

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Financial Statements
June 30, 2014

Management's Report

Management's Responsibility for the Financial Statements

The financial statements have been prepared by management in accordance with Canadian accounting standards for pension plans and the integrity and objectivity of these statements are management's responsibility. Management is responsible for the notes to the financial statements and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is responsible for implementing and maintaining a system of internal control to provide reasonable assurance that reliable financial information is produced.

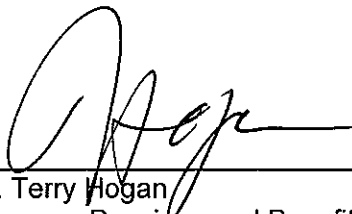
The Teachers' Superannuation Commission is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Commission reviews internal financial reports on a regular basis and externally audited financial statements yearly.

The Auditor General conducts an independent examination, in accordance with Canadian generally accepted auditing standards and expresses her opinion on the financial statements. The Auditor General has full and free access to financial information and management of the Prince Edward Island Teachers' Superannuation Fund to meet as required.

On behalf of the Prince Edward Island Teachers' Superannuation Fund



Mr. David Arsenault, FCPA, FCA
Deputy Minister, Department of Finance



Mr. Terry Hogan
Manager, Pensions and Benefits

June 18, 2015



Prince Edward Island Île-du-Prince-Édouard

Office of the
Auditor General

PO Box 2000, Charlottetown PE
Canada C1A 7N8

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INDEPENDENT AUDITOR'S REPORT

To the Commissioners of the Prince Edward Island Teachers' Superannuation Fund

I have audited the financial statements of the **Prince Edward Island Teachers' Superannuation Fund** which comprise the statement of financial position as at June 30, 2014, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted the audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at June 30, 2014, and the changes in its net assets available for benefits and its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

B. Jane MacAdam, CPA, CA
Auditor General

Charlottetown, Prince Edward Island
June 18, 2015

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

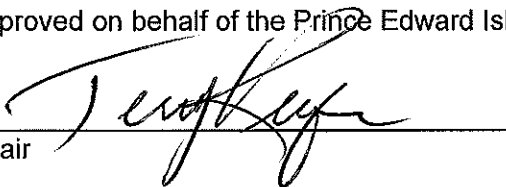
Statement of Financial Position
June 30, 2014

	2014	2013
	\$	\$
Assets		
Cash	1,214,570	5,393,906
Investments (Note 3)	643,185,296	538,608,981
Notes receivable (Note 5)	64,295,200	88,332,100
Receivables		
Contributions - employee	1,957,970	22,283
- employer	2,014,656	71,100
Accrued interest	3,871,643	665,901
Employer special contribution (Note 5)	164,640,100	-
Other	<u>335,492</u>	<u>198,310</u>
Total Assets	<u>881,514,927</u>	<u>633,292,581</u>
Liabilities		
Accounts payable and accrued liabilities	2,022,651	75,288
Income taxes payable	580,557	571,468
Investment fees payable	666,710	674,023
Other remittances payable	226,343	224,348
Due to the Province of Prince Edward Island	<u>233,502</u>	<u>229,116</u>
Total Liabilities	<u>3,729,763</u>	<u>1,774,243</u>
Net Assets Available for Benefits	<u>877,785,164</u>	<u>631,518,338</u>
Accrued Pension Obligation (Note 4)	<u>877,785,164</u>	<u>716,450,180</u>
Net Surplus (Deficit)	<u>-</u>	<u>(84,931,842)</u>

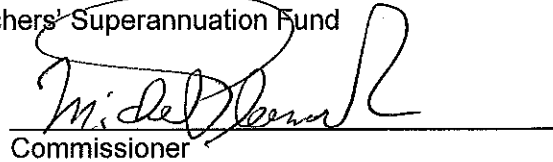
(The accompanying notes are an integral part of these financial statements.)

Approved on behalf of the Prince Edward Island Teachers' Superannuation Fund

Chair



Commissioner



**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Statement of Changes in Net Assets Available for Benefits
for the year ended June 30, 2014

	2014	2013
	\$	\$
Increase in Assets		
Investment income (Note 3(a))		
Interest	5,589,144	5,614,539
Dividends	12,696,832	8,428,523
Change in fair value of investments	<u>82,150,158</u>	<u>47,535,557</u>
	100,436,134	61,578,619
Interest income on note receivable and other	6,019,991	4,115,822
Contributions		
Employee	10,685,888	9,948,453
Employer	10,685,888	9,949,353
Transfers from other plans	1,132,019	857,639
Purchased service	226,087	343,783
Employer special contribution (Note 5)	<u>164,640,100</u>	<u>80,369,000</u>
	<u>293,826,107</u>	<u>167,162,669</u>
Decrease in Assets		
Benefits paid	42,254,107	41,749,836
Operating expenses (Note 6)	2,971,119	2,911,751
Refunds (Note 2(f))	2,040,206	227,937
Transfers	<u>293,849</u>	<u>469,293</u>
	<u>47,559,281</u>	<u>45,358,817</u>
Change in Net Assets	246,266,826	121,803,852
Net Assets Available for Benefits, beginning of year	<u>631,518,338</u>	<u>509,714,486</u>
Net Assets Available for Benefits, end of year	<u>877,785,164</u>	<u>631,518,338</u>

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

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Statement of Changes in Pension Obligation
for the year ended June 30, 2014

