

Financial Statements of

**THE EDMONTON PIPE INDUSTRY  
PENSION TRUST FUND**

Year ended December 31, 2015



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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of The Edmonton Pipe Industry Pension Trust Fund

We have audited the accompanying financial statements of The Edmonton Pipe Industry Pension Trust Fund, which comprise the statement of financial position as at December 31, 2015, the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes, comprising 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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about 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 our 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, we consider 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.



We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Edmonton Pipe Industry Pension Trust Fund as at December 31, 2015, and the changes in its net assets available for benefits and the changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

*KPMG LLP*

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Chartered Professional Accountants

May 18, 2016  
Edmonton, Canada

# **THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND**

Financial Statements

Year ended December 31, 2015

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# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

## Statement of Financial Position

December 31, 2015, with comparative information for 2014

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 10,197,601	\$ 32,650,821
Investments (note 4)	1,591,750,078	1,425,467,376
Contributions receivable	5,497,719	5,552,527
Accounts receivable	92,838	83,027
Prepaid expenses and deposits	35,512	16,771
	<u>1,607,573,748</u>	<u>1,463,770,522</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	2,275,269	1,177,189
Amounts due to other pension funds (note 5)	692,333	828,009
Due to The Edmonton Pipe Industry Health and Welfare Fund (note 6)	46,211	23,946
	<u>3,013,813</u>	<u>2,029,144</u>
Net assets available for benefits	1,604,559,935	1,461,741,378
Pension obligations (note 7)	1,240,337,000	1,135,462,000
Accumulated surplus	<u>\$ 364,222,935</u>	<u>\$ 326,279,378</u>

See accompanying notes to financial statements.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

## Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Increase in net assets:		
Investment and other income (note 8)	\$ 135,284,966	\$ 150,254,827
Employer contributions (note 9)	84,269,640	90,434,993
Pension credits and reciprocal transfers in	3,206,260	2,665,314
	<u>222,760,866</u>	<u>243,355,134</u>
Decrease in net assets:		
Benefit payments:		
Retirement	43,492,212	39,363,509
Transfers and lump sum payments	17,037,011	13,242,499
Death benefits	888,780	366,981
Pension credits and reciprocal transfers out	7,242,348	10,882,267
Investment manager and custodian fees	9,896,265	8,677,073
Administrative expenses (note 10)	1,385,693	1,260,337
	<u>79,942,309</u>	<u>73,792,666</u>
Increase in net assets available for benefits	142,818,557	169,562,468
Net assets available for benefits, beginning of year	1,461,741,378	1,292,178,910
Net assets available for benefits, end of year	<u>\$ 1,604,559,935</u>	<u>\$ 1,461,741,378</u>

See accompanying notes to financial statements.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

## Statement of Changes in Pension Obligations

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Pension obligations, beginning of year	\$ 1,135,462,000	\$ 1,116,830,000
Benefit improvement, effective January 1 <sup>st</sup> , 2015	12,971,000	-
Benefits accumulated	54,312,000	56,687,000
Pension credits and reciprocal transfers in	3,206,000	2,665,000
Reciprocal transfers out	-	(20,000)
Benefits paid	(61,418,000)	(52,973,000)
Interest on pension obligations	66,037,000	61,601,000
Impact of assumption changes	26,138,000	(45,046,000)
Impact of plan amendment	-	1,501,000
Net experience gains	3,629,000	(5,783,000)
Pension obligations, end of year	\$ 1,240,337,000	\$ 1,135,462,000

See accompanying notes to financial statements.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements

Year ended December 31, 2015

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## 1. Description of the Plan:

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada, Local 488 (the "Union") and the Construction Labour Relations - an Alberta Association Mechanical (Provincial) Trade Division Pursuant to Registration Certificate No. 27 (the "Party Employers") entered into an agreement and declaration of trust dated October 1, 1968 (the "Pension Trust Agreement") which has been amended and restated as of August 13, 2007. The Pension Trust Agreement provides for the establishment, maintenance, investment and administration of a trust fund known as The Edmonton Pipe Industry Pension Trust Fund (the "Pension Fund") created pursuant to The Edmonton Pipe Industry Pension Plan (the "Plan") which includes all restatements and amendments to January 1, 2015. The Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 1, 1965 (the "Collective Agreement") and renewed for the period until April 30, 2019.

