



Civil Service Superannuation Fund

ANNUAL REPORT

2015-2016



Publication Date: September 2020



The Honourable Darlene Compton
Minister of Finance
Province of Prince Edward Island
PO Box 2000
Charlottetown, PE C1A 7N8

Dear Madam:

In accordance with section 4.1 of the *Civil Service Superannuation Act*, I am pleased to present to you the Annual Report of the Province of Prince Edward Island Civil Service Superannuation Fund for the fiscal year ended March 31, 2016.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read 'C. Harris'.

Cindy Harris, Chair
Civil Service Superannuation Commission

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Introduction

The Civil Service Superannuation Fund (CSSF) was established in 1945 and provides retirement income to members and the dependants of deceased members, in accordance with the *Civil Service Superannuation Act* (CSSA).

Plan Description

The CSSF is a contributory, defined benefit pension plan financed by contributions from participating employers and employees, and by investment earnings from the Master Trust Investment Fund.

Contributions – In 2015-2016, members of the plan contributed the following:

- 8.09 percent of pensionable earnings up to the YMPE, and
- 9.75 percent of pensionable earnings in excess of the YMPE.

The YMPE was \$53,600 for 2015 and \$54,900 for 2016.

The employer matches contributions made by the members on a bi-weekly basis.

Membership – The general criteria for membership to the CSSF is that an employee must be permanent with an approved participating employer.

Benefit Level

The benefit is calculated as 2.0 percent multiplied by the years of pensionable service, multiplied by the average annually indexed pensionable earnings. Please note that for salary below the Canada Pension Plan's YMPE, the 2.0 percent benefit is comprised of:

- a) a 1.3 percent life-time benefit, and
- b) a 0.7 percent temporary bridge benefit, payable from the date of retirement to age 65.

Unreduced Pension – An unreduced monthly pension is payable for life to a member who meets one of the criteria below:

- has attained the age of 60 with two or more years of service;
- has attained the age of 55 with 30 or more years of pensionable service; or
- .

Early Retirement – Eligible members can opt for an early retirement pension benefit as early as age 55.

The amount of pension earned is reduced by the lesser of:

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

It should be noted that the early retirement reduction is applied to both the lifetime and bridge benefits, and remains in effect for their entire duration.

Benefits on Termination - A member in the CSSF becomes vested after two years of pensionable service in the plan.

- a) Vested members are eligible for either a deferred pension or a refund of employee contributions plus interest.
- b) Non-vested members must take a refund of employee contributions plus interest.

Inflation Protection – *Pension & Deferred Pension*

Prior to January 1, 2014, pension benefits were increased by the change in the Consumer Price (all items) Index for Canada, to a maximum of 6.0 percent, on the first day of April of each year. The pension payment received upon retirement and the value of a deferred pension benefit were both indexed annually under the CSSF. At April 1, 2014, indexation of 1.50 percent was awarded.

Effective January 1, 2017, pensioner and deferred pension indexation becomes contingent on the funded status of the CSSF. At that point, indexation shall only be awarded if the funded status of the plan is above 110 percent.

For the three-year transition period covering 2014-2016, indexation is pre-set at 1.50 percent.

Inflation Protection – *Active*

Effective January 1, 2017, indexation for active contributors also becomes contingent on the funded status of the CSSF. At that point, indexation shall only be awarded if the funded status of the plan is above 100 percent.

For the three-year transition period covering 2014-2016, indexation is pre-set at 1.50 percent.

Death Benefits – The CSSF provides for both spousal and dependant benefits to eligible survivors of vested members.

Fund Administration

Administration of the CSSA is assigned to the Pensions and Benefits Section of the Department of Finance with investment management support from the Province of Prince Edward Island's Debt and Investment Management Section.

The CSSF's assets are managed independently by professional fund managers. The fund managers responsible for the CSSF's investments at March 31, 2016, were:

