

Financial Statements of

**THE EDMONTON PIPE INDUSTRY
PENSION TRUST FUND**

Year ended December 31, 2016



KPMG LLP
2200, 10175 - 101 Street
Edmonton AB T5J 0H3
Canada
Telephone (780) 429-7300
Fax (780) 429-7379

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, 2016, 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, 2016, 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

Chartered Professional Accountants

May 24, 2017
Edmonton, Canada

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Financial Statements

Year ended December 31, 2016

Statement of Financial Position	1
Statement of Changes in Net Assets Available for Benefits	2
Statement of Changes in Pension Obligations	3
Notes to Financial Statements	4

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
ASSETS		
Cash	\$ 29,416,328	\$ 10,197,601
Investments (note 4)	1,706,388,528	1,591,750,078
Contributions receivable	4,455,768	5,497,719
Accounts receivable	90,451	92,838
Prepaid expenses and deposits	34,324	35,512
	<u>1,740,385,399</u>	<u>1,607,573,748</u>
LIABILITIES		
Accounts payable and accrued liabilities	1,330,434	2,275,269
Amounts due to other pension funds (note 5)	414,208	692,333
Due to The Edmonton Pipe Industry Health and Welfare Fund (note 6)	8,154	46,211
	<u>1,752,796</u>	<u>3,013,813</u>
Net assets available for benefits	1,738,632,603	1,604,559,935
Pension obligations (note 7)	1,311,481,000	1,240,337,000
Accumulated surplus	<u>\$ 427,151,603</u>	<u>\$ 364,222,935</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, 2016, with comparative information for 2015

	2016	2015
Increase in net assets:		
Investment and other income (note 8)	\$ 140,543,867	\$ 135,284,966
Employer contributions (note 9)	82,126,439	84,269,640
Pension credits and reciprocal transfers in	2,809,876	3,206,260
	<u>225,480,182</u>	<u>222,760,866</u>
Decrease in net assets:		
Benefit payments:		
Retirement	47,328,356	43,492,212
Transfers and lump sum payments	24,172,932	17,037,011
Death benefits	1,133,480	888,780
Pension credits and reciprocal transfers out	5,374,038	7,242,348
Investment manager and custodian fees	11,960,829	9,896,265
Administrative expenses (note 10)	1,437,879	1,385,693
	<u>91,407,514</u>	<u>79,942,309</u>
Increase in net assets available for benefits	134,072,668	142,818,557
Net assets available for benefits, beginning of year	1,604,559,935	1,461,741,378
Net assets available for benefits, end of year	<u>\$ 1,738,632,603</u>	<u>\$ 1,604,559,935</u>

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Statement of Changes in Pension Obligations

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Pension obligations, beginning of year	\$ 1,240,337,000	\$ 1,135,462,000
Benefit improvement, effective January 1 st , 2015	-	12,971,000
Benefits accumulated	56,148,000	54,312,000
Pension credits and reciprocal transfers in	2,784,000	3,206,000
Reciprocal transfers out	(169,000)	-
Benefits paid	(72,635,000)	(61,418,000)
Interest on pension obligations	68,947,000	66,037,000
Impact of assumption changes	11,190,000	26,138,000
Net experience gains	4,879,000	3,629,000
Pension obligations, end of year	\$ 1,311,481,000	\$ 1,240,337,000

See accompanying notes to financial statements.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements

Year ended December 31, 2016

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 Plan is a registered trust with Canada Revenue Agency under registration number T12-6438-85.

The following is a brief summary of the main provisions of the Plan in effect at December 31, 2016. 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 a monthly pension benefit of \$6.59 for service on or after January 1, 2015.

(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, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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 or pension obligations, 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 financial activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan nor the benefit security of individual Plan members.

These financial statements have been prepared in accordance with the significant accounting policies set out below.

(b) Basis of measurement:

The financial statements have been prepared on the historical cost basis except for investments and derivative financial instruments which are recorded at fair value through the statement of 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 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.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

2. Basis of preparation (continued):

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

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.

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.

(b) Income recognition:

Investment income is recorded on an accrual basis and includes interest, dividends and other income.

(c) Financial assets and financial liabilities:

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. Upon initial recognition, attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred.

The Pension Fund measures all of its investments at fair value through the statement of changes in net assets available for benefits.

All other non-derivative financial assets including contributions receivable and accounts receivable are measured at amortized cost.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

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

(i) Financial assets (continued):

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 derecognition 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.

(ii) 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 expired.

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.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits when, and only when, the Plan 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 EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(d) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at 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.

