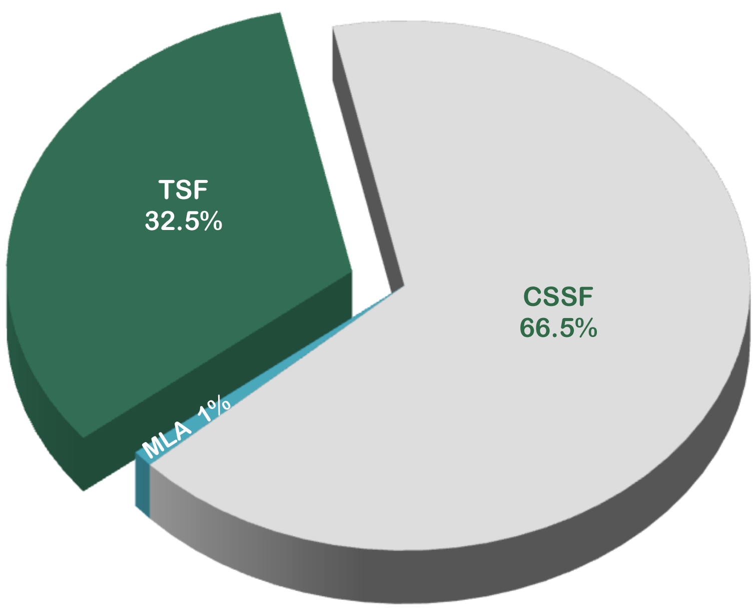
Table 3, on the left, shows the receipts and income, by source, for the fiscal year.

Table 4, below, shows the expenses for 2016-2017.

Type	Amount	Percentage of expenditure
Benefits Paid	$45,650,025	
Refund	276,414	
Transfers	90,925	
Total Benefit Expenses	**46,017,364**	**94.13%**
Benefit Administration	269,834	
System Fees	42,485	
Investment Administration	60,572	
Total Administrative Expenses	**372,891**	**0.76%**
Consulting Fees	509,122	
Total Consulting Fees	**509,122**	**1.05%**
Investment Manager Fees	1,802,270	
Monitoring Fees	125,328	
Custodial Fees	58,697	
Total Investment Expenses	**1,986,295**	**4.06%**
Total Expenses	**$48,885,672**	**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 2016-2017, approximately 32.5% of the funds in the Master Trust were assets of the TSF. The total asset balance of the Master Trust as at June 30, 2017, was $2,900,328,000.

TSF Investment Fund Managers at June 30, 2017:

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
Bentall Kennedy (released in Q2 2017)

Global Real Estate:
State Street Global Advisors
Morgan Stanley

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, 2017, the following were members of the Joint Investment Advisory Committee (JIAC):

Voting Members:		
Chairperson - Deputy Minister of Finance	David Arsenault	Attended: 2 of 4
Member of Legislative Assembly	Kathleen Casey	Attended: 3 of 4
PEI Teachers' Federation	Shaun MacCormac Patrick MacFadyen Rosemary Flemming* Mary Hart**	Attended: 1 of 4 Attended: 4 of 4 Attended: 0 of 2 Attended: 2 of 2
Union of Public Sector Employees	Karen Jackson Mark Arsenault	Attended: 1 of 4 Attended: 4 of 4
International Union of Operating Engineers	Gerald Poirier	Attended: 4 of 4
Canadian Union of Public Employees	Leonard Gallant	Attended: 4 of 4
PEI Nurses Union	Blair MacDonald	Attended: 4 of 4
Provincial Government	Terry Hogan Gordon MacFadyen Dan Campbell Terry Keefe* Blair Barbour***	Attended: 2 of 4 Attended: 3 of 4 Attended: 4 of 4 Attended: 3 of 4 Attended: 0 of 1
Retirees	Michel Plamondon (TSF) Colin Younker (CSSF)	Attended: 4 of 4 Attended: 4 of 4
Non-voting members:		
Ex-Officios	Tim Van Alystyne, *Scotia Capital Inc.* Nicole d'Ombrain, *RBC Capital Markets*	
Consultants	Will DeSilva, *AON* Mario Delisle, *AON*	

