

**For the  
Members of  
The Edmonton  
Pipe Industry**

**Pension Trust Fund  
and  
Health and Welfare Fund**

**2016**  
**ANNUAL REPORT**

## **DIRECTORY**

The Edmonton Pipe Industry Pension Trust Fund  
and

The Edmonton Pipe Industry Health and Welfare Fund

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Website: [www.epibenefitplans.com](http://www.epibenefitplans.com) Pension Plan Registration Number 0546028

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Executive Administrator – Rick McAteer

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### **Legal Counsel**

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Marathon Asset Management, LP, New York, New York, USA

Phillips, Hager & North Investment Management Ltd., Vancouver, British Columbia

Letko Brosseau & Associates Inc., Montreal, Quebec

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Northleaf Capital Partners, Toronto, Ontario

JP Morgan Investment Management Inc., New York, New York, USA

Clairvest Group Inc., Toronto, Ontario

Manulife Financial Asset Management, Toronto, Ontario

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Orbis Investment Management – Bermuda

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MB Global Partners – New York, New York, USA

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Macquarie Infrastructure Partners – New York, New York, USA

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Wellington Financial, Toronto, Ontario

Morgan Stanley Investment Management, New York, New York USA

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### **Pension Plan Actuary**

Mercer (Canada) Limited, Calgary, Alberta

### **Pension Trust Fund Investment Counsel**

Ellement Consulting Group, Vancouver, British Columbia

### **Health and Welfare Plan Insurer**

Great-West Life, Winnipeg, Manitoba

### **Health and Welfare Fund Investment Managers**

Phillips, Hager & North Investment Management Ltd., Vancouver, British Columbia

TD Asset Management, Toronto, Ontario

### **Health and Welfare Plan Employee Assistance Program Provider**

Construction Employees Family Assistance Plan (CEFAP), Calgary, Alberta

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## Report of the Board of Trustees

We are pleased to present the Annual Report of the Pension Trust Fund and the Health and Welfare Fund for the fiscal year ended December 31, 2016.

### Board of Trustees

On December 31, 2016 Mr. Larry Matychuk completed his term as Business Manager of UA Local 488 and as a Trustee of the Plans. Mr. Matychuk, since his appointment to the Board of Trustees in 2001, was a key member of the Board - his contributions and wisdom will be missed.

In accordance with the By Laws of UA Local 488, Mr. Rodney Carlson was nominated for the position of Trustee to fill the vacancy from Mr. Matychuk's retirement. Mr. Carlson was welcomed to the Board at the February 2017 meeting.

The Board of Trustees met 5 times during the year ended December 31, 2016. In addition, the Board of Trustees has an Audit Committee which met twice in 2016.

Your Board of Trustees believes in the value of good governance practices and procedures. We have dedicated, well educated Trustees that are passionate about ensuring that Members continue to receive valuable benefits that are sustainable over the long term.

### Pension Trust Fund

As at December 31, 2016, the Pension Fund had net assets available for benefits of \$1.738 billion, an accumulated surplus of \$427.2 million and a good funded

ratio of 133%. At the end of Fiscal 2015 the Fund had net assets available for benefits of \$1.605 billion with an accumulated surplus of \$364.2 million and a funded ratio of 129%.

For the year ended December 31, 2016 the Fund earned a rate of return of 7.9% (8.6% for Fiscal 2015) net of all fees.

For more information about the Pension Plan's funding status at the end of Fiscal 2016, reference should be made to the Actuarial Valuation section of this Report. It is important to note that the investment earnings assumption in our actuarial valuation at December 31, 2016 was 5.53%.

Our commitment to the Members is to protect the benefits provided to you by the Pension Plan. We strive to accomplish this protection by continuing to manage the Pension Plan under a prudent investment strategy and to bring into play all of the resources we believe are appropriate. We believe that we continue to be one of the most financially secure pension plans in the province of Alberta.

The Plan's Members had contributions remitted on 11.7 million hours for the year ended December 31, 2016. Our expectation for hours worked was 8 million hours. The Pension Plan's target expectation for hours worked in the 2017 fiscal year remains at 8 million hours. Our ongoing monitoring of the economic environment, particularly the price of oil and gas, is critical to the funding formula for the Pension Plan.

## Report of the Board of Trustees (Cont'd)

### Pension Trust Fund (Cont'd)

Our funding policies require that the Plan be conservative in its estimates about the future. Therefore, the Trustees use caution when examining the Plan's economic assumptions. We believe that taking this approach helps to reduce the risk Plan Members bear. Pension benefits are always target benefits – they can change if funding cannot meet legislated standards. Conservatism in our economic assumptions should provide some margin to protect the Plan in times of economic uncertainty. We have to balance conservatism in funding against the benefits the Plan can provide. The Trustees believe that their processes have helped Members to be confident in the benefits provided by the Plan.

Diversification of the Fund's assets is critical to the success of the Plan and Fund. The Trustees review the Pension Fund's investment manager structure and asset mix. Our review is conducted using the due diligence information available and the guidance of the Plan's professional advisors. The Plan's asset mix is set with an understanding of the Plan's liabilities. Our asset mix also takes into consideration the risk and return profiles of major asset classes.

The Trustees regularly review, and amend when deemed necessary, the Funding and Benefits Policy and the Statement of Investment Policies and Procedures (SIPP). The SIPP is reviewed regularly with the last review taking place in August of 2016.

All of the Fund's investments are managed by professional investment managers. The investment managers are measured on an ongoing basis and compared to their peers by an independent party. The Trustees regularly meet with the investment managers.

The Plan's Funding and Benefits Policy will continue to guide the actions of the Trustees

as we evaluate the benefits provided by the Pension Plan.

A copy of the Funding and Benefits Policy and other Plan documents can be viewed on the Plan's website. In addition, Plan Members are entitled to examine or obtain various Plan documents as itemized in Sections 43 and 46 of the Alberta Pension Regulations.

### Health and Welfare Fund

On May 1, 2016 the respective Boards of Trustees of The Edmonton Pipe Industry Health and Welfare Fund and the Alberta Refrigeration Industry Benefit Plan entered into a merger agreement whereby all members of both Plans now obtain their benefits through The Edmonton Pipe Industry Health and Welfare Plan. The Edmonton Pipe Industry Health and Welfare Fund invoices, on a monthly basis, the Alberta Refrigeration Industry Benefit Plan for the costs of claims for the former Alberta Refrigeration Benefit Plan members. This invoicing will continue until the Alberta Refrigeration Industry Benefit Plan's assets are fully expended at which time the Edmonton Pipe Industry Health and Welfare Fund will assume liability for all costs and expenses related to the former Alberta Refrigeration Benefit Plan members.

The Health and Welfare Fund continues to be in very good financial condition. As at December 31, 2016, net assets available for benefits were \$128.1 million compared to \$124.2 million at December 31, 2015. During the year ended December 31, 2016, the Plan paid \$26.1 million for Members' health, dental, vision care, short term disability benefits and out of country medical claims in addition to \$6.1 million of premiums for life insurance, optional life insurance, accidental death and long term disability benefits.

## **Report of the Board of Trustees (Cont'd)**

Information on recent benefit plan improvements can be found on Page 53 of this Report.

The Trustees regularly review the Plan's benefits to ensure that the benefits delivered keep pace with changes in the health care industry. Of course, we must also ensure that the benefits provided are appropriate for the contributions paid to the Fund – the Members must be given the very best value for contributions that the Plan can prudently afford.

All of the services delivered by the Benefit Office, including preparation of retirement documents, are provided by our knowledgeable staff that is trained and skilled in the delivery of your benefits. The Trustees recognize and thank our staff for their dedication, care and professionalism in serving our Members.

Effective with the 2016 Annual Report the Trustees, in an effort to reduce overall costs, decided that distribution of Annual Reports will be done electronically for all Plan Members except Retirees. Retirees will continue, for the time being, to receive their copy of the Annual Report by mail. To that end, Annual Reports will be posted in the Newsroom section of the Plan's website [www.epibenefitplans.com](http://www.epibenefitplans.com). Those who wish to receive a paper copy of the Annual Report may visit the Administration Office to pick one up or call and one will be mailed to your home address.

Submitted on behalf of the Trustees,

Gordon Clanachan, FCA, ICD.D  
Chairman, Board of Trustees  
June, 2017

# PENSION FUND HIGHLIGHTS AND COMMENTARY

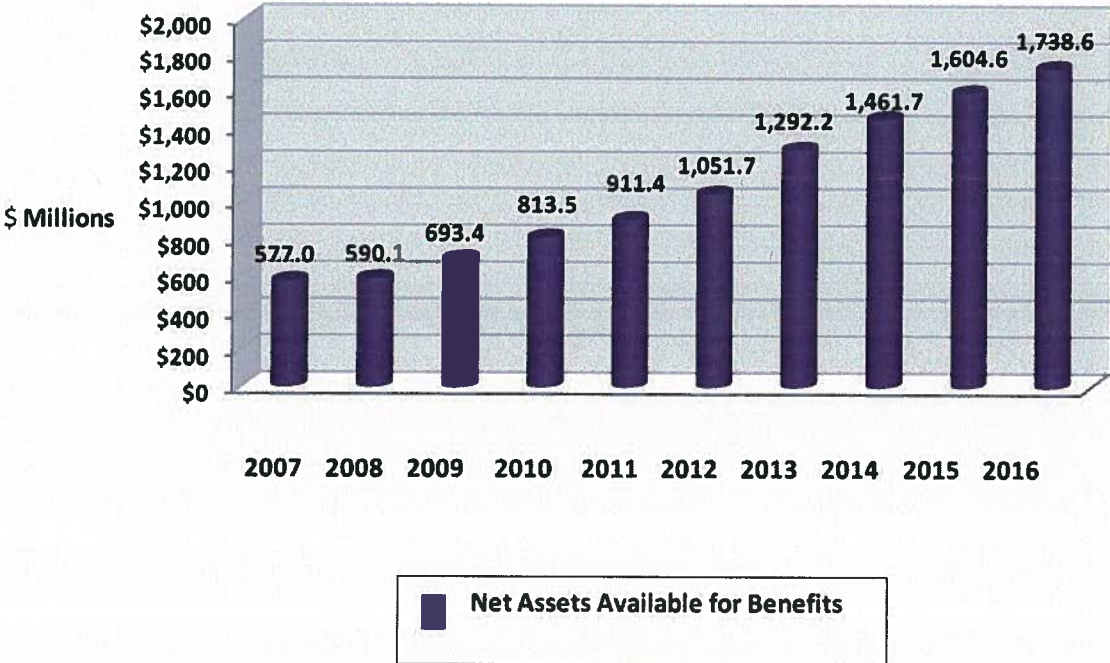
## Pension Fund Assets

At December 31, 2016, the Pension Fund had \$1.738 billion in net assets available for benefits. This is an increase of \$134.1 million compared to the net assets available for benefits at December 31, 2015. Net employer contributions in 2016 were \$82.1 million, a decrease of \$2.1 million compared to 2015.