Fair values of investments are determined as follows:

Cash and cash equivalents are recorded at cost, which together with accrued investment income approximates fair value.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Significant accounting policies (continued):

(d) Fair value measurement (continued):

Bonds and equities are valued at year-end quoted closing prices where available. Where quoted prices are not available, estimated fair values are calculated using comparable securities.

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.

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.

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) Net realized gain on sale of investments:

The net realized gain on sale of investments is the difference between proceeds received and the average cost of investments sold.

(f) Common expenses:

Certain expenses are shared equally between the Pension Fund and The Edmonton Pipe Industry Health and Welfare Fund and (the "Health and Welfare Fund"), an organization operating out of the same premises and under the same Board of Trustees and management.

(g) 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, 2016

4. Investments:

	2016	2015
By investment manager:		
Direct investments:		
Letko, Brosseau & Associates Inc.	\$ 99,245,045	\$ 196,848,864
	99,245,045	196,848,864
Pooled funds:		
Phillips, Hager & North Investment Management Ltd.	323,450,135	338,806,476
Orbis Institutional Global Equity	168,059,881	130,612,421
Morgan Stanley Investment Management	152,214,878	-
QV Investors Inc.	150,472,551	118,104,928
Connor, Clark & Lunn Investment Management Ltd.	129,409,605	110,347,191
Basso Capital Management	43,106,030	41,842,501
CIBC Global Asset Management Inc.	3,361,056	3,047,548
Gryphon International Investment Corporation	6,178	147,010,110
	970,080,314	889,771,175
Alternative fixed income:		
Trez Capital Finance LP	41,094,513	55,039,780
Brookfield Asset Management Inc.	31,574,854	25,187,191
Duet European Real Estate Debt Fund	29,553,695	25,426,556
White Oak Global Advisors	23,918,360	20,705,804
Trez Capital Yield Trust	22,257,879	4,393,235
Wellington Financial LP	21,763,668	20,863,241
Velocity Trade	3,942,279	14,404
	174,105,248	151,630,211
Infrastructure:		
Brookfield Asset Management Inc.	63,491,323	47,963,600
JP Morgan Infrastructure Investments Fund	35,274,682	38,458,430
Macquarie Infrastructure Partners Inc.	34,440,269	6,693,624
Infracapital	16,085,294	9,783,812
	149,291,568	102,899,466

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

4. Investments (continued):

	2016	2015		
By investment manager (continued):				
Private equities:				
Marathon Asset Management	44,674,747	41,598,054		
Brookfield Asset Management Inc.	32,195,139	30,911,445		
Cyprum Capital Partners	22,667,312	9,435,741		
Clairvest Equity Partners	18,930,456	13,061,336		
Northleaf Capital Partners	13,243,243	15,327,258		
MB Global Partners	12,018,896	7,937,095		
Standard Life International Private Equity	7,507,979	10,244,003		
GE Asset Management Fund	2,829,450	5,670,193		
	154,067,222	134,185,125		
Real estate:				
Brookfield Asset Management Inc.	88,213,023	48,232,467		
Manulife Financial	44,386,333	42,512,656		
Bentall Kennedy Prime Canadian Property Fund	26,999,775	25,670,114		
	159,599,131	116,415,237		
	\$ 1,706,388,528	\$ 1,591,750,078		
	2016	2015		
	%	%		
By investment type:				
Cash and cash equivalents	\$ 4,027,936	0.2	\$ 20,011,335	1.3
Canadian equities	378,466,499	22.2	340,743,801	21.4
Non-Canadian equities	363,380,789	21.3	391,249,093	24.6
Fixed income securities	323,450,135	19.0	334,615,810	21.0
Alternative fixed income	174,105,249	10.2	151,630,211	9.5
Infrastructure	149,291,568	8.7	102,899,466	6.5
Private equities	154,067,222	9.0	134,185,125	8.4
Real estate	159,599,130	9.4	116,415,237	7.3
	\$ 1,706,388,528	100.0	\$ 1,591,750,078	100.0

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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, 2016. The pension obligations of the Pension Plan for the year ended December 31, 2015 were also based on an actuarial valuation carried out by Mercer as of December 31, 2015. 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:

	2016		2015	
	Valuation assumption	Actual	Valuation assumption	Actual
Investment return	5.53%	7.90%	5.59%	8.60%
Hours worked	8,000,000	11,751,262	10,000,000	11,735,482

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Pension obligations (continued):

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

The mortality table assumption used for the 2016 and 2015 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:

