PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND

Financial Statements
March 31, 2014

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 Minister of Finance, Energy and Municipal Affairs is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Minister 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 Civil Service Superannuation Fund to meet when required.

On behalf of the Prince Edward Island Civil Service Superannuation Fund

Mr. David Arsenault, FCA
Deputy Minister, Department of Finance,
Energy and Municipal Affairs

Mr. Terry Hogan
Manager, Pension and Benefits Division

February 9, 2015

Prince Edward Island | Île-du-Prince-Édouard

Office of the Auditor General | Bureau du vérificateur général

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INDEPENDENT AUDITOR'S REPORT

Honourable Wesley J. Sheridan
Minister
Department of Finance, Energy and Municipal Affairs
Province of Prince Edward Island

I have audited the financial statements of the **Prince Edward Island Civil Service Superannuation Fund** which comprise the statement of financial position as at March 31, 2014, and the statements of changes in net assets available for benefits and changes in pension obligation for the year 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 March 31, 2014, and the changes in its net assets available for benefits and the changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam

B. Jane MacAdam, CA
Auditor General

Charlottetown, Prince Edward Island
February 9, 2015

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
Statement of Financial Position
March 31, 2014

	2014	2013
	$	$
Assets		
Cash	4,536,471	4,383,181
Investments (Note 3)	1,257,756,022	1,055,545,200
Note receivable (Note 5)	146,085,260	166,361,400
Receivables		
Contributions - employee	1,285,993	1,164,410
- employer	1,345,606	1,316,774
Accrued interest	4,560,952	2,501,670
Employer special contributions (Note 5)	231,530,000	-
Other	786,638	304,917
Total Assets	1,647,886,942	1,231,577,552
Liabilities		
Accounts payable and accrued liabilities	2,400,203	942,053
Income taxes payable	740,525	670,592
Investment fees payable	1,379,120	1,200,950
Other remittances payable	173,557	170,448
Due to the Province of Prince Edward Island	976,524	969,729
Total Liabilities	5,669,929	3,953,772
Net Assets Available for Benefits	1,642,217,013	1,227,623,780
Accrued Pension Obligation (Note 4)	1,642,146,000	1,364,096,777
Net Surplus (Deficit)	71,013	(136,472,997)

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

Approved by

Minister, Department of Finance, Energy and Municipal Affairs

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND
Statement of Changes in Net Assets Available for Benefits
for the year ended March 31, 2014

	2014	2013
	$	$
Increase in Assets		
Investment income (Note 3(a))		
Interest	11,178,157	11,629,574
Dividends	25,004,824	16,871,398
Change in fair value of investments	145,631,399	64,288,583
	181,814,380	92,789,555
Other interest income	6,972,459	5,238,887
Contributions		
Employee	30,144,712	26,900,688
Employer	30,145,255	26,903,616
Transfers from other plans	798,650	410,612
Purchased service	817,345	949,257
Employer special contribution (Note 5)	231,530,000	150,761,400
	482,222,801	303,954,015
Decrease in Assets		
Benefits paid	57,381,519	52,867,332
Operating expenses (Note 6)	6,151,953	5,698,843
Refunds (Note 2 (f))	2,561,849	794,500
Transfers	1,534,247	882,250
	67,629,568	60,242,925
Change in Net Assets	414,593,233	243,711,090
Net Assets Available for Benefits, beginning of the year	1,227,623,780	983,912,690
Net Assets Available for Benefits, end of year	1,642,217,013	1,227,623,780

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

PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND

Statement of Changes in Pension Obligation
for the year ended March 31, 2014

	2014	2013
	$	$
Accrued Pension Obligation, beginning of Year	1,364,096,777	1,195,250,942
Change in Accrued Pension Obligation		
Reclassification of outstanding non-vested refunds[1]	(1,386,097)	-
Interest accrued on benefits	92,835,008	87,754,615
Benefits accrued	48,016,116	44,083,005
Increase due to purchase service	1,615,995	1,359,869
Benefits paid	(60,091,518)	(54,544,082)
Losses on experience and assumption changes	363,169,719	90,192,428
Plan amendments:		
(Gain) on behalf of benefit design changes (before recognition of ABO for contingent indexation)	(445,256,000)	-
Loss on recognition of ABO for contingent indexation	279,146,000	-
Changes in Accrued Obligation	278,049,223	168,845,835
Accrued Pension Obligation, end of year (Note 4)	1,642,146,000	1,364,096,777