The Pension Fund received net contributions in respect of 11.7 million hours worked during 2016. During 2015 the Fund received contributions in respect of 11.7 million hours.

The chart below illustrates the growth in the Pension Fund's net assets.

### GROWTH IN PENSION FUND NET ASSETS 2007 - 2016

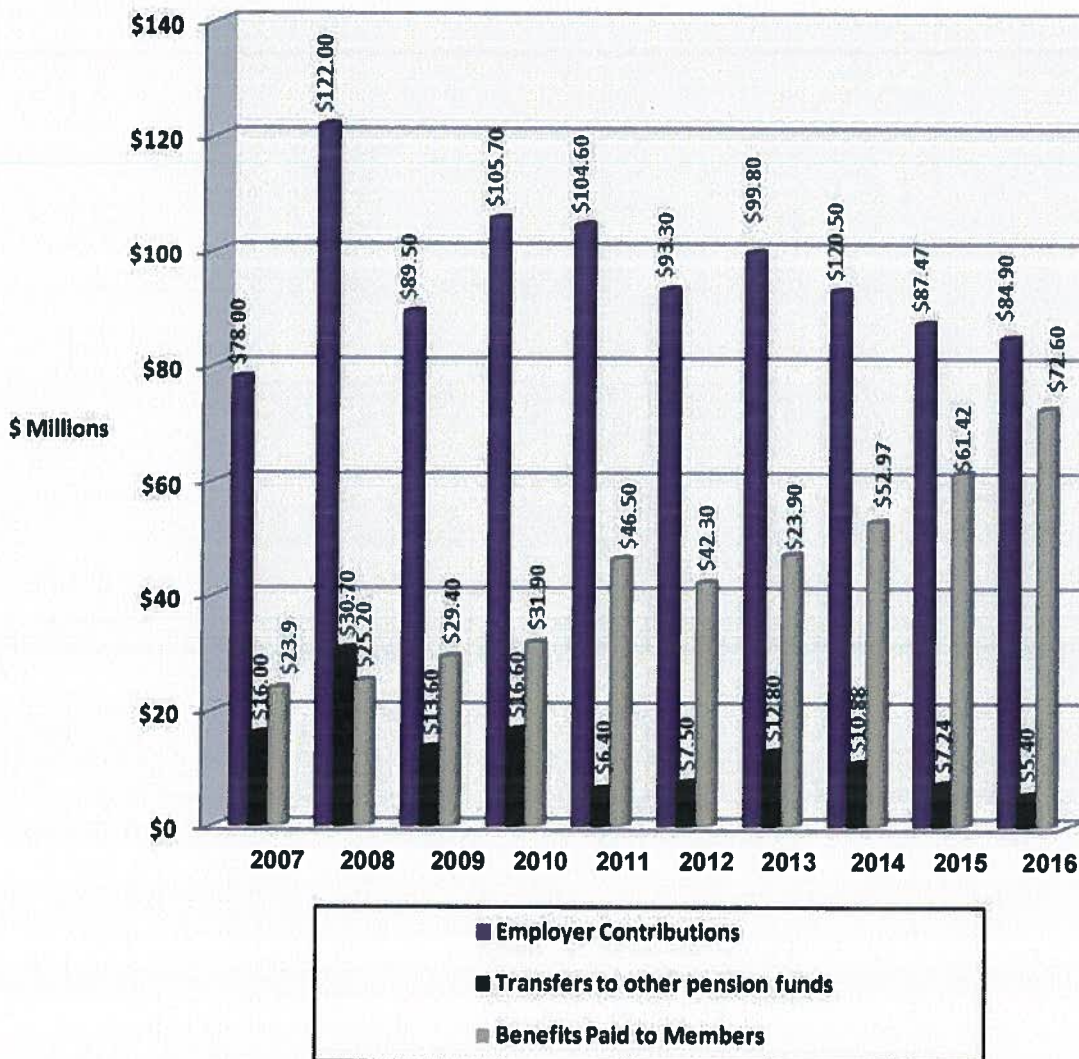


## Pension Fund Contributions

During 2016, contributing employers (including Reciprocal Transfers in) paid \$84.9 million into the Pension Fund on behalf of Members, compared to \$87.5 million in 2015.

From the \$84.9 million received, the Pension Fund transferred \$5.4 million to other pension funds on behalf of individuals who were subject to reciprocal agreements.

For the year ended December 31, 2016, the Pension Fund paid \$72.6 million (\$61.4 million in 2015) in pension, death and termination benefit payments.



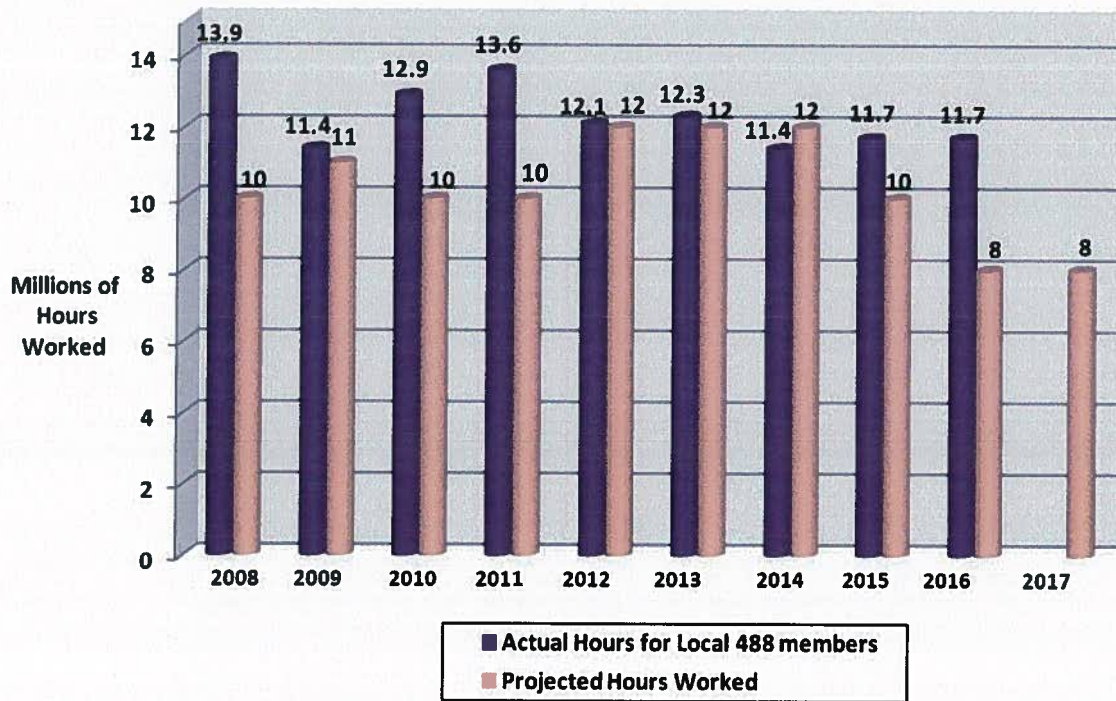


## Employer Contributions and Hours Reported to the Pension Fund

During the year ended December 31, 2016, the Pension Fund received employer contributions based on 12.52 million hours worked in the Local 488 jurisdiction. The Pension Fund transferred contributions based on 774,482 hours to other pension funds on behalf of union members who were not members of Local 488. In addition, Retired Members earned 720,902 hours. Therefore, the net contributions to the Pension Fund were based on 11.75 million hours worked by Local 488 Members.

For Fiscal 2017, the Pension Plan will use an assumption that 8 million hours will be worked by Local 488 Members. The Trustees gather information about the work outlook for Local 488 Members from sources including Local 488. The Trustees' assumption for hours worked, used for actuarial valuation purposes, is also discussed with the Pension Plan's actuary.