	2016	2015
Net assets available for benefits	\$ 1,738,632,603	\$ 1,604,559,935
Actuarial liability - present value of accrued benefits for:		
Active members	609,868,000	591,657,000
Pensioners and survivors	545,275,000	504,136,000
Disabled pensioners	46,795,000	42,366,000
Deferred pensioners	81,482,000	76,536,000
Post-retirement benefits for active retired members	28,061,000	25,642,000
	1,311,481,000	1,240,337,000
Funding excess as determined on a going concern basis	\$ 427,151,603	\$ 364,222,935
Funded ratio	133%	129%

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

8. Investment and other income:

	2016	2015
By investment type:		
Direct investments:		
Interest	\$ 59,079	\$ 1,348,683
Dividends	2,792,933	6,238,572
Pooled funds	34,149,029	21,104,478
Alternative fixed income, infrastructure, real estate and private equities	24,017,190	19,592,702
Realized gains on sale of investments	20,567,761	95,388,571
Realized foreign currency gains (losses)	13,512,968	(4,057,042)
Change in unrealized gains (losses) on investments	75,478,268	(88,145,924)
Change in unrealized foreign currency gains (losses)	(30,208,247)	83,628,885
	140,368,981	135,098,925
Other income	174,886	186,041
	\$ 140,543,867	\$ 135,284,966

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

	2016	2015
Current service cost	\$ 4.898	\$ 4.728
Provision for adverse deviation	0.452	0.244
Special payments - unfunded liability	0.000	0.000
Special payments - solvency deficiency	0.000	0.000
Total minimum required contribution rate	5.350	4.972
Average negotiated contribution rate	6.610	6.610
Net margin	\$ 1.260	\$ 1.638

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, 2016

10. Administrative expenses:

	2016	2015
Direct expenses:		
Administration fees	\$ 521,173	\$ 442,055
Actuarial and consulting fees	225,535	270,273
Investment consulting fees	150,192	188,940
Legal	119,888	88,094
Independent trustees fees	80,246	81,454
Audit	74,683	65,613
Registration	48,779	68,287
Insurance	30,819	7,620
Other expenses	17,586	1,996
	1,268,901	1,214,332
Common expenses shared with the Health and Welfare Fund (note 3(f)):		
Rent	127,932	127,932
Office expenses	90,038	83,038
Annual report to members	70,190	70,478
Postage	31,252	39,744
Travel, conferences and meeting expenses	14,710	16,666
Other shared expenses	3,834	4,864
	337,956	342,722
Less Health and Welfare Fund share	(168,978)	(171,361)
	168,978	171,361
	\$ 1,437,879	\$ 1,385,693

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Capital risk management:

The capital of the Pension Fund is represented by the net assets available for benefits. 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 Pension Fund, which are not presented or discussed in these financial statements.

The Pension Fund fulfils its primary objective by adhering to specific investment policies outlined in its Statement of Investment Policies and Procedures (the "SIPP"), which is reviewed annually by the Plan Trustees. The SIPP established on February 11, 2000 and was last amended on August 25, 2016.

The Pension Fund's investment was allocated within allowed asset categories in the SIPP, as of the date of the Pension Fund's financial statements. The following table presents the asset allocation for each asset category and total investments, along with appropriate benchmarks:

Asset category	Benchmark	Target Range (%)	2016	2015
Cash and cash equivalents	91 Day Treasury Bill	0.0 – 4.0	0.2	1.3
Canadian equities	S&P TSX Composite BMO Small Cap Unweighted Blended Index	10.0 – 35.0	22.2	21.4
Non-Canadian equities	MSCI World Index	10.0 – 30.0	21.3	24.6
Fixed income securities	FTSE TMX Canada Long Term Bond Index	15.0 – 30.0	19.0	21.0
Alternative fixed income	FTSE TMX Canada Universe Term Bond Index	5.0 – 20.0	10.2	9.5
Infrastructure	Canadian CPI + 6%	5.0 – 15.0	8.7	6.5
Private equities	MSCI World Index	5.0 – 15.0	9.0	8.4
Real estate	Canadian CPI + 5%	5.0 – 12.5	9.4	7.3
Total investments	Composite index	100.0	100.0	100.0

The Pension Fund's investments are within the asset allocation target ranges as at December 31, 2016.

The Pension Fund's investment positions expose it to a variety of financial risks which are discussed in note 12. The Pension Fund manages net assets by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employer contributions) in accordance with the approved SIPP. The allocation of assets among various asset categories is monitored by The Plan administrator on a monthly basis. A comprehensive review is conducted quarterly, which includes measurement of returns, comparison of returns to appropriate benchmarks, ranking of returns and risk analysis.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Capital risk management (continued):

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 the employers. The main 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.