	2014	2013
	\$	\$
Accrued Pension Obligation, beginning of year	<u>716,450,180</u>	<u>653,890,261</u>
Change in Accrued Pension Obligation		
Reclassification of outstanding non-vested refunds ¹	(1,931,285)	-
Interest accrued on benefits	48,727,724	47,227,123
Benefits accrued	15,586,738	15,069,551
Increase due to purchased service	1,358,106	1,201,422
Benefits paid	(42,656,877)	(42,447,066)
Losses on experience and assumption changes	103,246,383	41,508,889
Increase due to contingent indexation	21,444,495	
Plan amendments:		
Gain on benefit design changes (before recognition of ABO for contingent indexation)	(133,371,400)	-
Loss on recognition of ABO for contingent indexation	<u>148,931,100</u>	<u>-</u>
Change in Accrued Pension Obligation	<u>161,334,984</u>	<u>62,559,919</u>
Accrued Pension Obligation, end of year (Note 4)	<u>877,785,164</u>	<u>716,450,180</u>

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

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

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements

June 30, 2014

1. Plan Description

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

a) General

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

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

b) Contributions

Under the Plan, members make contributions amounting to 8.3 percent of that part of the members salary up to the amount of the year's maximum pensionable earnings (YMPE) as defined in the *Canada Pension Plan Act* and 10.0 percent on the amount that exceeds the YMPE. Participating employers match member contributions. Herein these are considered the base contributions. For 2014 to 2016, contributions will remain fixed unless they are deemed ineligible based on the maximum contributions allowed under the federal *Income Tax Act* (ITA). As part of the conversion, variable contributions have been introduced based on the funded benefits ratio as defined below (note that contribution changes by funded level are total and not cumulative).

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

1. Plan Description (continued...)

b) Contributions (continued...)

Funded Benefits Ratio	Employee Contributions¹	Participating Employer Contributions¹
<100% ²	Base Contributions plus 1%	Base Contributions plus 4%
100% to 110% ³	Base Contributions plus 1%	Base Contributions plus 2%
110% to 135%	Base Contributions	Base Contributions
135% to 145% ⁴	Base Contributions less 1%	Base Contributions less 2%
145% + ⁵	Base Contributions less 1%	Base Contributions less 4%

^{1.} Subject to the Income Tax Act Rules for maximum contributions.

^{2.} If triggered, contributions based on funded benefits ratio <100% remain in effect until funded benefits ratio of $\geq 105\%$ is attained.

^{3.} If triggered, contributions based on funded benefits ratio <110% remain in effect until funded benefits ratio of $\geq 115\%$ is attained.

^{4.} If triggered, contributions based on funded benefits ratio $\geq 135\%$ remain in effect until funded benefits ratio of $\leq 130\%$ is attained.

^{5.} If triggered, contributions based on funded benefits ratio $\geq 145\%$ remain in effect until funded benefits ratio of $\leq 140\%$ is attained.

c) Retirement Benefits

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

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements
June 30, 2014

1. Plan Description (continued...)

c) Retirement Benefits (continued...)

Pre-Retirement Indexation: Prior to conversion, pre-retirement inflation protection was enabled by using members' highest five-year average salary in the benefit calculation formula. Post-conversion, indexation has become conditional on the funded level of the Plan. However, there are some transitional indexation rules for the first three years. For indexation awarded during 2014 to 2016, pensionable salaries and the year's maximum pensionable earnings will be automatically indexed at 1.5 percent per annum. As this indexation is guaranteed, it is included in the base benefits, which are the guaranteed Plan benefits prior to any future contingent indexation. In 2017 and beyond, pre-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 100 percent. If the funded benefits ratio is below 100 percent then no indexation will be awarded in that year. If there are years that full indexation is not awarded, and if the funded benefits ratio subsequently reaches 115 percent, then a portion of Plan funds is available to make up for missed indexation in the past. The maximum indexation is 100 percent of the increase in the Average Industrial Wage ("AIW") in Canada. However, if in any year the assets available to be spent on inflation protection are not adequate to provide the full amount, partial indexation will be awarded.

Post-Retirement Indexation: Prior to conversion, the post-retirement benefit was automatically increased every year by 60 percent of the increase in CPI as measured over the previous year, to a maximum of four percent. Post-conversion, indexation has become conditional on the funded level of the Plan. However, there are some transitional indexation rules for the first three years. For 2014 to 2016, post-retirement indexation will automatically be awarded at 0.9 percent per annum. As this indexation is guaranteed, it is included in the base benefits, which are the Plan benefits prior to any future contingent indexation. In 2017 and beyond, post-retirement indexation will only be awarded if the funded benefits ratio (as determined at the April 1st immediately prior to the calendar year in which indexation is to be awarded) is greater than 110 percent. If the funded benefits ratio is below 110 percent, then no post-retirement indexation will be awarded in that year. If there are years that full post-retirement indexation is not awarded, and if the funded benefit ratio subsequently reaches 118 percent, then a portion of Plan funds is available to make up for missed past indexation on a go-forward basis (i.e. no retroactive payments). The maximum indexation is 100 percent of CPI; however, if the Plan cannot afford that amount, partial indexation will be awarded. Indexation also applies to deferred vested benefits and is applied in the same manner as the post-retirement indexation described above.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

1) Plan Description (continued...)

c) Retirement Benefits (continued...)