## PROJECTED AND ACTUAL HOURS WORKED BY MEMBERS 2008 – 2017



## Pension Fund Investment Rate of Return

The major market returns for the year ended December 31, 2016 (and compared to 2015 returns) were:

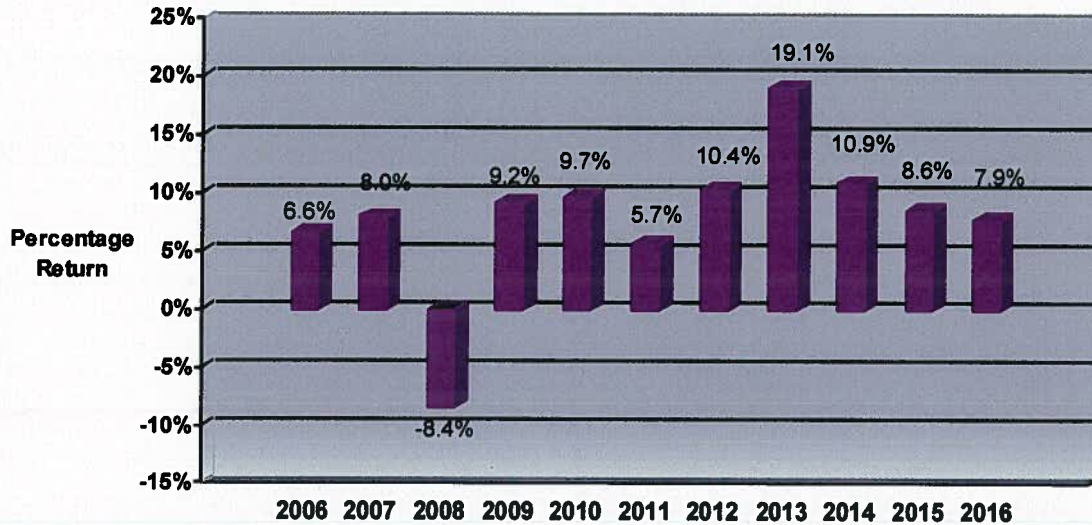
Market	Return for the Year Ended December 31, 2016	Return for the Year Ended December 31, 2015
S&P TSX Composite (Canadian Equities)	21.1%	-8.3%
Canadian Universe (Short Term) Bonds	1.7%	3.5%
S&P 500 (U.S. Equities)	8.1%	21.6%
MSCI EAFE (Global Equities)	-2.0%	19.4%
Canadian Treasury Bills	0.7%	0.6%

For the year ended December 31, 2016, the Pension Fund earned an overall rate of return of 7.9%. In Fiscal 2015, the Fund had a rate of return of 8.6%. The Pension Plan's actuarial target investment return for the 2016 actuarial valuation was 5.53%. The chart below shows Members the annual rates of return of the Pension Fund from 2006 to 2016 inclusive.

The Fund's target investment return assumption of 5.53% was set by the Trustees based on input from the Fund's advisors and after taking into consideration the continued volatility in the global investment markets. This assumption will be reviewed again when the Fiscal 2017 valuation is prepared.

## Pension Fund Investment Rate of Return (Cont'd)

### ANNUAL RATE OF RETURN 2006 – 2016



## Pension Fund Investments

For the year ended December 30, 2016 the Fund's investments returned 7.9% after fees. The average pension fund measured by our independent performance measurement service returned 7.7% before fees for the year ended December 31, 2016.

Every investment decision made by the Trustees is carried out after careful consideration of the purpose of the Fund. This is set out in the Mission Statement:

***"To contribute to the well being of the Plan Members and Beneficiaries by providing reasonable retirement pensions and related benefits based on the financial resources available from The Edmonton Pipe Industry Pension Trust Fund."***

The Trustees' principal objective is to protect the pension promises which have been made. This governance standard reduces the benefit and contribution risk the Plan's Members may otherwise face.

## Pension Fund Investments (Cont'd)

In making their investment decisions, the Trustees employ an important analytical tool called "Value at Risk". Value at Risk (VAR) is used to determine how the Fund's current investment managers and asset classes are expected to perform in the future and how each will offset the risk of the other and add to the value of the Fund. The same VAR tool is used to evaluate prospective investment managers. The tools the Trustees use to measure and manage the Fund help the Trustees anticipate how the Fund's investments will grow in the future and how the Fund's investments can be shaped to protect the target benefits of the Plan.

As part of their ongoing management of the Fund, the Trustees complete an annual review of the asset mix of the Fund. The table below outlines how the Pension Fund's assets will be allocated among different classes of investments.

Asset Class	Guidelines set by Statement of Investment Policies and Procedures			Actual Allocation as of December 31, 2016 (based on market values)
	Minimum	Normal	Maximum	
Cash and Cash Equivalents	0%	0%	4%	0.2%
Canadian Fixed Income (Bonds)	15%	24.5%	30%	19.0%
Publicly Traded Equities (Canadian)	10%	15%	35%	22.2%
Publicly Traded Equities (Foreign)	10%	19%	30%	21.3%
Private Equities	5%	12.0%	15%	9.0%
Real Estate	5%	7.5%	12.5%	9.4%
Infrastructure	5%	10%	15%	8.7%
Alternative Fixed Income	5%	12%	20%	10.2%

The Pension Fund's investment strategy is designed to provide income to pay current pensions and asset growth to support future payments while managing overall investment risk. Providing income is particularly challenging today given current and recent low interest rates. Accordingly, the Trustees continue on the path of diversification among asset classes with a further focus on investments in alternative asset classes.

## **Pension Fund Investments (Cont'd)**

The alternative asset classes include Private Equity, Real Estate, Infrastructure and Alternative Fixed Income, with the latter three being a significant source of income. The trade-off for investing in the alternative asset classes is liquidity since many of the investments cannot be readily sold on the open market until they mature. Having a portion of the pension portfolio in illiquid assets is not a concern since a pension plan has a very long time horizon and the majority of assets are still invested in public market instruments.

Alternative investments are made through legal entities called Limited Partnerships (LP) managed by a General Partner who is a specialist in the particular area in which investments will be made. The Pension Fund participates as a Limited Partner which has the benefit of limiting exposure to the capital invested.

Real Estate and Infrastructure are real assets with a long life horizon. Real Estate holdings include office towers, shopping complexes and industrial buildings located in prime urban areas, while infrastructure are assets essential to the operations of the economy such as ports, roads, bridges, pipelines, energy generation complexes and waste disposal facilities. In all cases, the assets generate regular income from rents and user tariffs which is paid to the investors and will rise with inflation. The value of the assets themselves will also typically rise with inflation.

Private Equity is direct ownership of a company rather than through publicly traded shares. The expectation is that these investments will earn a higher return than publicly traded equities to compensate for the fact that they can't be easily sold in the short term. Alternative Fixed Income includes private Mortgages and Debt instruments. These will typically be backed by a specific asset and are senior secured so that the Plan gets its money back first should there be problems. The attraction of these types of investments is that they provide two to three times the level of income that could be earned from publicly traded corporate and government bonds. They are also less sensitive to interest rate changes and will perform better when interest rates begin to rise.

By investing in a variety of different asset classes, the Pension Fund is able to diversify its assets across a broader range of return expectations and investment risk. This is expected to produce a more stable risk and return profile which more closely matches the investment needs of a Pension Plan. It also allows the Plan to improve the income characteristics of the investment which can then be relied upon to fund pension payments.

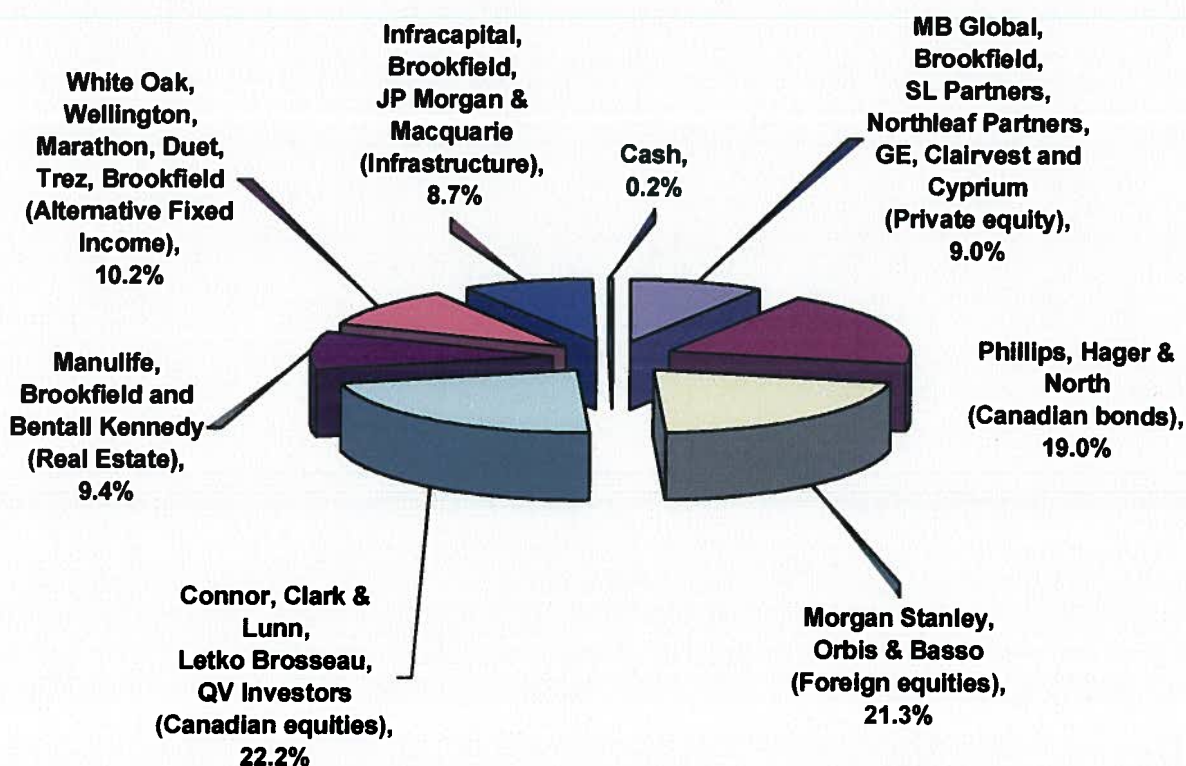
The Trustees have policies in place to monitor the overall asset mix of the Fund and to guide the investment of contributions from employers and investment income.