The following is a brief summary of the main provisions of the Plan in effect at December 31, 2015. It is not intended as a complete description of the Plan. For more complete information, reference should be made to the Plan documents.

### (a) Eligibility for membership:

The Plan covers employees of the Party Employers that are bound by the Collective Agreement to contribute to the Pension Fund and other parties as determined by the Plan.

### (b) Pension benefit:

Effective January 1, 2015, for each full 100 covered hours, a member earns an additional monthly pension benefit of \$6.59 for service on or after January 1, 2015. (\$6.40 to December 31, 2014).

### (c) Contributions:

Members do not contribute to the Pension Fund. Employers contribute to the Pension Fund at the rates specified in the Collective Agreement.



# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 1. Description of the Plan (continued):

### (d) Retirement dates:

#### (i) Normal retirement date:

The normal retirement date is the first day of the month coincident with or next following the member's 65th birthday.

#### (ii) Early retirement date:

If a member has a vested pension, the member may choose to retire as early as age 55.

#### (iii) Postponed retirement:

Pension commencement may be postponed, and pension credits may continue to accrue up to the end of November of the year during which the member attains age 71.

### (e) Retirement benefits:

#### (i) Normal retirement:

If a member retires on their normal retirement date, the member will be entitled to the pension that was accrued prior to retirement.

#### (ii) Early retirement pension:

If a member retires early, they will be entitled to a pension that is calculated the same way as for a normal retirement. If the member does not qualify for the special early retirement pension:

1. Their earned pension is actuarially reduced from age 65; or
2. For a qualified member retiring after age 60, their earned pension is reduced by 3 percent for each year that their actual retirement age precedes the normal retirement age.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 1. Description of the Plan (continued):

### (e) Retirement benefits (continued):

#### (ii) Early retirement pension (continued):

A qualified member retiring after attaining age 58, but prior to their normal retirement age, is entitled to a special early retirement pension if the sum of their age and years of credited service equal at least 80 points for ages 58 and 59, and 75 points after age 60, provided they have at least 15 years of credited service. The special early retirement pension is an unreduced pension commencing on their early retirement date.

#### (iii) Postponed retirement pension:

A member may elect to postpone retirement. In that case, benefits continue to accrue.

Upon the member's actual retirement date, they will be entitled to their accrued benefit without any actuarial adjustment or increase.

### (f) Survivor benefits:

#### (i) Death prior to receipt of a pension:

If a member not in receipt of a pension dies after accruing a vested pension, their surviving spouse shall receive an immediate lifetime pension. The amount of monthly pension payable to them is the lesser of the amount of the monthly pension earned by the member prior to their death or 66-2/3% of their earned pension plus the amount they would have earned had they worked to age 65, subject to the minimum standards under the Employment Pension Plans Act. In lieu of a monthly pension, the surviving spouse may elect to receive a commuted value equal to the deceased members termination benefit calculated as if the member had terminated at their date of death.

No death benefit is payable in respect of any accrued pension which was not vested in the member at the time of their death. Benefits earned prior to October 1, 1999 vest after the member completes five years of vesting service. Benefits earned after September 30, 1999 vest after the member completes two years of vesting service. Benefits earned on or after September 1, 2014 are immediately vested.

If a member dies without a spouse the member's beneficiary or estate shall receive the commuted value of any vested pension earned.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 1. Description of the Plan (continued):

### (f) Survivor benefits (continued):

#### (ii) Death while in receipt of a pension:

For a member in receipt of a pension who does not have a spouse at the time of their death, all payments would cease upon the death of the member. Effective with retirements on or after March 1, 2014 the normal form of pension for a member without a spouse at retirement is Life, guaranteed 10 years.

For a member who retired prior to January 1, 1992 who has a spouse at the time of their death, 75% of their monthly pension will be payable to their spouse after their death. For a member who retired on or after January 1, 1992 who has a spouse at the time of their death, the normal form of pension provides that 66-2/3% of their monthly pension will be payable to their spouse after their death.