Retirement Age: For pensionable service prior to January 1, 2019 (5 years after the conversion date), the earliest unreduced retirement age remains at the earlier of 30 years of pensionable service (minimum of age 55) and attained age 60. For pensionable service after December 31, 2018, the earliest unreduced retirement age will be the earlier of 32 years of pensionable service (minimum of age 55) and attained age 62. The earliest retirement age remains at age 55 with two years of continuous service both prior to and after the conversion date. The early retirement reduction factor continues to be 0.25 percent per month for each month by which the early retirement date precedes the members earliest unreduced retirement age.

d) Disability Benefits

Disability benefits are available at any age to a member who retires from teaching service because of total and permanent disability provided the member contributed to the Plan for two or more years.

e) Death Benefits

Less than two years of continuous service: On the death of a member prior to completing two years of pensionable service, or after completing two years of service but leaving no surviving spouse or dependant children, the member's accumulated contributions with interest will be refunded.

Greater than or equal to two years of continuous service: If a member dies prior to retirement but after completing two years of service, the member's spouse is entitled to an immediate pension equal to 60 percent of the accrued, unreduced pension of the member at the time of death. In addition to the spousal pension, an allowance equal to one quarter of the remaining 40 percent of pension is payable in respect of each dependant child until the child attains the age of 16 or until the age of 25 if the child is attending school full-time. In no case shall payment to such children exceed 75 percent of the remaining 40 percent of pension.

If the spouse of the member dies before the member, or where having survived the member the surviving spouse dies leaving children by the member, the 60 per cent pension that was payable to the spouse will be paid to the dependant children until the child attains the age of 16 or until the age of 25 if the child is attending school full time.

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements
June 30, 2014

1) Plan Description (continued...)

f) Termination and Portability of Benefits

In the event of termination of employment for reasons other than retirement or death, a member may elect to receive either:

- a refund of the member's own contributions with interest; or
- if the member has completed at least two years of service, a deferred pension subject to the provisions outlined in the *Retirement Age* section above.

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

g) Marriage Breakdown

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

h) Income Tax

The Fund is a registered pension plan as defined under the federal *Income Tax Act* and is not subject to taxation.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements for the year ended June 30, 2014, have been prepared in accordance with Canadian accounting standards for pension plans as outlined in the Chartered Professional Accountants of Canada (CPA) Handbook Section 4600, Pension Plans. For accounting policies that do not relate to either investments or pension obligations, the Fund has elected to comply on a consistent basis with International Financial Reporting Standards (IFRS) in part 1 of the CPA Handbook. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Included in the determination of the accrued benefit obligation for pension retirement benefits is a liability for contingent indexation. Pension plan amendments effective January 1, 2014, provided for the removal of guaranteed pension indexation. Indexation is now contingent on the funded status of the Fund.

For the year ended June 30, 2014, the contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation on base benefits assuming no further contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on asset returns, and new benefit accruals.

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements
June 30, 2014

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

Significant judgement is involved in the accounting treatment of contingent indexation. Management recognizes that the contingent indexation liability represents a new challenge for pensions in Canada. Going forward, management will continue to monitor developments in the accounting standards and practices when assessing the most appropriate accounting treatment for plans with a contingent indexation liability component.

These financial statements are prepared on a going concern basis and present the aggregate financial position of the Fund as a separate reporting entity.

a) Use of Estimates and Measurement Uncertainty

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Items requiring the use of significant estimates include investments, accrued interest, accrued liabilities, and the accrued pension obligation.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates and the differences could be material.

b) Foreign Currency Translation

Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange prevailing on the transaction date. The fair value of foreign investments and cash held at year-end are translated at the rates in effect at that date. The resulting gain or loss from changes in these rates is included in the current period change in fair value of investments.

c) Fair Value Measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Fund measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements
June 30, 2014

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

c) Fair Value Measurement (continued...)

If a market for a financial instrument is not active, then the Fund establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, and/or discounted cash flow analysis.

d) Financial Instruments

The Fund's financial instruments include cash, contributions and other receivables, accrued interest, notes receivable, investments, accounts payable, accrued liabilities, amounts due to the Province of Prince Edward Island, income taxes payable, investment fees payable, and other remittances payable. Due to their nature, the Fund's financial instruments, with the exception of investments, are carried at cost which approximate their fair values. Investments are carried at fair value and are subject to interest, credit, currency, price, and liquidity risks as described in Note 3.

e) Investments

Investments represent a pool of assets held in a master trust and allocated to each member by units of participation. The Prince Edward Island Master Trust represents a contract between the members (contributors) and the trustee (Minister of Finance). All investments held by the Master Trust are classified as held for trading. Investments are designated at fair value through the statement of changes in net assets available for benefits. Investment purchase and sale decisions are based on their fair value in accordance with the Master Trust's Statement of Investment Policies and Procedures. Significant accounting policies for the pool of assets held in the Master Trust consist of:

(i) Investment transactions

Investment transactions are recognized on the transaction date. Distributions are recognized on the record date. Investments include receivables and payables at June 30, 2014, for interest, dividends, and settled derivative contracts.

(ii) Income recognition

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

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements

June 30, 2014

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

e) Investments (continued...)