An important element of Fund governance is that the Trustees set standards for the performance of the investment managers and measure the actual performance against the standards. The Trustees retain an independent investment consultant to assist them in this monitoring responsibility. On a quarterly basis, the Trustees receive reports which give very detailed information about the investment activities of each investment manager along with the return they achieved in the quarter.

## Pension Fund Investments (Cont'd)

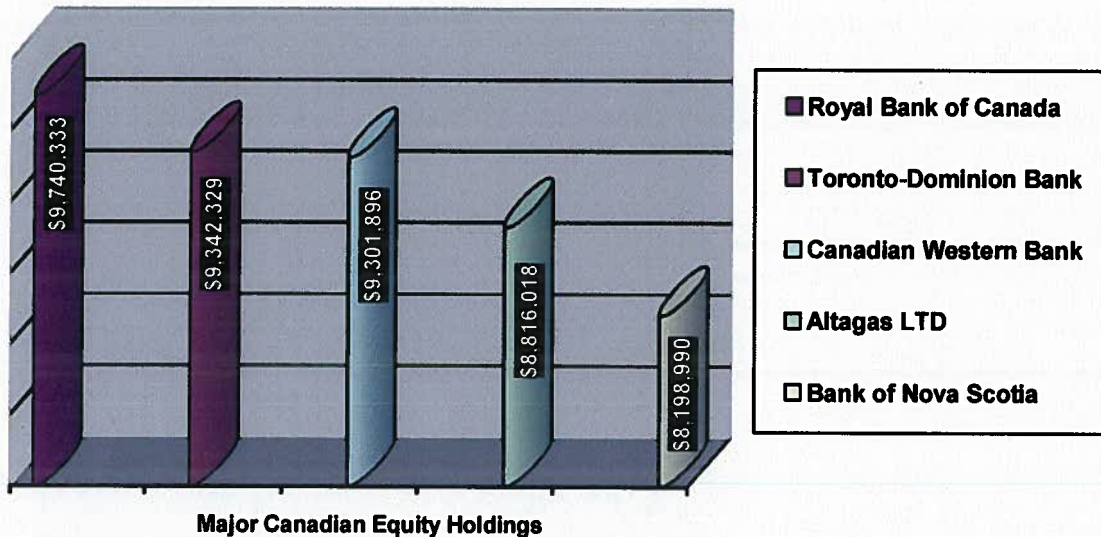
The Trustees compare this information to their standards and review whether the standards have been achieved. If standards are not achieved, the Trustees consider whether the performance deficiency is temporary. The Trustees are prepared to take action in the event they believe an investment manager's performance will not meet the standard.

The Pension Funds assets are divided amongst 24 independent investment managers. In addition, the Fund's Custodian, CIBC Mellon, manages the Fund's short term cash assets. The Trustees have a policy for the allocation of employer contributions which gives guidance about where new monies received by the Fund will be invested. These guidelines also protect the Fund from too much market risk. The allocation of Fund assets to the independent investment managers, as at December 31, 2016, is illustrated as follows:



## Equities

At the end of 2016, the Pension Fund had \$378.46 million, or 22.2% of its assets, invested in Canadian equities. The Fund's largest Canadian equity holdings at December 31, 2016 were:



The one year return of the Canadian equity market was 21.1% in 2016. This was a dramatic improvement from a return of -8.3% in 2015. The Pension Fund's Canadian equity return for 2016 was 24.9%.

The Pension Fund had \$363.38 million, or 21.3% of its assets, invested in non-Canadian publicly traded equities. The United States equity market had a Canadian dollar return of 8.1% in 2016. Non-North American markets had a Canadian dollar return of -2.0% in 2016. The Pension Fund's return for 2016 for this market segment was 2.8%.

Currency was a positive factor helping with investment gains in 2016. For the year ended December 31, 2016 the Canadian dollar depreciated further by 3.08% compared to the United States dollar from 2015. In fact, the Canadian dollar depreciated against most major currencies in 2016. Currency fluctuation is important because the Fund's returns from non-Canadian markets will be diminished when the Canadian dollar is increasing in value. When the Canadian dollar is depreciating against foreign currencies, there is a positive impact on the Fund's returns. The Trustees participate in a currency hedging program in order to protect the Fund's returns from some currency fluctuation. The Trustees believe the implementation of the currency hedging program further aligns the assets available to the Pension Plan with its liabilities which are all measured in Canadian dollars.

## Equities (Cont'd)

In 2016 the European, Australian and Far East (EAFE) equity market returned -2.0% in Canadian dollars. In 2015 this market produced a return of 19.4% and, the year before, a return of 4.2%. The Fund's investments in this market are important to the diversification of the Fund and the protection of the Plan's benefits.

The Pension Fund has a Statement of Investment Policies and Procedures which sets out guidelines for the prudent asset mix strategy of the Fund. The Trustees have engaged 24 professional, active investment managers to implement the asset mix strategy. Investment managers are retained under specific mandates which set out permissible investments and return expectations. The Fund's investment managers are given discretion over the target asset mix, within their mandate, and are expected to use this discretion to benefit the Fund. The Fund's investment managers are subject to monitoring which includes compliance with the Fund's investment policies and the given mandate.

The Trustees also measure the investment manager's results against appropriate performance targets established by the Trustees. The Trustees retain independent investment counsel to measure the result of the Fund's investments. The Fund's independent investment consultant also assists the Trustees as they conduct their due diligence on prospective investment managers and mandates. The investment consultant also keeps the Trustees informed about emerging investment issues.

## Fixed Income

At December 31, 2016, the Pension Fund's Canadian fixed income investments totaled \$323.4 million which is approximately 19.0% of total assets. At December 31, 2015, 21.0% of the Fund was invested in Canadian fixed income. The Fund's fixed income investments include corporate bonds as well as bonds issued by Canadian federal and provincial governments.

For the year ended December 31, 2016 the broad based Canadian bond market return, measured by the FTSE TMX Universe, was 1.7%. The Fund has set the FTSE TMX Long Bond Index as the benchmark return for our fixed income investments. This benchmark is more closely aligned with the duration of the Plan's liabilities. In 2016 the FTSE TMX Long Bond index return was 2.5%. The Pension Fund's return for Fixed Income was 3.3%.

Over the long term, the fixed income asset class is expected to return about 4%. The fixed income market could become quite volatile when interest rates start to rise. So far this rise has been mostly delayed due to various global economic events. Given the low long term return expectation from fixed income, the Trustees looked to other asset classes such as equities, real estate and infrastructure to diversify the Fund and to earn enough return to protect the Plan's benefits.

During the year the Fund was further diversified; more money was taken out of fixed income and invested in infrastructure, real estate and private equity – these asset classes are expected to generate long term, risk adjusted returns superior to what is estimated from fixed income markets.



## Investment Policy

The Fund's Statement of Investment Policies and Procedures sets out the Trustees' long term objectives for asset allocation. It also sets out the Trustees' beliefs about the returns from public and private markets. The Trustees believe that it is fundamental to the ongoing success of the Plan that they retain the most appropriate mix of investment managers to carry out the asset allocation strategy. The Trustees employ investment professionals who specialize in the evaluation of investment managers when examining existing and prospective investment managers to the Fund. Changes to the team of investment

managers retained by the Fund are made when necessary.

The Trustees have resolved to have 41.5% of the Fund's assets invested in non-traditional investments such as real estate, infrastructure, alternative fixed income and private equity. The Trustees employ an investment model called Value at Risk (VAR) to guide their investment decisions.

The Value at Risk (VAR) research conducted by the Trustees has been very important as the Trustees consider new Fund investments and evaluate new investment managers.

## PENSION PLAN BENEFITS – FUNDING AND BENEFIT POLICY

The Plan has a Funding and Benefit Policy. This Policy sets guidelines for the Trustees about what considerations to take when thinking about the Plan's benefits and how to react if the Plan becomes under financial stress or when it has surplus. The Funding and Benefits Policy also helps Members to understand what to expect from the Plan.

The Trustees must always act in the best interest of Plan Members, by ensuring that the benefits provided by the Plan are sustainable. One of the products of an actuarial valuation is the demonstration of benefit security.

When the Trustees conduct their review about whether the Plan's benefits can be improved, the Trustees are guided by the following criteria:

- a) the proposed benefit improvements cannot cause the funded ratio of the Plan, on a solvency basis, to fall below 85%; and
- b) the total hourly actuarial cost of benefits will not be more than 90% of the contribution rate.

If benefit improvements are to be considered, the Trustees have agreed upon the following additional parameters:

- a) the pension accrual rate will be adjusted to reflect the contribution rate paid to the Pension Fund. The current contribution rate is \$6.61. The current cost of benefits is \$5.02 per hour.
- b) benefits to active and retired members will be improved if it is determined that the funding is available due to better than anticipated returns on investments. If this is found to be the case, the funding excess will be used for benefit improvements on a prorata basis. This basis will reflect the assets attributed to retired members and those attributed to active members.
- c) approval from Alberta Treasury Board & Finance must be received while the Pension Plan is under the solvency funding moratorium.

The Plan's Funding and Benefits Policy is posted on the Plans' website [www.epibenefitplans.com](http://www.epibenefitplans.com)

## ACTUARIAL VALUATION

Membership Data	2016	2015	2014	2013	2012	2011	2010	2009
Number of active members	8143	8267	8108	8441	8491	8450	9246	9027
Average age of active members (in years)	40.7	40.6	40.6	40.6	40.2	40.2	39.6	39.2
Average hours worked	1323	1557	1715	1740	1783	1995	1655	1481
Number of pensioners (including disabled)	3234	3060	2892	2748	2590	2451	2223	2109
Average age of pensioners (in years)	70.1	70.0	69.8	69.5	69.4	69.3	69.1	68.9

The Pension Plan's actuarial valuation is a sophisticated mathematical tool prepared by a certified actuary. The actuary uses accepted actuarial standards, guided by the Canadian Institute of Actuaries, to estimate the future rate of growth of the Pension Plan's liabilities. This result is compared to the expected future assets of the Pension Fund. In calculating the asset growth of the Fund, the actuary also looks at consensus forecasts for future investment market returns and determines how these returns will come to bear given the asset mix of the Pension Fund. The actuary also takes into consideration the negotiated contribution rate established in the collective agreements and the estimated number of hours to be worked by the Plan's Members.

