2017 Annual Report

Supplementary Retirement Plan for Public Service Managers

Year ending December 31, 2017

aps

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1.0 Plan Profile

The Supplementary Retirement Plan for Public Service Managers (SRP) was established on July 1, 1999.

The Plan provides additional pension benefits to public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act.*

Alberta government employees who are part of MEPP and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act* accrue benefits under SRP effective July 1, 1999, or from their date of participation in MEPP, if later. Agencies, boards and commissions associated with the Government of Alberta have the option of participating in SRP, if their employees are contributing members of MEPP, and their application is approved by the President of Treasury Board and Minister of Finance (the Minister).

SRP is supplementary to MEPP. Years of service under MEPP are used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both plans and the pension payable is in the same form.

SRP and MEPP are two distinct pension plans, each with its own separate funding, investments, accounting, pension benefits and entitlements. SRP is funded as a Retirement Compensation Arrangement, which under the federal tax rules is an acceptable means of providing a supplementary pension on salary above the yearly maximum pensionable salary limit.

Current service costs for SRP are funded by employee and employer contributions which, together with investment earnings, income tax refunds and transfers from the SRP Reserve Fund, are expected to provide for all benefits payable under SRP.

The contribution rate in effect on January 1, 2017, was at 12.80 per cent of pensionable salary in excess of the yearly maximum pensionable earnings limit for participating employees and designated employers. This is the same rate as the 2016 contribution rate.

Employers make additional contributions to the SRP Reserve Fund. The Minister implemented an employer contribution rate increase which changed the rate to 9.9 per cent, effective April 1, 2015.

An actuarial valuation is performed at least every three years to determine the contribution rate payable to the Reserve Fund. The last actuarial valuation was performed as at December 31, 2016, by Aon Hewitt and results were extrapolated to December 31, 2017.

1.1 Plan Administration

The Minister is responsible for the administration of SRP and has delegated this responsibility to Alberta Pensions Services Corporation (APS).

The SRP Advisory Committee was established by the Minister pursuant to Treasury Board Directive 01/06 (previously 01/99 as amended by Directive 04/99). The mandate of the committee is to oversee the administration, investment and funding of SRP. The committee is composed of three members, all of which are Government of Alberta employees.

1.2 Investment Management

The Minister is responsible for the investment of the Plan assets through its provincial corporation, Alberta Investment Management Corporation (AIMCo).

1.3 Financial Highlights

- Contributions made to SRP for 2017 totaled $7.267 million, down from $7.865 million in 2016. This included $3.634 million employers' contributions and $3.633 million employees' contributions.
- Payments from SRP in 2017 totaled $9.107 million, up from $6.197 million in 2016. Payments included $8.297 million in benefit payments ($5.434 million in 2016), $756,000 in administration expenses ($703,000 in 2016), $54,000 in investment expenses ($60,000 in 2016) and no transfers to the Reserve Fund (no transfers in 2016).
- The contribution rate for eligible employees and designated employers is 12.80% of pensionable salary (in excess of the yearly maximum pensionable earnings limit).
- Effective April 1, 2015, the contribution rate increased to 9.9%. For 2013, the employer contribution was 22.60%. On April 1, 2014, the employer contribution to the SRP Reserve Fund changed to 2.40%.
- Over 10 years, the Plan's actual return of 6.8% (which includes inflation of 1.6%) matches the nominal return of 6.0% (4.0% plus expected inflation of 2.0%) resulting in the Plan meeting its investment objective.
- In 2017, the Plan's actual before-tax return was 9.7% compared to its policy benchmark of 8.7%.
- In 2017, the combined investment income for both the SRP and the SRP Reserve Fund, net of investment expenses, totaled $13.193 million up from $8.528 million in 2016. The majority of the variance in investment income ($4.653 million) was earned in the Reserve Fund.

1.4 Operational Highlights

- At December 31, 2017, SRP had 1,064 active members, 215 deferred members and 1,052 pensioners. In 2016, there were 1,111 active members, 218 deferred members and 980 pensioners.
- Approximately 19% of active MEPP members participate in SRP.
- The average, annualized pension paid from SRP in 2017 was $5,480.20 to plan members and $2,614.07 to plan member beneficiaries (including pension partners).

1.5 Additional Information

- Financial statements for the SRP Reserve Fund are included in the Treasury Board and Alberta Finance annual reports.
- Additional information on SRP is available on the MEPP website at www.mepp.ca.

