2017 Management Employees Pension Plan Annual Report

MEPP
management employees pension plan

2017 MEPP Annual Report

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Governance Statement

This is the Governance Statement of the Management Employees Pension Board

MEPP Governance Statement

The Management Employees Pension Plan (MEPP) was originally established in 1972 as the Public Service Management Pension Plan for management employees of the Alberta government and approved agencies, boards and commissions. In 1993, new legislation was passed that split the plan into two separate plans: MEPP and the Public Service Management (Closed Membership) Pension Plan ("Closed Plan"). The latter plan holds the entitlements of former managers not in active service as of January 1, 1992.

The Board has legislated responsibilities for the Management Employees Pension Plan and limited legislated responsibilities for the Public Service Management (Closed Membership) Pension Plan. The mandate of the Board, as established under the *Public Sector Pension Plans Act* ("PSPPA"), Schedule 5, section 3, and Schedule 6 is to:

1.1 advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future, to receive benefits under the MEPP;

1.2 consult with the Minister with respect to:

- **1.2.1** amending or repealing and replacing the *Management Employees Pension Plan Regulation* (the "Plan Rules"); including Plan Rules and adjusting contribution rates to ensure that the MEPP is funded;
- **1.2.2** conducting an actuarial valuation with respect to the MEPP;
- **1.2.3** conducting an actuarial valuation with respect to the Closed Plan;
- **1.2.4** changes proposed to the *Public Sector Pension Plans (Legislative Provisions) Regulation*;
- **1.2.5** the cost to be charged for the administration of the MEPP; and
- **1.2.6** the cost to be charged for the administration of the Closed Plan.

1.3 review administrative decisions for the MEPP and the Closed Plan, conduct appeal hearings and make the final decision, in accordance with the delegation from the Minister;

1.4 set general policy guidelines such as the Investment Policy on the investment and management of the MEPP fund that it considers should be followed; and

1.5 set general policy guidelines on the administration of the MEPP that it considers should be followed.

Administration Report

The Management Employee Pension Plan Administration Report is prepared by Alberta Pensions Services Corporation, MEPP's administrator

MEPP Administration Report 2017

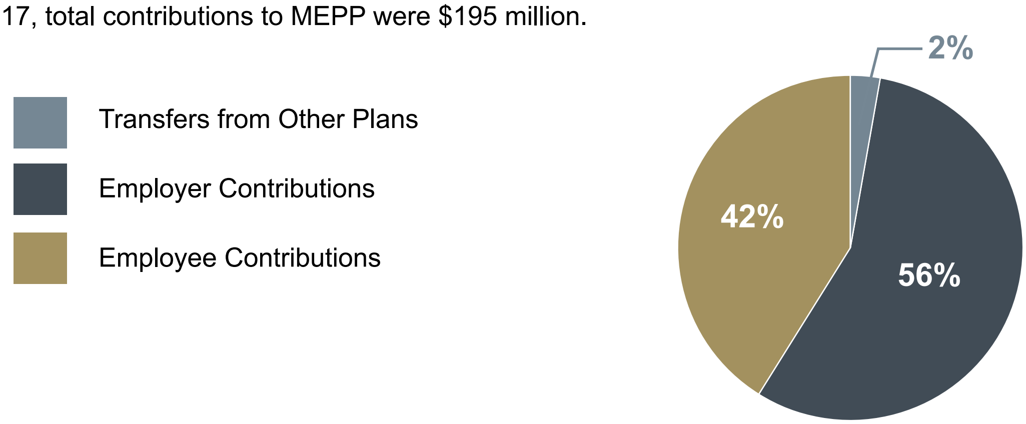
Alberta Pensions Services Corporation (APS) provides valued pensions services (as directed under a Pension Services Agreement with the President of the Treasury Board and Minister of Finance) on behalf of Management Employees Pension Plan (MEPP) members, pensioners, employers and plan governors.

Services include:

- Contributions management
- Member, pensioner and employer information management
- Member, pensioner and employer communications
- Benefit calculations
- Benefit disbursements
- Policy development and implementation
- Compliance, regulatory and plan financial reporting

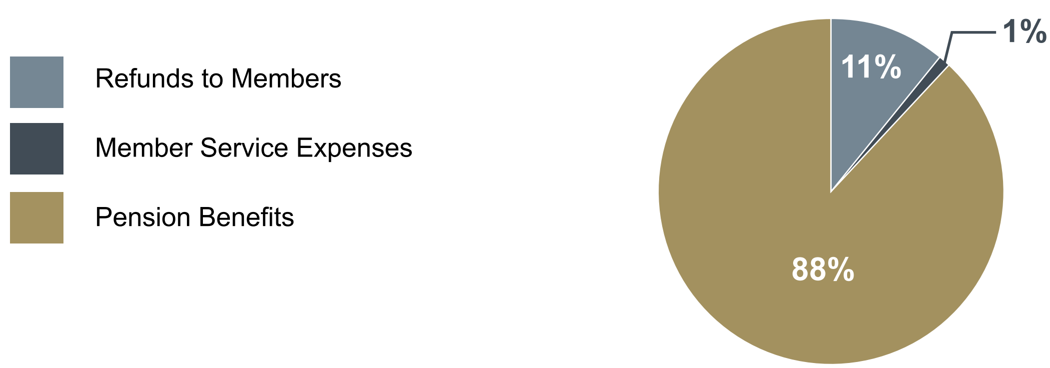
Contributions to MEPP

In 2017, total contributions to MEPP were $195 million.



Payments from MEPP

In 2017, total payments from MEPP were $234 million.



MEPP Members, Pensioners and Employers

Based on year-end totals, MEPP has 21 employers and a total of 11,901 active and deferred members and pensioners. In 2017, 566 members joined the Plan, 62 re-joined the Plan, 329 members retired, 218 members deferred funds, and 132 members terminated and left the Plan.

MEPP Member Services Expenses

MEPP's share of APS' operating and plan-specific costs are based on cost allocation policies approved by the President of the Treasury Board and Minister of Finance.

MEPP's share of APS' costs were almost $ 2.5 million in 2017. Based on average membership, MEPP's per member service expense is $208, which includes APS' operating costs, Board costs and other professional fees.

Member Service Expenses ($ thousands)	2017	2016
General administration costs	2,186	2,126
Board costs	69	51
Board Actuarial fees	26	161
Other professional fees	198	132
Total	2,479	2,470
Member service expenses per member	**$208**	**$211**

Cost-of-Living Adjustment (COLA) to Pensions in Pay

After a member begins to receive a pension, a cost-of-living adjustment is applied every year there is an increase in the Alberta Consumer Price Index (ACPI). COLA is equal to 60% of the yearly increase of the ACPI.

As of January 1, 2017, the COLA granted to pensioners was 0.78%. For those who retired during 2017, this COLA was prorated. The COLA granted as of January 1, 2017, was also 0.78%.

2017 Administration Highlights

In 2017, APS accomplished the following activities and achievements, strengthening its focus on delivering services for MEPP members effectively and efficiently and further enhancing their pension experience.

- Darwin Bozek was appointed as APS' new President and Chief Executive Officer in August, bringing a renewed focus on clients—the Plan boards—and their members.
- While Canadian peers, on average, had a cost per member of $230, APS achieved a cost per member of $175. This is notable because APS made significant investments in technology and communication tools in 2017, while still achieving a high standard of accurate, cost-effective service.
- APS achieved an overall member satisfaction score of 81%, an increase from 2017's overall score of 78%, surpassing the target satisfaction score set at 75%. This reflects a focus on continually improving contact centre experience and faster turnaround times on member files.
- APS provided the planning, redesign, development and content for a new Plan website. The new website launched in the first quarter of 2018. In 2017, mepp.ca saw 23,066 visitors to the website.