Canadian Equity

Beutel Goodman & Company

Fixed Income

TD Asset Management

Goldman Sachs Asset Management

Global Equity

Baillie Gifford

Franklin Templeton Investment Management

Lazard Asset Management

Real Estate Investment

Bentall Kennedy

Greystone

State Street Corporation

Currency Overlay

State Street Corporation

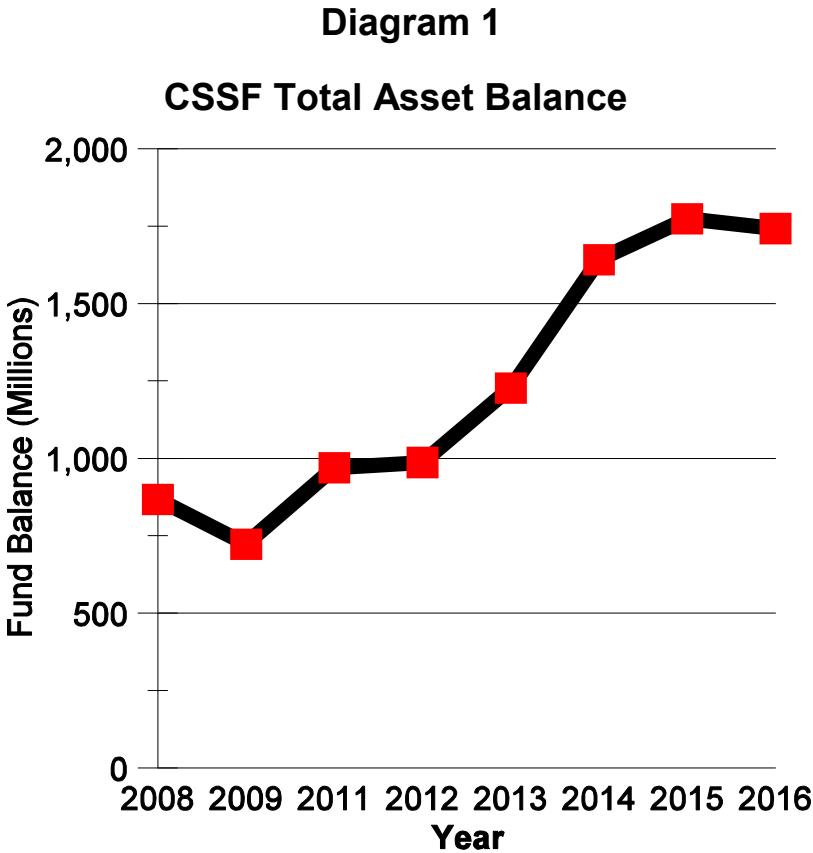
Infrastructure

Global Infrastructure Partners

Lazard Asset Management

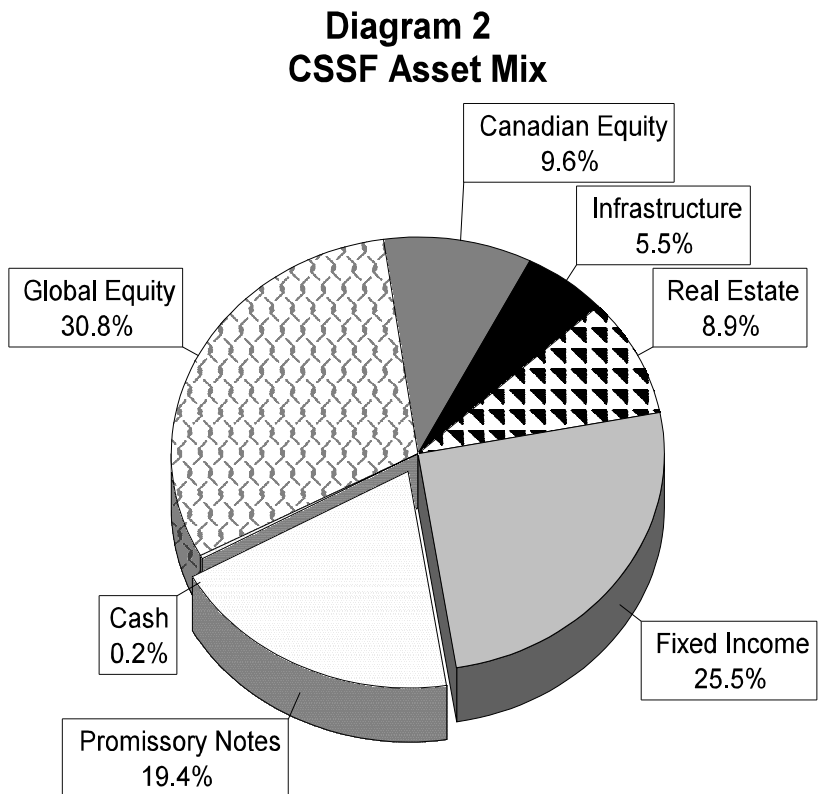
The total asset balance of the CSSF at March 31, 2016 was approximately \$1.74 billion, down from \$1.77 billion in 2014-2015.

Diagram 1 shows the CSSF total asset balance from 2009 - 2016.



The marked increase in assets after 2012 can be attributed, in large part, to the special contributions made by the Province. See special contribution commentary on page 10.

Diagram 2 reflects the asset mix attributable to the CSSF as at March 31, 2016. The asset balance of approximately \$1.74 billion is reflected by asset class with the value of the outstanding promissory notes highlighted as a separate section.



Employers – At March 31, 2016, there were 16 participating employers in the CSSF with a total of 7,124 full- and part-time members.

Health PEI and the Province of PEI were the largest employers with 4,401 and 2,267 members respectively. Small employers accounted for 263 members. Additionally, 613 members were deferred at March 31, 2016.

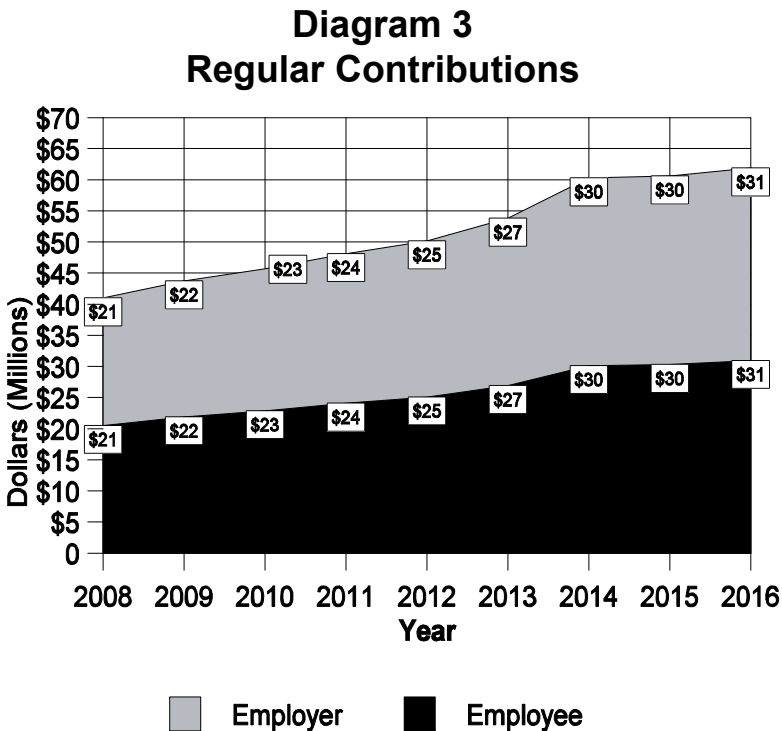
Table 1 below lists employers and the corresponding number of members.