Notwithstanding the foregoing, for a member who retired prior to the introduction of the long-term disability plan who dies prior to age 65 while in receipt of a disability pension, the spouse shall receive a survivor pension equal to the lesser of 66-2/3% of the monthly pension the member was receiving at the time of their death and the amount of pension accrued by the member to the date of their death.

For any member who elected an optional form of pension at the time of their retirement, any applicable survivor benefits will be payable in accordance with the terms of the optional form of pension chosen.

### (g) Termination benefits:

A member terminating membership in the Plan after seven years of vesting service is entitled to receive a deferred pension from the Plan. A member terminating membership in the Plan after five years of vesting service is entitled to a deferred pension from the Plan in respect of their credited service after October 1, 1986. A member terminating their membership in the Plan after two years of vesting service is entitled to a deferred pension from the Plan in respect of their credited service after October 1, 1999. A member terminating membership before two years of vesting service is not entitled to receive any benefits from the Plan. Effective September 1, 2014, a member terminating membership in the Plan is entitled to a deferred pension from the Plan.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 1. Description of the Plan (continued):

### (g) Termination benefits (continued):

The normal, special and early retirement provisions applicable to a qualified member with deferred pension entitlements correspond to the provisions applicable to a qualified member as noted under the Retirement benefits section above. For other members entitled to deferred pensions, the pension is payable commencing at age 65. However, a member may elect to receive an actuarially reduced early retirement pension as early as age 55.

If a member is entitled to a deferred pension, and is under the age of 55, they may also transfer the commuted value of that pension into another retirement vehicle in accordance with the applicable federal and provincial legislation.

### (h) Disability:

A member who is in receipt of benefits from the long-term disability plan sponsored by The Edmonton Pipe Industry Health and Welfare Fund ("Health and Welfare Fund") shall be credited with deemed hours of covered employment at the average rate earned by all active members during the previous plan year.

All other members with a vested pension who become totally and permanently disabled are entitled to receive an immediate monthly pension equal to the vested pension earned prior to their becoming disabled.

### (i) Post retirement benefits for retired members:

An amendment to the Plan was approved by the Trustees on September 7, 2007, effective January 1, 2007, to permit contributions for retired members under age 71 returning to work with a contributing employer to accrue for the benefit of the retired member. The contributions received by the Pension Fund, for work periods after the retired members' initial retirement date, are held with the general assets of the Pension Fund and are immediately vested. For work periods after the retired member's initial retirement date and prior to October 1, 2009, the entire employer contribution accrues for the benefit of the retired member. For work periods after the retired member's initial retirement date and between September 30, 2009 and December 31, 2014, a portion of the employer contribution, based on the Plan's current service cost rate, accrues for the benefit of the retired member. For work periods after the retired member's initial retirement date and after January 1, 2015, the entire employer contribution less a 5% administrative fee accrues for the benefit of the retired member. Upon subsequent retirement, a benefit will be transferred to a Locked-In Retirement Account ("LIRA") on behalf of the retired member.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 2. Basis of preparation:

### (a) Basis of presentation:

These financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and present information about the aggregate financial position of the Pension Fund and the net assets available to meet future benefit payments.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Pension Fund to comply (on a consistent basis) with either International Financial Reporting Standards ("IFRS") in Part I of the CPA Canada Handbook - Accounting or Canadian Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook - Accounting. The Pension Fund has chosen to comply on a consistent basis with IFRS.

These financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

### (b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for financial instruments which are recorded at fair value through changes in net assets available for benefits.

### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Pension Fund's functional currency.

### (d) Use of estimates and judgments:

The preparation of the financial statements in conformity with Canadian accounting standards for pension plans requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of financial position and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies:

(a) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on translation are recognized in the statement of changes in net assets available for benefits as changes in net unrealized gains on investments.

(b) Investment transactions, income recognition and transaction costs:

(i) Investment transactions:

Investment transactions are accounted for on a settlement date basis.

(ii) Income recognition:

Income from investments is recorded on an accrual basis and includes interest income, dividends, pooled investment income and earnings from private equity and alternative fixed income investments.