- Mypensionplan.ca provides members access to resources to help plan their retirement and the ability to update their personal information online. In 2017, MEPP registrations on mypensionplan.ca increased by 36%—from 2,903 enrollments to 4,056. In total, 38% of all current MEPP members are registered on the tool.
- APS is focusing on broadening channels of communication. As part of mypensionplan.ca and online services, in 2017 there were 61,880 secure emails compared to 24,970 in 2016.
- In total, the Member Services Centre answered 167,715 calls with an abandon rate of only 1.2%, down from 17.3% the year prior. This is a result of factors including increase in staff, training and coaching.
- APS received 11 prestigious awards from organizations including the International Association of Business Communicators (IABC), Project Management Institute (PMI) of Northern Alberta, Benefits Canada, and the International Customer Management Institute. The awards were for work on the following projects which enhanced member service and satisfaction, such as:
    - Planning and implementation of the Next Generation project, a new customer relationship management tool
    - Member Services Centre improvement projects

Looking Ahead to 2018

APS launched an updated vision, mission and strategic priorities, as defined in APS' 2018 – 2022 Five-Year Strategic Plan. The strategic priorities are:

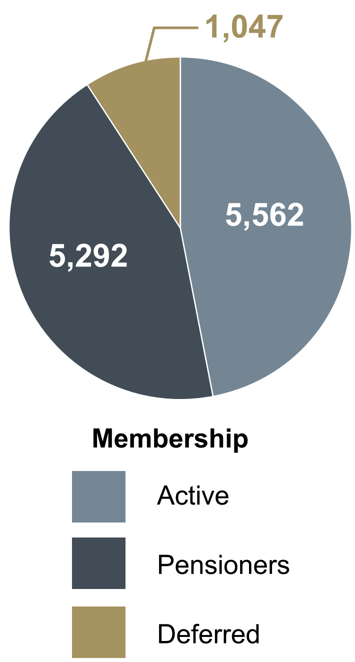
1. Enhance Stakeholder Relationships
2. Transform Member and Employer Interactions
3. Elevate Member and Employer Pension Benefit Education
4. Optimize Service Delivery
5. Align and Grow Workforce Capabilities

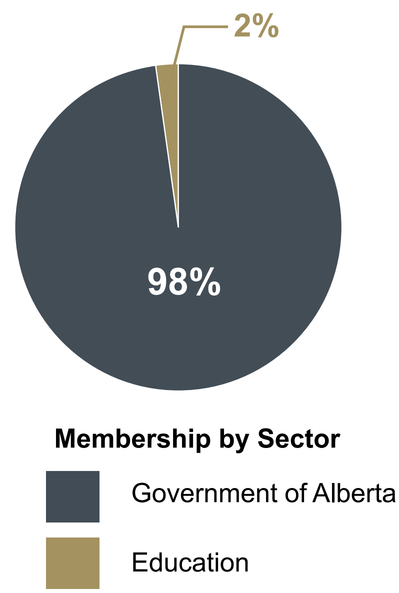
In 2018, APS will focus on the following areas and activities:

- Enhancing the organization's focus on serving the Plan boards by constantly demonstrating the value of services to better meet client and member needs. This is reflected in the 2018 scorecard by including measurements for evaluating APS' core services.
- Successfully launching the new MEPP website in 2018, as well as the websites for two of the other Plans APS administers, to elevate members' understanding of and engagement with their pension plan.
- Achieving an approval rating of at least 67% (based on the industry average) on the new website.
- Increasing mypensionplan.ca registrations, transforming member interactions and further optimizing service delivery.
- Launching the online retirement tool PensionEase, which will allow members to submit their pension benefit applications online, also further optimizing service delivery.
- Continuing the optimization of Compass, the pension administration system, for the purpose of providing members with more efficient benefit administration.
- Enhancing online security to better protect client and member information by establishing a cyber-security framework and implementing a managed security services model.

- Achieving the goal of paying pensions within 30 days of a member's pension commencement date, once all member information is received, at a rate of 95%. Among other strategies for achieving this goal, APS continues to be proactive in following-up with members on receiving required documents.

Additional Information





Average age of MEPP active members	48.1
Average age of all retirees in 2017	69.3
Average annual pension paid out (Dec. 2017)	37,849.79
Average retirement age in 2017	58.7
Percentage increase in membership over 2016	**3.6%**

Summary of Financial Position

(2017) based on Management Employees Pension Plan Financial Statements.
(As at Dec. 31, 2017)

($ thousands)	2017	2016
Net assets available for benefits	5,038,595	4,612,150
Pension obligation	4,172,589	4,210,117
Surplus	866,006	402,033

Plan Performance and Investment Report

The MEPP Plan Performance and Investment Report is prepared by the Ministry of Treasury Board and Finance

Plan Performance

Fair Value of Net Assets versus Pension Obligation

Fair Value of Net Assets: $5.039 Billion

Pension Obligation: $4.173 Billion

Surplus: $866 Million

Income and Contributions: $689 Million

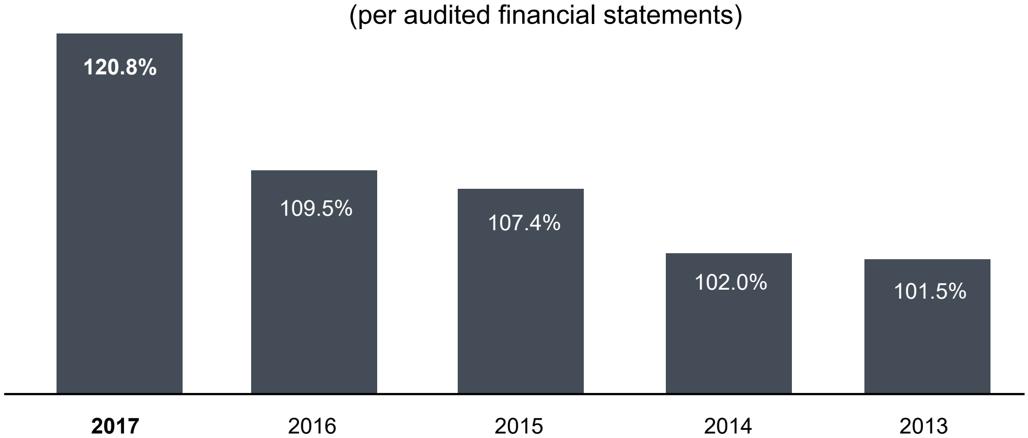
Benefits and Expenses: $263 Million

In 2017, MEPP's surplus continued to grow, posting another record surplus with the highest funded status in the Plan's history. The Plan's surplus increased by $464 million to $866 million, according to the 2017 audited financial statements.

At December 31, 2017, the fair value of the Plan's net assets increased by 9.2% ($427 million) to $5.039 billion. The increase in net assets was enhanced by a decrease in the pension obligation which, for the first time in MEPP's history, fell by 0.9% ($37 million) to $4.173 billion.

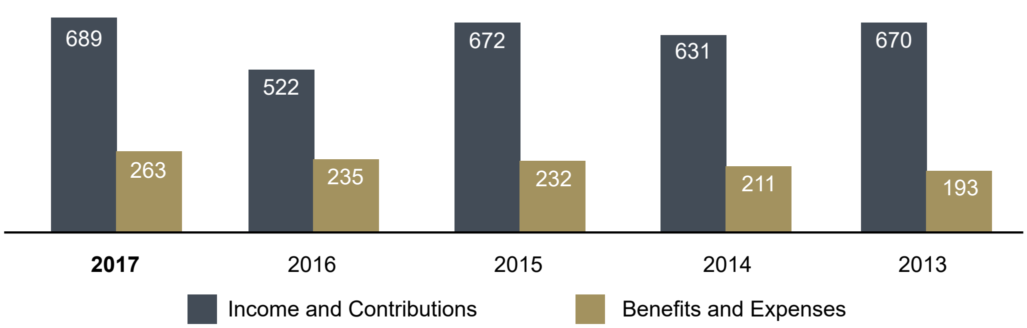
According to the most recent audited financial statements, the Plan closed out 2017 with 120.8% of the total pension obligation supported by assets.

Per cent of Pension Obligation Supported by Net Assets
(per audited financial statements)



In 2017, investment income and contributions from employees and employers totaling $689 million was more than two and a half times the outflows for benefit payments and expenses of $263 million.

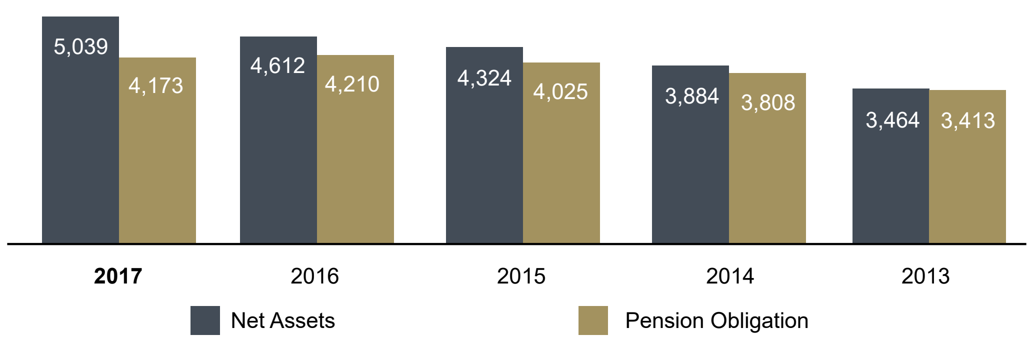
MEPP Inflows and Outflows (in millions)
(per audited financial statements)



The total pension obligation is based on the estimated net present value of future pension benefits paid to employees when they retire. Retirement benefits earned by employees provide a lifetime pension for each year of pensionable service based on a specified percentage applied to the average salary for the five highest consecutive years, subject to the maximum benefit limit allowed under the *Canadian Income Tax Act*. The estimated pension obligation generally increases annually for each additional year of pensionable service earned by employees. The pension obligation is an estimate because it is based on various assumptions used by the Plan's actuary. For example, an estimated discount rate is used to determine the present value of future retirement payments. A lower estimated discount rate will increase the estimated pension obligation. Similarly, a higher estimated life expectancy will increase the pension obligation. Net assets increase when there is positive overall investment returns and when employee and employer contributions exceed pension benefits paid. Net assets decrease when there are investment losses, or when benefits paid exceeds the amount of contributions received.