1 Refunds owing to non-vested members have been reclassified from the accrued benefit obligation to accounts payable.

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

1. Plan Description

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

a) General

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

Changes were made to the *Civil Service Superannuation Act* effective January 1, 2014 ("conversion date"). The Plan was amended to address financial challenges regarding the sustainability of the Plan. The most substantial change was the transition of inflation protection provided after the conversion date for both active and inactive members from the previous guaranteed basis to a rules-based formula under which inflation protection is contingent on the Plan's financial strength. Other Plan modifications included the introduction of a rules-based funding strategy and a gradual transition to delayed eligibility for an unreduced retirement pension. In addition to setting the Plan on a more stable and sustainable financial footing, these amendments were designed to be consistent with the principle that, measured over the long term and in the normal course of events, benefits should be cost shared roughly equally between members and participating Employers. However, to help establish a sound initial financial footing for the Plan, the Province committed to make an additional one-time transitional contribution to the Plan before the end of 2014 as described in Note 5.

b) Contributions

Under the Plan, members make contributions amounting to 8.09 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 9.75 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the Base Contributions. For 2014 to 2016, contributions will remain fixed unless they are deemed ineligible based on the maximum contributions allowed under the *Income Tax Act* (ITA). As part of the conversion, 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).

1. Plan Description (continued...)

b) Contributions (continued...)

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 under the pre-conversion Plan design was based on the number of years of service times two percent of the best three years' average salary with an offset at age 65 for estimated Canada Pension Plan ("CPP") benefits. Under the post-conversion Plan design, the basic pension formula is maintained. However, in place of the three-year best average salary base for benefit determination, pension amounts will be based on an indexed average earnings formula in which the indexation is contingent on the Plan's financial health. If the Plan maintains a solid financial position, member benefits at retirement will be very similar to the previous best average salary formula. Conversely, if Plan finances deteriorate, member pensions may not keep pace with future inflation. A key aspect of the transition to rules-based, contingent inflation protection under the new design was that the dollars of pension benefits earned prior to the conversion not be reduced. This was accomplished by calculating member benefits at the conversion date based on the best three-year average salary up to the end of 2013 and using this as the starting point for future benefit determination. The legislation requires that the salary amount used in benefit calculations as determined at December 31, 2013 never be reduced. Further, annual accruals after 2013 and any indexation that may be awarded in the future will, once awarded, also become part of the base pension and will not be reduced if the Plan's funded position deteriorates in the future.

1. Plan Description (continued...)

c) Retirement Benefits (continued...)

Pre-Retirement Indexation: Prior to conversion, pre-retirement inflation protection was enabled by using members' highest three-year average salary in the benefit calculation formula. Post-conversion, indexation has become conditional on the funded level of the Plan. However, there are some transitional indexation rules for the first three years. For indexation awarded during 2014 to 2016, pensionable salaries and the year's maximum pensionable earnings will be automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the Base Benefits, which are the guaranteed 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 the funded benefits ratio is below 100 percent then no indexation will be awarded in that year. 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: Prior to conversion, the post-retirement benefit was automatically increased every year by 100 percent of the increase in CPI as measured over the previous year, to a maximum of six percent. Post-conversion, indexation has become conditional on the funded level of the Plan. However, there are some transitional indexation rules for the first three years. For 2014 to 2016, post-retirement indexation will automatically be awarded 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, 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 the funded benefits ratio is below 110 percent, then no post-retirement indexation will be awarded in that year. 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 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 described above.

1) Plan Description (continued...)

c) Retirement Benefits (continued...)

Retirement Age: For pensionable service prior to January 1, 2019 (5 years after the conversion date), 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 remains at age 55 with two years of continuous service both prior to and after the conversion date. The early retirement reduction factor continues to be 0.25 percent per month for each month by which the early retirement date precedes the members earliest unreduced retirement age.

d) 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 dependent children, the member's accumulated contributions with 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 one-sixth of the pension paid to the surviving spouse is payable in respect of each dependent child, up to a maximum of four children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child who is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependant for life.