(iii) Investment valuation

Equity and debt

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

Equity investment in real estate

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

Pooled funds

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

Derivative contracts

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

Investment in foreign infrastructure

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

(iv) Transaction costs

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

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

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

f) Revenues and Expenses

Revenues and expenses are recorded on an accrual basis in the period in which the transaction or event that gave rise to the revenue or expense occurred. Included in refund expense are amounts owing to non-vested members that have been reclassified from the accrued benefit obligation to accounts payable.

g) Accrued Pension Obligation

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

3. Investments and Derivatives

a) Investments

Investments consist of units held in the Master Trust. At year-end, there were 432,737.564 units held in the Master Trust (2013 - 412,713.451) with a fair value of \$1,486.32 (2013 - \$1,305.04) per unit.

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

	<u>2014</u>	<u>%</u>	<u>2013</u>	<u>%</u>
	\$		\$	
Canadian short-term investments	64,502,115	3.3	13,104,205	0.7
Other liquid assets	6,834,347	0.3	9,862,402	0.6
Bonds, debentures, and notes	467,715,324	23.7	484,552,200	29.6
Canadian equity securities	479,391,040	24.3	363,807,347	22.2
Equity investments in real estate	84,180,745	4.3	79,174,462	4.8
Foreign equity securities	843,690,312	42.8	678,031,664	41.4
Foreign infrastructure	14,735,932	0.8	12,698,150	0.8
Currency forwards	5,437,608	0.3	(5,377,295)	(0.3)
Accrued income	<u>4,527,337</u>	<u>0.2</u>	<u>3,723,006</u>	<u>0.2</u>
Total	<u>1,971,014,760</u>	<u>100.0</u>	<u>1,639,576,141</u>	<u>100.0</u>
Fund's pro-rated share	<u>32.6322%</u>		<u>32.8505%</u>	
Fund investments **	<u>643,185,296</u>		<u>538,608,981</u>	

** Rounded

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

a) Investments (continued...)

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

	Investment Income (Losses) <u>2014</u> \$	Realized/ Unrealized Gains (Losses)* <u>2014</u> \$	Investment Income (Losses) <u>2013</u> \$	Realized/ Unrealized Gains (Losses)* <u>2013</u> \$
Canadian short-term investments	-	311	(9,471)	423
Other liquid assets	420,425	(5,622)	186,678	(705,160)
Bonds, debentures, and notes	15,089,947	2,077,835	16,937,523	(16,378,517)
Canadian equity securities	13,653,967	100,515,945	12,460,694	34,921,888
Foreign equity securities	25,143,624	152,398,139	13,256,333	124,176,372
Equity investments in real estate	-	3,396,662	-	4,969,763
Foreign infrastructure	1,693,464	212,893	-	2,273,116
Currency forwards	<u>210,075</u>	<u>(6,086,161)</u>	-	<u>(6,640,908)</u>
Total	56,211,502	252,510,002	42,831,757	142,616,977
Fund's pro-rated share	<u>32.5307%</u>	<u>32.5334%</u>	<u>32.7866%</u>	<u>33.3309%</u>
Fund investments **	<u>18,285,976</u>	<u>82,150,158</u>	<u>14,043,062</u>	<u>47,535,557</u>

* Includes realized gains of \$22.3 million (2013 - gains of \$15 million) and unrealized gains of \$230.2 million (2013 - gains of \$127.6 million).

** Rounded

Investments include amounts which investment managers of the Master Trust have invested in their own pooled funds. The fair values of these investments are as follows:

	<u>2014</u> \$	<u>2013</u> \$
Beutel Goodman & Company Ltd.	28,691,462	16,665,115
Lazard Ltd.	279,669,632	218,349,527
Baillie Gifford Overseas Ltd.	291,905,875	229,391,757
Bentall Kennedy	44,500,745	42,802,727
Greystone Real Estate Fund Inc.	39,680,000	36,371,537
Global Infrastructure Partners	<u>14,735,932</u>	<u>12,698,150</u>
Total	699,183,646	556,278,813
Fund's pro-rated share	<u>32.6322%</u>	<u>32.8505%</u>
Fund's pooled funds	<u>228,159,006</u>	<u>182,740,371</u>

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

b) Derivative Contracts

Derivative contracts are financial contracts, the value of which is "derived" from the value of underlying assets or exchange rates. Derivative contracts provide flexibility in implementing investment strategy.

Forward contracts are used to manage currency exposure and mitigate risk with respect to investments held in foreign currencies. The net notional amount of the currency forwards represents the volume of outstanding transactions and serves as the basis upon which the return and market value of the contract is determined.

The following provides details of derivative contracts outstanding as of June 30, 2014.

	<u>2014</u> \$	<u>2013</u> \$
Notional Amount	328,172,276	243,208,459
Fair Value	<u>5,437,608</u>	<u>(5,377,295)</u>

c) Fair Value Disclosure

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy on significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Fund's assets measured at fair value on a recurring basis at June 30, 2014.

The three levels of the fair value hierarchy are as follows:

Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the investment manager has the ability to access at the measurement date. Level 1 primarily includes publicly listed investments.

Level 2: Inputs other than quoted prices that are observable either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes debt securities and derivative contracts not traded in an open market.

Level 3: Inputs that are unobservable. There is little, if any, market activity. Inputs into the determination of fair value require significant management judgement and/or estimation. Level 3 primarily consists of foreign infrastructure investments.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

The following table illustrates the classifications of the Fund's financial instruments using the fair value hierarchy as at June 30.