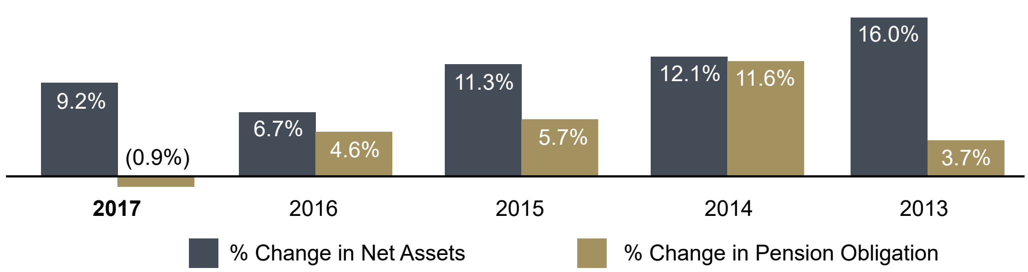
At December 31, 2017, the fair value of the Plan's net assets totaling $5.039 billion exceeded the estimated pension obligation of $4.173 billion resulting in a surplus of $866 million. This year's pension obligation was impacted by an increase in the discount rate to 6.4%, up from 6.0% in 2016 and 6.1% in 2015.

Net Assets Compared to Total Pension Obligation (in millions)
(per audited financial statements)



As shown in the chart below, net assets increased by 9.2% in 2017 compared to a decrease in the estimated pension obligation of 0.9%.

Per Cent Change in Net Assets and Pension Obligation (in millions)
(per audited financial statements)



Plan Performance and Investment Report

Investment Performance

At December 31, 2017, the fair value of the Plan's net assets totalled $5.039 billion, up 9.2% or $427 million from $4.612 billion at the beginning of the year. The growth in net assets is comprised of a return on investments of 10.1%, or $465 million after investment expenses and a decline of 0.8% or $38 million from pension benefits in excess of contributions. Investment expenses totaled $28.7 million in 2017 compared to $25.6 million in 2016.

2017 Year in Review

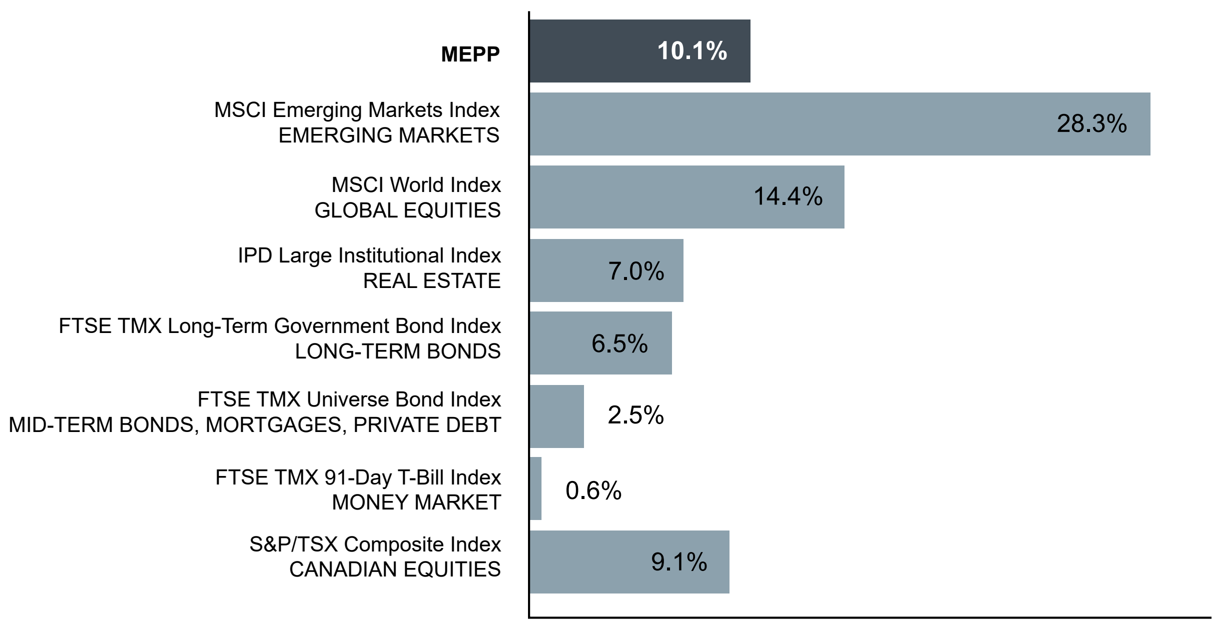
MEPP's Investment Returns	
1st Quarter	3.3%
2nd Quarter	1.0%
3rd Quarter	1.0%
4th Quarter	4.5%
Annual 2017	**10.1%**

The year started out with MEPP earning 3.3% on its investments in the first quarter. The markets were strong following the surprise results from the U.S. election late in 2016, and the inauguration of the new President in January. The strengthening economy factored into decisions by the Bank of Canada and the U.S. Federal Reserve to increase interest rates, which caused a widening in bond yields, lowering gains from fixed income investments. In the second and third quarters, investment markets slowed with MEPP gaining 1.0% each quarter.

In the fourth quarter, MEPP earned 4.5% on its investments. Overall, MEPP earned 10.1% in 2017, net of investment expenses, compared to 6.5% in 2016.

The following chart summarizes the market returns from various indices around the world and the overall return of MEPP for 2017.

Returns for MEPP and Major Markets (in Canadian Dollars)



The Morgan Stanley Capital International (MSCI) World Index is a broad global equity benchmark that represents large and mid-cap equity performance across 23 developed countries. This index is used to benchmark the performance of the Plan's global developed public equities. In 2017, the MSCI World Index increased by 14.4% in Canadian dollars (2016: 3.8% in Canadian dollars).

The Plan's emerging market investments are benchmarked against the MSCI Emerging Markets Index, which gained 28.3% in Canadian dollars in 2017 compared to 7.3% in Canadian dollars in 2016.

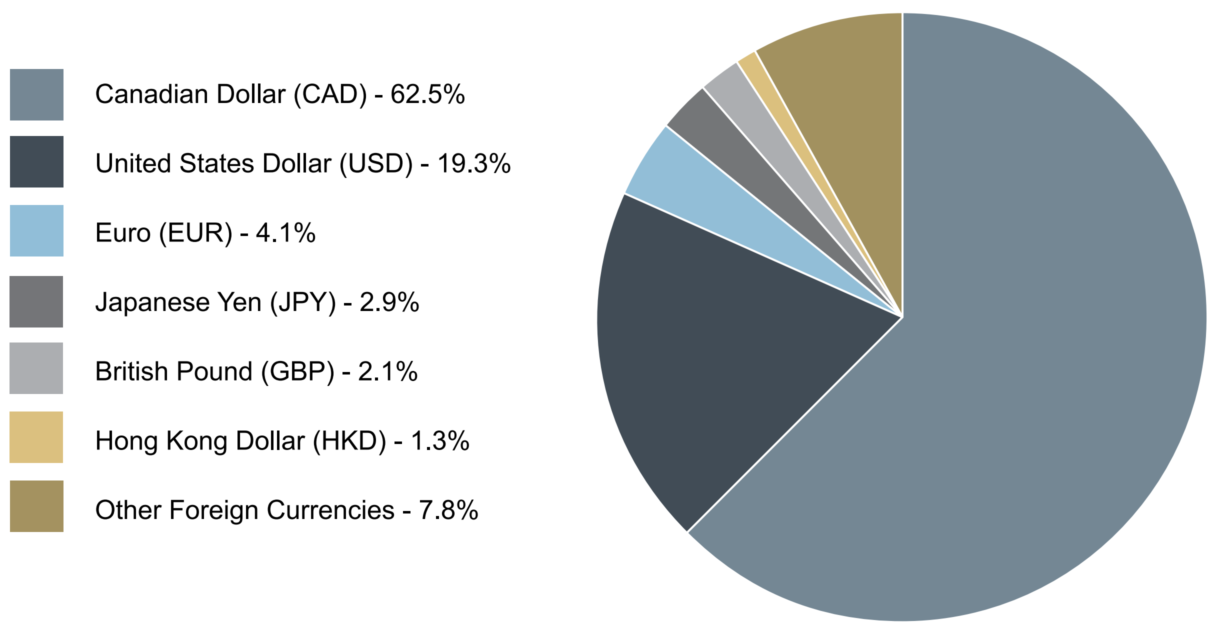
The Canadian real estate market, represented by the IPD Large Institutional Index, gained 7.0% this year, compared to last year's gain of 5.8%.