Table 1
Membership by Employer

Participating Employers	Total Members
Health PEI	4,401
Province of PEI Departments	2,267
Innovation PEI	69
Workers' Compensation Board (WCB)	66
Island Waste Management Corporation (IWMC)	46
Island Regulatory and Appeals Commission (IRAC)	23
PEI School Boards	0
Finance PEI	25
Potato Board	9
Union of Public Sector Employees (UPSE)	8
Grain Elevators	8
Environmental Industrial Services Inc.	6
Status of Women	3
<i>LTD Providers</i>	
Great West Life	141
Manulife	46
Sunlife	6
Total Members	7,124

Regular Contributions – Regular contributions are made to the CSSF via payroll deductions. For 2015-2016, the regular contributions from both the employers and employees combined were approximately \$61.9 million, up from \$60.6 million in 2014-2015. Other contributions include special payments from the Province, payments for prior service, and transfers in from other plans via reciprocal agreements.

Diagram 3 depicts, by year, the regular employer and employee contributions made to the CSSF.



Special Contribution – Prior to January 1, 2014, to help address the unfunded liability of the CSSF, the Province of Prince Edward Island periodically makes special contributions to the CSSF in the form of a promissory note. There are currently two promissory notes in place for which payments are being made.

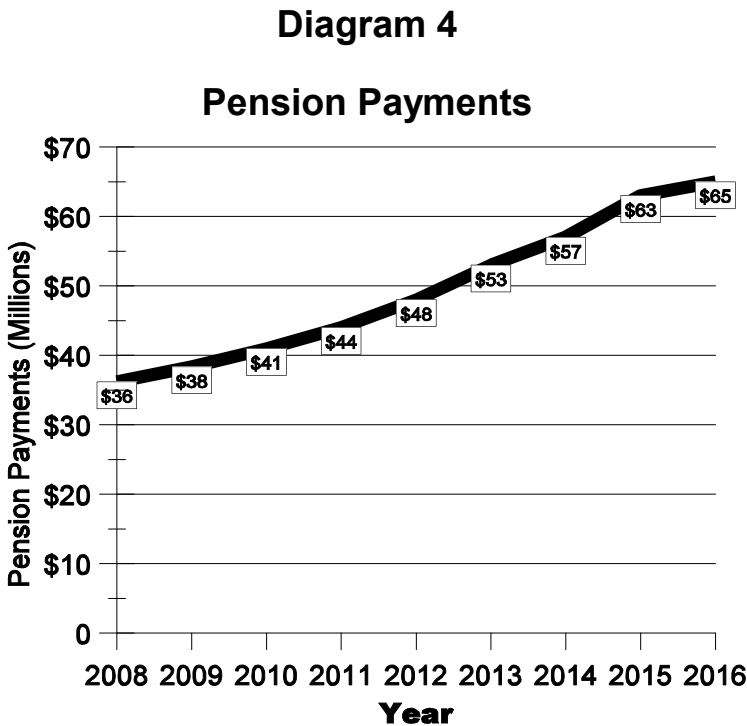
Beginning October 15, 2006, the Province issued a promissory note to the Fund equal to \$52 million. This note is receivable in ten equal annual installments of \$5.2 million plus interest at the rate of 4.41 percent per annum. Interest is paid semi-annually on April 15 and October 15.

On December 11, 2012, the Province issued another promissory note to the Fund for the face value of \$150 million. This note is receivable in ten equal annual installments of \$15.1 million plus interest at the rate of 2.9 percent per annum. Interest is paid semi-annually on April 1 and October 1.

Effective January 1, 2014, Government committed to a one-time special injection of transitional funding to the CSSF that would bring the funded status of the plan to 122 percent. At time of printing, the transitional funding amounted to approximately \$231.5 million plus interest at a rate of 4.14 percent per annum.

Pension Payments – Annual pension payments in 2015-2016 were approximately \$65 million. This is shown in **Diagram 4** below.

Approximately 92 percent of the pension payroll was paid to members and the remaining eight percent was paid out as spousal and dependant benefits.



Pensioners – As of March 31, 2016, the number of persons receiving pension was 3,893. **Table 2** below outlines the number of new pensioners, their average age and average annual gross pension for the more recent fiscal years.

Table 2
**Number of New Pensioners with
Average Age and Average Annual Pension**

Fiscal Year	No. of New Pensioners	Average Age	Average Annual Pension
2015-2016	270	61.42	\$ 22,418
2014-2015	261	60.92	\$ 22,776
2013-2014	283	61.42	\$ 22,359
2012-2013	248	60.97	\$ 21,926
2011-2012	188	60.69	\$ 21,587
2010-2011	188	60.08	\$ 21,880
2009-2010	154	59.39	\$ 21,857
2008-2009	129	59.39	\$ 20,168
2007-2008	117	59.16	\$ 18,542

Table 3 outlines the various categories of pension recipients along with the average annual pension for each category as at March 31st.