	2014			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Canadian short-term investments	62,106,480	2,395,635	-	64,502,115
Other liquid assets	6,834,347	-	-	6,834,347
Bonds, debentures, and notes	-	467,715,324	-	467,715,324
Canadian equity securities	479,391,040	-	-	479,391,040
Foreign equity securities	837,422,428	6,267,884	-	843,690,312
Equity investments in real estate	-	84,180,745	-	84,180,745
Foreign infrastructure	-	-	14,735,932	14,735,932
Currency forwards	-	5,437,608	-	5,437,608
Totals	<u>1,385,754,295</u>	<u>565,997,196</u>	<u>14,735,932</u>	1,966,487,423
Accrued income				<u>4,527,337</u>
Total financial assets at fair value				1,971,014,760
Fund's pro-rated share				<u>32.6322%</u>
Fund investments*				<u>643,185,296</u>
	2013			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	\$	\$	\$	\$
Canadian short-term investments	10,908,903	2,195,302	-	13,104,205
Other liquid assets	9,862,402	-	-	9,862,402
Bonds, debentures, and notes	-	464,623,221	19,928,979	484,552,200
Canadian equity securities	363,807,347	-	-	363,807,347
Foreign equity securities	678,031,664	-	-	678,031,664
Equity investments in real estate	-	79,174,265	197	79,174,462
Foreign infrastructure	-	-	12,698,150	12,698,150
Currency forwards	-	(5,377,295)	-	(5,377,295)
Totals	<u>1,062,610,316</u>	<u>540,615,493</u>	<u>32,627,326</u>	1,635,853,135
Accrued income				<u>3,723,006</u>
Total financial assets at fair value				1,639,576,141
Fund's pro-rated share				<u>32.8505%</u>
Fund investments*				<u>538,608,981</u>

* Rounded

There were no significant transfers between level 1 and level 2 financial instruments during the year ended June 30, 2014.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

c) Fair Value Disclosure (continued...)

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

	<u>Fixed Income</u>	<u>Equity</u>	<u>Foreign Infrastructure</u>	<u>Total</u>
	\$	\$	\$	\$
Level 3 investments, July 1, 2013	19,928,979	197	12,698,150	32,627,326
Net purchases (sales)	(19,928,979)	(197)	(1,249,840)	(21,179,016)
Realized gains	-	-	685,335	685,335
Unrealized gains	-	-	<u>2,602,287</u>	<u>2,602,287</u>
Total financial assets at fair value	<u>-</u>	<u>-</u>	<u>14,735,932</u>	14,735,932
Fund's pro-rated share				<u>32.6322%</u>
Level 3 investments, June 30, 2014				<u>4,808,659</u>

	<u>Fixed Income</u>	<u>Equity</u>	<u>Foreign Infrastructure</u>	<u>Total</u>
	\$	\$	\$	\$
Level 3 investments, July 1, 2012	20,166,845	197	-	20,167,042
Net purchases (sales)	(237,866)	-	10,425,034	10,187,168
Realized gains	-	-	36,395	36,395
Unrealized gains	-	-	<u>2,236,721</u>	<u>2,236,721</u>
Total financial assets at fair value	<u>19,928,979</u>	<u>197</u>	<u>12,698,150</u>	32,627,326
Fund's pro-rated share				<u>32.8505%</u>
Level 3 investments, June 30, 2013				<u>10,718,240</u>

d) Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market price fluctuations, credit risk, and liquidity risk. The Fund has set formal goals, policies, and operating procedures that establish an asset mix among equity and fixed income, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counter parties. Risk and credit considerations are periodically assessed in consultation with external consultants, the Department of Finance, and the Master Trust Investment Advisory Committee. Plan sponsor oversight, procedures, and compliance functions are incorporated into Fund processes to achieve consistent controls and to mitigate operational risk.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(i) Interest Rate Risk

Interest rate risk refers to the fact that the Fund's financial position will change with market interest rate changes as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund's assets and liabilities.

Assuming all other variables are held constant, a one percentage point change in nominal interest rates would change the fair value of the Fund by \$8.7 million.

	<u>Value of Fixed Income Securities</u>	<u>Weighted Average Duration</u>	<u>Percentage Point Change</u>	<u>Impact on Fair Value of the Master Trust</u>	<u>Fund's Pro-rated Share</u>	<u>Pro-rated Impact on Fair Value of the Fund</u>
	\$	yrs	%	\$	%	\$
2014	467.7 m	5.67	1	26.5 m	32.6322	8.7 m

(ii) Price Risk

Price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. Price risk includes interest rate risk and foreign currency risk. Market price risk is managed by the Fund through the use of diversified investment portfolios traded on various markets and across various industries. Assuming all other variables are held constant, a ten percent change in market values of all public equities would change the fair value of the Fund by \$45.9 million.

	<u>Value of Public Equities</u>	<u>Percentage Change</u>	<u>Impact on Fair Value of the Master Trust</u>	<u>Fund's Pro-rated Share</u>	<u>Pro-rated Impact on Fair Value of the Fund</u>
	\$	%	\$	%	\$
2014	1,407.3 m	10	140.7	32.6322	45.9 m

(iii) Credit Risk

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

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

Fixed Income

The Fund is exposed to credit risk from the following interest earning investments at June 30 as follows:

	2014 (millions) \$	2013 (millions) \$
Federal government	209.7	164.0
Provincial government	31.6	20.1
Corporate	<u>234.7</u>	<u>308.9</u>
Total investment credit risk exposure	476.0	493.0
Fund's pro-rated share	<u>32.6322%</u>	<u>32.8505%</u>
Fund's investment credit risk exposure	155.3	162.0
Provincial government promissory note	<u>64.3</u>	<u>88.3</u>
Fund's total credit risk exposure	<u><u>219.6</u></u>	<u><u>250.3</u></u>

Security Lending

The Fund participates in a Securities Lending Program whereby it lends securities for a fee to approved borrowers. To alleviate the credit risk, borrowers must provide collateral with a value of 105 percent of the value of the securities lent. The market value of the collateral is monitored by the custodian at least daily to ensure that the 105 percent threshold is maintained. In addition, security loans are allocated across various borrowers within the program and the Fund holds indemnification coverage which mitigates the credit and market risk on the collateral.