As part of satisfying their responsibility for monitoring the Pension Plan, the Trustees have an actuarial valuation of the Plan carried out each year. Current

pension legislation requires that this measurement be carried out every three years. The Trustees consider that the knowledge acquired from an actuarial valuation is vital to their understanding of the funded status of the Plan. If the Plan's assumptions for investment return, hours worked or life expectancy are not met by the actual results of the Plan, the Trustees can take early corrective action, if necessary. The results of the actuarial valuation are taken into consideration when the Trustees review whether benefit improvements can be made.

Each year the Trustees review and approve the assumptions to be included in the actuary's preparation of the actuarial valuation. The Trustees are confident that the Plan's assumptions are realistic forecasts about the Plan's future. The assumptions include a reasonable margin in case there is a poor result in investment markets, contributions to the Fund or Plan demographics.

## ACTUARIAL VALUATION (Cont'd)

There are many assumptions included in the preparation of an actuarial valuation. The two most important assumptions are:

- *The rate of return that the Pension Fund's investments will earn.* This assumption predicts the future growth of the Pension Fund's assets.

For the 2016 actuarial valuation, the target rate of return on Fund investments was 5.53%. This is the average rate that the Pension Fund's investments are expected to earn in the long term. The Trustees anticipate that, over short periods of time, the Fund's actual investment returns will be higher or lower than our 5.53% average return expectation. The Plan's investment return assumption is based on a complete review of financial market behavior and the return expectations of economists and investment professionals.

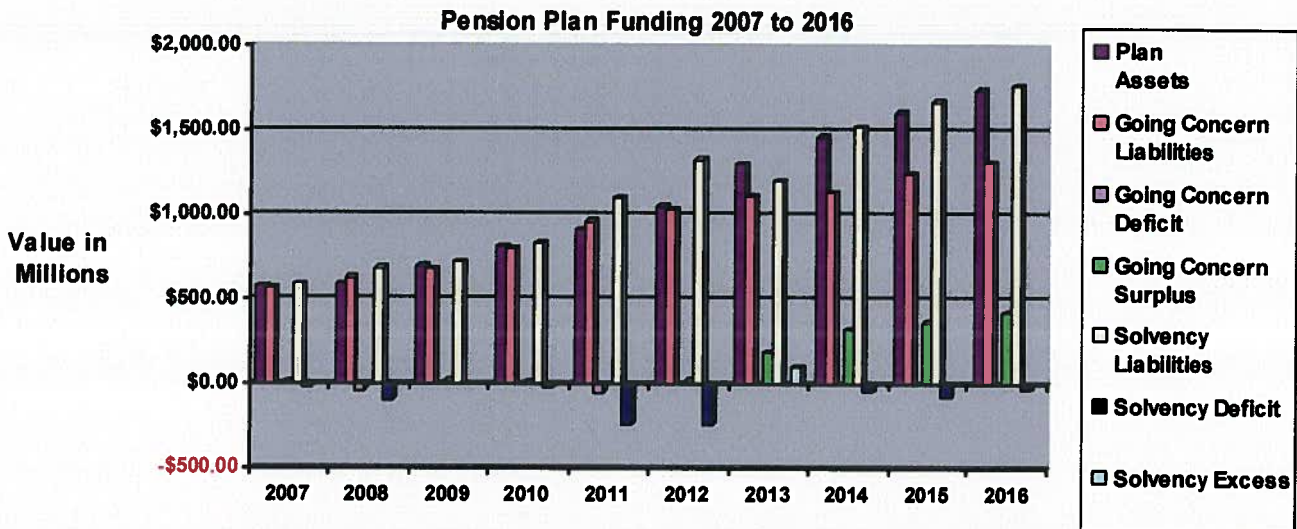
- *The number of hours each member will work in the future.* This assumption predicts the amount of contributions the Pension Fund will receive each year. The contribution rate is set out in the collective agreement and is a defined amount to be paid per hour worked.

The more hours worked by Local 488 members, the higher the total amount of contributions that are paid to the Pension Fund. Contributions are invested and are used to pay the Plan's benefits. For the 12 months ended December 31, 2016, Local 488 members worked a total of 11.7 million hours, compared to the forecast of 8 million hours. For Fiscal 2017 the Plan's assumption remains that Local 488 members will work 8 million hours. The assumption regarding hours worked is closely monitored at each Trustees' meeting.

For the fiscal year ended December 31, 2016, the actuary provided an Actuarial Cost Certificate to confirm that the current employer contribution rate is sufficient to meet the Pension Plan's current service cost requirements.

The actuarial valuation will be filed with the Pension Plan regulators.

The Pension Plan's funding status from 2007 to 2016 is shown in the illustration:



## **ACTUARIAL VALUATION (Cont'd)**

The Plan's solvency funding ratio improved to 98% at December 31, 2016. The Plan had a solvency deficiency of \$32.04 million at the end of Fiscal 2016. At December 31, 2015, the solvency deficiency was \$70.53 million.

Differences between the Plan's funding position of 133% when measured on the going concern basis and a funded ratio of 98% when measured using solvency rules arise because of the change in the assumptions prescribed for the calculation of solvency funding. Solvency funding assumptions are prescribed by the *Alberta Employment Pension Plans Act*. In particular, for the purpose of a solvency valuation, the actuary must assume that benefits will be purchased at interest rates much lower than the Plan's assumed investment return. For example, one assumption requires that pensioner benefits will be purchased in the annuity market at 2.20% per annum, not 5.53% as assumed by the Plan. The actuary must include prescribed life expectancy tables when calculating the solvency position of the Plan. Assumptions about improvements in life expectancy will make the Plan's benefits more expensive.

The Pension Plan applied for, and received, a funding moratorium for solvency. This solvency funding moratorium was required due to the fact that a deficiency arose in 2014 due to the decline in annuity purchase rates as described previously. The solvency funding moratorium is effective January 1, 2015 and is for a maximum period of 3 years. Should the solvency funding position of the Pension Plan improve in the following Actuarial Valuations such that the funded position equals or exceeds 100% the Trustees will apply to Alberta Treasury Board & Finance to exit the solvency funding moratorium.

Any benefit improvements proposed by the Trustees must be approved, in advance, by Alberta Treasury Board & Finance while the Pension Plan remains under the solvency funding moratorium.

Effective January 1, 2007 the Plan was amended to allow a defined contribution benefit accrual for retired Members who return to work in participating employment. In 2015 the Trustees amended the accrual rate to be the hourly contribution less 5% (currently \$6.279 per hour worked). At December 31, 2016 the present value of the defined contribution benefit for retired Members is \$28.06 million.

## Roles and Responsibilities

A number of parties are responsible for ensuring that the Pension Trust Fund and the Health and Welfare Fund are maintained in a financially sound way that will provide pension and health benefits for members over the long term. They include:

### Board of Trustees

The Board of Trustees has overall responsibility for the Pension Trust Fund and the Health and Welfare Fund, including supervision of the administration services provider, the investment managers and other delegates in the governance process. The Board is also responsible for the approval of the annual audited financial statements. The Board is made up of:

- four trustees elected by Local Union 488 members,
- three independent trustees selected by a nominating committee comprised of a representative of Local Union 488 and Construction Labour Relations – Alberta (CLRa). Included in this group is the independent chairman.

The Board's Audit Committee meets with the administration services provider and the external auditors to review the financial statements and examine other auditing and accounting matters. The Audit Committee examines the quality of the financial statement disclosure, the accounting principles applied and any significant judgments affecting the financial statements. The audited financial statements in this Report have been approved by the Audit Committee and the Board of Trustees. The Board's Investment Committee meets with investment managers and the investment consultant and makes recommendations to the Trustees in respect of the management of the Fund's investments.

### Administration services provider

The administration services provider is appointed by the Board of Trustees and manages the Pension Trust Fund and the Health and Welfare Fund, and is responsible for providing quality service to the members. The administration services provider develops and maintains high-quality systems for internal accounting and administrative control. These systems are designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained, financial information is timely, accurate and reliable, and assets are appropriately accounted for and adequately safeguarded. The administration services provider is also responsible for preparing financial statements in accordance with Canadian generally accepted accounting principles.

### Actuary

The actuary is appointed by the Board of Trustees and carries out an annual valuation of the Pension Plan's actuarial liabilities in accordance with accepted actuarial principles. This process involves analyzing the benefits to be provided under the Pension Plan, including any increases to benefits. The actuary also provides advice to the Board of Trustees on funding and benefit policies, asset and liability structure, and other matters.

### External auditors

The external auditors are appointed by the Board of Trustees. Their responsibility, the scope of their examination and their opinion is set out in the Auditors' Report. The external auditors have full and unrestricted access to staff of the administration services provider, the Audit Committee and the Board of Trustees to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the financial statements.

### Custodian

The custodian holds the Pension Fund's assets and executes trades under the direction of the Pension Fund's investment managers. The custodian is appointed by the Board of Trustees.

### Investment managers

The investment managers each direct a portfolio of assets on behalf of the Pension Trust Fund or the Health and Welfare Fund. Investment guidelines are set by the Board of Trustees and communicated through a Statement of Investment Policies and Procedures. The investment managers are appointed by the Board of Trustees.