(a) Interest:

Interest income, including interest income from non-derivative financial assets at fair value through profit or loss, are recognized in the statement of changes in net assets available for benefits, using the effective interest method.

(b) Dividend income:

Dividend income is recognized in the statement of changes in net assets available for benefits on the date that the right to receive payment is established, usually the ex-dividend date.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 3. Significant accounting policies (continued):

(b) Investment transactions, income recognition and transaction costs (continued):

(ii) Income recognition (continued):

(c) Pooled investment income:

Income from pooled investments is comprised of interest, dividends and realized gains from Canadian and foreign sources and is recognized in the statement of changes in net assets available for benefits when earned.

(d) Earnings from private equity and alternative fixed income investments:

Income from private equity and alternative fixed income investments is comprised of interest, real estate operating income and other investment related income and is recognized in the statement of changes in net assets available for benefits when earned.

(iii) Transaction costs:

Brokers' commissions and other transaction costs are recognized in the statement of changes in net assets available for benefits when incurred.

(c) Financial assets and financial liabilities:

(i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Pension Fund becomes a party to the contractual provisions of the instrument.

The Pension Fund derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Pension Fund neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain on sale of investments.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 3. Significant accounting policies (continued):

### (c) Financial assets and financial liabilities (continued):

#### (i) Non-derivative financial assets (continued):

The Pension Fund classifies all of its financial assets at fair value through the statement of changes in net assets available for benefits if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through the statement of changes in net assets available for benefits if the Pension Fund manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Pension Fund's documented Statement of Investment Policies and Procedures (the "SIPP"). Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Financial assets at fair value through changes in net assets available for benefits are measured at fair value and changes therein are recognized in the statement of changes in net assets available for benefits.

#### (ii) Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Pension Fund becomes a party to the contractual provisions of the instrument.

The Pension Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Pension Fund has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Pension Fund considers its accounts payable and accrued liabilities, amounts due to other pension funds and due to the Health and Welfare Fund to be non-derivative financial liabilities.

#### (iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.



# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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### 3. Significant accounting policies (continued):

(d) 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.

In determining fair value, the Pension Fund has adopted the guidance in IFRS 13, Fair Value Measurement ("IFRS 13"), in Part I of the CPA Canada Handbook. As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Pension Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Pension 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 Pension Fund establishes fair value using valuation techniques that 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, discounted cash flow analyses and option pricing models.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in changes in net assets available for benefits on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statement of changes in net assets available for benefits as part of the changes in net unrealized gains on investments.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 3. Significant accounting policies (continued):

### (d) Fair value measurement (continued):

Fair values of investments are determined as follows:

- (i) Cash and cash equivalents are recorded at cost, which together with accrued interest income, approximates fair value.
- (ii) Canadian and non-Canadian equities and fixed income securities are valued on the basis of quoted closing prices where available. Where quoted prices are not available, estimated values are calculated using comparable securities.
- (iii) Private equities, infrastructure investments, real estate investments and other alternative fixed income investments are held through ownership in limited partnership arrangements or other similar investment vehicles. Fair value is determined based on relevant information reported by the General Partner using accepted industry valuation methods using valuations as of December 31 being the most recently available market information. These methods include considerations such as earnings multiples of comparable publicly-traded companies, discounted cash flows and third party transactions, or other events which would suggest a change in value of the investment.
- (iv) Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Unrealized gains and losses on derivative financial instruments, net of premiums paid or received on options contracts, are included in derivative contracts investments.

### (e) Common expenses:

Certain expenses are shared equally between the Pension Fund and the Health and Welfare Fund, an organization operating out of the same premises and under the same Board of Trustees and management.