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 per cent pension that was payable to the spouse will be paid to the dependant children, until the child attains the age of 18 or until the age of 21 if the child is attending school full-time, or for life if the child who is incapable by reason of mental or physical infirmity of pursuing on a regular basis any substantially gainful employment and is a dependant for life.

e) 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 (provided the member is 60 years of age or less at the time the refund application is received), 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.

1. Plan Description (continued...)

e) Termination and Portability of Benefits (continued...)

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

f) Marriage Breakdowns

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

g) 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 accounting standards for International Financial Reporting Standards (IFRS) in part 1 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. Pension plan amendments effective January 1, 2014, provided for the removal of guaranteed pension indexation. Indexation is now contingent on the funded status of the Fund.

For the year ended March 31, 2014, the contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation 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.

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

Significant judgement is involved in the accounting treatment of contingent indexation. The Province recognizes that the contingent indexation liability represents a new challenge for pensions in Canada and as such there are no established accounting standards and practices to estimate this liability. 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 the 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.

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.

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

c) Fair Value Measurement (continued...)

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, amounts due to the Province of Prince Edward Island, income taxes payable, investment fees payable, and other remittances payable. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximates their fair value. Investments are carried at fair value and are subject to interest, credit, 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, Energy and Municipal Affairs). 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. 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 March 31, 2014, 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 gains and losses that have been realized on disposal of investments and the unrealized gains and losses on investments.

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

e) Investments (continued...)

(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, earning-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.

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

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. Included in refund expense are amounts owing to non-vested members that have been reclassified from the accrued benefit obligation to accounts payable.

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.

h) Net Surplus (Deficit)

For financial statement reporting, the surplus (deficit) of the Fund is based on the difference between the fair value of the Fund's net assets available for benefits and the Fund's accrued pension obligation.

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 853,989.388 units held in the Master Trust (2013 - 811,740.032), with a fair value of $1,472.80 (2013 - $1,300.35) per unit.

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

	2014 $	%	2013 $	%
Canadian short-term investments	18,017,552	1.0	11,822,575	0.8
Other liquid assets	12,323,110	0.7	8,854,073	0.6
Bonds, debentures and notes	457,597,571	24.3	507,634,690	32.0
Canadian equity securities	450,520,965	23.9	341,983,336	21.5
Foreign equity securities	844,491,083	44.8	629,371,697	39.6
Equity investments in real estate	83,291,998	4.3	71,853,294	4.5
Foreign infrastructure	13,990,697	0.7	8,264,963	0.5
Currency forwards	1,510,237	0.1	3,952,017	0.2
Accrued income	3,880,160	0.2	5,094,385	0.3
Total	1,885,623,373	100.0	1,588,831,030	100.0
Fund's pro-rated share	66.7024%		66.4353%	
Fund investments **	1,257,756,022		1,055,545,200	

3. Investments and Derivatives (continued...)

a) Investments (continued...)

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

	Investment Income 2014	Realized/ Unrealized Gains (Losses)* 2014	Investment Income (Losses) 2013	Realized/ Unrealized Gains (Losses)* 2013
	$	$	$	$
Canadian short-term investments	-	4,077	25,096	1,688
Other liquid assets	425,782	20,912	(71,529)	(752,256)
Bond, debentures, and notes	15,469,032	(13,980,726)	17,601,967	152,784
Canadian equity securities	13,331,785	69,534,794	12,012,532	21,770,398
Foreign equity securities	24,163,351	182,670,347	13,594,730	68,162,134
Equity investments in real estate	-	4,304,387	-	4,391,587
Foreign infrastructure	1,071,873	2,107,458	-	1,113,197
Currency forwards	147,603	(25,015,637)	102,714	1,484,697
Total	54,609,426	219,645,612	43,265,510	96,324,229
Fund's pro-rated share	66.2578%	66.3029	65.8746%	66.7419%
Fund investments**	36,182,981	145,631,399	28,500,972	64,288,583

* Includes realized gains of $1.4 million (2013 - gains of $10.9 million) and unrealized gains of $218.2 million (2013 - gains of $85.4 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:

	2014	2013
	$	$
Beutel Goodman & Company Ltd.	23,183,296	17,120,236
Lazard Ltd.	272,865,537	206,108,221
Baillie Gifford Overseas Ltd.	293,646,126	210,927,332
Bentall Kennedy	44,252,465	41,905,942
Greystone Real Estate Fund Inc.	39,039,336	29,947,154
Global Infrastructure Partners	13,990,697	8,264,963
Total	686,977,457	514,273,848
Fund's pro-rated share	66.7024%	66.4353%
Fund's pooled funds	458,230,451	341,659,374

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 the outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The following provides details of derivative contracts outstanding as of March 31, 2014.