Medium- and long-term bond indices improved over last year, with the FTSE TMX Universe Bond

Index posting a gain of 2.5% in 2017 compared to a gain of 1.7% in 2016. The FTSE TMX Long-term Government Bond Index recorded a gain of 6.5% in 2017, compared to a gain of 1.3% in 2016.

In 2017, the Canadian stock market represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 9.1%, significantly lower than the gain of 21.1% earned in 2016.

MEPP Investments by Currency



Investment Management Services

Alberta Investment Management Corporation (AIMCo) is a provincial corporation, created on January 1, 2008, in the Alberta Ministry of Treasury Board and Finance. AIMCo invests MEPP's assets subject to legislation and the investment policies established and approved by the Board. The Plan invests in units issued by pooled investment funds, which are created and managed by AIMCo. There are thousands of securities held in many pooled investment funds. These securities are bought, sold and managed by AIMCo on a daily basis. For various reasons, such as to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

The Board monitors AIMCo's investment performance and associated charges. An independent investment consultant, Ellement Consulting Group Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan and ways to manage the inherent volatility of the long-term asset mix.

Investment Expenses

In 2017, the overall investment expense charged by AIMCo totalled $28.7 million compared to $25.6 million in the previous year. Investment expenses, before GST, increased by 11.3% in 2017 compared to a decrease of 18.8% last year.

($ millions)	2017	2016
Amounts charged by AIMCo for:		
Investment costs (a)	$ 22.2	$ 21.6
Performance based fees (a)	5.3	3.1
Investment expense before GST	27.5	24.7
GST (b)	1.2	0.9
Total investment expense including GST	**$ 28.7**	**$ 25.6**
Per cent increase (decrease) in investment expense, before GST	11.3%	(18.8)%
Per cent increase in average investments under management	8.1%	8.8%
Increase in value of investments attributed to AIMCo	0.9%	0.7%
Investment expense as % of each dollar earned	5.8%	8.4%
Investment expense as % of each dollar invested	0.6%	0.6%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees related to external managers hired by AIMCo.

(b) Two-thirds of GST paid is expensed with the remaining one-third recorded as a receivable until recovered. In 2017, GST includes amounts previously recorded as receivable but determined to be unrecoverable and expensed in the year.

MEPP Investment Policy (MEPP IP)

The MEPP IP sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the MEPP IP annually and recommends changes if necessary. The MEPP IP can be viewed on the MEPP website at www.mepp.ca.

Asset Mix

The table below shows MEPP's policy asset mix including the actual asset mix at December 31, 2017, and 2016.

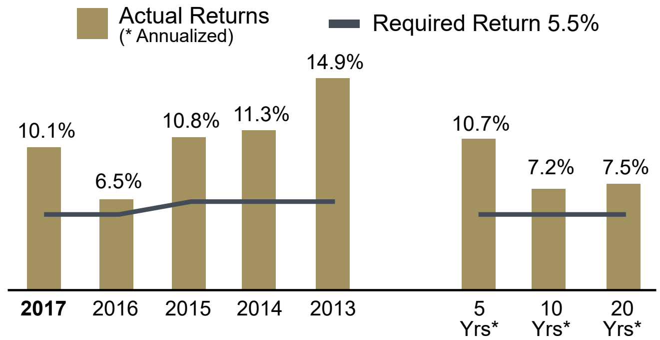
	POLICY ASSET MIX		ACTUAL ASSET MIX	
Asset Class	**Target %**	**Range %**	**Actual % 2017**	**Actual % 2016**
Money Market and fixed income	**20.0**	**15-30**	**19.0**	**18.9**
Money market		0-5	0.5	0.6
Universe bonds		10-20	13.8	13.6
Long bonds		0-5	0.0	0.0
Private mortgages		0-10	3.5	3.7
Private debt		0-10	1.2	1.0
Equities	**55.0**	**40-62**	**56.0**	**57.0**
Canadian equities		10-25	13.7	14.2
Global developed		10-40	32.9	33.1
Emerging markets		3-10	5.3	4.9
Private equity		5-15	4.1	4.9
Inflation sensitive	**25.0**	**15-40**	**24.0**	**22.9**
Real estate		5-15	7.7	7.9
Infrastructure		5-15	6.6	5.3
Timberlands		0-5	0.0	0.0
Real return bonds		5-15	9.7	9.7
Strategic and tactical investments and currency hedges	**-**	**-**	**1.0**	**1.2**
Total			**100.0**	**100.0**

Plan Performance and Investment Report

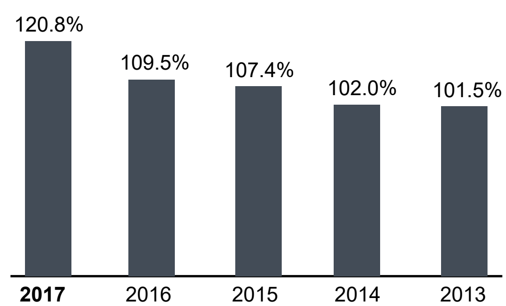
Long-term Investment Objective for Funding Purposes

The chart below compares MEPP's overall actual returns for calendar years 2013 to 2017 and the five, 10 and 20 year annualized time periods against the required long-term investment return for funding purposes of 5.5% based on the 2015 actuarial valuation. Over the past 20 years, the actual investment return was 7.5% per annum. According to the audited financial statements at December 31, 2017, 120.8% of the total pension obligation was supported by net assets.

Summary of MEPP Investment Returns



Per cent of Pension Obligation Supported by Net Assets



Value Added Return from Active Management

In order to measure the investment performance from AIMCo's active management decisions, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the MEPP IP. The policy benchmark return is determined by multiplying the benchmark return for each asset class by its percentage of the total investment portfolio.

Over the past four years, the value added return from AIMCo is 0.8% per annum including value added of 0.9% in 2017. On an eight-year basis, the value added return by the investment manager was 0.7%. Over the longer term of 20 years, the value added return is 0.2%.

The table below shows the value added returns by AIMCo in comparison to the various components of the policy benchmark.

Value Added / (Lost) by Manager in Comparison to Benchmarks	1 Year %	4 Years%	8 Years%
Overall value added return	**0.9**	**0.8**	**0.7**
Fixed income securities			
Bonds and Mortgages	0.5	1.0	1.2
Equity			
Canadian Equity	1.0	0.7	1.5
Foreign Equity	1.9	1.7	1.4
Private Equity	(8.3)	(4.2)	(4.6)
Inflation Sensitive			
Real Estate	2.1	0.6	1.4
Real Return Bonds	0.6	0.4	0.2
Infrastructure	1.6	1.2	(0.6)

The table below shows MEPP's overall actual investment return and returns for each asset class, net of investment expenses, compared to the policy benchmark return in Canadian dollars.