There were no significant transfers between Level 1, Level 2 and Level 3 during the year ended December 31, 2016.

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

2016	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 4,027,936	\$ -	\$ -	\$ 4,027,906
Canadian equities	98,584,343	279,882,156	-	378,466,499
Non-Canadian equities	-	363,380,789	-	363,380,819
Fixed income securities	-	323,450,135	-	323,450,135
Alternative fixed income	-	-	174,105,248	174,105,248
Infrastructure	-	-	149,291,568	149,291,568
Private equities	-	-	154,067,222	154,067,222
Real estate	-	-	159,599,131	159,599,131
	\$ 102,612,279	\$ 966,713,080	\$ 637,063,169	\$ 1,706,388,528

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

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

2016	Alternative fixed income	Private equities	Infrastructure	Real estate	Total
Balance, beginning of year	\$ 151,630,211	\$ 134,185,125	\$ 102,899,466	\$ 116,415,237	\$ 505,130,039
Change in cash balance held with investment managers	(1,522,969)	(653,647)	(803,442)	-	(2,980,058)
Gain (loss) included in income	(219,489)	3,875,075	8,773,785	8,460,564	20,889,935
Foreign currency gain (loss) included in income	(6,452,014)	(3,622,256)	(5,691,950)	(1,739,454)	(17,505,674)
Purchases	46,673,264	20,071,622	41,988,276	40,490,590	149,223,752
Disposals and distributions	(33,191,429)	(11,550,392)	(3,871,803)	(6,185,486)	(54,799,110)
Net investment activity within investment manager	17,187,675	11,761,695	5,997,236	2,157,679	37,104,285
Balance, end of year	\$ 174,105,249	\$ 154,067,222	\$ 149,291,568	\$ 159,599,130	\$ 637,063,169

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

12. Financial instruments (continued):

(a) Fair values (continued):

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	489,136	830,113	1,908,209	5,429,990	8,657,448
Foreign currency gain (loss) included in income	6,896,569	17,712,599	12,421,885	7,863,797	44,894,850
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
Balance, end of year	\$ 151,630,211	\$ 134,185,125	\$ 102,899,466	\$ 116,415,237	\$ 505,130,039

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

12. Financial instruments (continued):

(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 \$74,184,732 (2015 - \$73,199,289).

(ii) Liquidity risk:

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

Approximately 62.7% (2015 - 68.3%) of the Pension Fund's investments are in securities traded in public markets. These include Canadian and non-Canadian equity, which is approximately 43.5% (2015 - 46.0%) 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, 2016, the Pension Fund had cash in its operating bank account in the amount of \$29,416,328 (2015 - \$10,197,601) and in its investment accounts in the amount of \$4,027,906 (2015 - \$20,011,335).

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

	2016	2015
Contractual re-pricing date for fixed rate instruments:		
Within 1 year	\$ 229,229	\$ 12,083,975
1 to 5 years	-	-
5 to 10 years	-	-
Over 10 years	-	-
	\$ 229,229	\$ 12,083,975

(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 Plan holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Plan 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 Plan'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 39.2% (2015 - 32.4%), or \$668,854,177 (2015 - \$516,030,196) of the Pension Fund's financial instruments are denominated in currencies other than the Canadian dollar. Such risk is mitigated by the diversification of the balanced fund's investments across many jurisdictions including Canada

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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:

	2016		2015	
	Fair Value	Sensitivity	Fair Value	Sensitivity
Currency:				
U.S. dollar	\$ 615,707,209	\$ (61,570,721)	\$ 470,575,825	\$ (47,057,583)
British pound	45,638,989	(4,563,899)	35,210,368	(3,521,037)
Euro	7,507,979	(750,798)	10,244,003	(1,024,400)
Total	\$ 668,854,177	\$ (66,885,418)	\$ 516,030,196	\$ (51,603,020)

(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. The SIPP restriction prohibits directly or indirectly investing more than 5% of assets in any one entity. Furthermore, the SIPP 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 2016 or 2015. The maximum credit risk exposure as at December 31, 2016 is \$502,101,603 (2015 - \$491,836,578), comprised of contributions receivable and accounts receivable of \$4,546,219 (2015 - \$5,590,557) and fixed income securities and alternative fixed income of \$497,555,384 (2015 - \$486,246,021).

THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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.