2.0 Investment Highlights

SRP consists of a *Retirement Compensation Arrangement Plan* (RCA Fund) and a refundable income tax account. Half of the contributions from participating employees and participating employers are deposited in the RCA Fund. The other half of contributions and 50 per cent of the RCA Fund's realized income are forwarded to Canada Revenue Agency and held in a refundable income tax account. The refundable income tax account does not earn interest. Refundable income tax is returned to the Plan at the same rate when pension benefits are paid to Plan members and beneficiaries.

Due to the tax treatment of the RCA, contributions to and investment income from the RCA Fund are not large enough to provide for all expected future benefit payments. As a result, the Government of Alberta established a regulated Reserve Fund which is administered by the President of Treasury Board and Minister of Finance (the Minister). Contributions are collected from participating employers; the funds are invested in the Reserve Fund to meet future obligations of SRP.

2.1 Investment Performance

Alberta Investment Management Corporation (AIMCo) manages and invests the assets of the Plan on behalf of the Minister. The primary investment objective for the Plan is to earn a before-tax long-term rate of return of 4.0 per cent above inflation. The Plan uses an expectation of inflation of 2.0 per cent when valuing the Plan's liabilities. Over 0 years, the Plan's actual return of 6.0 per cent (which includes inflation of 1.6 per cent) matches the nominal return of 6.0 per cent (4.0 per cent plus expected inflation of 2.0 per cent). The Plan met its investment objective.

The real rate of return is the return earned above inflation; it measures the return after taking into account the decrease in the purchasing power of the Canadian dollar. Additionally, the investment manager is expected to achieve a value-added target of 0.50 per cent measured by comparing actual returns against the return of the policy benchmark (measured on a before tax basis) over a rolling four-year time horizon.

In 2017, the Plan's actual before-tax return was 9.7 per cent compared to its policy benchmark of 8.9 per cent.

Investment Performance

Investment Returns Ending December 31, 2017 (in per cent)

	One Year Return				Compound Annualized Return	
	2017	2016	2015	2014	4 Years	10 Years
Actual Gain	9.7	6.7	9.2	10.9	9.1	6.8
Benchmark gain *	8.9	6.2	6.9	11.6	8.3	6.7
Value added (lost) by investment manager	0.8	0.5	2.3	(0.7)	0.8	0.1

* The policy benchmark return is the product of the weighted average policy sector weights and sector returns.

2.2 Asset Allocation

The table below shows the Plan's long-term target asset mix in comparison to the Plan's actual asset mix at December 31, 2017 and 2016.