Table of Investment Returns (1)	December 31, 2017		Annual Return (%) ($ Canadian)				Annualized Return (%)	
Asset Class	Investment (in millions)	Asset Mix (%)	2017	2016	2015	2014	4yr	8yr
OVERALL RETURN								
Actual	**$ 5,033.7**	**100.0**	**10.1**	**6.5**	**10.8**	**11.3**	**9.6**	**9.7**
Policy Benchmark			*9.2*	*5.8*	*8.4*	*12.0*	*8.8*	*9.0*
Consumer Price Index (CPI)			2.1	1.2	1.4	1.8	1.7	1.7
FIXED INCOME SECURITIES								
Short-Term Fixed Income	**22.8**	**0.5**	**0.9**	**0.9**	**0.9**	**1.1**	**0.9**	**1.1**
FTSE TMX 91-day T-Bill Index			*0.6*	*0.5*	*0.6*	*0.9*	*0.3*	*0.2*
Bonds, Mortgages and Private Debt (1)	**931.4**	**18.5**	**3.0**	**3.3**	**4.7**	**9.6**	**5.1**	**5.7**
FTSE TMX Universe Bond Index			*2.5*	*1.7*	*3.5*	*8.8*	*4.1*	*4.5*
EQUITIES								
Canadian Equities	**689.6**	**13.7**	**10.1**	**19.9**	**(7.5)**	**12.4**	**8.3**	**8.7**
S&P/TSX Composite Index			*9.1*	*21.1*	*(8.3)*	*10.6*	*7.6*	*7.2*
Foreign Equities (1)	**1,922.8**	**38.2**	**18.1**	**5.6**	**20.3**	**13.7**	**14.3**	**13.1**
MSCI World & MSCI Emerging Market Free Index			*16.2*	*4.4*	*16.8*	*13.5*	*12.6*	*11.7*
Private equities (1)	**207.9**	**4.1**	**(0.3)**	**(1.8)**	**14.6**	**8.7**	**4.7**	**6.5**
CPI plus 6.5% (5-year rolling average) (2)			*8.0*	*(1.9)*	*17.1*	*13.5*	*8.9*	*11.1*
INFLATION SENSITIVE								
Real estate (1)	**385.5**	**7.7**	**9.1**	**4.4**	**10.1**	**8.7**	**7.6**	**11.3**
IPD Large Institutional All Property Index			*7.0*	*5.8*	*8.0*	*7.1*	*7.0*	*9.9*
Real Return Bonds	**488.3**	**9.7**	**1.3**	**3.4**	**3.0**	**13.4**	**5.2**	**4.7**
FTSE TMX Canada Real Return Bond Index			*0.7*	*2.9*	*2.8*	*13.2*	*4.8*	*4.5*
Timberland (3)	**2.1**	**0.0**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
CPI plus 4.5% (5-year rolling average) (3)			*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*
Infrastructure (1)	**332.5**	**6.6**	**7.6**	**10.2**	**19.7**	**5.4**	**8.6**	**7.5**
CPI plus 4.5% (5-year rolling average)			*6.0*	*5.7*	*6.1*	*12.1*	*7.4*	*8.1*
STRATEGIC, TACTICAL AND CURRENCY HEDGES								
Strategic Opportunities	**45.8**	**0.9**	**5.0**	**(3.2)**	**42.8**	**15.9**	**15.5**	**n/a**
Global Tactical Asset Allocation	**5.0**	**0.1**	**38.7**	**13.1**	**49.7**	**(46.7)**	**5.8**	**2.4**
Currency Hedges	**0.0**	**-**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**

(1) Investment returns are provided by AIMCo. Investment returns for assets classified as Level 3 in the financial statements are based on estimates of fair value. Level 3 includes real estate, private equities, infrastructure, hedge funds and private debt. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Plan's financial statements, will be reflected in the next reporting period.

(2) Prior to July 1, 2016, the private equity benchmark was MSCI All Country World Index (ACWI).

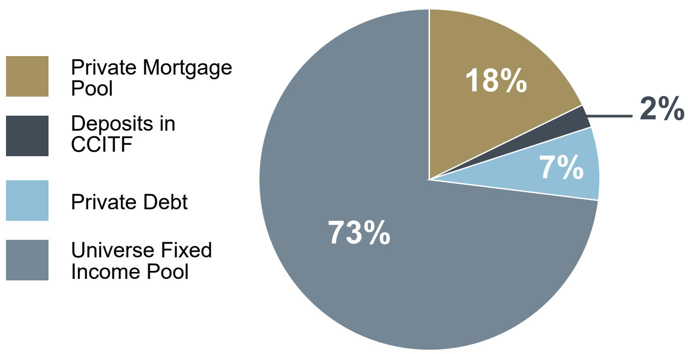
(3) The Plan invested in Timberland on February 2, 2017. As such, annual and benchmark returns are not available for the year ending December 31, 2017.

Money Market and Fixed Income Securities

At December 31, 2017, the Plan's money market and fixed income portfolio totaled $954 million or 19.0% of total investments compared to $872 million or 18.9% at December 31, 2016.

The Plan's money market and fixed income portfolio includes investments in AIMCo's Universe Fixed Income Pool, Private Mortgage Pool, Private Debt Pool and the Consolidated Cash Investment Trust Fund (CCITF).

Summary of Money Market and Fixed Income Securities (Total $954 million)



Pooled Fund Securities by Issuer Relative to Benchmark December 31, 2017	Universe Fixed Income Pool (%)	*Benchmark FTSE TMX Universe Bond Index (%)*
Federal	**26**	*37*
Provincial	**31**	*34*
Municipal	**-**	*2*
Corporate	**41**	*27*
Private debt and mortgages	**1**	-
Less than one year	**-**	-
Total percent *	**100**	*100*

*totals may not add to 100% due to rounding

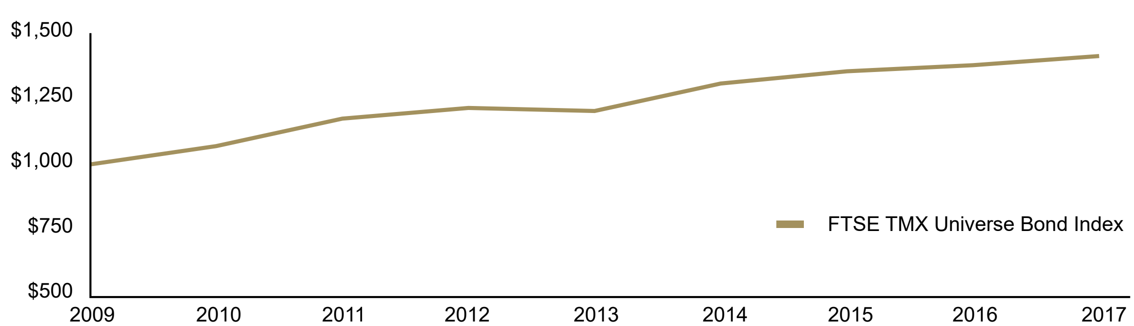
In 2017, the Plan's actual gain from bonds, mortgages and private debt was 3.0%, 0.5% better than the benchmark gain of 2.5%. The Plan's gain from cash and short-term investments was 0.9% in 2017.

The Plan's money market and fixed income portfolio includes investments in AIMCo's Universe Fixed Income Pool, Private Mortgage Pool, Private Debt Pool and the Consolidated Cash Investment Trust Fund (CCITF).

Bonds, Mortgages and Private Debt

	Actual Return	Benchmark Return
1 Year	3.0%	2.5%
4 Years	5.1%	4.1%
8 Years	5.7%	4.5%

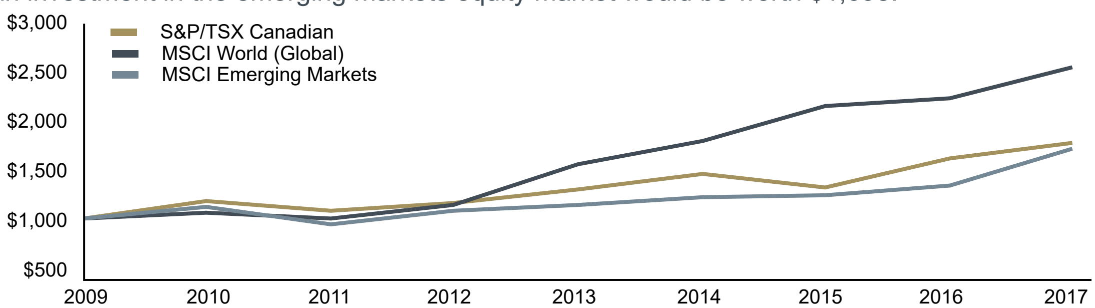
The chart below shows the growth in value over eight years of $1,000 dollars (Canadian) invested in the bond market, represented by the FTSE TMX Universe Bond Index, for the period December 31, 2010, to December 31, 2017. After eight years, $1,000 would grow to approximately $1,407.



Equity Investments

Given MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. At December 31, 2017, equities represent 56.0% of the Plan's total asset mix (2016: 57.0%). The equity asset class includes Canadian public equities, global and emerging market equities and private equities.

The chart below shows the growth over eight years of $1,000 dollars (Canadian) invested in major equity markets in Canada, global and emerging markets for the period December 31, 2010, to December 31, 2017. For example, $1,000 dollars invested on January 1, 2010, in the Canadian stock market represented by the S&P/TSX Composite Index would be worth approximately $1,741 dollars at December 31, 2017. An investment of $1,000 Canadian dollars in the global equity market would be worth $2,490 and an investment in the emerging markets equity market would be worth $1,698.