### (f) Income taxes:

The Plan is a registered pension plan, as defined by the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 4. Investments:

	2015	2014
By investment manager:		
Direct investments:		
Letko, Brosseau & Associates Inc.	\$ 196,848,864	\$ 287,512,403
	196,848,864	287,512,403
Pooled funds:		
Phillips, Hager & North Investment Management Ltd.	338,806,476	291,367,642
Gryphon International Investment Corporation	147,010,110	118,878,854
Orbis Institutional Global Equity	130,612,421	110,336,143
QV Investors Inc.	118,104,928	123,410,789
Connor, Clark & Lunn Investment Management Ltd.	110,347,191	115,700,663
Basso Capital Management	41,842,501	34,022,036
CIBC Global Asset Management Inc.	3,047,548	2,814,601
	889,771,175	796,530,728
Alternative fixed income:		
Trez Capital Finance LP	55,039,780	39,304,931
Duet European Real Estate Debt Fund	25,426,556	17,371,235
Brookfield Asset Management Inc.	25,187,191	13,084,098
Wellington Financial LP	20,863,241	9,029,145
White Oak Global Advisors	20,705,804	-
Trez Capital Yield Trust	4,393,235	3,641,536
Velocity Trade	14,404	86,268
	151,630,211	82,517,213
Infrastructure:		
Brookfield Asset Management Inc.	47,963,600	32,400,636
JP Morgan Infrastructure Investments Fund	38,458,430	21,967,064
Infracapital	9,783,812	7,004,028
Macquarie Infrastructure Partners Inc.	6,693,624	(373,028)
	102,899,466	60,998,700

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 4. Investments (continued):

	2015		2014			
By investment manager (continued):						
Private equities:						
Brookfield Asset Management Inc.	\$	30,911,445	\$	11,073,469		
Marathon Asset Management		41,598,054		34,718,583		
Northleaf Capital Partners		15,327,258		12,834,932		
Clairvest Equity Partners		13,061,336		8,537,561		
Standard Life International Private Equity		10,244,003		10,903,466		
Cyprium Capital Partners		9,435,741		7,834,959		
MB Global Partners		7,937,095		7,192,691		
<u>GE Asset Management Fund</u>		<u>5,670,193</u>		<u>3,549,903</u>		
		134,185,125		96,645,564		
Real estate:						
Brookfield Asset Management Inc.		48,232,467		36,512,814		
Manulife Financial (previously Standard Life)		42,512,656		40,333,062		
Bentall Kennedy Prime Canadian Property Fund		<u>25,670,114</u>		<u>24,416,892</u>		
		116,415,237		101,262,768		
		<u>\$ 1,591,750,078</u>		<u>\$ 1,425,467,376</u>		
		2015	%	2014	%	
By investment type:						
Cash and cash equivalents	\$	20,011,335	1.3	\$	18,303,975	1.3
Canadian equities		340,743,801	21.4		355,773,900	25.0
Non-Canadian equities		391,249,093	24.6		332,093,422	23.3
Fixed income securities		334,615,810	21.0		377,871,832	26.5
Alternative fixed income		151,630,211	9.5		82,517,214	5.8
Infrastructure		102,899,466	6.5		60,998,700	4.3
Private equities		134,185,125	8.4		96,645,565	6.7
Real estate		116,415,237	7.3		101,262,768	7.1
		<u>\$ 1,591,750,078</u>	<u>100.0</u>		<u>\$ 1,425,467,376</u>	<u>100.0</u>

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 5. Amounts due to other pension funds:

The Pension Fund has entered into reciprocal agreements with other pension funds. These agreements provide that contributions received on account of employees working outside of their local union jurisdiction are remitted on a monthly basis to the Pension Fund of which they are a member.

## 6. Due to the Edmonton Pipe Industry Health and Welfare Fund:

The amount due to the Health and Welfare Fund is non-interest bearing, unsecured and has no set terms of repayment.

## 7. Pension obligations:

These financial statements do not purport to indicate whether the assets of the Pension Fund, together with investment earnings thereon, plus future contributions, will be sufficient to finance all benefits to be provided under the Plan.

An actuarial valuation of the pension obligations of the Pension Plan was carried out by Mercer (Canada) Limited ("Mercer") and their determination of the funded position of the Pension Plan as of December 31, 2015. The pension obligations of the Pension Plan for the year ended December 31, 2014 were also based on an actuarial valuation carried out by Mercer as of December 31, 2014. The actuarial valuations were conducted on a going-concern basis whereby the relationship between assets and the value of accumulated benefits is determined using the unit credit actuarial cost method assuming the Plan is maintained indefinitely.