Table 3
Pension Categories and
Average Annual Pension

Category	Number of Pensions		Average Annual Pension	
	2016	2015	2016	2015
Members	3,406	3,217	\$ 20,641	\$ 19,590
Spousal	464	463	\$ 10,429	\$ 10,242
Dependants	23	21	\$ 3,208	\$ 3,330
Total Pensions	3,893	3,701		

Actuarial Requirement – The Civil Service Superannuation Act (CSSA) requires that an actuarial valuation be performed every year to evaluate the funding status of the CSSF. Actuarial valuation reports require best estimate assumptions about future events to determine the liabilities of the fund as of the valuation date. The actual assets of the fund, as of the valuation date, are then compared to the liabilities to determine the plan's funding status.

At the time of printing, the April 1, 2016 actuarial valuation results were available. This valuation was based on the following membership data:

- 1) 7,151 Active Members
Average Salary of \$50,450
Average Age of 47.0 Years
- 2) 613 Deferred Members
Average Annual Pension of \$6,513
Average Age of 49.2 Years
- 3) 3,720 Retirees
Average Annual Pension of \$17,505
Average Age of 69.9 Years
- 4) 232 Members on Leave
Average Annual Pension of \$3,847
Average Age of 38.6 Years
- 5) 245 Inactive Members
Average Contributions with Interest of \$5,844
Average Age of 43.4 Years

The value of the plan assets as at April 1, 2016, was \$1,742,904,000 which represents 115.5 percent of the actuarial liability of \$1,508,408,000.

Table 4 details the actuarial valuation statement of financial position as at April 1, 2016.

Table 4
Going-Concern Financial Position
April 1, 2016

Value of Assets		
Market Value	\$1,742,904,000	
Actuarial Liability		Percentage of Total Liabilities
Active Members	\$ 684,118,000	45.4%
Deferred Members	33,564,000	2.2%
Retired Members and Beneficiaries	790,726,000	52.4%
Total	\$ 1,508,408,000	
Actuarial Surplus (Unfunded Liability)	\$ 234,496,000	
Funded Status (amount in excess of 100% represents indexation reserve)	115.5%	

Highlights for 2015-2016

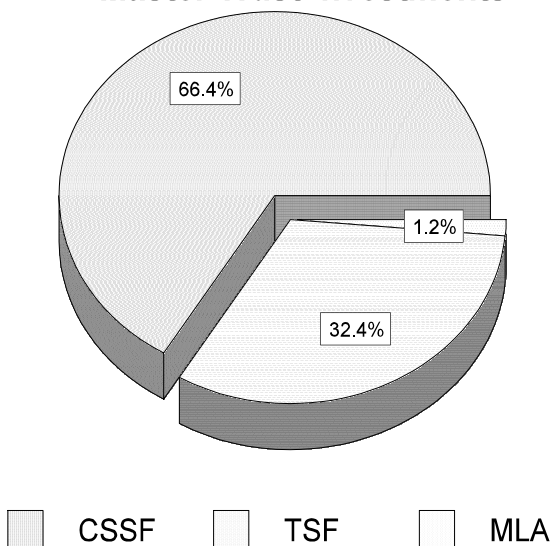
Investment Management

The largest contributor to the growth of CSSF assets is normally investment income. These investments are held in the Province of Prince Edward Island Master Trust. The CSSF, MLA Pension Fund and the Teachers' Superannuation Fund participate in the Master Trust. In 2015-2016, approximately 66 percent of the funds in the Master Trust were assets of the CSSF. An overview of the Master Trust at March 31, 2016 is shown in **Diagram 5**.

As of March 31, 2016, the rate of return of the Master Trust was as follows:

- Annual rate of return: -0.6 %
- Ten year rate of return: 5.2 %

Diagram 5
Master Trust Investments



CSSF Assets

During 2015-2016, there was a net decrease to CSSF assets of approximately \$31 million (the difference between Table 5 and Table 6).

Table 5 shows the receipts and income, by source, which totalled approximately \$203 million.

Table 5
Receipts and Income

Type	Amount
Employee Contributions	\$ 30,948,530
Employer Contributions	30,949,614
Transfers From Other Plans	434,791
Purchased Service	361,374
Interest Income	12,801,045
Investment Income	68,328,327
Market Value Decrease	(97,562,057)
Total	\$ 46,261,624

Table 6 on the next page, shows the expenditures for 2015-2016, which totalled approximately \$71 million.

Table 6
CSSF Expenditures

Type	Amount	Percentage of Expenditures
Benefits Paid	\$ 67,636,171	
Refunds	1,399,063	
Transfers	1,024,890	
Total Benefit Expenditures	\$ 70,060,124	90.45%
Benefit Administration	\$ 756,405	
System Fees	145,862	
Investment Administration	119,472	
Pension Payroll TPA fees	15,547	
Total Administrative Expenses	\$ 1,037,286	1.34%
Consulting Fees	\$ 944,585	
Total Consulting Fees	\$ 944,585	1.22%
Investment Manager Fees	\$ 4,959,836	
Monitoring Fees	263,184	
Custodial Fees	195,056	
Total Investment Expenses	\$ 5,418,076	6.99%
Total	\$ 77,460,071	100.00%

CSSF Commission

The Civil Service Superannuation Act (CSSA) provides the legislative basis for the administration and funding of a pension plan for eligible civil servants and employees of other participating employers.

The CSSA establishes the Civil Service Superannuation Commission and outlines the Commission's roles and responsibilities with regards to the day-to-day oversight of the administration of the CSSA.

Where a question arises as to the application, interpretation or administration of this Act, it shall be determined by the Commission. The Minister of Finance may, upon review, confirm the determination of the Commission; or substitute his or her determination for the determination of the Commission.