** Retired mid-fiscal year*
*** Replaced Rosemary Flemming*
***** Replaced Terry Keefe*

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

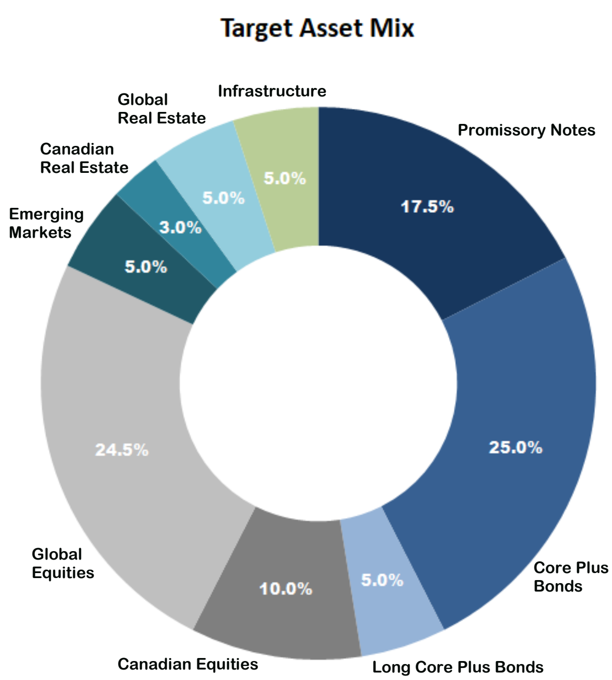
- Protection of the principal assets of the Master Trust and monitoring of costs
- Recommendations on investment fund asset mix
- Review of investment fund and fund manager performance standards
- Compliance with both federal and provincial requirements relating to ownership of foreign equities

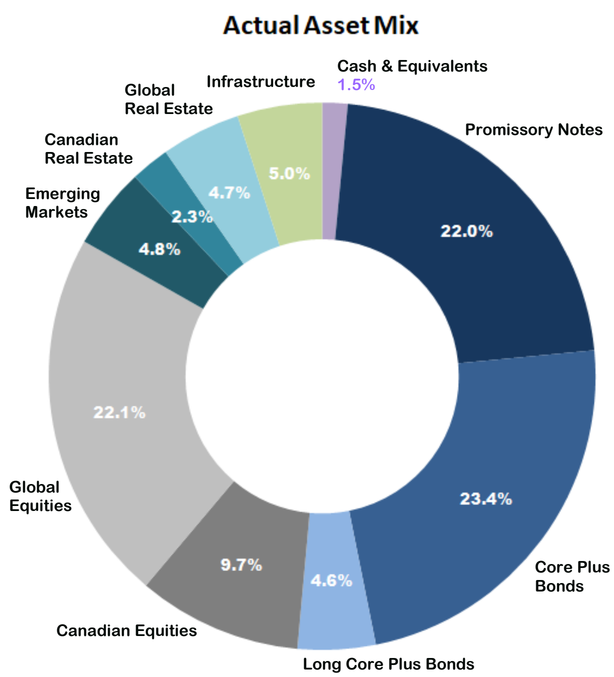
Plan
Asset Mix

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, 2017
Cash and Cash Equivalents	0.0%	1.5%
Promissory Notes	17.5%	22.0%
Core Plus Bonds	25.0%	23.4%
Long Core Plus Bonds	5.0%	4.6%
Canadian Equities	10.0%	9.7%
Global Equities	24.5%	22.1%
Emerging Markets	5.0%	4.8%
Canadian Real Estate	3.0%	2.3%
Infrastructure	5.0%	4.7%
Global Real Estate	5.0%	5.0%





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
2016-2017

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Financial Statements
June 30, 2017 and 2018

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 Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. 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

December 3, 2019

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

I have audited the financial statements of the **Prince Edward Island Teachers' Superannuation Fund** which comprise the statements of financial position as at June 30, 2017 and June 30, 2018, and the statements of changes in net assets available for benefits and changes in pension obligation for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2017 and June 30, 2018, and the changes in its net assets available for benefits and its pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam, FCPA, CA
Auditor General

Charlottetown, Prince Edward Island
December 3, 2019

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND
Statement of Financial Position
June 30, 2017 and 2018

	2018	2017
	$	$
Assets		
Cash	2,326,358	1,047,536
Investments (Note 3)	781,341,676	740,010,181
Note receivable (Note 5)	196,787,700	204,824,600
Receivables		
Contributions - employee	1,232,751	1,187,497
- employer	1,266,289	1,225,326
Accrued interest	3,639,846	3,697,796
Other	261,600	298,246
Total Assets	986,856,220	952,291,182
Liabilities		
Accounts payable and accrued liabilities	1,713,457	2,241,035
Remittances payable	864,943	831,037
Investment fees payable	645,533	521,831
Total Liabilities	3,223,933	3,593,903
Net Assets Available for Benefits	983,632,287	948,697,279
Accrued Pension Obligation (Note 4)	983,632,287	948,697,279
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