### Investment consultant

The investment consultant is appointed by the Board of Trustees. The consultant is responsible for providing advice in respect of an appropriate asset mix, which is designed to protect the benefits promised to members of the Pension Plan. The investment consultant is also engaged to review the performance of the investment managers and to make recommendations about the selection, and retention, of investment managers.





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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, 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.

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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

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Financial Statements of

**THE EDMONTON PIPE INDUSTRY  
PENSION TRUST FUND**

Year ended December 31, 2016

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>ASSETS</b>		
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>
<b>LIABILITIES</b>		
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
<b>Increase in net assets:</b>		
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>
<b>Decrease in net assets:</b>		
<b>Benefit payments:</b>		
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
<b>Net assets available for benefits, end of year</b>	<b><u>\$ 1,738,632,603</u></b>	<b><u>\$ 1,604,559,935</u></b>

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 <sup>st</sup> , 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
<b>Pension obligations, end of year</b>	<b>\$ 1,311,481,000</b>	<b>\$ 1,240,337,000</b>

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	
<b>By investment manager (continued):</b>				
<b>Private equities:</b>				
Marathon Asset Management	44,674,747		41,598,054	
Brookfield Asset Management Inc.	32,195,139		30,911,445	
Cyprium 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	
	<u>154,067,222</u>		<u>134,185,125</u>	
<b>Real estate:</b>				
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	
	<u>159,599,131</u>		<u>116,415,237</u>	
		<u>\$ 1,706,388,528</u>		<u>\$ 1,591,750,078</u>
	<u>2016</u>	<u>%</u>	<u>2015</u>	<u>%</u>
<b>By investment type:</b>				
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
	<u>\$ 1,706,388,528</u>	<u>100.0</u>	<u>\$ 1,591,750,078</u>	<u>100.0</u>



# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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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, 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

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# 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
<b>Net assets available for benefits</b>	<b>\$ 1,738,632,603\$</b>	<b>1,604,559,935</b>
<b>Actuarial liability - present value of accrued benefits for:</b>		
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
	<b>1,311,481,000</b>	<b>1,240,337,000</b>
<b>Funding excess as determined on a going concern basis</b>	<b>\$ 427,151,603</b>	<b>\$ 364,222,935</b>
<b>Funded ratio</b>	<b>133%</b>	<b>129%</b>

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 8. Investment and other income:

	2016	2015
<b>By investment type:</b>		
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
	<u>140,368,981</u>	<u>135,098,925</u>
Other income	174,886	186,041
	<u>\$ 140,543,867</u>	<u>\$ 135,284,966</u>

# 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
<b>Direct expenses:</b>		
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
	<u>1,268,901</u>	<u>1,214,332</u>
<b>Common expenses shared with the Health and Welfare Fund (note 3(f)):</b>		
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
	<u>337,956</u>	<u>342,722</u>
Less Health and Welfare Fund share	<u>(168,978)</u>	<u>(171,361)</u>
	168,978	171,361
	<u>\$ 1,437,879</u>	<u>\$ 1,385,693</u>

# 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
<b>Total investments</b>	<b>Composite index</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

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## 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
<b>Balance, end of year</b>	<b>\$ 174,105,249</b>	<b>\$ 154,067,222</b>	<b>\$ 149,291,568</b>	<b>\$ 159,599,130</b>	<b>\$ 637,063,169</b>

# 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
<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>

# THE EDMONTON PIPE INDUSTRY PENSION TRUST FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 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)
<b>Total</b>	<b>\$ 668,854,177</b>	<b>\$ (66,885,418)</b>	<b>\$ 516,030,196</b>	<b>\$ (51,603,020)</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. 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

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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.

## THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

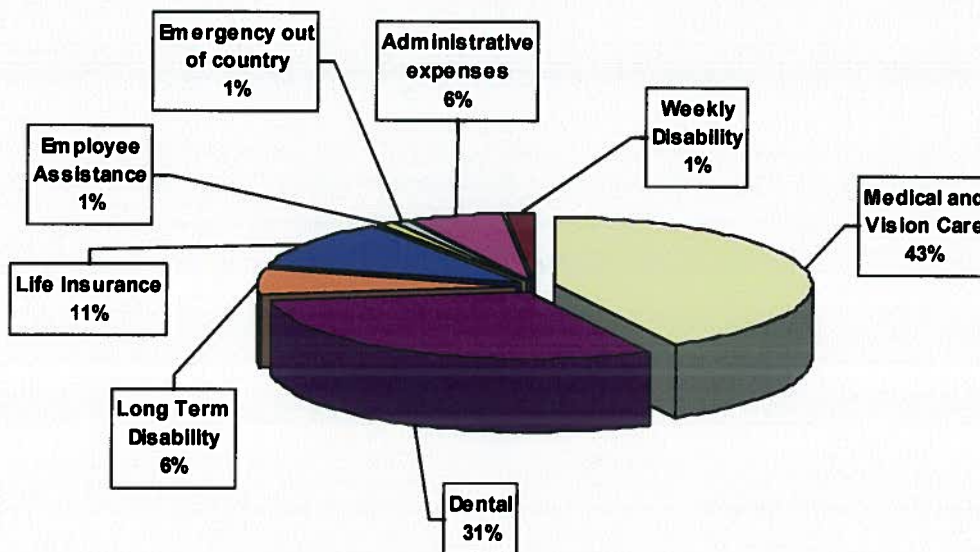
### HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY

The Trustees of the Health and Welfare Fund have the objective of providing a plan of benefits to covered Members to help offset normal health care expenses. In addition, the Plan is designed to provide valuable benefits to help the Members and their families when there are major events such as death and disability. The Health and Welfare Plan provides life insurance, disability and health care benefits to active and disabled Members. The Plan provides life insurance, health and dental care benefits to retired Members. The Plan also provides health and dental benefits to the widows of active and retired Members. We believe the Plan contributes to the overall good health and well being of Plan Members and their families.

During the year ended December 31, 2016, on average, the Plan provided benefits to 7,444 active Members. The Plan also provided benefits to 1,068 retired Members, 147 disabled Members and 420 widows of Members. The Plan also provided 120 Members with benefits under the self-payment program.

The Trustees also have the adequate funding of the Plan as an important objective. The Plan is financed under several funding arrangements including insurance policies underwritten by Great West Life. The Plan's medical, dental, vision care and weekly disability benefits are funded solely by the assets of the Health and Welfare Fund – there is no insurance contract guaranteeing the payment of these benefits. The Fund bears all of the risk of claims arising under these benefits. If there is not enough funding available to pay benefits, the Trustees would amend the Plan to bring funding in line with the cost of benefits.

During Fiscal 2016 the Fund issued payments of \$25.74 million to cover the claims for eligible health care, dental, short term disability and vision care claims of Members and their families. This chart illustrates all expenses in Fiscal 2016:



## HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

In order to offer sustainable benefits to Plan Members, the Trustees must continually monitor the financial experience of the Plan. This ongoing examination of funding and benefit usage will help to ensure that the Plan has the necessary resources needed to meet the potential liabilities of the Plan. The liabilities of the Plan will fluctuate because of changes in our demographics and the Trustees must ensure that the Plan is responsive to the changing health care needs of the Members. The average age of our membership is increasing. Retired Member benefits are very highly subsidized by the Fund and, as the Plan covers more Retired Members, we must be careful to hold enough in reserve to support the coverage allowed under the Plan. Inflation and utilization in health care are also important trends monitored by the Trustees.

After a careful review of the Plan's coverage and contributions, the Trustees announced the Plan would be improved as follows:

1. Effective with dental services incurred on/after July 1, 2016, eligible expenses were reimbursed on the basis of the 2015 fee guide used by the Plan.
2. Effective August 1, 2016 the Drug & Alcohol Rehabilitation benefit was amended to include out-patient services at recognized Treatment Centres in Canada.

In addition to providing excellent health care benefits, the Trustees have set a standard for clear, accurate and timely

communication with Members. A very good resource for information about the Plan is the Plan's Web Site, [www.epibenefitplans.com](http://www.epibenefitplans.com). Changes to the Plan are always communicated to Members in newsletters.

The Trustees set high standards for services offered to Members. The Benefit Office staff is experienced and ready to help Members achieve the best the Plan has to offer. Hundreds of Members visit the Benefit Office for one-on-one assistance from staff.

The Plan introduced the "All-In-One" Benefit Card to the Members on September 1, 2014. The Trustees continue to strongly encourage Members to take advantage of this service which allows Members, as well as service providers, to submit claims for payments electronically. Members are reminded that claims are not to be submitted by mail to Green Shield Canada as they will be returned to the Benefit Office resulting in delays in payment of your claims.

Please visit the Plan website and click on the Green Shield Canada (GSC) tab to register yourself for this valuable time saving claims payment service and remember to show your Benefit Card to your pharmacist, dentist or other service provider so that they may submit your claims on your behalf for payment.



## HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

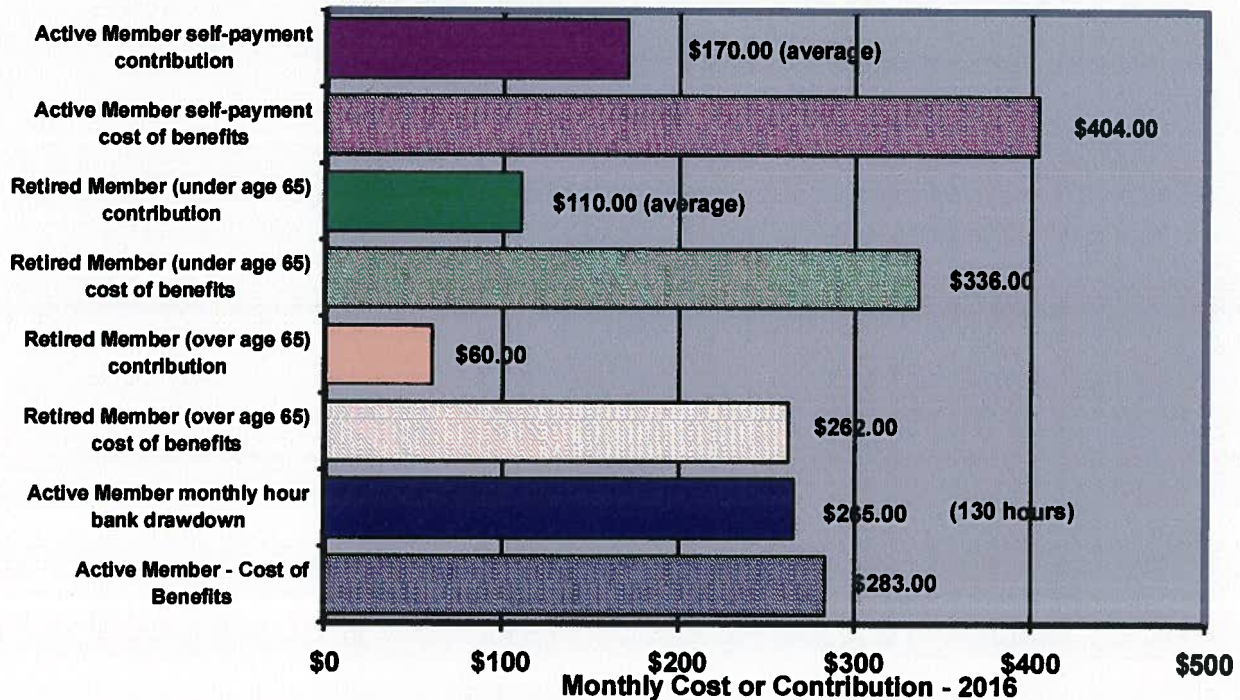
### Funding of Welfare Plan Benefits

At December 31, 2016 the Fund had sufficient assets on hand to provide benefits to active Members for the entire amount deposited to their hour banks. The Fund also retained sufficient monies to provide retiree benefits for a period of 60 months.

Retiree benefits are an important feature of the Plan. Benefits provided to Retirees are highly subsidized by the Plan. The Trustees have made the decision to provide these benefits as long as the funding for them is available and there are no legislative barriers to providing them. The Trustees may change the type of benefit provided, or the amount retired Members pay to the Plan for benefits, in order to secure the appropriate level of funding.

After the Fund had set aside sufficient money to cover its defined liabilities, the Fund held unallocated net assets available for benefits of \$70.063 million.

The following graph shows the relationship between the average monthly self-payment contribution, or hour bank drawdown, and the average monthly cost of benefits paid by the Plan for the year ended December 31, 2016.



## HEALTH AND WELFARE FUND HIGHLIGHTS AND COMMENTARY (Cont'd)

The chart below shows how the average monthly cost of benefits has changed comparing 2015 to 2016:

Classification	Fiscal 2016 Average Monthly Cost of Benefits	Fiscal 2015 Average Monthly Cost of Benefits	Change in Cost of Benefits 2015 to 2016
Active Members using self-payment	\$404.00	\$424.00	-4.7%
Retired Members under age 65	\$336.00	\$283.00	+18.7%
Retired Members over age 65	\$262.00	\$255.00	+2.7%
Active Members	\$283.00	\$263.00	+7.6%

## WELFARE FUND INVESTMENTS

The Fund's investments are governed by an investment policy approved by the Trustees. Investment income is important to the Fund because, as shown above, some of the Plan's benefits are highly subsidized. Investment income helps to support the subsidies. Without investment income, earned under a conservative investment mandate, the active Members' hour bank drawdown would be higher. The Fund's investment policy ensures that there are sufficient liquid assets on hand to pay benefits and premiums. The investment policy also allows some assets to be invested in longer-term securities.

The Fund earned investment income of \$5.50 million in Fiscal 2016 (\$4.06 million in Fiscal 2015). At December 31, 2016, the assets managed by TDAM had a market value of \$49.9 million. The Fund also has an investment of \$70.2 million managed by Phillips, Hager & North Investment Funds Ltd. This investment is in short term bonds which addresses the Fund's need for security of capital and liquidity. A snapshot of where the Fund's assets are invested at December 31, 2016 is as shown in the graph below:







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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Trustees of The Edmonton Pipe Industry Health and Welfare Fund

We have audited the accompanying financial statements of The Edmonton Pipe Industry Health and Welfare Fund, which comprise the statement of financial position as at December 31, 2016, and the statement of changes in net assets available for benefits 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.

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### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Edmonton Pipe Industry Health and Welfare Fund as at December 31, 2016, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

*KPMG LLP*

Chartered Professional Accountants

May 24, 2017  
Edmonton, Canada

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KPMG Confidential

Financial Statements of

**THE EDMONTON PIPE INDUSTRY  
HEALTH AND WELFARE FUND**

Year ended December 31, 2016

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
<b>ASSETS</b>		
Cash	\$ 8,024,984	\$ 11,335,588
Investments (note 4)	120,163,376	114,790,309
Contributions receivable - employer	2,197,783	2,063,342
Accrued investment income	5,825	7,924
Prepaid expenses and deposits	2,423,491	1,099,177
Due from The Edmonton Pipe Industry Pension Trust Fund (note 5)	8,154	46,211
	<u>132,823,613</u>	<u>129,342,551</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	3,075,916	2,628,889
Amounts due to other health and welfare funds (note 6)	152,391	359,244
Reserve for unpaid claims	1,470,106	2,057,423
Reserve for advance contributions	37,238	46,107
	<u>4,735,651</u>	<u>5,091,663</u>
<b>Net assets available for benefits (note 7)</b>	<b>\$ 128,087,962</b>	<b>\$ 124,250,888</b>

See accompanying notes to financial statements.

## THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

### Statement of Changes in Net Assets Available for Benefits

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

	2016	2015
<b>Increase in net assets:</b>		
Investment and other income (note 8)	\$ 5,509,545	\$ 4,062,291
Employer contributions	30,815,224	29,202,855
Members' and pensioners' cash contributions	1,284,592	1,188,393
Members' optional insurance contributions	52,137	49,837
Reciprocal transfers from other health and welfare funds (note 6)	630,442	573,048
Transfers from the Alberta Refrigeration Industry Health and Welfare Trust Fund	1,515,915	-
Decrease in reserve for unpaid claims	587,318	443,972
	<b>40,395,173</b>	<b>35,520,396</b>
<b>Decrease in net assets:</b>		
Health, dental, vision and short-term disability claims	25,740,450	21,978,821
Long-term disability premiums	2,117,671	1,988,161
Life insurance premiums	3,516,859	2,883,958
Accidental death and dismemberment premiums	429,063	398,201
Claims administration fees	1,126,227	971,882
Employee assistance program	365,903	344,712
Out-of-country insurance claims	378,561	320,271
Members' optional life insurance premiums	50,233	50,605
Reciprocal transfers to other health and welfare funds (note 6)	1,637,971	2,568,366
Investment manager and custodian fees	287,135	280,319
Administrative expenses (note 9)	908,026	873,257
	<b>36,558,099</b>	<b>32,658,553</b>
Increase in net assets available for benefits	3,837,074	2,861,843
Net assets available for benefits, beginning of year	124,250,888	121,389,045
<b>Net assets available for benefits, end of year</b>	<b>\$ 128,087,962</b>	<b>\$ 124,250,888</b>

See accompanying notes to financial statements.



# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Notes to Financial Statements

Year ended December 31, 2016

---

### 1. Nature of the Fund:

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 May 7, 1965 (the "Health and Welfare Trust Agreement") which has been amended and restated as of August 13, 2007. The Health and Welfare Trust Agreement provides for the establishment, maintenance, investment and administration of a fund known as The Edmonton Pipe Industry Health and Welfare Fund (the "Health and Welfare Fund"), created pursuant to The Edmonton Pipe Industry Health and Welfare Plan (the "Health and Welfare Plan") which includes all restatements and amendments to May 1, 2015. The Health and Welfare Plan itself was established pursuant to a collective agreement between the Union and the Party Employers dated May 7, 1965 (the "Collective Agreement") and renewed for the period until April 30, 2019. The Health and Welfare Fund is a registered trust with Canada Revenue Agency under registration number T11-3126-56.

Members are not required to contribute to the Health and Welfare Fund. Employers contribute to the Health and Welfare Fund at the rate specified in a collective agreement. Benefits provided under the Health and Welfare Plan are paid from the Health and Welfare Fund.

Up to and including the year ended December 31, 2015, the Union sponsored two separate health and welfare plans: The Edmonton Pipe Industry Health and Welfare Plan and the Alberta Refrigeration Industry Benefit Plan. Effective May 1, 2016, the two plans sponsored by the Union amalgamated and all members of both plans now obtain their benefits through The Edmonton Pipe Industry Health and Welfare Fund. The Edmonton Pipe Industry Health & Welfare Fund invoices, on a monthly basis, the Alberta Refrigeration Industry Benefit Plan for the costs of claims for the former Alberta Refrigeration Benefit Plan members until the Alberta Refrigeration Industry Benefit Plan's net assets are fully expended. After those net assets have been fully exhausted The Edmonton Pipe Industry Health & Welfare Fund will assume liability for all costs and expenses related to the former Alberta Refrigeration Benefit Plan members.

For more complete information, reference should be made to the Health and Welfare Trust Agreement, and the Health and Welfare Plan documents.

