

2017
ANNUAL REPORT

**For the Members of
Alberta Refrigeration Industry
Pension Plan**

Directory

The Alberta Refrigeration Industry Pension Trust Fund

16214 – 118 Avenue, Edmonton, Alberta T5V 1M6

Phone: (780) 452-1331 Fax: (780) 487-4063

Website: www.albertarefrigeration.com

Employment Pension Plans Act Registration Number – 42899

Income Tax Act Registration Number – 0422972

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Pension Trust Fund Investment Counsel

Ellement Consulting Group, Winnipeg, Manitoba

**ALBERTA REFRIGERATION INDUSTRY
PENSION PLAN
AND
PENSION TRUST FUND**

CONTENTS

| | Page |
|---|------|
| REPORT OF THE BOARD OF TRUSTEES | 1 |
| VALUATION SECTION OF THE ALBERTA REFRIGERATION INDUSTRY PENSION PLAN | 3 |
| AUDITED FINANCIAL REPORTS | 9 |

Report of the Board of Trustees

The Alberta Refrigeration Industry Trustees are pleased to present the Pension Trust Fund Annual Report to its members for the fiscal year ended April 30, 2017. The 2017 Annual Report provides an accounting to the Members of the highlights and activities for the Fund from May 1, 2016 to April 30, 2017.

Board of Trustees

There were some changes to the composition of the Board in the 2017 fiscal year. We would like to take this opportunity to thank Reg Bruce (CLRA) and Larry Matychuk (Union) for their commitment and contributions as Trustees to the ARI Pension Plan over the years, and wish them all the best in retirement. With that, the Board also welcomed two new trustees in Arron Mireau (CLRA) and Robert Taylor (Union).

Our Trust Agreement is the key governance document for the Fund and sets out the roles and responsibilities of the Trustees. In addition, the document establishes that the Board of Trustees shall consist of an equal number of Employer Trustees and Union Trustees. The Board elects its own Co-Chairmen and all decisions made require a majority vote of the Trustees.

The Board of Trustees met 5 times over the 12 months ended April 30, 2017.

Pension Trust Fund

As at April 30, 2017, the Pension Fund had net assets available for benefits of \$108.4 million, an accumulated surplus of \$9.9 million and a going concern funded ratio of 110%.

At the end of Fiscal 2016 the Fund had net assets available for benefits of \$94.7 million with an accumulated surplus of \$9.1 million and a going concern funded ratio of 111%.

For the year ended April 30, 2017 the Fund earned a rate of return of 8.28% net of all fees.

The plan performed an actuarial valuation in 2017 and it is important to note that the actuarial investment earnings assumption of the plan is 5.75%.

For more information about the Pension Plan's funding status at the end of Fiscal 2017, reference should be made to the Actuarial and Financial Statement sections of this Report.

Through contributions the Fund had 1.164 million pension hours being accrued by members for the year ended April 30, 2017.

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

The Trustees always use caution when examining the Plan's economic assumptions. We believe that taking this approach helps to reduce the risk Plan Members bear. Pension benefits are always target benefits – they can change if funding cannot be meet legislated standards.

Conservatism in our economic assumptions should provide some margin to protect the Plan in times of economic uncertainty. We have to balance conservatism in funding against the benefits the Plan can provide. The Trustees believe that their processes have helped Members to be confident in the benefits provided by the plan.

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

The Trustees regularly review, and amend when deemed necessary the Statement of Investment Policies and Procedures (SIPP). The SIPP was last amended in June 2016 with the most significant changes being the addition of infrastructure and private equity funds as alternate investment vehicles allowed in the portfolio. In total, there were 7 amendments made to the document.

All the Fund's investments are managed by professional investment managers. The investment managers are measured on an

ongoing basis and compared to their peers by an independent party. The Trustees regularly meet with the investment managers.

General Comments

We certainly value all of the services delivered to the beneficiaries by our knowledgeable front line administration staff, from general inquiries to the preparation and delivery of retirement documents and benefits. The Trustees thank all of our service providers who continue to administer this plan with care and diligence for our members.