Michael Sawyer
Commissioner

PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND

Statement of Changes in Net Assets Available for Benefits
for the years ended June 30, 2017 and 2018

	2018	2017
	$	$
Increase in Assets		
Investment income (Note 3(a))		
Interest	9,008,759	6,653,433
Dividends	27,383,870	24,147,758
Change in fair value of investments	16,798,960	50,424,400
	53,191,589	81,225,591
Other interest income	7,947,601	8,169,951
Contributions		
Employee	12,047,989	11,452,033
Employer	12,047,989	11,452,033
Transfers from other plans	438,049	-
Purchased service	256,003	308,543
	85,929,220	112,608,151
Decrease in Assets		
Benefits paid	46,858,199	45,650,023
Operating expenses (Note 6)	3,293,075	2,868,308
Refunds	663,139	276,414
Transfers	179,799	90,925
	50,994,212	48,885,670
Change in Net Assets	34,935,008	63,722,481
Net Assets Available for Benefits, beginning of year	948,697,279	884,974,798
Net Assets Available for Benefits, end of year	983,632,287	948,697,279

(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 years ended June 30, 2017 and 2018

	2018	2017
	$	$
Accrued Pension Obligation, beginning of year	948,697,279	884,974,798
Change in Accrued Pension Obligation		
Interest accrued on benefits	50,436,775	47,605,112
Benefits accrued	16,660,994	15,986,124
Increase due to purchased service	694,052	308,541
Benefits paid	(47,701,137)	(46,017,362)
Loss on Plan amendment and benefit design changes[1]	-	2,100,200
Loss on experience, assumption changes and contingent indexation	14,844,324	43,739,866
Change in Accrued Pension Obligation	34,935,008	63,722,481
Accrued Pension Obligation, end of year (Note 4)	983,632,287	948,697,279

[1]Plan amendment includes a change to the minimum guaranteed death benefit, and a change to the spousal benefits.

(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. Effective January 1, 2017, variable contributions were 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...)

c) Retirement Benefits (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, or after completing two years of service but leaving no surviving spouse or dependant children, the member's accumulated contributions with

1. Plan Description (continued...)

e) Death Benefits (continued...)

interest will be refunded. Effective, January 1, 2017 the *Teachers' Superannuation Act* was amended so that one and a half times the member's accumulated contributions plus interest will be refunded.

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.

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 years ended June 30, 2017 and June 30, 2018, 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...)

e) Investments (continued...)

(iii) Investment valuation (continued...)

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.

(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 562,602.262 units held in the Master Trust (2017 - 532,695.209) with a fair value of $1,388.80 (2017 - $1,389.18) per unit.

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

e) Investments (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, 2017 and June 30, 2018, 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

3. Investments and Derivatives (continued...)

a) Investments (continued...)

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

	2018 $	%	2017 $	%
Cash and Short-Term Investments	12,716,045	0.5	33,732,783	1.4
Long Core Plus Bond	187,258,532	7.4	140,581,913	5.9
Core Plus Bond	751,456,170	29.5	713,287,095	30.0
Canadian Equities	300,655,195	11.9	285,148,458	12.0
Global Equities	891,819,289	35.0	820,119,249	34.5
Canadian Real Estate	79,059,986	3.1	69,249,639	2.9
Global Real Estate	171,766,367	6.8	152,910,390	6.4
Global Infrastructure	153,368,341	6.0	144,048,610	6.1
Currency Overlay	(5,893,616)	(0.2)	20,756,720	0.8
Total	2,542,206,309	100.0	2,379,834,857	100.0
Fund's pro-rated share	30.7348%		31.0950%	
Fund investments*	781,341,676		740,010,181	

*Rounded

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

	Investment Income 2018 $	Change in Fair Value of Investments* 2018 $	Investment Income 2017 $	Change in Fair Value of Investments* 2017 $
Cash and Short-Term Investments	1,891,810	(165,370)	372,211	987
Long Core Plus Bond	4,257,763	914,291	-	(490,193)
Core Plus Bond	21,265,752	(16,467,072)	21,078,330	(13,919,277)
Canadian Equities	8,920,023	25,606,791	9,321,344	27,598,085
Global Equities	67,582,166	40,802,034	46,272,517	128,657,182
Canadian Real Estate	-	7,200,400	2,466,959	4,869,828
Global Real Estate	1,163,097	8,198,567	-	(665,426)
Global Infrastructure	14,406,724	(4,063,173)	19,046,399	11,678,222
Currency Overlay	-	(7,622,108)	-	3,144,517
Total	119,487,335	54,404,360	98,557,760	160,873,925
Fund's pro-rated share	30.4573%	30.8780%	31.2519%	31.3440%
Fund investments **	36,392,629	16,798,960	30,801,191	50,424,400

* Includes realized gains of $58.1 million (2017 - gains of $160.2 million) and unrealized losses of $3.7 million (2017 - gains of $0.7 million).
** Rounded

3. Investments and Derivatives (continued...)

a) Investments (continued...)