As of March 31, 2016, the Commission had twelve members as follows:

Number of Members		Member
1	Chairperson - Secretary to Treasury Board	Dan Campbell
1	International Union of Operating Engineers	Gerald Poirier
1	PEI Nurses' Union	Blair MacDonald
1	Canadian Union of Public Employees	Leonard Gallant
2	Union of Public Sector Employees	Debbie Bovyer Mark A Arsenault
1	Retiree Representative	Colin Younker
1	Department of Finance	Gordon MacFadyen
2	Health PEI	Muriel MacLeod Denise Lewis-Fleming
2	PEI Public Service Commission	Elaine Hardy Tanya Rowell

Joint Investment Advisory Committee

In January 2015, as a result of pension reform, the former Master Trust Investment Advisory Committee was reconstituted into a Joint Investment Advisory Committee.

The mandate of the new Committee remains the same:

- protection of the principal assets of the Master Trust;
- monitoring of costs;
- recommendations on investment fund asset mix;
- review of investment fund and fund manager performance standards; and
- compliance with both federal and provincial requirements relating to ownership of foreign equities.

The committee is made up of representatives of the three pension plans for which pension funds are being managed by the Province.

It should be noted that there are now two retiree representatives on the committee.

At March 31, 2016, the following were members of the new Joint Investment Advisory Committee:

<i>Chairperson</i> - Deputy Minister of the Department of Finance, Energy and Municipal Affairs	David Arsenault
Prince Edward Island Teachers' Federation	Patrick MacFadyen Shaun MacCormac Rosemary Fleming
Union of Public Sector Employees	Karen Jackson Mark Arsenault
International Union of Operating Engineers	Gerald Poirier
Canadian Union of Public Employees	Leonard Gallant
PEI Nurses' Union	Blair MacDonald
Provincial Government	Terry Hogan Gordon MacFadyen
Member of the Legislative Assembly	Kathleen Casey
Retirees	Michel Plamondon Colin Younker
Teachers' Superannuation Commission	Terry Keefe
Civil Service Superannuation Commission	Dan Campbell
Ex Officio outside designates Fiscal Agents	Nicole d'Ombrain, Tim Van Alstyne, <i>RBC</i>
Ex Officio outside designates Consultants	Paul Malizia and Robert Laughton, <i>Aon Hewitt Associates</i>

Audit Requirements

In accordance with section 13 of the *Audit Act*, the financial statements have been examined by the Office of the Auditor General whose report is included in the appendix of this annual report.

Contact Information

For further information concerning the administration of the ***Civil Service 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
Tel: (902) 368-4167

Appendix

Audited Financial Statements for 2015-2016

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Financial Statements
March 31, 2016

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.

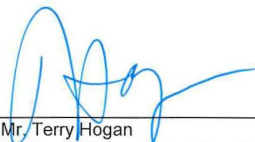
The Civil Service Superannuation Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

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 Civil Service Superannuation Fund to meet when required.

On behalf of the Prince Edward Island Civil Service Superannuation Fund

A handwritten signature in black ink, appearing to read 'Neil Stewart', written over a horizontal line.

Mr. Neil Stewart, CPA, CA
Deputy Minister, Department of Finance

A handwritten signature in blue ink, appearing to read 'Terry Hogan', written over a horizontal line.

Mr. Terry Hogan
Manager, Pensions and Benefits Division

July 25, 2018



Prince Edward Island Île-du-Prince-Édouard

Office of the
Auditor General
PO Box 2000, Charlottetown PE
Canada C1A 7N8

Bureau du
vérificateur général
C.P. 2000, Charlottetown PE
Canada C1A 7N8

INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the
Prince Edward Island Civil Service Superannuation Fund

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, 2016, 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, 2016, and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown, Prince Edward Island
July 25, 2018

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Statement of Financial Position
March 31, 2016

	2016	2015
	\$	\$
Assets		
Cash	3,319,989	3,680,702
Investments (Note 3)	1,399,675,231	1,411,113,177
Note receivable (Note 5)	337,062,980	357,339,120
Receivables		
Contributions - employee	1,684,784	1,515,284
- employer	1,700,377	1,534,711
Accrued interest	3,913,324	4,237,138
Other	<u>1,143,126</u>	<u>631,872</u>
Total Assets	<u>1,748,499,811</u>	<u>1,780,052,004</u>
Liabilities		
Accounts payable and accrued liabilities	2,056,642	2,424,348
Remittances payable	1,041,123	1,021,501
Investment fees payable	1,360,401	1,349,720
Due to the Province of Prince Edward Island	<u>1,137,645</u>	<u>1,153,988</u>
Total Liabilities	<u>5,595,811</u>	<u>5,949,557</u>
Net Assets Available for Benefits	<u>1,742,904,000</u>	<u>1,774,102,447</u>
Accrued Pension Obligation (Note 4)	<u>1,742,904,000</u>	<u>1,774,102,447</u>
Net Surplus (Deficit)	<u>-</u>	<u>-</u>

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

Approved on behalf of the Prince Edward Island Civil Service Superannuation Fund


Chairperson


Commissioner

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**
Statement of Changes in Net Assets Available for Benefits
for the year ended March 31, 2016