	2014 $	2013 $
Notional Amount	322,874,777	221,514,146
Fair Value	1,510,921	3,952,017

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy of 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 March 31, 2014.

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 judgement and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at March 31.

	2014			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Canadian short-term investments	12,598,070	5,419,482	-	18,017,552
Other liquid assets	12,323,110	-	-	12,323,110
Bond, debentures, and notes	-	457,597,571	-	457,597,571
Canadian equity securities	450,520,965	-	-	450,520,965
Foreign equity securities	838,873,290	5,617,793	-	844,491,083
Equity investments in real estate	-	83,291,801	197	83,291,998
Foreign infrastructure	-	-	13,990,697	13,990,697
Currency forwards	-	1,510,237	-	1,510,237
Totals	1,314,315,435	553,436,884	13,990,894	1,881,743,213
Accrued income				3,880,160
Total financial assets at fair value				1,885,623,373
Fund's pro-rated share				66.7024%
Fund investments *				1,257,756,022

	2013			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Canadian short-term investments	9,425,542	2,397,033	-	11,822,575
Other liquid assets	8,854,073	-	-	8,854,073
Bond, debentures, and notes	-	487,467,845	20,166,845	507,634,690
Canadian equity securities	341,983,336	-	-	341,983,336
Foreign equity securities	624,974,718	4,396,979	-	629,371,697
Equity investments in real estate	-	71,853,097	197	71,853,294
Foreign infrastructure	-	-	8,264,963	8,264,963
Currency forwards	-	3,952,017	-	3,952,017
Totals	985,237,669	570,066,971	28,432,005	1,583,736,645
Accrued income				5,094,385
Total financial assets at fair value				1,588,831,030
Fund's pro-rated share				66.4353%
Fund investments *				1,055,545,200

* Rounded

There were no significant transfers between level 1 and level 2 financial instruments during the years ended March 31, 2014.

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

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

	Fixed Income	Foreign Infrastructure	Equity	Total
	$	$	$	$
Level 3 investments, April 1, 2013	20,166,845	8,264,963	197	28,432,005
Net purchases (sales)	(20,166,845)	3,618,276	-	(16,548,569)
Unrealized gains	-	2,107,458	-	2,107,458
Total financial assets at fair value	-	13,990,697	197	13,990,894
Fund's pro-rated shares				66.7024%
Level 3 investments, March 31, 2014				9,332,262

	Fixed Income	Foreign Infrastructure	Equity	Total
	$	$	$	$
Level 3 investments, April 1, 2012	20,166,845	-	197	20,167,042
Net purchases	-	7,151,766	-	7,151,766
Realized gains	-	36,395	-	36,395
Unrealized gains	-	1,076,802	-	1,076,802
Total financial assets at fair value	20,166,845	8,264,963	197	28,432,005
Fund's pro-rated shares				66.4353%
Level 3 investments, March 31, 2013				18,888,888

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 volatility, market price fluctuations, credit risk, and liquidity risk. 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, Energy and Municipal Affairs, 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.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(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 $16.6 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	%	$	%	$
2014	457.6 m	5.43	1	24.8 m	66.7024	16.6 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 includes interest rate and foreign currency risk. Market 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 $91.9 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
	$	%	$	%	$
2014	1,378.3 m	10	137.8 m	66.7024	91.9 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, Energy and Municipal Affairs, and the Master Trust Investment Advisory Committee.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

Fixed income
The Fund is exposed to credit risk from interest earning investments at March 31, as follows:

	2014 (millions) $	2013 (millions) $
Federal government	217.4	165.8
Provincial government	27.9	22.0
Corporate	220.0	323.9
Total investment credit risk exposure	465.3	511.7
Fund's pro-rated share	66.7024%	66.4353%
Fund's investment credit risk exposure	310.4	339.9
Provincial government promissory note	146.1	166.4
Fund's total credit risk exposure	456.5	506.3

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 of the value of the securities lent. The market value of the collateral is monitored by the custodian at least daily to ensure that the 105 percent threshold is 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 security loans outstanding and collateral held is as follows:

	2014 $	2013 $
Total security loans outstanding	212,754,510	180,123,304
Fund's pro-rated share	66.7024%	66.4353%
Fund's security loans outstanding	141,912,364	119,665,457
Total collateral held	224,262,678	189,121,227
Fund's pro-rated share	66.7024%	66.4353%
Fund's collateral held	149,588,589	125,643,255

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

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 policy of hedging from 30 to 70 percent of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at March 31, is summarized in the following table.