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:

	2018 $	2017 $
Beutel, Goodman & Company Limited	30,679,394	32,579,245
Morgan Stanley Prime Property Fund	71,553,284	-
Baillie Gifford Overseas Limited	275,624,408	251,013,338
Bentall Kennedy (Canada) LP	-	17,390,053
Greystone Management Investments Inc.	79,059,986	51,859,586
Global Infrastructure Partners (GIP)	99,588,920	60,022,311
Goldman Sachs Asset Management	468,299,761	426,392,965
State Street Global Advisors Ltd.	30,494,231	152,910,390
Lazard Asset Management LLC	53,779,421	84,026,299
Wellington Global PERSP (CAD)	186,291,356	169,171,172
CBRE Global Investment Management	69,718,853	-
TD Asset Management	900,318,467	827,410,781
Royal Bank of Canada	-	24,010,182
Total	2,265,408,081	2,096,786,322
Fund's pro-rated share	30.7348%	31.0950%
Fund's pooled funds*	696,268,332	651,966,176

*Rounded

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 derivative contracts outstanding are as follows:

	2018 $	2017 $
Notional Amount	565,472,867	501,483,998
Fair Value	(5,893,616)	20,756,720

3. Investments and Derivatives (continued...)

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 tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2017 and June 30, 2018.

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 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.

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

	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

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

	2017			
	Level 1 $	Level 2 $	Level 3 $	Total $
Cash and Short-term Investments	33,732,783	-	-	33,732,783
Long Core Plus Bond	-	140,581,913	-	140,581,913
Core Plus Bond	-	713,287,095	-	713,287,095
Canadian Equities	285,148,458	-	-	285,148,458
Global Equities	820,119,249	-	-	820,119,249
Canadian Real Estate	-	69,249,639	-	69,249,639
Global Real Estate	-	152,910,390	-	152,910,390
Global Infrastructure	84,026,299	-	60,022,311	144,048,610
Currency Overlay	-	20,756,720	-	20,756,720
Totals	1,223,026,789	1,096,785,757	60,022,311	2,379,834,857
Total financial assets at fair value				2,379,834,857
Fund's pro-rated share				31.0950%
Fund investments*				740,010,181

* Rounded

There were no significant transfers between any financial instruments during the years ended June 30, 2017 and June 30, 2018.

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

	2018 $	2017 $
Level 3 investments, July 1	60,022,311	34,754,819
Net purchases	33,697,734	20,331,544
Realized gains	24,337	-
Unrealized gains	3,730,717	5,481,064
Foreign exchange gains (losses)	2,113,821	(545,116)
Level 3 investments at fair value	99,588,920	60,022,311
Fund's pro-rated share	30.7348%	31.0950%
Level 3 investments, June 30*	30,608,443	18,663,937

*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

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

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 $24.6 million (2017 - $22.9 million).

	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	%	$	%	$
2017	853.9 m	8.63	1	73.7 m	31.0950	22.9 m
2018	938.7 m	8.51	1	79.9 m	30.7348	24.6 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 $44.4 million (2017 - $41.3 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
	$	%	$	%	$
2017	1,327.4 m	10	132.7	31.0950	41.3 m
2018	1,443.3 m	10	144.3	30.7348	44.4 m

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(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:

	2018 (millions) $	2017 (millions) $
Federal government	70.5	80.2
Provincial government	350.4	292.8
Corporate	503.2	441.1
Government agencies	14.6	39.4
Total investment credit risk exposure	938.7	853.5
Fund's pro-rated share	30.7348%	31.0950%
Fund's investment credit risk exposure	288.5	265.4
Provincial government promissory note	196.8	204.8
Fund's total credit risk exposure	485.3	470.2

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

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.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

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

	2018 $	2017 $
Total security loans outstanding	46,144,752	66,981,783
Fund's pro-rated share	30.7348%	31.0950%
Fund's security loans outstanding	14,182,497	20,827,985
Total collateral held	49,217,196	70,331,176
Fund's pro-rated share	30.7348%	31.0950%
Fund's collateral held	15,126,807	21,869,479

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" 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 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.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iv) Foreign Currency Risk (continued...)