	2016	2015
	\$	\$
Increase in Assets		
Investment income (Note 3(a))		
Interest	12,387,549	14,032,658
Dividends	55,940,778	40,371,131
Change in fair value of investments	<u>(97,562,057)</u>	<u>74,234,057</u>
	(29,233,730)	128,637,846
Other interest income	12,801,045	13,483,409
Contributions		
Employee	30,948,530	30,299,748
Employer	30,949,614	30,299,794
Transfers from other plans	434,791	162,962
Purchased service	<u>361,374</u>	<u>487,855</u>
	<u>46,261,624</u>	<u>203,371,614</u>
Decrease in Assets		
Benefits paid	67,636,171	62,588,523
Operating expenses (Note 6)	7,399,947	6,877,720
Refunds	1,399,063	1,381,437
Transfers	<u>1,024,890</u>	<u>638,500</u>
	<u>77,460,071</u>	<u>71,486,180</u>
Change in Net Assets	(31,198,447)	131,885,434
Net Assets Available for Benefits, beginning of the year	<u>1,774,102,447</u>	<u>1,642,217,013</u>
Net Assets Available for Benefits, end of year	<u>1,742,904,000</u>	<u>1,774,102,447</u>

(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, 2016

	2016	2015
	\$	\$
Accrued Pension Obligation, beginning of year	1,774,102,447	1,642,146,000
Change in Accrued Pension Obligation		
Interest accrued on benefits	96,887,173	93,797,777
Benefits accrued	44,228,976	42,197,012
Increase due to purchase service	796,165	650,818
Benefits paid	(70,060,124)	(64,608,460)
Loss (gain) on experience and assumption changes	32,759,890	42,576,023
Decrease due to contingent indexation	<u>(135,810,527)</u>	<u>17,343,277</u>
Change in Accrued Pension Obligation	<u>(31,198,447)</u>	<u>131,956,447</u>
Accrued Pension Obligation, end of year (Note 4)	<u>1,742,904,000</u>	<u>1,774,102,447</u>

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

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

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*.

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 *Canadian Pension Plan Act* and 9.75 percent of 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). After 2016, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

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

¹ Subject to the *Income Tax Act Rules* for maximum contributions.

² If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of ≥ 105% is attained.

³ If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of ≥ 115% is attained.

⁴ If triggered, contributions based on funded benefits ratio ≥135% remain in effect until funded benefits ratio of ≤ 130% is attained.

⁵ If triggered, contributions based on funded benefits ratio ≥145% remain in effect until funded benefits ratio of ≤ 140% is attained.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

1. Plan Description (continued...)

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 three year average. For service commencing January 1, 2014, average salary and year's maximum pensionable earnings is based on career average.

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 1.5 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 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.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

1. Plan Description (continued...)

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 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 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.

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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

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 I of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

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

For the year ended March 31, 2016, 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.

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 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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

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, remittances payable, amounts due to the Province of Prince Edward Island, investment fees payable, and accrued pension obligation. 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). 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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

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

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

(i) Investment transactions

Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at March 31, 2016, for interest, dividends, and settled derivative contracts.

(ii) Income recognition

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

(iii) Investment valuation

Equity and debt

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

Equity investment in real estate

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

Pooled funds

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

Derivative contracts

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

Investment in foreign infrastructure

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

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

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

(iv) Transaction costs

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

f) Revenues and Expenses

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

g) Accrued Pension Obligation

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

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 1,014,292.013 units held in the Master Trust (2015 - 940,865.149), with a fair value of \$1,379.95 (2015 - \$1,499.80) per unit.

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

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

	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>
	\$		\$	
Canadian short-term investments	22,525,011	1.1	199,270,904	9.4
Other liquid assets	725,058	0.1	19,875,532	0.9
Bonds, debentures and notes	657,587,246	31.7	496,316,272	23.5
Canadian equity securities	247,338,904	11.9	480,015,343	22.8
Foreign equity securities	779,729,189	37.6	821,588,178	38.9
Equity investments in real estate	228,386,849	11.0	85,756,843	4.1
Foreign infrastructure	142,863,388	6.9	13,281,295	0.6
Currency forwards	12,729,713	0.6	(483,623)	-
Accrual	(16,366,738)	(0.9)	(3,935,468)	(0.2)
Total	2,075,518,620	100.0	2,111,685,276	100.0
Fund's pro-rated share	67.4374%		66.8240%	
Fund investments **	1,399,675,231		1,411,113,177	

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

	<u>Investment Income 2016</u>	<u>Change in Fair Value of Investments* 2016</u>	<u>Investment Income 2015</u>	<u>Change in Fair Value of Investments* 2015</u>
	\$	\$	\$	\$
Canadian short-term investments	-	(56,125)	-	50,403
Other liquid assets	487,889	(3,213)	379,667	(10,668)
Bond, debentures, and notes	15,153,073	(15,512,372)	15,347,658	20,632,641
Canadian equity securities	14,234,013	3,842,918	15,486,230	50,551,133
Foreign equity securities	65,199,152	(142,086,460)	49,057,920	53,247,838
Equity investments in real estate	-	14,190,061	-	357,041
Foreign infrastructure	5,520,758	8,394,059	223,444	4,031,651
Currency forwards	1,069,837	(14,079,445)	1,250,071	(17,192,916)
Total	101,664,722	(145,310,577)	81,744,990	111,667,123
Fund's pro-rated share	67.2095%	67.1404%	66.5531%	66.4780%
Fund investments**	68,328,327	(97,562,057)	54,403,789	74,234,057

* Includes realized gains of \$29.3 million (2015 - gains of \$74.3 million) and unrealized losses of \$174.6 million (2015 - gains of \$37.4 million).