The benefits provided by the Health and Welfare Plan are funded using a variety of methods as set out below:

- (a) health, dental, vision and short-term disability benefits are funded solely by the assets of the Health and Welfare Fund;
- (b) long-term disability, accidental death and dismemberment, and optional life insurance benefits are provided Great West Life under a contract of insurance which uses a pooled funding method;

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Notes to Financial Statements

Year ended December 31, 2016

---

### 1. Nature of the Fund (continued):

- (c) member and dependent life insurance benefits are provided under contract with Great West Life. This contract has a hold-harmless provision which may require that the Health and Welfare Fund pay any shortfall of premiums which are insufficient to pay claims;
- (d) administration of out-of-country insurance is arranged under contract with Global Excel; and
- (e) the employee assistance program is administered by the Construction Employees Family Assistance Program.
- (f) The Board of Trustees reserves the right to amend or terminate any of the benefits under the Health and Welfare Plan.

### 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, which are also applicable to entities such as the Health and Welfare Fund that provide benefits other than pensions, and present information about the aggregate financial position of the Health and Welfare Fund and the net assets available to meet benefit payments.

In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Health and Welfare 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 Health and Welfare Fund has chosen to comply on a consistent basis with IFRS.

These financial statements are prepared to assist Health and Welfare Plan members and others in reviewing the financial activities of the Health and Welfare Fund for the fiscal period but they do not portray the financial position of the Health and Welfare Plan, its funding requirements nor the benefit security of individual Health and Welfare 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 measured at fair value through the statement of changes in net assets available for benefits.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Notes to Financial Statements

Year ended December 31, 2016

---

### 2. Basis of preparation (continued):

#### (c) Functional and presentation currency:

These financial statements are presented in Canadian dollars, which is the Health and Welfare 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 net assets available for benefits 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.

### 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) Income recognition:

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

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

##### (i) Financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Health and Welfare 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 EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

## Notes to Financial Statements

Year ended December 31, 2016

---

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

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

##### (i) Financial assets (continued):

The Health and Welfare 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 – employer and due from The Edmonton Pipe Industry Pension Trust Fund are measured at amortized cost.

The Health and Welfare 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 Health and Welfare 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 Health and Welfare Fund becomes a party to the contractual provisions of the instrument.

The Health and Welfare Fund derecognizes a financial liability when its contractual obligations are discharged, cancelled or expires.

The Health and Welfare Fund considers its accounts payable and accrued liabilities and amounts due to other health and welfare funds to be 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 HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

---

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

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when the Health and Welfare 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.

#### (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 Health and Welfare 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 Health and Welfare Fund uses closing market price as a practical expedient for fair value measurement.

When available, the Health and Welfare 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 Health and Welfare Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, 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.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

---

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

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

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 change in net unrealized gains.

Fair values of investments are determined as follows:

Cash is recorded at cost, which together with accrued investment income approximates fair value.

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.

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued investment income approximates fair value given the short term nature of these investments.

Guaranteed investment certificates, term deposits maturing after a year, mortgages and real estate debentures are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quantity and maturity.

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

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.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 3. Significant accounting policies (continued):

### (f) Common expenses:

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

### (g) Income taxes:

The Health and Welfare Fund is a trust recognized administratively by the Canada Revenue Agency. Investment income earned by the Health and Welfare Fund, net of eligible deductions, is subject to income tax.

## 4. Investments:

	2016	2015
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ 70,233,121	\$ 69,053,981
TD Asset Management - Canadian Equity and Global Equity Pooled Fund	49,930,255	-
Letko Brosseau & Associates - Balanced Fund	-	45,736,328
	\$ 120,163,376	\$ 114,790,309

## 5. Due from The Edmonton Pipe Industry Pension Trust Fund:

The amount due from the Pension Trust Fund is non-interest bearing, unsecured and has no set terms of repayment.

## 6. Reciprocal agreements with other health and welfare funds:

The Health and Welfare Fund has entered into reciprocal agreements with other health and welfare funds. These agreements provide that contributions received on account of employees working in a jurisdiction other than their local union are remitted on a monthly basis to the local union of which they are a member.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 7. Net assets available for benefits:

	2016	2015
Reserve for future plan benefits	\$ 54,162,958	\$ 47,438,059
Reserve for adverse claims fluctuations	3,861,068	3,283,438
Unallocated	70,063,936	73,529,391
	<b>\$ 128,087,962</b>	<b>\$ 124,250,888</b>

The reserve for future plan benefits is a provision established by the Trustees to support the payment of benefits to members and their beneficiaries. The reserve for future plan benefits is comprised of two components calculated as follows:

- (a) For active members, an estimated provision based on (i) the average actual cost of benefits for such members for the 12 months ended December 31, 2016 multiplied by (ii) the estimated number of months of coverage determined by dividing the accumulated hour bank for all active members by 130 hours; and
- (b) For retired, disabled and widows of deceased members, an estimated provision based on (i) the average actual cost of benefits for such group of persons for the 12 months ended December 31, 2016 multiplied by (ii) 60 months.

The reserve for adverse claims fluctuations was established by the Trustees to consider the risk that future claims in the aggregate will be higher than the amount supported by current funding rates. The reserve for adverse claims fluctuations has been established at approximately 15% of benefit claims paid in the most recent fiscal year.

## 8. Investment income:

	2016	2015
Interest and other income	\$ 81,171	\$ 110,547
Phillips, Hager & North Short Term Bond & Mortgage Fund - interest and realized capital gains	1,718,949	1,919,099
TD Asset Management - Canadian Equity and Global Equity Pooled Fund - dividends and net realized gains	2,376,510	-
Letko Brosseau & Associates Balanced Fund - interest, dividends and net realized gains (losses)	(2,116,231)	1,085,798
Change in net unrealized gains on investments	3,449,146	946,847
	<b>\$ 5,509,545</b>	<b>\$ 4,062,291</b>



# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 9. Administrative expenses:

	2016	2015
<b>Direct expenses:</b>		
Administration fees	\$ 452,897	\$ 443,376
Consulting fees	104,027	91,026
Independent trustees fees	39,900	39,900
Audit	34,391	39,644
Insurance	30,819	7,620
Non-deductible GST and HST	19,294	26,373
Office expenses	18,173	6,171
Bank charges	17,772	23,632
Computer maintenance	12,968	15,205
Legal	8,807	8,949
	<u>739,048</u>	<u>701,896</u>
<b>Common expenses shared equally with the Pension Trust Fund (note 3(f)):</b>		
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
	<u>337,956</u>	<u>342,722</u>
Less Pension Trust Fund share	<u>(168,978)</u>	<u>(171,361)</u>
	168,978	171,361
	<u>\$ 908,026</u>	<u>\$ 873,257</u>

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 10. Capital risk management:

The capital of the Health and Welfare Fund is represented by the net assets available for benefits. The main objective of the Health and Welfare Fund is to sustain a certain level of net assets in order to meet the health and welfare obligations of the Health and Welfare Plan, which are not presented or discussed in these financial statements.

The Health and Welfare 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 Health and Welfare Fund Trustees. The SIPP was established on May 27, 2015 and was last amended on November 30, 2016.

The SIPP permits three broad categories of assets. The Health and Welfare Fund's investment was allocated within the allowed asset categories range, as of the date of The Health and Welfare 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 (%)	2016	2015
Fixed income	FTSE TMX Canada Short Term Bond Index	50.0	58.4	60.2
Canadian equity	S&P TSX Composite	25.0	20.7	39.8
Global equity	MSCI World Index	25.0	20.9	0.0
<b>Total investments</b>	<b>Composite index</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The Health and Welfare Fund's investments are within the asset allocation target ranges at December 31, 2016.

The Health and Welfare Fund's investment positions expose it to a variety of financial risks which are discussed in note 11. The Health and Welfare 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 Health and Welfare Fund Trustees 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.

Increases in net assets are a direct result of investment income generated by investments held by the Health and Welfare Fund and contributions into the Health and Welfare Fund by the employers. The main use of net assets is for benefit payments to eligible Health and Welfare Plan members.

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 11. Financial instruments:

### (a) Fair values:

Determination of fair values of investments are as described in note 3(d). The fair values of other financial assets and liabilities, being cash, contributions receivable - employers, accrued investment income, due from The Edmonton Pipe Industry Pension Trust Fund, accounts payable and accrued liabilities and amounts due to other health and welfare funds 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 following table illustrates the classification of the Health and Welfare Fund's financial instruments using the fair value hierarchy as at December 31:

December 31, 2016	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 70,233,121	\$ -	\$70,233,121
TD Asset Management - Canadian Equity and Global Equity Pooled Fund	-	49,930,255	-	49,930,255
	\$ -	\$ 120,163,376	\$ -	\$120,163,376

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

## 11. Financial instruments (continued):

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

December 31, 2015	Level 1	Level 2	Level 3	Total
Phillips, Hager & North - Short Term Bond & Mortgage Fund	\$ -	\$ 69,053,981	\$ -	\$69,053,981
Letko Brosseau & Associates - Balanced Fund	-	45,736,328	-	45,736,328
	\$ -	\$ 114,790,309	\$ -	\$114,790,309

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

### (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 Health and Welfare 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 Health and Welfare Fund through construction of a diversified portfolio of instruments traded on various markets and across various industries.

#### (ii) Liquidity risk:

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

The Health and Welfare Fund maintains cash on hand for liquidity purposes and to pay accounts payable and accrued liabilities. At December 31, 2016, the Health and Welfare Fund had cash on hand in the amount of \$8,024,984 (2015 - \$11,335,588).

# THE EDMONTON PIPE INDUSTRY HEALTH AND WELFARE FUND

Notes to Financial Statements (continued)

Year ended December 31, 2016

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## 11. Financial instruments (continued):

### (b) Associated risks (continued):

#### (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 Health and Welfare Fund holds financial instruments denominated in currencies other than the Canadian dollar. Consequently, the Health and Welfare 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 Health and Welfare Fund's assets or liabilities 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.

#### (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 Health and Welfare 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 Health and Welfare 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 2016.

#### (v) Interest rate risk:

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

## 12. Comparative information:

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