Canadian Equities

At December 31, 2017, Canadian equities represent 13.7% of MEPP's total investments (or $690 million) compared to 14.2% (or $653 million) at the end of the previous year. MEPP's Canadian equity investment is held primarily in AIMCo's Canadian Equities Master Pool. The Pool, in turn, invests in the Global Alpha Strategy (GLAS) and structured equity products that replicate Canadian public equities. The purpose of GLAS is to gain access to more markets than would be available if the pool were locked to specific countries or industries, providing more opportunities for value-add return (alpha). GLAS's investment portfolio is actively managed by AIMCo and includes directly held investments in public companies in the U.S and Europe, Australasia and Far East (EAFE) with smaller allocations to emerging markets and Canada. Non-Canadian exposure is swapped out to provide exposure to the Standard and Poor's Toronto Stock Exchange (S&P/TSX) while still maintaining the alpha earned in GLAS.

In 2017, Canadian equity investments gained 10.1%, 1.0% more than the benchmark gain of 9.1% based on the S&P/TSX Composite index.

Canadian Public Equities

	Actual Return	Benchmark Return
1 Year	10.1%	9.1%
4 Years	8.3%	7.6%
8 Years	8.7%	7.2%

Canadian Equities Master Pool Industry Exposure Relative to Benchmark December 31, 2017

Sector	Benchmark TSX Composite Index%	Over (Under) Benchmark%
Consumer discretionary	5.4	0.8
Consumer staples	3.7	(0.3)
Energy	19.7	(0.3)
Financials	34.6	0.5
Health Care	1.0	(0.3)
Industrials	9.5	(0.4)
Information Technology	3.2	0.3
Materials	11.5	0.6
Real Estate	2.9	(0.3)
Telecommunications	4.7	(0.2)
Utilities	3.8	(0.3)
Total *	100	

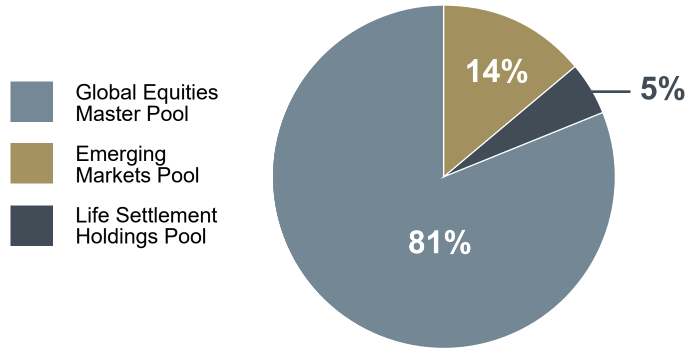
*totals may not add to 100% due to rounding

Plan Performance and Investment Report

Foreign Public Equities

At December 31, 2017, foreign equities comprised 38.2% of total MEPP investments (or $1,923 million), compared to 38.0% or $1,750 million at the end of the previous year. MEPP's investment in foreign public equities includes investments in AIMCo's Global Equity Master Pool, the Emerging Markets Equity Pool and the Life Settlement Holdings Pool.

Summary of Foreign Equities By Pool (Total $1,923 million)



Foreign Public Equities

	Actual Return	Benchmark Return
1 Year	18.1%	16.2%
4 Years	14.3%	12.6%
8 Years	13.1%	11.7%

In 2017, foreign public equities gained 18.1%, 1.9% better than the benchmark gain of 16.2% based on the MSCI All World Country Index.

Global Equities

Global equities include the Global Equities Master Pool and the Life Settlements Holdings Pool. The Global Equity Master Pool invests in GLAS, providing exposure to a diverse market which intends on providing a higher rate of return than what could be earned investing solely in traditional global markets. The pool replicates exposure to global equity markets by investing in structured equity products using index swaps and futures contracts. The Life Settlement's Holdings (LSH) Pool invests in discounted life insurance policies.

Global Equities Master Pool Industry Exposure Relative to Benchmark

Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
Consumer discretionary	12.3	0.8
Consumer Staples	9.0	(0.3)
Energy	6.3	(0.3)
Financials	18.1	0.5
Health Care	11.8	(0.3)
Industrials	11.6	(0.4)
Information Technology	16.8	0.2
Materials	5.2	0.6
Real Estate	3.1	(0.3)
Telecommunications	2.8	(0.2)
Utilities	3.0	(0.3)
Total *	100	

Global Equities Master Pool Regional Exposure Relative to Benchmark

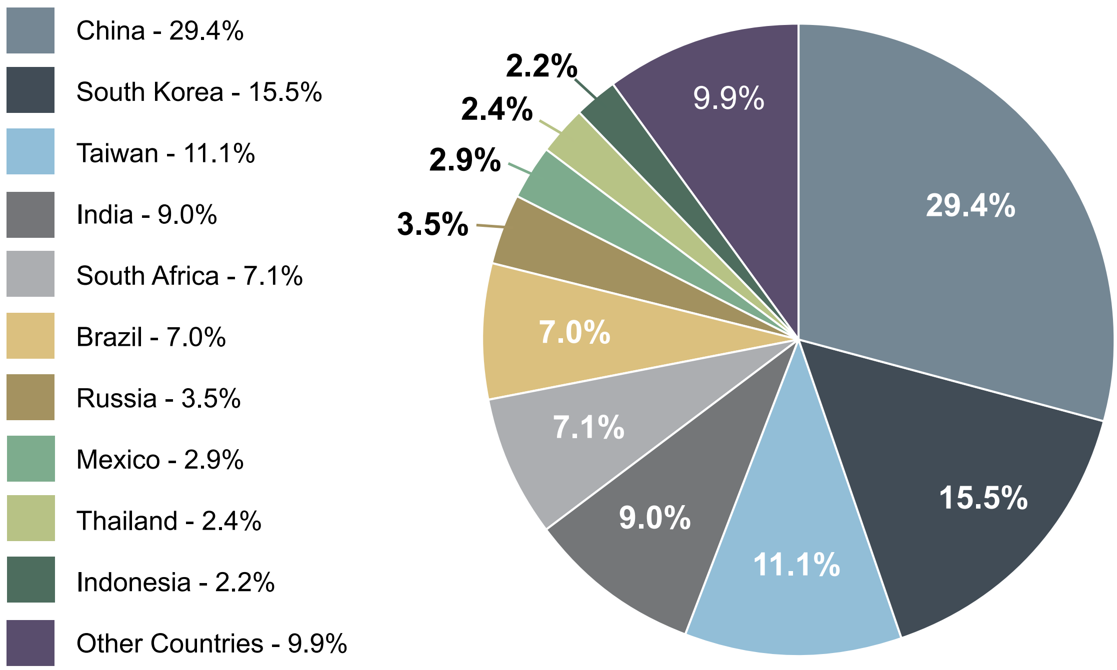
Sector	Benchmark MSCI World Total Return Index %	Over (Under) Benchmark %
United States	59.2	0.2
Europe, Australasia & the Far East	37.2	0.2
Emerging markets	0.0	(0.2)
Canada	3.6	(0.1)
Total *	100	

*totals may not add to 100% due to rounding

Emerging Markets

MEPP's investment in AIMCo's Emerging Markets Pool makes up approximately 14% of the Plan's foreign equity investment. The Pool holds an investment in GLAS with the non-emerging market exposure being swapped out to the MSCI Emerging Markets Index. The Pool provides exposures to China, Brazil, South Korea, Taiwan, Russia, India and other countries. In 2017, the emerging markets portfolio gained 30.4%.

Top Ten Countries in Emerging Market Pools



Private Equities

The Plan's investment in AIMCo's private equity pools comprised 4.1% (or $208 million) of the total investment portfolio at December 31, 2017, down from 4.8% (or $225 million) the previous year. AIMCo's private equity pools include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions.

In 2017, private equities lost 0.3% which was 8.3% less than the market-based benchmark gain of 8.0%.

Private Equities

	Actual Return	Combined Benchmark Return *
1 Year	-0.3%	8.0%
4 Years	4.7%	8.9%
8 Years	6.5%	11.1%

* CPI + 6.5% (5-year rolling). Prior to July 1, 2016, MSCI ACWI.

Inflation Sensitive

At December 31, 2017, the Plan's inflation sensitive portfolio comprised 24.0% (or $1,208 million) of total investments up from 22.9% (or $1,054 million) at the end of the previous year. The inflation sensitive portfolio consists of real estate, infrastructure, timberland and real returns bonds.

Real Estate

At December 31, 2017, the Plan's investment in AIMCo's Canadian and foreign private real estate pools comprised 7.7% (or $386 million) of total investments compared to 7.9% (or $364 million) the previous year. Investments in the Canadian Private Real Estate Pool are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton, and Vancouver. The focus is on quality, featuring strong locations and tenants. The Canadian Private Real Estate Pool makes up 72.0% of the Plan's total real estate portfolio with the Foreign Private Real Estate Pool making up 28.0%.