** Rounded

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (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:

	<u>2016</u> \$	<u>2015</u> \$
Beutel, Goodman & Company Limited	22,913,766	24,594,129
Lazard Asset Management LLC	114,707,608	272,979,483
Baillie Gifford Overseas Limited	291,116,898	294,747,857
Bentall Kennedy (Canada) LP	48,013,210	44,466,103
Greystone Managed Investments Inc.	43,783,811	41,290,739
Global Infrastructure Partners (GIP)	28,155,780	13,281,295
TD Asset Management	578,635,600	-
Goldman Sachs Asset Management	328,791,570	-
State Street Global Advisors Ltd.	<u>136,589,828</u>	<u>-</u>
Total	1,592,708,071	691,359,606
Fund's pro-rated share	67.4374%	66.8240%
Fund's pooled funds	<u>1,074,080,913</u>	<u>461,994,143</u>

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 the Master Trust's derivative contracts outstanding as of March 31, 2016.

	<u>2016</u> \$	<u>2015</u> \$
Notional Amount	426,457,544	344,725,828
Fair Value	<u>12,729,713</u>	<u>(483,038)</u>

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

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 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, 2016.

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

	2016			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Canadian short-term investments	22,525,011	-	-	22,525,011
Other liquid assets	725,058	-	-	725,058
Bond, debentures, and notes	-	657,587,246	-	657,587,246
Canadian equity securities	247,338,904	-	-	247,338,904
Foreign equity securities	779,729,189	-	-	779,729,189
Equity investments	-	-	-	-
in real estate	-	228,386,849	-	228,386,849
Foreign infrastructure	114,707,608	-	28,155,780	142,863,388
Currency forwards	-	12,729,713	-	12,729,713
Totals	<u>1,165,025,770</u>	<u>898,703,808</u>	<u>28,155,780</u>	<u>2,091,885,358</u>
Accrual	-	-	-	(16,366,738)
Total financial assets at fair value				<u>2,075,518,620</u>
Fund's pro-rated share				<u>67.4374%</u>
Fund investments *				<u>1,399,675,231</u>

*Rounded

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

	2015			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Canadian short-term investments	36,542,791	162,728,113	-	199,270,904
Other liquid assets	19,875,532	-	-	19,875,532
Bond, debentures, and notes	-	496,316,272	-	496,316,272
Canadian equity securities	480,015,343	-	-	480,015,343
Foreign equity securities	817,141,986	4,446,192	-	821,588,178
Equity investments in real estate	-	85,756,843	-	85,756,843
Foreign infrastructure	-	-	13,281,295	13,281,295
Currency forwards	-	(483,623)	-	(483,623)
Totals	<u>1,353,575,652</u>	<u>748,763,797</u>	<u>13,281,295</u>	<u>2,115,620,744</u>
Accrual				(3,935,468)
Total financial assets at fair value				2,111,685,276
Fund's pro-rated share				66.8240%
Fund investments *				<u>1,411,113,177</u>

* Rounded

There were no significant transfers between level 1 and level 2 financial instruments during the year ended March 31, 2016.

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

	<u>2016</u>	<u>2015</u>
	\$	\$
Level 3 investments, April 1	13,281,295	13,990,894
Net purchases (sales)	12,255,992	(6,112,091)
Realized (losses) gains	(46)	6,994,997
Unrealized gains (losses)	2,435,022	(3,357,973)
Foreign exchange gains	<u>183,517</u>	<u>1,765,468</u>
Total financial assets at fair value	<u>28,155,780</u>	<u>13,281,295</u>
Fund's pro-rated share	<u>67.4374%</u>	<u>66.8240%</u>
Level 3 investments, March 31	<u>18,987,526</u>	<u>8,875,093</u>

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

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 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 \$31.2 million.

	<u>Value of Fixed Income Securities</u> \$	<u>Weighted Average Duration</u> yrs	<u>Percentage Point Change</u> %	<u>Impact on Fair Value of the Master Trust</u> \$	<u>Fund's Pro-rated Share</u> %	<u>Pro-rated Impact on Fair Value of the Fund</u> \$
2016	657.6 m	7.04	1	46.3 m	67.4374	31.2 m

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(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 \$92.4 million.

	<u>Value of Public Equities</u> \$	<u>Percentage Change</u> %	<u>Impact on Fair Value of the Master Trust</u> \$	<u>Fund's Pro-rated Share</u> %	<u>Pro-rated Impact on Fair Value of the Fund</u> \$
2016	1,370.2 m	10	137.0 m	67.4374	92.4 m

(iii) Credit Risk

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

Fixed income

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

	<u>2016 (millions) \$</u>	<u>2015 (millions) \$</u>
Federal government	79.4	199.1
Provincial government	152.0	51.0
Corporate	361.7	416.7
Government agencies	65.1	-
Total investment credit risk exposure	658.2	666.8
Fund's pro-rated share	<u>67.4374%</u>	<u>66.8240%</u>
Fund's investment credit risk exposure	443.9	445.6
Provincial government promissory note	<u>337.1</u>	<u>357.3</u>
Fund's total credit risk exposure	781.0	802.9

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

Security lending

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent 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:

	<u>2016</u> \$	<u>2015</u> \$
Total security loans outstanding	217,328,139	326,056,344
Fund's pro-rated share	<u>67.4374%</u>	<u>66.8240%</u>
Fund's security loans outstanding	<u>146,560,446</u>	<u>217,883,891</u>
 Total collateral held	 228,195,749	 342,359,461
Fund's pro-rated share	<u>67.4374%</u>	<u>66.8240%</u>
Fund's collateral held	<u>153,889,280</u>	<u>228,778,286</u>

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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(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 0 to 100 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.