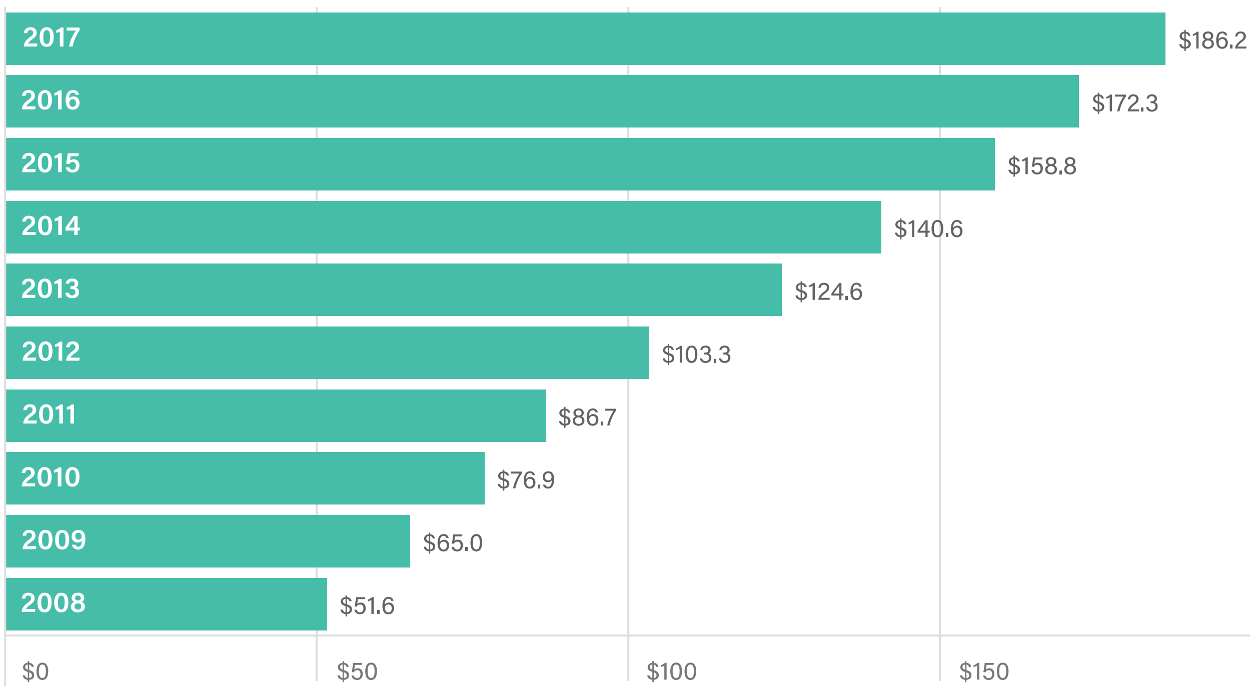
Asset Mix %

	Long-Term Policy		Actual	
	2017	2016	2017	2016
Fixed Income				
Cash & short term	0.5	0.5	0.6	1.4
Bonds and mortgages *	31.5	31.5	32.5	31.3
	32.0	**32.0**	**33.1**	**32.7**
Equities				
Canadian	14.0	14.0	14.7	15.1
Foreign	34.0	34.0	33.8	32.8
Private	0.0	0.0	1.6	2.1
	48.0	**48.0**	**50.1**	**50.0**
Inflation Sensitive and Alternative Investments				
Real return bonds	0.0	0.0	0.0	0.0
Real estate	10.5	10.5	9.3	10.1
Infrastructure	7.5	7.5	5.0	4.6
Timberland	2.0	2.0	0.9	0.8
	20.0	20.0	15.2	15.5
Strategic / Tactical Opportunities	-	-	1.6	1.8
Total	100.0	100.0	100.0	100.0

2.3 Change in Assets

Net Assets available to pay benefits at the end of 2017 for SRP were $186.2 million including $20.1 million (net of receivables and payables) in the RCA Fund, $35.6 million in the refundable income tax account and $129.6 million in the Reserve Fund.

Change in Assets
Net Assets (in millions)



* Net of miscellaneous receivables and payables

SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2017

Independent Auditor’s Report

Auditor General
OF ALBERTA

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, 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 Supplementary Retirement Plan for Public Service Managers 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)	$ 20,569	$ 21,922
Refundable income tax (Note 1f and Note 5)	36,597	35,371
Contributions receivable		
Employers	128	132
Employees	128	136
Due from Alberta Pensions Services Corporation	456	581
Due from SRP Reserve Fund (Note 6)	129,571	114,492
Total Assets	187,449	172,634
Liabilities		
Income tax payable	317	352
Other payables	894	-
Total Liabilities	1,211	352
Net assets available for benefits	186,238	172,282
Pension obligation and deficit		
Pension obligation (Note 7)	241,222	222,302
Deficit (Note 8)	(54,984)	(50,020)
Pension obligation and deficit	$ 186,238	$ 172,282

The accompanying notes are part of these financial statements.

Other Information

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2017

	($ thousands) 2017	2016
Increase in assets		
Contributions (Note 9)	$ 7,267	$ 7,865
Increase in SRP Reserve Fund (Note 6)	15,079	11,083
Investment income (Note 10)	717	711
	23,063	19,659
Decrease in assets		
Benefit payments (Note 11)	8,297	5,434
Investment expenses (Note 12)	54	60
Administrative expenses (Note 13)	756	703
	9,107	6,197
Increase in net assets	13,956	13,462
Net assets available for benefits at beginning of year	172,282	158,820
Net assets available for benefits at end of year	$ 186,238	$ 172,282

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	$ 9,262	$ 10,141
Benefits earned	9,498	10,721
Net experience losses (Note 7b)	8,457	47,584
	27,217	68,446
Decrease in pension obligation		
Benefits paid	8,297	5,434
Net decrease due to actuarial assumption changes (Note 7a)	-	15,835
	8,297	21,269
Net increase in pension obligation	18,920	47,177
Pension obligation at beginning of year	222,302	175,125
Pension obligation at end of year (Note 7)	$ 241,222	$ 222,302

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2017

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

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The President of Treasury Board, Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Treasury Board and Finance is management for the purpose of these financial statements. 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 was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the MEPP salary cap. The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service cannot subsequently start participating in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2017 were 12.80% (2016: 12.80%) of pensionable earnings over the maximum pensionable earnings limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board and Minister of Finance.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the MEPP salary cap for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

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

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

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 loses 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 pool units held directly 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 pool 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 period end. Differences in valuation estimates provided to Treasury Board and Finance after the period cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

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 10 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 12). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

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 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 magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, 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 are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

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 Statement of Investment Policies and Goals (SIP&G) approved by the Plan's Advisory Committee. 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**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 270	$ -	$ 270	$ 1,302
Bonds	-	20,299	-	20,299	20,620
Total Investment	$ -	$ 20,569	$ -	$ 20,569	$ 21,922

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 $nil (2016: $nil).
- ***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 $20,569 (2016: $21,922). 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 $nil (2016: $nil).