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

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

	2014 (millions) $	2013 (millions) $
Currency		
Brazil	2.1	6.7
Switzerland	18.7	15.1
Euro Zone	59.4	41.9
United Kingdom	51.9	46.4
Hong Kong	24.9	20.0
Japan	45.2	29.6
Sweden	15.7	13.1
United States	232.7	172.2
Other	47.3	40.3
Total	497.9	385.3
Fund's pro-rated share	66.7024%	66.4353%
Fund's foreign currency exposure	332.1	256.0

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 $33.2 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 disposition 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 portfolios 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 involve 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.

4. Accrued Pension Obligation (continued...)

a) Actuarial Valuation (continued...)

The most recent actuarial valuation for accounting purposes prepared by the actuarial consulting firm Morneau Shepell, disclosed a funded surplus over the base benefit liabilities of $315,516,000 as at April 1, 2014. The next actuarial valuation is scheduled to be completed in 2015.

For plans with contingent indexation, the total accrued benefit obligation consists of the following:

Base benefit liability	1,326,630,000
Contingent Indexation liability[1]	315,516,000
Total accrued benefit obligation	1,642,146,000

[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, losses on asset returns and new benefit accruals.

The assumptions for the most recent valuations performed at April 1, 2014 are as follows:

	2014	2011
Inflation	2.25%	2.50%
Discount Rate	5.75% for 10 years, 6.25% thereafter	7.37%, updated to 6.86% on March 31, 2013
Expected Rate of Return of Plan Assets	5.75% for 10 years, 6.25% thereafter	7.37%, updated to 6.86% on March 31, 2013
Salary Escalation	Basic increase of 2.75% per annum + promotional scale	2.50%
Pre-Retirement Indexation	1.50% per annum for 2014 -2016, 2.75% per annum for 16 years, 0% per annum thereafter	N/A
Post-Retirement Indexation (includes deferred pensioners)	1.50% per annum for 2014 -2016, 2.25% per annum for 11 years, 0% per annum thereafter	Consumer Price Index to a maximum of 6.00%
Mortality	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females	GAR94 projected to 2000 using Scale AA for both males and females.
Termination	Tenure - based scale	Age - based scale

4. Accrued Pension Obligation (continued...)

a) Actuarial Valuation (continued...)

Retirement Age	Service and age - based scale	Members are assumed to retire upon attaining "Rule of 90" (age plus credit service totals 90) but not before age 55 and not after age 63. All members, who at the valuation date have attained the retirement age under the above assumptions, are assumed to retire on the valuation date.
Proportion Married	Age and gender - based scale	Male 90%; Female 85%
Age Difference for Spouses	Males 2 years older than female spouses	Males assumed to be 3 years older than females.

b) 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

Prior to the Plan conversion, the Province was committed to make payments if the assets of the CSSF 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 CSSF's funding level declined below 90 percent.

Special contributions made under this funding policy were as follows:

(i) As a result of an unfunded liability at April 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a $52,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual instalments of $5,200,000 beginning October 15, 2006. Interest on the note is accrued at a rate of 4.41 percent per annum, and is receivable semi-annually on April 15, and October 15.

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**	**October 15**	**April 15**
	$	**$**	**$**
October 15, 2006	5,200,000	-	1,031,940
October 15, 2007	5,200,000	1,031,940	917,280
October 15, 2008	5,200,000	917,280	802,620
October 15, 2009	5,200,000	802,620	687,960
October 15, 2010	5,200,000	687,960	573,300
October 15, 2011	5,200,000	573,300	458,640
October 15, 2012	5,200,000	458,640	343,980
October 15, 2013	5,200,000	343,980	229,320
October 15, 2014	5,200,000	229,320	114,660
October 15, 2015	5,200,000	114,660	-
	52,000,000	5,159,700	5,159,700

(ii) As a result of an unfunded liability at April 1, 2011, the Province of Prince Edward Island made a special contribution through the signing of a $150,761,400 promissory note. The note, issued December 11, 2012, is held by the Fund and is receivable in ten equal annual instalments of $15,076,140 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...)