The assumptions used in determining the pension obligations were developed as the best estimate of expected future market conditions and other future events. After consultation with Mercer, the Board of Trustees adopted these best estimates. The major assumptions used in the valuations and related extrapolations, with comparison to the actual results, are as follows:

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	2015		2014	
	Valuation assumption	Actual	Valuation assumption	Actual
Investment return	5.59%	8.60%	5.76%	10.90%
Hours worked	10,000,000	11,735,482	12,000,000	12,128,177

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# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 7. Pension obligations (continued):

Investment return represents investment income net of investment manager and custodian fees.

The mortality table assumption used for the 2015 and 2014 valuations is 120% of the 2014 Private Sector Canadian Pensioners Mortality (CPM) table fully generational using scale CPM-B.

The Plan's funded position on a going concern basis is as follows:

	2015	2014
Net assets available for benefits	\$1,604,559,935	\$
Actuarial liability - present value of accrued benefits for:		
Active members	591,657,000	558,298,000
Pensioners and survivors	504,136,000	441,636,000
Disabled pensioners	42,366,000	41,840,000
Deferred pensioners	76,536,000	71,607,000
Post-retirement benefits for active retired members	25,642,000	22,081,000
	1,240,337,000	1,135,462,000
Funding excess as determined on a going concern basis	\$ 364,222,935	\$ 326,279,378
Funded ratio	129%	129%

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 8. Investment and other income:

	2015	2014
By investment type:		
Direct investments:		
Interest	\$ 1,348,683	\$ 3,743,106
Dividends	6,238,572	6,085,575
Pooled funds	21,104,478	17,652,374
Alternative fixed income, infrastructure, real estate and private equities	19,592,702	8,244,405
Realized gains on sale of investments	95,388,571	66,907,255
Realized foreign currency losses	(4,057,042)	(820,876)
Change in unrealized gains (losses) on investments	(88,145,924)	19,544,521
Change in unrealized foreign currency gains	<u>83,628,885</u>	<u>28,454,930</u>
	135,098,925	149,811,290
Other income	186,041	443,537
	<u>\$ 135,284,966</u>	<u>\$ 150,254,827</u>

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 9. Employer contributions:

Commencing November 4, 2012, contributions are made by employers at a negotiated rate of \$6.61 per hour. The *Alberta Employment Pension Plans Act* prescribes the minimum contributions that must be made to the Pension Fund. The minimum contributions in respect of a defined benefit component of a pension plan are comprised of going concern current services cost and special payments to fund any going concern or solvency shortfalls.

The minimum required contribution rates sufficient to meet the funding needs of the Pension Fund are as follows:

	2015	2014
Current service cost	\$ 4.728	\$ 4.774
Provision for adverse deviation	0.244	0.000
Special payments - unfunded liability	0.000	0.000
Special payments - solvency deficiency	0.000	0.000
Total minimum required contribution rate	4.972	4.774
Average negotiated contribution rate	6.610	6.610
Net margin	\$ 1.638	\$ 1.836

The negotiated employer contribution rate is sufficient to meet the current service and special payment requirements of the Pension Fund.



# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 10. Administrative expenses:

	2015	2014
Direct expenses:		
Administration fees	\$ 442,055	\$ 399,636
Actuarial and consulting fees	270,273	253,491
Investment consulting fees	188,940	206,000
Independent trustees fees	81,454	76,319
Audit	65,613	69,378
Legal	88,094	66,604
Registration	68,287	20,000
Insurance	7,620	-
Other expenses	1,996	3,993
	1,214,332	1,095,421
Common expenses shared with the Health and Welfare Fund (note 3(e)):		
Rent	127,932	127,932
Office expenses	83,038	71,704
Annual report to members	70,478	62,400
Travel, conferences and meeting expenses	16,666	32,202
Postage	39,744	31,144
Other shared expenses	4,864	4,450
	342,722	329,832
Less Health and Welfare Fund share	(171,361)	(164,916)
	171,361	164,916
	\$ 1,385,693	\$ 1,260,337

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 11. Capital risk management:

The main objective of the Pension Fund is to sustain a certain level of net assets in order to meet the pension obligations of the Plan. The Pension Fund fulfils its primary objective by adhering to specific investment policies outlined in its SIPP, which is reviewed annually by the Pension Fund Trustees. The Pension Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds in accordance with the approved SIPP. Increases in net assets are a direct result of investment income generated by investments held by the Pension Fund and contributions into the Pension Fund by Party Employers. The use of net assets is for benefit payments to eligible Plan members.