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:

- ***Interest bearing securities:*** 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. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***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 the pools (see Note 4d). 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 SIP&G approved by the Advisory Committee. The purpose of the SIP&G 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 Advisory Committee 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.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 25-45% fixed income instruments, 35-60% equities, and 12.5-30% alternative investments.

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 table below summarizes debt securities by credit rating at December 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	97.4%	98.9%
Speculative Grade (BB+ or lower)	0.4%	0.1%
Unrated	2.2%	1.0%
	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 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 $4,141 (2016: $1,915) and collateral held totals $4,482 (2016: $1,986). 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) 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 7.3% (2016: 6.2%).

c) 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 units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. 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 4d).

d) 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

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

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)	15	$ 189	$ 104
Contracts in net unfavourable position	2	(7)	(111)
Net fair value of derivative contracts	17	$ 182	$ (7)

(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 $189 (2016: $104) 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
Interest rate derivatives	$ 163	$ (30)
Foreign currency derivatives	6	(6)
Credit risk derivatives	13	29
Net fair value of derivative contracts	$ 182	$ (7)

(i) 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.

(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) 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.

(iv) Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $24 (2016: $17) and deposits as collateral for derivative contracts totalled $7 (2016: $1).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2017	2016
Refundable income tax at beginning of year	$ 35,371	$ 33,398
Tax on employees and employers contributions received	3,641	3,972
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net	(2,415)	(1,999)
Refundable income tax at end of year	$ 36,597	$ 35,371

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board and Minister of Finance. The employer contribution rate is 9.9% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board and Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2017, the SRP Reserve Fund had net assets with fair value totalling $129,571 (2016: $114,492), comprising of $129,571 (2016: $114,362) in investments and $nil (2016: $130) in receivables. The increase during the year of $15,079 (2016: $11,083) is attributed to contributions from employers of $2,549 (2016: $3,206), investment gains of $12,530 (2016: $7,877).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by Aon Hewitt and results were then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the pension obligation of $241,222 (2016: $222,302) 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 the 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.

Other Information

NOTE 7 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate on an after-tax basis	4.40	4.40
Inflation rate	2.00	2.00
Discount rate	5.90	5.90
Salary escalation rate *	3.00	3.00
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
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 $8,457(2016: $47,584) reflect the results of the valuation as at December 31, 2016 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. 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 net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2017:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	21,415	2,613
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	48,399	6,895
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	46,028	4,410

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands) 2017	2016
Deficit at beginning of year	$ (50,020)	$ (16,305)
Increase in net assets available for benefits	13,956	13,462
Net increase in pension obligation	(18,920)	(47,177)
Deficit at end of year	$ (54,984)	$ (50,020)

NOTE 9 CONTRIBUTIONS

	($ thousands) 2017	2016
Employers	$ 3,634	$ 3,878
Employees	3,633	3,987
	$ 7,267	$ 7,865

NOTE 10 INVESTMENT INCOME

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

	($ thousands) Income	Change in Fair Value	2017	2016 Total
Interest-bearing securities	$ 1,016	$ (299)	$ 717	$ 711

The change in fair value includes realized gains and losses from disposal of pool units totaling ($16) (2016: $57) and unrealized gains and losses on units totaling ($283) (2016: ($677)).

Income earned in pools 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 11 BENEFIT PAYMENTS

($ thousands)	2017	2016
Retirement benefits	$ 5,374	$ 4,673
Termination benefits	2,537	718
Death benefits	386	43
	$ 8,297	$ 5,434

NOTE 12 INVESTMENT EXPENSES

($ thousands)	2017	2016
Amount charged by AIMCo for:		
Investment costs [a]	$ 27	$ 32
GST	2	3
	29	35
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 54	$ 60
(Decrease) increase in expenses	(10.0%)	13.2%
(Decrease) increase in average investments under management	(2.5%)	3.4%
Investment expense as a percent of:		
Dollar earned	7.5%	8.4%
Dollar invested	0.3%	0.3%
Investment expenses per member	$ 23	$ 26

(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 (decrease) increase in investment costs and performance based fees is (15.6%) (2016: 18.5%).

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $756 (2016: $703) were charged to the Plan on a cost recovery basis.

($ thousands)	2017	2016
General administration costs	$ 704	$ 655
Actuarial fees	40	44
Other professional fees	12	4
	$ 756	$ 703
Member service expenses per member	$ 325	$ 304

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $810 (2016: $763) or $348 (2016: $330) per member and 0.43% (2016: 0.44%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

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

NOTE 17 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 Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.

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