The fair value of the security loans outstanding and collateral held is as follows:

	2014 \$	2013 \$
Total security loans outstanding	219,601,103	345,192,176
Fund's pro-rated share	<u>32.6322%</u>	<u>32.8505%</u>
Fund's security loans outstanding	<u><u>71,660,671</u></u>	<u><u>113,397,356</u></u>
Total collateral held	230,581,377	362,451,930
Fund's pro-rated share	<u>32.6322%</u>	<u>32.8505%</u>
Fund's collateral held	<u><u>75,243,776</u></u>	<u><u>119,067,271</u></u>

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

(iii) Credit Risk (continued...)

Derivatives

The Fund is exposed to credit related losses in the event of non performance by counter parties to derivative financial instruments. In order to mitigate this risk, the Fund deals only with highly rated counter parties, with whom International Swap and Derivative Association agreements have been executed, normally major financial institutions with a minimum credit standard of "A" rating, as supported by a recognized credit rating agency.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counter parties failed completely to perform under the contracts and if the right of offset proved to be non enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counter parties, less any prepayment collateral or margin received as at the reporting date.

(iv) Foreign Currency Risk

Foreign currency risk is the risk that the value of the future cash flow of the financial instrument will fluctuate because of changes in foreign exchange rates. Consequently, the Fund is exposed to the risk that the exchange rates of the various currencies may change in a manner that has an adverse effect on the value of the portion of the Fund's assets denominated in currencies other than the Canadian dollar. Foreign currency exposure arises from the holding of investments denominated in foreign currencies. A policy of hedging from 30 to 70 percent of the currency exposure is used to mitigate this risk.

The Fund's unhedged currency exposure from net investment assets as at June 30, is summarized in the following table.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

3. Investments and Derivatives (continued...)

d) Investment Risk Management (continued...)

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

	2014	2013
	(millions)	(millions)
	\$	\$
Currency		
Brazil	2.2	4.2
Switzerland	16.9	16.0
Euro Zone	55.8	43.2
United Kingdom	52.9	46.3
Hong Kong	25.8	19.7
Japan	47.6	37.6
Sweden	13.2	12.3
United States	229.1	193.7
Other	<u>49.3</u>	<u>42.5</u>
Total	492.8	415.5
Fund's pro-rated share	<u>32.6322%</u>	<u>32.8505%</u>
Fund's foreign currency exposure	<u>160.8</u>	<u>136.5</u>

After the effect of hedging, and without a change in all other variables, a 10 percent change in the Canadian dollar against all other currencies would change the fair value of the Fund by \$16.1 million.

(v) Liquidity Risk

Liquidity risk is the risk of not meeting the cash obligations of the Fund in an efficient manner. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund, and dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations of the Fund.

The Fund's cash management policy ensures that the quality and liquidity of the investment vehicles within the portfolio are consistent with the needs of the Fund.

4. Accrued Pension Obligation

a) Actuarial Valuation

The present value of the accrued pension obligation was determined using the projected unit credit method pro-rated on services and management's best estimate, as at the valuation date, of future economic events and involves economic and non economic assumptions. The non economic assumptions include considerations such as mortality and retirement rates. The primary economic assumptions include the return on investment, discount, inflation, and salary escalation rates.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

4. Accrued Pension Obligation (continued...)

a) Actuarial Valuation (continued...)

The most recent actuarial valuation for accounting purposes, prepared by the actuarial consulting firm Morneau Shepell, disclosed a funded surplus of \$162,841,100 over the base benefit liabilities as at April 1, 2014. The next actuarial valuation is scheduled to be completed in 2015.

The total accrued benefit obligation consists of the following:

Base benefit liability	\$699,677,600
Contingent Indexation liability ¹	<u>162,841,100</u>
Total accrued benefit obligation	<u>\$862,518,700</u>

¹ The contingent indexation liability is calculated based on total plan assets less the accrued benefit obligation assuming no future contingent indexation. This calculation does not incorporate the potential impact of future events such as contributions, gains and losses on investments, or new benefit accruals.

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

	2014	2011
Inflation	2.25%	2.50%
Discount Rate	5.75% for 10 years, 6.25% thereafter	7.37%, updated to 6.86% on March 31, 2013
Expected Rate of Return of Plan Assets	5.75% for 10 years, 6.25% thereafter	7.37%, updated to 6.86% on March 31, 2013
Salary Escalation	Basic increase of 2.75% per annum + promotional scale	2.50%
Pre-Retirement Indexation	1.50% per annum for 2014 - 2016, 2.75% per annum for 19 years, 0% per annum thereafter	N/A
Post-Retirement Indexation (includes deferred pensioners)	0.90% per annum for 2014 - 2016, 2.25% per annum for 11 years, 0% per annum thereafter	60% of Consumer Price Index to a maximum of 4.00%
Mortality	CPM2014Publ with future improvements based on CPM Scale B and adjustments of 1.0 for males and 0.95 for females	GAR94 projected to 2000 using Scale AA for both males and females.
Termination	Tenure-based scale	Age - based scale

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

4. Accrued Pension Obligation (continued...)

a) Actuarial Valuation (continued...)