	2016	2015
	(millions)	(millions)
	\$	\$
Currency		
Brazil	1.5	1.4
Switzerland	-	13.4
Euro Zone	65.4	52.5
United Kingdom	40.6	46.3
Hong Kong	17.0	22.4
Japan	60.2	46.9
Sweden	13.9	9.4
United States	234.0	212.7
Other	<u>54.2</u>	<u>53.2</u>
Total	<u>486.8</u>	<u>458.2</u>
Fund's pro-rated share	<u>67.4374%</u>	<u>66.8240%</u>
Fund's foreign currency exposure	<u><u>328.3</u></u>	<u><u>306.2</u></u>

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 \$32.8 million.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

3. Investments and Derivatives (continued...)

(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 managements 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.

The most recent actuarial valuation for accounting purposes prepared by the actuarial consulting firm Morneau Shepell, disclosed a base benefit liability of \$1,508,408,000 as at April 1, 2016. The actuarial liabilities and accrued benefit obligation as at April 1, 2016 are extrapolated from the actuarial liabilities and accrued benefit obligation determined as in the report of the actuarial valuation as at April 1, 2015 for funding and accounting purposes. This represents a change in methodology from the previous valuation. An actuarial valuation of the Civil Service 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 consists of the following:

Base benefit liability	1,508,408,000
Contingent indexation liability ¹	<u>234,496,000</u>
Total accrued benefit obligation	<u>1,742,904,000</u>

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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

4. Accrued Pension Obligation (continued...)

The assumptions for the most recent valuations performed at April 1, 2016 are as follows:

	2016	2015
Inflation	2.25%	2.25%
Discount Rate	5.25% for 10 years, 5.90% thereafter	5.50% for 9 years, 5.90% thereafter
Expected Rate of Return of Plan Assets	5.25% for 10 years, 5.90% thereafter	5.50% for 9 years, 5.90% thereafter
Salary Escalation	Basic increase of 2.75% per annum + promotional scale	Basic increase of 2.75% per annum + promotional scale
Pre-Retirement Indexation	1.50% per annum for 2016, 2.75% per annum for 10 years, 0% per annum thereafter	1.50% per annum for 2015 - 2016, 2.75% per annum for 16 years, 0% per annum thereafter
Post-Retirement Indexation (includes deferred pensioners)	1.50% per annum for 2016, 2.25% per annum for 4 years, 0% per annum thereafter	1.50% per annum for 2015 - 2016, 2.25% per annum for 10 years, 0% per annum thereafter
Mortality	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.10 for males and 0.95 for females
Termination	Tenure - based scale	Tenure - based scale
Retirement Age	Service and age - based scale	Service and age - based scale
Proportion Married	Age and gender - based scale	Age and gender - based scale
Age Difference for Spouses	Males 2 years older than female spouses	Males 2 years older than female spouses

b) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation. 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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

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March 31, 2016

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.

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

<u>Date of Payment</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	
	<u>Principal Payment</u>	<u>October 15</u>	<u>April 15</u>
	\$	\$	\$
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	<u>5,200,000</u>	<u>114,660</u>	-
	<u>52,000,000</u>	<u>5,159,700</u>	<u>5,159,700</u>

- (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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

5. Funding Policy (continued...)

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

<u>Date of Payment</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	
	<u>Principal Payment</u> \$	<u>April 1</u> \$	<u>October 1</u> \$
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	-
	<u>150,761,400</u>	<u>12,023,221</u>	<u>12,023,221</u>

As part of the Plan conversion, the Province's requirement to make payments if the assets of the 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:

- 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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 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:

<u>Date of Payment</u>	<u>Principal Payments</u>	<u>Interest Payments</u>	
	<u>Principal Payment</u>	<u>January 1</u>	<u>July 1</u>
	\$	\$	\$
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	-
	<u>231,530,000</u>	<u>57,512,052</u>	<u>57,512,052</u>

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.

**PRINCE EDWARD ISLAND
CIVIL SERVICE SUPERANNUATION FUND**

Notes to Financial Statements
March 31, 2016

6. Operating Expenses

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

	<u>2016</u>	<u>2015</u>
	\$	\$
Administration expenses - pension section	917,814	923,598
- investment section	<u>119,472</u>	<u>115,621</u>
	1,037,286	1,039,219
Consulting fees	852,902	427,763
Actuarial fees	91,683	322,316
Investment expenses		
Custodian	195,056	218,126
Monitoring	263,184	188,617
Management	<u>4,959,836</u>	<u>4,681,679</u>
	<u>7,399,947</u>	<u>6,877,720</u>

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, 2016, totalled \$1,213,305 (2015 - \$1,046,398).

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 \$734,647 (2015 - \$754,460) and recoveries related to the Investment section totalled \$119,472 (2015 - \$115,621). Other costs recovered by the Province totalled \$145,862 (2015 - \$142,603).

The total amount payable to the Province at March 31, 2016, was \$1,137,645 (2015 - \$1,153,988).

Total notes, special contribution and interest receivable from the Province at March 31, 2016, was \$340,976,304 (2015 - \$361,576,258).

PRINCE EDWARD ISLAND CIVIL SERVICE SUPERANNUATION FUND

Notes to Financial Statements

March 31, 2016

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 who serves as Trustee for the Province's three registered pension plans.

9. Commitment

The Master Trust has entered into an arrangement with Global Infrastructure Partners (GIP) where it has committed to invest \$35 (US) million in its GIP II Fund. GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors; \$31.2 (US) million has been invested as of the audit report date.

In the current year, the Master Trust committed to invest \$75 (US) million with GIP in its GIP III Fund. As of the audit report date, \$48.3 (US) million has been invested.