The actual gain from real estate in 2017 was 9.1%, 2.1% better than the benchmark gain of 7.0% from the IPD Large Institutional All Property Index.

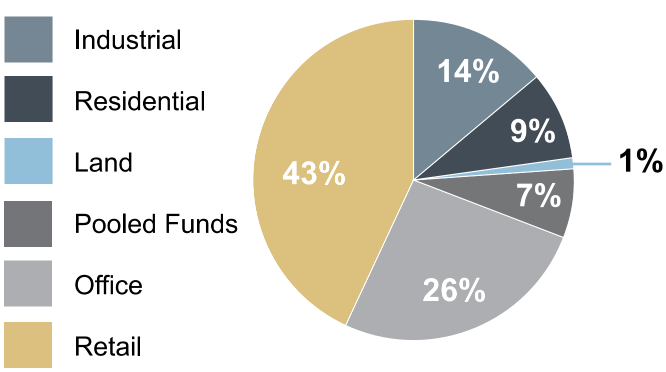
Real Estate

	Actual Return	Benchmark Return
1 Year	9.1%	7.0%
4 Years	7.6%	7.0%
8 Years	11.3%	9.9%

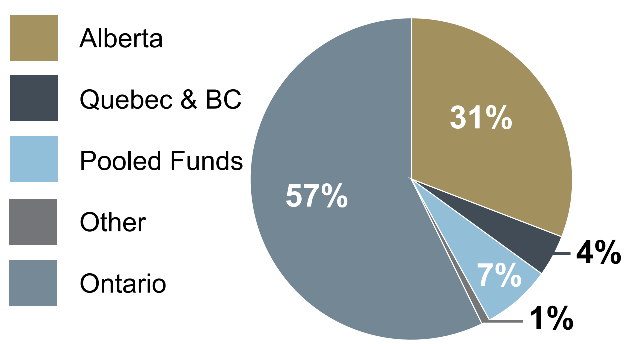
Top Five Canadian Real Estate Holdings as at December 31, 2017

Property	Location	Sector
Yorkdale Shopping Centre	Toronto, Ontario	Retail
Square One Shopping Centre	Mississauga, Ontario	Retail
Scarborough Town Centre	Toronto, Ontario	Retail
Scotia Plaza	Toronto, Ontario	Office
Eighth Avenue Place	Calgary, Alberta	Office

Canadian Real Estate Pool by Type



Canadian Real Estate Pool by Province



Infrastructure

The Plan's investment in infrastructure comprises 6.6% (or $332 million) of the total investment portfolio at December 31, 2017, up from 5.3% (or $243 million) the previous year. AIMCo's infrastructure pools include projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). In 2017, infrastructure investments gained 7.6%, 1.6% greater than the benchmark gain of 6.0%.

Infrastructure

	Actual Return	Benchmark Return
1 Year	7.6%	6.0%
4 Years	8.6%	7.4%
8 Years	7.5%	8.1%

Real Return Bonds

The Plan's investment in AIMCo's Real Return Bond Pool comprised 9.7% (or $488 million) of the total investment portfolio at December 31, 2017, compared to 9.7% (or $448 million) the previous year. The Real Return Bond Pool includes bonds which pay a rate of return adjusted for inflation. The Pool is comprised of government bonds (97%) and corporate bonds (3%).

In 2017, real return bonds gained 1.3%, which was 0.6% better than the benchmark gain of 0.7%.

Real Return Bonds

	Actual Return	Benchmark Return
1 Year	1.3%	0.7%
4 Years	5.2%	4.8%
8 Years	4.7%	4.5%

Timberland

During the year, MEPP began investing in timberland products. AIMCo's Timberlands 2 Pool focuses on investing in private timberland, long-term timber leases or harvesting rights and investment opportunities related to forestry, rural land and agriculture on a global basis. At December 31, 2017, the Pool held investments in Canada and the U.S.

Strategic Opportunities, Tactical Allocations and Currency Hedges

At December 31, 2017, the Plan's investment in AIMCo's Strategic Opportunities Pool comprised 0.9% of total investments or $46 million. The Pool consists of investments in infrastructure and hydropower in emerging market countries in Brazil and Columbia. In 2017, the Pool earned 5.0%.

At December 31, 2017, the Plan's investment in AIMCo's Tactical Asset Allocation Pool comprised 0.1% of total investments or $5 million. The Pool seeks to add value through various tilts and strategies. The Pool holds derivative contracts including global equity index swaps and futures contracts, credit default, bond index and interest rate swaps and foreign exchange contracts. In 2017, the Pool posted a gain of 38.7%.

Proxy Voting

The Board considers proxy voting to be a key element of responsible investing and believes that thoughtful voting is a contributor to optimizing the long term value of investments. The proxy voting function is entrusted to AIMCo. Day-to-day research and mechanical functions have been outsourced to an independent advisor who specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations.

Risk Management System

The Board accepts that in order to meet the return objectives of the Plan, it must take on risk in the assets in which it invests. The Board establishes the MEPP IP, setting a diverse asset mix to help improve the likelihood of achieving its desired results for a given level of risk.

Investment risk management is a central thesis for the investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk.

The Board has established a series of limits on the risks to the Plan's funded status within its investment policy, which will be measured, monitored, and managed on this basis. As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

Appendix: Financial Statements

The MEPP Financial Statements are prepared by the
Ministry of Treasury Board and Finance

MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2017

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2017, 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 my 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 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 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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 Management Employees Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2018

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2017

	($ thousands) 2017	2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 5,033,661	$ 4,606,962
Contributions receivable		
Employers	4,631	4,985
Employees	3,449	2,987
Receivable for investment sales	2,500	5,000
Accounts receivable	1,092	1,891
Total Assets	5,045,333	4,621,825
Liabilities		
Accounts payable	6,738	4,016
Liabilities for investment purchases	-	5,659
Total Liabilities	6,738	9,675
Net assets available for benefits	$ 5,038,595	$ 4,612,150
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,172,589	$4,210,117
Surplus (Note 6)	866,006	402,033
Pension obligation and surplus	$ 5,038,595	$ 4,612,150

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in Assets		
Contributions (Note 7)	$ 191,008	$ 210,623
Investment income (Note 8)	494,101	305,972
Transfers from other plans, net	3,998	5,846
	689,107	522,441
Decrease in Assets		
Benefit payments (Note 10)	231,456	206,614
Investment expenses (Note 11)	28,727	25,603
Administrative expenses (Note 12)	2,479	2,470
	262,662	234,687
Increase in net assets	426,445	287,754
Net assets available for benefits at beginning of year	4,612,150	4,324,396
Net assets available for benefits at end of year	$ 5,038,595	$ 4,612,150

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 250,011	$ 246,554
Benefits earned	138,984	133,781
Net experience losses (Note 5b)	-	49,043
	388,995	429,378
Decrease in pension obligation		
Benefits, transfers and interest	227,458	200,768
Net decrease due to actuarial assumption changes (Note 5a)	199,065	43,838
	426,523	244,606
Net (decrease) increase in pension obligation	(37,528)	184,772
Pension obligation at beginning of year	4,210,117	4,025,345
Pension obligation at end of year (Note 5)	$ 4,172,589	$ 4,210,117

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2017

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management for the purpose of these financial statements. The Plan is governed by the Management Employees Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2017 were 12.80% (2016: 12.80%) of the capped salary for employees and 17.20% (2016: 21.85%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*.

The contribution rates are reviewed and approved at least once every three years by the President of Treasury Board, Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of combined pensionable service.

Vested members are entitled to an unreduced pension on service after 1991 if they have either attained age 60, or age 55 and the sum of their age and years of combined pensionable service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY PENSIONS

Pensions may be payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability pensions.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where combined pensionable service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least five years of combined pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any Purchased Service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund.