Retirement Age	Service and age - based scale	Service and age - based scale.
Proportion Married	Age and gender - based scale	Male 90%; Female 85%
Age Difference for Spouses	Males 2 years older than female spouses	Males assumed to be 3 years older than females.

b) Extrapolation

The accrued benefit obligation at June 30, 2014 is estimated by the Fund, based on an extrapolation of the April 1, 2014 actuarial valuation. The total accrued benefit obligation at June 30, 2014 consists of the following:

Base benefit liability	\$702,927,846
Contingent indexation liability	<u>174,857,318</u>
Total accrued benefit obligation	<u>\$877,785,164</u>

c) Sensitivity of Changes in Major Assumptions

The Fund's future experience may differ from the assumptions used in the actuarial valuation and the extrapolation. Any differences between the actuarial assumptions and future experience could be significant and will emerge as experience gains or losses in future valuations which will affect the financial position of the Fund.

5. Funding Policy

- a)** Prior to the Plan conversion, the province was committed to make payments if the assets of the TSF were insufficient to provide for pension payments as they became due. In addition, a funding policy existed which required the Province to make special contributions when the TSF's funded level declined below 90 percent.

Special contributions made under this funding policy were as follows:

- (i)** As a result of an unfunded liability at July 1, 2005, the Province of Prince Edward Island made a special contribution through the signing of a \$160,000,000 promissory note. The note, which is held by the Fund, is receivable in ten equal annual instalments of \$16,000,000 beginning April 15, 2005. Interest on the note is accrued at a rate of 4.35 percent per annum, and is receivable semi-annually on April 15, and October 15.

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

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

5. Funding Policy (continued...)

<u>Date of Payment</u>	<u>Principal Payments</u>		<u>Interest Payments</u>	
	<u>Principal Payment</u>		<u>April 15</u>	<u>October 15</u>
	\$		\$	\$
April 15, 2005	16,000,000		-	3,128,400
April 15, 2006	16,000,000		3,128,400	2,780,800
April 15, 2007	16,000,000		2,780,800	2,433,200
April 15, 2008	16,000,000		2,433,200	2,085,600
April 15, 2009	16,000,000		2,085,600	1,738,000
April 15, 2010	16,000,000		1,738,000	1,390,400
April 15, 2011	16,000,000		1,390,400	1,042,800
April 15, 2012	16,000,000		1,042,800	695,200
April 15, 2013	16,000,000		695,200	347,600
April 15, 2014	16,000,000		347,600	-
	<u>160,000,000</u>		<u>15,642,000</u>	<u>15,642,000</u>

- (ii) As a result of an unfunded liability at July 1, 2011, the province made a special contribution through the signing of a \$80,369,000 promissory note. The note, issued December 11, 2012, is held by the Fund and is receivable in ten equal annual instalments of \$8,063,900 beginning April 1, 2013. Interest on the note is accrued from April 1, 2012, at a rate of 2.9 percent per annum, and is receivable semi-annually on April 1 and October 1.

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

<u>Date of Payment</u>	<u>Principal Payments</u>		<u>Interest Payments</u>	
	<u>Principal Payment</u>		<u>April 1</u>	<u>October 1</u>
	\$		\$	\$
April 1, 2012	-		-	1,165,351
April 1, 2013	8,036,900		1,165,351	1,048,815
April 1, 2014	8,036,900		1,048,815	932,281
April 1, 2015	8,036,900		932,281	815,746
April 1, 2016	8,036,900		815,746	699,210
April 1, 2017	8,036,900		699,210	582,675
April 1, 2018	8,036,900		582,675	466,140
April 1, 2019	8,036,900		466,140	349,605
April 1, 2020	8,036,900		349,605	233,070
April 1, 2021	8,036,900		233,070	116,535
April 1, 2022	8,036,900		116,535	-
	<u>80,369,000</u>		<u>6,409,428</u>	<u>6,409,428</u>

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements
June 30, 2014

5. Funding Policy (continued...)

- b) As part of the Plan conversion, the province's requirement to make payments if the assets of TSF were insufficient to provide for pension payments as they became due was removed and the funding policy was rescinded.

Beginning on April 1, 2016, if the funded benefits ratio of the Plan falls below 100 percent (of base benefits) and, after reflecting the future contributions as described in Note 1(b), the Plan is still not projected to achieve a funded benefits ratio of at least 100 percent within five years, the province is required to make an additional contribution equal to one fifth of the additional amount required to restore the funded benefits ratio to 100 percent within five years. This is reviewed on an annual basis and the contribution amount will be subject to change each year.