## 12. Financial instruments:

### (a) Fair values:

The fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable, accounts receivable, accounts payable and accrued liabilities, amounts due to other pension funds and due to The Edmonton Pipe Industry Health and Welfare Fund, approximate their carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of net assets available for benefits are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 - inputs for assets and liabilities that are not based on observable market data.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 12. Financial instruments (continued):

(a) Fair values (continued):

The following table illustrates the classification of the Pension Fund's financial instruments using the fair value hierarchy:

2015	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 20,011,335	\$ -	\$ -	\$ 20,011,335
Canadian equities	112,291,683	228,452,118	-	340,743,801
Non-Canadian equities	71,793,989	319,455,104	-	391,249,093
Fixed income securities	-	334,615,810	-	334,615,810
Alternative fixed income	-	-	151,630,211	151,630,211
Infrastructure	-	-	102,899,466	102,899,466
Private equities	-	-	134,185,125	134,185,125
Real estate	-	-	116,415,237	116,415,237
	\$ 204,097,007	\$ 882,523,032	\$ 505,130,039	\$ 1,591,750,078

  

2014	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 18,303,975	\$ -	\$ -	\$ 18,303,975
Canadian equities	116,667,338	239,106,562	-	355,773,900
Non-Canadian equities	68,892,076	263,201,346	-	332,093,422
Fixed income securities	-	377,871,832	-	377,871,832
Alternative fixed income	-	-	82,517,214	82,517,214
Infrastructure	-	-	60,998,700	60,998,700
Private equities	-	-	96,645,565	96,645,565
Real estate	-	-	101,262,768	101,262,768
	\$ 203,863,389	\$ 880,179,740	\$ 341,424,247	\$ 1,425,467,376

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 12. Financial instruments (continued):

(a) Fair values (continued):

The following table reconciles the Pension Fund's Level 3 fair value measurements for the years ended December 31:

2015	Alternative fixed income	Private equities	Infrastructure	Real estate	Total
Balance, beginning of year	\$ 82,517,214	\$ 96,645,565	\$ 60,998,700	\$ 101,262,768	\$ 341,424,247
Change in cash balance held with investment managers	1,798,640	295,639	(40,915)	-	2,053,364
Gain (loss) included in income	7,385,705	18,542,712	14,330,094	13,293,787	53,552,298
Purchases	77,313,177	24,619,681	24,963,136	1,287,010	128,183,004
Disposals and distributions	(20,650,396)	(6,770,064)	(3,087,794)	(2,459,411)	(32,967,665)
Net investment activity within investment manager	3,265,871	851,592	5,736,245	3,031,083	12,884,791
<b>Balance, end of year</b>	<b>\$ 151,630,211</b>	<b>\$ 134,185,125</b>	<b>\$ 102,899,466</b>	<b>\$ 116,415,237</b>	<b>\$ 505,130,039</b>
2014	Alternative fixed income	Private equities	Infrastructure	Real estate	Total
Balance, beginning of year	\$ 90,803,362	\$ 64,679,410	\$ 54,273,964	\$ 87,693,508	\$ 297,450,244
Change in cash balance held with investment managers	(2,243,908)	624,955	446,861	-	(1,172,092)
Gain (loss) included in income	5,827,424	14,181,498	8,107,163	8,652,951	36,769,036
Purchases	9,009,561	21,449,265	7,080,123	8,019,336	45,558,285
Disposals and distributions	(21,632,411)	(3,331,043)	(8,117,950)	(3,830,297)	(36,911,701)
Net investment activity within investment manager	753,186	(958,520)	(791,461)	727,270	(269,525)
<b>Balance, end of year</b>	<b>\$ 82,517,214</b>	<b>\$ 96,645,565</b>	<b>\$ 60,998,700</b>	<b>\$ 101,262,768</b>	<b>\$ 341,424,247</b>

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 12. Financial instruments (continued):

### (a) Fair values (continued):

There were no significant transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2015.