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	-	-	2,186,041
April 1, 2013	15,076,140	2,186,041	1,967,436
April 1, 2014	15,076,140	1,967,436	1,748,832
April 1, 2015	15,076,140	1,748,832	1,530,228
April 1, 2016	15,076,140	1,530,228	1,311,624
April 1, 2017	15,076,140	1,311,624	1,093,020
April 1, 2018	15,076,140	1,093,020	874,416
April 1, 2019	15,076,140	874,416	655,812
April 1, 2020	15,076,140	655,812	437,208
April 1, 2021	15,076,140	437,208	218,604
April 1, 2022	15,076,140	218,604	-
	150,761,400	12,023,221	12,023,221

As part of the Plan conversion, the Province's requirement to make payments if the assets of CSSF was insufficient to provide for pension payments as they became due was removed, the funding policy was rescinded and they were replaced by the following Government guarantee:

- Beginning on 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:

1. 122 percent of the total liabilities of the Fund excluding the liabilities for salary indexing and pension indexing for any year after 2013; plus
2. 100 percent of the liabilities for salary indexing and pension indexing for 2014, 2015 and 2016.

5. Funding Policy (continued...)

The transitional government funding amount was contributed to the CSSF by the Province of Prince Edward Island through the signing of a $231,530,000 promissory note. The note, issued December 29, 2014, is held by the Fund and is receivable in seven equal annual instalments of $33,075,714 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. At March 31, 2014, a receivable was recognized for the outstanding note and classified as an employer special contribution.

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	-	-	4,792,671
January 1, 2015	-	4,792,671	4,792,671
January 1, 2016	-	4,792,671	4,792,671
January 1, 2017	-	4,792,671	4,792,671
January 1, 2018	-	4,792,671	4,792,671
January 1, 2019	-	4,792,671	4,792,671
January 1, 2020	-	4,792,671	4,792,671
January 1, 2021	-	4,792,671	4,792,671
January 1, 2022	-	4,792,671	4,792,671
January 1, 2023	33,075,714	4,792,671	4,108,004
January 1, 2024	33,075,714	4,108,004	3,423,336
January 1, 2025	33,075,714	3,423,336	2,738,669
January 1, 2026	33,075,714	2,738,669	2,054,002
January 1, 2027	33,075,714	2,054,002	1,369,335
January 1, 2028	33,075,714	1,369,335	684,667
January 1, 2029	33,075,716	684,667	-
	231,530,000	57,512,052	57,512,052

Subsection 5(5) of the *Civil Service 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 CSSF assets equal to or greater than the value of the promissory notes on the date of cancellation or recall.

6. Operating Expenses

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

	2014 $	2013 $
Administration expenses - pension section	904,019	830,660
- investment section	123,156	92,703
	1,027,175	923,363
Consulting fees	477,814	234,496
Actuarial fees	-	14,274
Investment expenses		
Custodian	207,032	168,015
Monitoring	163,164	130,463
Management	4,276,768	4,228,232
	6,151,953	5,698,843

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. Employee and employer contributions receivable from the Province as at March 31, 2014, totalled $1,010,128 (2013 - $980,402).

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 $711,220 (2013 - $666,700) and recoveries related to the Investment section totalled $123,156 (2013 - $92,703). Other costs recovered by the Province totalled $137,210 (2013 - $132,568).

The total amount payable to the Province at March 31, 2014, was $976,524 (2013 - $969,729).

Total notes, special contribution and interest receivable from the Province at March 31, 2014, was $382,176,212 (2013 - $168,863,070).

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 paid as required by the *Civil Service Superannuation Act*.

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 (the 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, Energy and Municipal Affairs who serves as Trustee for the Province's three registered pension plans.

9. Commitment

The Master Trust has entered into an arrangement where it has committed to invest $35 (US) million with Global Infrastructure Partners (GIP) Fund. GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors; $13 (US) million has been invested as of the financial statement release date.