In addition, the Province committed to make a one-time transitional contribution (transitional government funding amount) to the Plan on or before December 31, 2014 such that, if that contribution had been made on January 1, 2014, the total assets of the Fund would have equalled:

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

The transitional government funding amount was contributed to the TSF by the Province of Prince Edward Island through the signing of a \$164,640,100 promissory note. The note, issued December 22, 2014, is held by the Fund and is receivable in seven equal annual instalments of \$23,520,014 beginning January 1, 2023. Interest on the note is accrued from January 1, 2014 at a rate of 4.14 percent per annum and is receivable semi-annually on January 1 and July 1. At June 30, 2014, a receivable was recognized for the outstanding note and classified as an employer special contribution.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

5. Funding Policy (continued...)

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

<u>Date of Payment</u>	<u>Principal Payments</u>		<u>Interest Payments</u>	
	<u>Principal Payment</u>	<u>January 1</u>	<u>July 1</u>	
	\$	\$	\$	\$
January 1, 2014	-	-	3,408,050	
January 1, 2015	-	3,408,050	3,408,050	
January 1, 2016	-	3,408,050	3,408,050	
January 1, 2017	-	3,408,050	3,408,050	
January 1, 2018	-	3,408,050	3,408,050	
January 1, 2019	-	3,408,050	3,408,050	
January 1, 2020	-	3,408,050	3,408,050	
January 1, 2021	-	3,408,050	3,408,050	
January 1, 2022	-	3,408,050	3,408,050	
January 1, 2023	23,520,014	3,408,050	2,921,186	
January 1, 2024	23,520,014	2,921,186	2,434,321	
January 1, 2025	23,520,014	2,434,321	1,947,457	
January 1, 2026	23,520,014	1,947,457	1,460,593	
January 1, 2027	23,520,014	1,460,593	973,729	
January 1, 2028	23,520,014	973,729	486,865	
January 1, 2029	<u>23,520,016</u>	<u>486,865</u>	<u>-</u>	
	<u>164,640,100</u>	<u>40,896,601</u>	<u>40,896,601</u>	

Subsection 9(5) of the *Teachers Superannuation Act* stipulates that none of the above promissory notes may be cancelled or recalled by the Province prior to maturity unless the Province contributes to the TSF assets equal to or greater than the value of the promissory notes on the date of cancellation or recall. The notes are non-transferrable.

**PRINCE EDWARD ISLAND
TEACHERS' SUPERANNUATION FUND**

Notes to Financial Statements
June 30, 2014

6. Operating Expenses

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

	<u>2014</u>	<u>2013</u>
	\$	\$
Administrative expenses - pension section	285,305	273,721
- investment section	<u>60,403</u>	<u>54,483</u>
	345,708	328,204
Consulting fees*	274,590	243,015
Actuarial fees	35,168	-
Investment expenses		
Custodian	103,529	87,722
Monitoring	78,585	68,917
Management	<u>2,133,539</u>	<u>2,183,893</u>
	<u>2,971,119</u>	<u>2,911,751</u>

* Includes other actuarial services

7. Related Party Transactions

The Province of Prince Edward Island is the sponsor of the Plan. At the financial statement date, the province has committed to the funding requirements as defined by the Funding Policy (Note 5). As a participating employer, the province contributes regular bi-weekly employee and eligible prior period service contributions. Employer contributions receivable from the province as at June 30, 2014, totalled \$2,013,010 (2013 - \$69,001).

The province provides pension and investment administration services to the Fund. A portion of the province's costs relating to these services is recovered annually from the Fund. Costs recovered for the pension section totalled \$232,840 (2013 - \$226,240) and recoveries related to the investment section totalled \$60,403 (2013 - \$54,483). Other costs recovered by the province totalled \$35,448 (2013 - \$34,432).

Total amount payable to the province at June 30, 2014, was \$233,502 (2013 - \$229,116).

Total notes, special contribution and interest receivable from the province at June 30, 2014, was \$232,806,943 (2013 - \$88,998,001).

PRINCE EDWARD ISLAND TEACHERS' SUPERANNUATION FUND

Notes to Financial Statements

June 30, 2014

8. Capital Management

The main objective of the Fund is to sustain a level of net assets in order to meet the pension obligations of the Fund. The Plan sponsor manages the contributions received and benefits issued as required by the *Teachers' Superannuation Act*.

In an effort to utilize economies of scale, contributions for the province's three registered pension plans are pooled and invested together in the Province's Master Trust (the Master Trust). Each pension plan holds units of the Master Trust in proportion to the value of contributions made. The Province has developed a Statement of Investment Policies and Procedures (SIP&P) to provide the framework for how the Master Trust's assets are to be invested, monitored, and evaluated. Assets are managed by engaging knowledgeable, external investment managers who are charged with the responsibility of investing new and existing funds in accordance with the SIP&P. A Master Trust Investment Advisory Committee exists for the purpose of protecting the pension fund assets, monitoring asset mix, reviewing costs, reviewing investment returns, and assessing investment manager performance, as well as providing advice to the Minister of Finance who serves as Trustee for the province's three registered pension plans.

9. Commitment

The Master Trust has entered into an arrangement where it has committed to invest \$35 (US) million with Global Infrastructure Partners (GIP) Fund. GIP is an independent infrastructure fund manager that invests in high quality infrastructure assets in the energy, transport, water, and waste sectors. As at the financial statement release date, \$13.9 (US) million had been invested.

10. Prior Period Comparatives

Certain prior period comparatives figures have been restated to conform to the presentation format adopted in the current period.

11. Subsequent Events

As a result of a plan asset study completed subsequent to year end, the discount rate assumption was revised from 5.75 percent for 10 years and 6.25 percent thereafter to 5.6 percent for 10 years and 5.9 percent thereafter.