The Fund's unhedged currency exposure from net investment assets as at June 30, 2017 and June 30, 2018 is summarized in the following table:

	2018 (millions) $	2017 (millions) $
Currency		
China	21.2	16.1
Euro Zone	22.1	24.8
United Kingdom	24.6	22.7
India	10.0	8.3
Japan	85.5	93.0
Sweden	24.0	16.5
Taiwan	29.6	13.5
United States	178.5	213.1
South Africa	11.3	10.8
Other	62.5	37.5
Total	469.3	456.3
Fund's pro-rated share	30.7348%	31.0950%
Fund's foreign currency exposure	144.2	141.9

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 $14.4 million (2017 - $14.2 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 services 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 valuations for accounting purposes, prepared by the actuarial consulting firm Morneau Shepell, disclosed a base benefit liability of $807,541,000 as at April 1, 2018 and $791,749,100 as at April 1, 2017.

The actuarial valuations on April 1, 2018 and April 1, 2017 were 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. As at April 1, 2017, this represents a change in methodology from the previous valuation. An actuarial valuation of the Teachers' Superannuation Fund is performed annually as at April 1st and is required to be completed by December 31st of each year.

The total accrued benefit obligation as at April 1, 2017 and 2018, consists of the following:

	2018	2017
Base benefit liability	$807,541,000	$791,749,100
Contingent indexation liability[1]	162,606,300	142,618,400
Total accrued benefit obligation	$970,147,300	$934,367,500

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

4. Accrued Pension Obligation (continued...)

a) Actuarial Valuation (continued...)

The assumptions for the most recent performed valuations are as follows:

	2018	2017	2016
Inflation	2.15%	2.20%	2.25%
Discount Rate	5.60%	5.25% for 10 years, 5.85% thereafter	5.40% for 10 years, 5.90% thereafter
Expected Rate of Return of Plan Assets	5.60%	5.25% for 10 years, 5.85% thereafter	5.40% for 10 years, 5.90% thereafter
Salary Escalation	Basic increase of 2.65% per annum + promotional scale	Basic increase of 2.70% per annum + promotional scale	Basic increase of 2.75% per annum + promotional scale
Pre-Retirement Indexation	0.70% per annum for 2018, 2.65% per annum for 16 years, 0% thereafter	1.06% per annum for 2017, 2.70% per annum for 15 years, 0% thereafter	1.50% per annum for 2016, 2.75% per annum for 12 years, 0% thereafter
Post-Retirement Indexation (includes deferred pensioners)	1.52% per annum for 2018, 2.15% per annum for 7 years, 0% thereafter	0.70% per annum for 2017, 2.20% per annum for 5 years, 0% thereafter	0.90% per annum for 2016, 2.25% per annum for 4 years, 0% thereafter
Mortality	Same	Same	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.0 for males and 0.95 for females
Termination	Same	Same	Tenure-based scale
Retirement Age	Same	Same	Service and age - based scale
Proportion Married	Same	Males: 80% Females: 75%	Age and gender - based scale
Age Difference for Spouses	Same	Same	Males 2 years older than female spouses

4. Accrued Pension Obligation (continued...)

b) Extrapolation

The accrued benefit obligations at June 30, 2018 and June 30, 2017 are estimated by the Fund, based on extrapolations of the April 1, 2018 and April 1, 2017 actuarial valuations, respectively. The total accrued benefit obligations at June 30, 2018 and June 30, 2017 consist of the following:

	2018	2017
Base benefit liability	$811,131,968	$794,644,189
Contingent indexation liability	172,500,319	154,053,090
Total accrued benefit obligation	$983,632,287	$948,697,279

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:

(i) 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.

5. Funding Policy (continued...)

a) (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 $	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

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.

- 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.

5. Funding Policy (continued...)

b) (continued...)

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.

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 Fund 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.

		2018 $	2017 $
Administrative expenses	- pension section	341,208	312,319
	- investment section	56,994	60,572
		398,202	372,891
Consulting fees		346,622	407,984
Actuarial fees		75,181	101,138
Investment expenses			
Custodian		28,412	58,697
Monitoring		50,211	125,328
Management		2,394,447	1,802,270
		3,293,075	2,868,308

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, 2018, totalled $1,262,023 (2017 - $1,221,609).

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 $289,680 (2017 - $265,166) and recoveries related to the investment section totalled $56,994 (2017 - $60,572). Other costs recovered by the province totalled $37,698 (2017 - $42,485).

Total notes, special contribution and interest receivable from the province at June 30, 2018, was $200,427,546 (2017 - $208,522,396).

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 Fund has committed to invest $75 (US) million in its GIP III Fund; $56.4 (US) million has been invested as of the audit report date.

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