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) PURCHASED SERVICE AND TRANSFERS

All Purchased Service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo), a Crown corporation within the Ministry of Treasury Board and Finance, controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and losses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools; and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income, (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) 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.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the MEPP Investment Policy (IP) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 22,817	$ -	$ 22,817	$ 29,455
Bonds, mortgages and private debt	-	696,709	234,681	931,390	842,483
	-	719,526	234,681	954,207	871,938
Equities					
Canadian	525,556	39,735	124,339	689,630	653,096
Foreign	1,353,964	142,785	425,982	1,922,731	1,749,891
Private	-	-	207,928	207,928	224,584
	1,879,520	182,520	758,249	2,820,289	2,627,571
Inflation sensitive					
Real estate	-	-	385,546	385,546	364,015
Infrastructure	-	-	332,447	332,447	242,640
Timberland	-	-	2,050	2,050	-
Real return bonds	-	488,325	-	488,325	447,799
	-	488,325	720,043	1,208,368	1,054,454
Strategic, tactical and currency investments *	-	4,938	45,859	50,797	52,999
Total investments	$ 1,879,520	$ 1,395,309	$ 1,758,832	$ 5,033,661	$ 4,606,962

* This asset class is not listed separately in the IP as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,879,520 (2016: $1,542,907).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,395,309 (2016: $1,347,852). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $1,758,832 (2016: $1,716,203).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2017	**2016**
Balance, beginning of year	$ 1,716,203	$ 1,742,628
Investment income *	112,648	97,502
Purchases of Level 3 pooled fund units	582,143	208,537
Sale of Level 3 pooled fund units	(652,162)	(332,464)
Balance, end of year	$ 1,758,832	$ 1,716,203

* Investment income includes unrealized losses of $82,804 (2016: $54,296).

b) **Valuation of Financial Instruments recorded by AIMCo in the Pools**

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

NOTE 3 INVESTMENTS CONTINUED

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017		Actual Asset Mix 2016	
		($ thousands)	*%*	*($ thousands)*	*%*
Money market and fixed income	15 - 30%	$ 954,207	19.0	$ 871,938	18.9
Equities	40 - 62%	2,820,289	56.0	2,627,571	57.0
Inflation sensitive	15 - 40%	1,208,368	24.0	1,054,454	22.9
Strategic, tactical and currency investments	(a)	50,797	1.0	52,999	1.2
		$ 5,033,661	100.0	$ 4,606,962	100.0

(a) In accordance with the IP, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. The credit rating of a debt security may be impacted by the overall credit rating of the counterparty, the seniority of the debt issue, bond covenants, maturity distribution and other factors. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities have credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	84.5%	86.3%
Speculative Grade (BB+ or lower)	0.3%	0.1%
Unrated	15.2%	13.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). AIMCo is responsible for selecting and monitoring derivative counterparties on behalf of the Plan. AIMCo monitors counterparty risk exposures and actively seeks to mitigate counterparty

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

risk by requiring that counterparties collateralize mark-to-market gains for the Plan. Provisions are in place to allow for termination of the contract should there be a material downgrade in a counterparty's credit rating. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2017, the Plan's share of securities loaned under this program is $552,316 (2016: $374,090) and collateral held totals $597,073 (2016: $396,935). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. 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 38% (2016: 37%) of the Plan's investments, or $1,890,777 (2016: $1,717,052), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2016: 20%) and the Euro, 4% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.8% of total investments (2016: 3.7%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2017:

($ thousands)

	2017		2016	
Currency [(a)]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 971,445	$ (97,145)	$ 904,089	$ (90,409)
Euro	207,624	(20,762)	171,841	(17,184)
Japanese yen	145,466	(14,547)	125,867	(12,587)
British pound	105,272	(10,527)	94,730	(9,473)
Hong Kong dollar	66,758	(6,676)	54,046	(5,404)
Other foreign currency	394,212	(39,421)	366,479	(36,648)
Total foreign currency investments	$1,890,777	$(189,078)	$1,717,052	$(171,705)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.5% of total investments (2016: 2.6%).

d) Price Risk

Price risk relates to the possibility that pools units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.6% of total investments (2016: 6.9%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland,infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	63	$ 66,688	$ 24,240
Contracts in net unfavourable position	12	(36,819)	(8,553)
Net fair value of derivative contracts	75	$ 29,869	$ 15,687

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NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $66,688 (2016: $24,240) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2017	2016
Structured equity replication derivatives	$ 13,036	$ 13,070
Foreign currency derivatives	9,134	2,706
Interest rate derivatives	5,988	(1,680)
Credit risk derivatives	1,711	1,591
Net fair value of derivative contracts	$ 29,869	$ 15,687

(i) Structured equity replication derivatives: Equity derivatives are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity derivatives. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $5,209 (2016: $11,180) and deposits as collateral for derivative contracts totalled $(185) (2016: $1,254).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2015 by Aon Hewitt and was then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $4,172,589 (2016: $4,210,117) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	6.40	6.00
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2018. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2019.

b) NET EXPERIENCE LOSSES

Net experience losses of $nil (2016: $49,043) reflect the results of the valuation as at December 31, 2015 extrapolated to December 31, 2017

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2017:

	($ thousands)		
	Changes in Assumptions	**Increase in Plan Deficiency**	**Increase in Current Service Cost as a % of Pensionable Earnings ***
	%	$	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	308,000	1.7
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	30,900	0.5
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	532,800	3.9

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings is 21.2% at December 31, 2017.

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NOTE 6 SURPLUS

	2017	2016
	($ thousands)	
Surplus at beginning of year	$ 402,033	$ 299,051
Increase in net assets available for benefits	426,445	287,754
Net decrease (increase) in pension obligation	37,528	(184,772)
Surplus at end of year	$ 866,006	$ 402,033

NOTE 7 CONTRIBUTIONS

	2017	2016
	($ thousands)	
Current service		
Employers	$ 108,867	$ 130,958
Employees	78,949	76,913
Past service		
Employers	595	748
Employees	2,597	2,004
	$ 191,008	$ 210,623

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	Income	Changes in Fair Value	2017 Total	2016 Total
	($ thousands)			
Money market and fixed income	$ 43,801	$ (14,862)	$ 28,939	$ 27,378
Equities				
Canadian	31,646	37,648	69,294	115,191
Foreign	288,061	35,378	323,439	110,075
Private	23,208	(18,970)	4,238	11,515
	342,915	54,056	396,971	236,781
Inflation sensitive				
Real estate	22,285	12,478	34,763	17,908
Infrastructure	22,340	(731)	21,609	24,652
Timberland	(79)	(3)	(82)	-
Real return bonds	41,020	(33,249)	7,771	14,608
	85,566	(21,505)	64,061	57,168
Strategic, tactical and currency investments	7,432	(3,302)	4,130	(15,355)
	$ 479,714	$ 14,387	$ 494,101	$ 305,972

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $93,039 and $(79,027) respectively (2016: $24,111 and $(39,757) respectively). Realized and unrealized gains and losses on currency hedges total $391 and $(16) respectively (2016: $(13,964) and $(634) respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2017	2016	2015	2014	2013
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.2	5.8	8.4	12.0	14.9
Value added (lost) by AIMCo	0.9	0.7	2.4	(0.7)	-
Time weighted rate of return, at fair value [(a)]	**10.1**	**6.5**	**10.8**	**11.3**	**14.9**
Other sources [(b)]	(0.8)	0.2	0.5	0.8	1.1
Per cent change in net assets [(c)]	**9.3**	**6.7**	**11.3**	**12.1**	**16.0**
Per cent change in pension obligation [(c)]	**(0.9)**	**4.6**	**5.7**	**11.6**	**3.7**
Per cent of pension obligation supported by net assets	**121**	**110**	**107**	**102**	**101**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.7% (PBR: 10.0%), ten years is 7.2% (PBR: 7.0%) and twenty years is 7.5% (PBR: 7.3%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.5% (2016: 5.5%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2017	**2016**
Retirement benefits	$ 196,936	$ 186,616
Disability pensions	259	278
Termination benefits	24,879	16,685
Death benefits	9,381	3,035
	$ 231,456	$ 206,614

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 22,169	$ 21,608
Performance based fees [(a)]	5,356	3,121
GST [(b)]	1,150	822
	28,675	25,551
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 28,727	$ 25,603
Increase (decrease) in expenses [(a)]	12.2%	(18.4%)
Increase in average investments under management	8.1%	8.8%
Increase in value of investments attributed to AIMCo	0.9%	0.7%
Investment expenses as a percent of:		
Dollar earned	5.8%	8.4%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 2,414	$ 2,189

(a) Investment expenses are charged by AIMCo on a cost-recovery basis. Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase (decrease) in investment costs and performance based fees is 11.3% (2016: (18.6%)).

(b) GST includes $244 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2017	2016
General administration costs	$ 2,186	$ 2,126
Board costs	69	51
Actuarial fees	26	161
Other professional fees	198	132
	2,479	2,470
Member service expenses per member	$ 208	$ 211

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $31,206 (2016: $28,073) or $2,622 (2016: $2,400) per member and 0.62% (2016: 0.61%) of net assets under administration

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $4,737,469 at December 31, 2017 (2016: $4,348,328).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totalling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2017 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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MEPP

management employees pension plan