### (b) Associated risks:

#### (i) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the Pension Fund's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the Plan through construction of a diversified portfolio of instruments traded on various markets and across various industries.

The Pension Fund's investments in equities are also sensitive to market fluctuations. An immediate hypothetical decline of 10% in Canadian and non-Canadian equity values will impact the Pension Fund's equity investments by an approximate loss of \$73,199,289 (2014 - \$68,786,732).

#### (ii) Liquidity risk:

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Approximately 68.3% (2014 - 76.0%) of the Pension Fund's investments are in securities traded in public markets. These include Canadian and non-Canadian equity, which is approximately 46.0% (2014 - 48.3%) of the Pension Fund's total investments, cash and fixed income securities (classified as either Level 1 or 2 in the fair value hierarchy). Although market events could lead to some investments becoming illiquid, the diversity of the Pension Fund portfolios should ensure that liquidity is available for benefit payments. The Pension Fund also maintains cash on hand for liquidity purposes to pay accounts payable and accrued liabilities and to make additional investments. At December 31, 2015, the Pension Fund had cash in its operating bank account in the amount of \$10,197,601 (2014 - \$32,650,821) and in its investment accounts in the amount of \$20,011,335 (2014 - \$18,303,975).

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 12. Financial instruments (continued):

(b) Associated risks (continued):

(ii) Liquidity risk (continued):

The following table summarizes the maturities of the fixed income securities held as direct investments at the end of the period by the earlier of the contractual re-pricing dates or the maturity dates:

	2015	2014
Contractual re-pricing date for fixed rate instruments:		
Within 1 year	\$ 12,083,975	\$ 14,198,777
1 to 5 years	-	4,731,733
5 to 10 years	-	43,250,761
Over 10 years	-	21,793,700
	\$ 12,083,975	\$ 83,974,971

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Pension Fund primarily invests in financial instruments and enters into transactions denominated in various foreign currencies, other than its measurement currency. Consequently, the Pension Fund is exposed to 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 Pension Fund's assets or liabilities denominated in currencies other than the Canadian dollar.

As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 32.4% (2014 - 25.3%), or \$516,030,196 (2014 - \$360,433,029) of the Pension Fund's financial instruments are denominated in currencies other than the Canadian dollar.

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

## 12. Financial instruments (continued):

(b) Associated risks (continued):

(iii) Foreign currency risk (continued):

The following table summarizes the exposure to foreign currency investments if the value of the Canadian dollar increased by 10% against all currencies, and all other variables are held constant, as at December 31:

	2015		2014	
	Fair Value	Sensitivity	Fair Value	Sensitivity
Currency:				
U.S. dollar	\$ 470,575,825	\$ (47,057,583)	\$ 325,154,299	\$ (32,515,430)
British pound	35,210,368	(3,521,037)	24,375,264	(2,437,526)
Euro	10,244,003	(1,024,400)	10,903,466	(1,090,347)
<b>Total</b>	<b>\$ 516,030,196</b>	<b>\$ (51,603,020)</b>	<b>\$ 360,433,029</b>	<b>\$ (36,043,303)</b>

(iv) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Pension Fund. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Pension Fund's fixed income investments are primarily in Canadian-issued instruments and are diversified among federal, provincial, corporate and other issuers. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed, which limits the purchase of fixed income securities to those having a credit rating of BBB or higher by the Dominion Bond Rating Service. There were no significant concentrations of credit risk in the portfolio in either 2015 or 2014. The maximum credit risk exposure as at December 31, 2015 is \$491,836,578 (2014 - \$466,024,600), comprised of contributions receivable and accounts receivable of \$5,590,557 (2014 - \$5,635,554) and fixed income securities and alternative fixed income of \$ 486,246,021 (2014 - \$460,389,046).

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2015

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## 12. Financial instruments (continued):

(b) Associated risks (continued):

(v) Interest rate risk:

Interest rate risk is the risk that the market value of the Pension Fund's investments will fluctuate due to changes in market interest rates. To properly manage the Pension Fund's interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored.

## 13. Comparative information:

Certain comparative information has been reclassified to conform with the financial statements presentation adopted in the current year.