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

Submitted on behalf of the Trustees by,



Tom Wilkinson, P.Eng, BASc



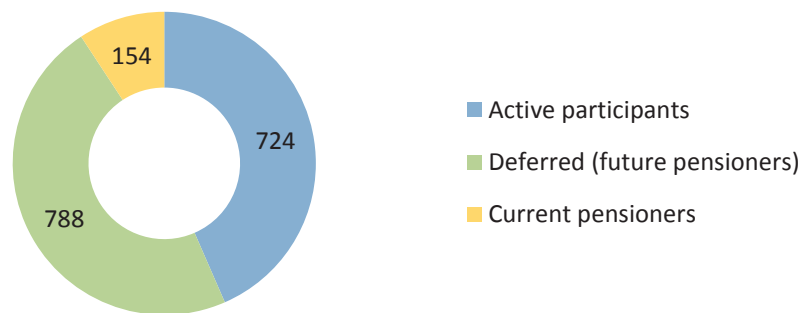
Bryan Rooney

Co-Chairmen, ARI Board of Trustees,
December 2017

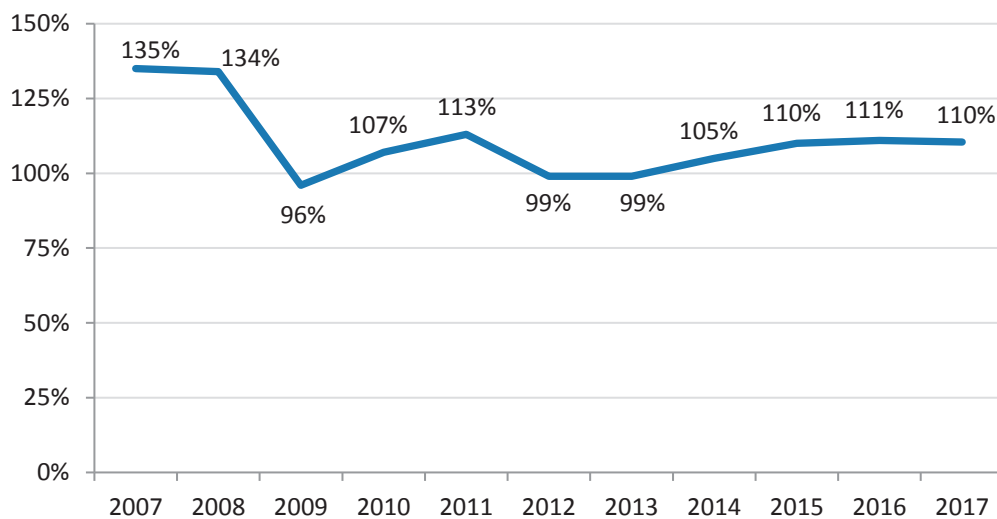
Alberta Refrigeration Industry Pension Plan

| Year at a Glance | |
|---|-------------------------------------|
| ▪ Asset value: \$104.5 million | ▪ Funded ratio: 110% |
| ▪ Total pension obligations: \$94.6 million | ▪ Total Plan membership: 1,666 |
| ▪ Funding margin: \$9.9 million | ▪ Total participating employers: 39 |

Membership Profile as at April 30, 2017

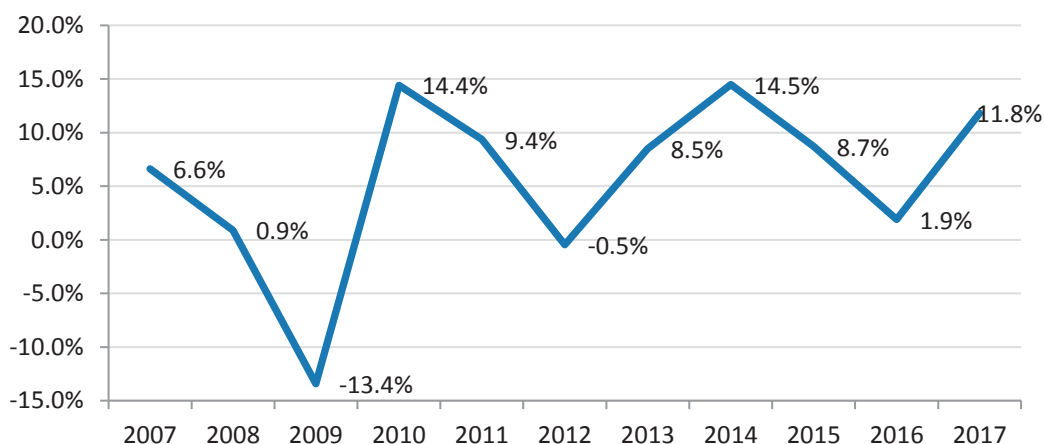


Funded Ratios

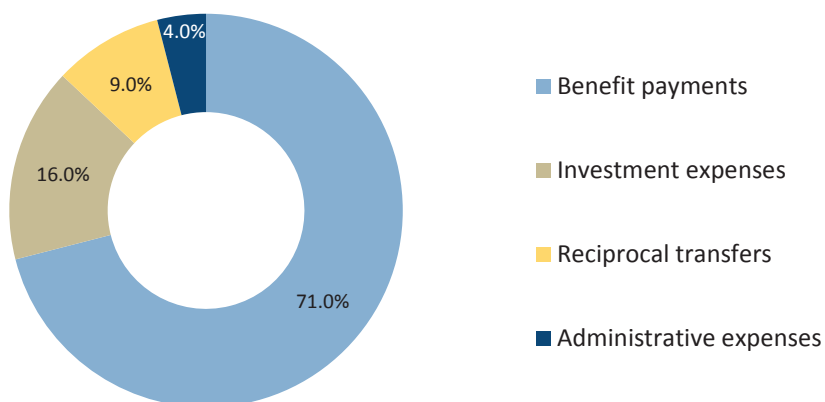


| Asset Class | Target Allocation | | Asset Class | Target Allocation |
|-----------------|-------------------|--|----------------|-------------------|
| Canadian equity | 10% | | Private debt | 25% |
| Foreign equity | 10% | | Real estate | 12.5% |
| Domestic bonds | 10% | | Infrastructure | 12.5% |
| Mortgages | 10% | | Private equity | 10% |

Fund's Investment Returns



Breakdown of Expenditures



Plan Benefits

Where your employer is making contributions to the Plan at the standard rate for refrigeration mechanics, the Plan currently credits members with a fixed amount of pension for every covered hour of employment. The following table illustrates the amount of additional pension earned for varying levels of reported hours.

| Reported Hours Over Plan Year | Monthly Pension Credited |
|-------------------------------|--------------------------|
| 500 | \$30.00 |
| 1,000 | 67.50 |
| 1,500 | 105.00 |
| 2,000 | 142.50 |
| 2,500 | 180.00 |

If contributions are being remitted at a different rate, as is the case for apprentices where the contributions are pro-rated, the monthly pension credited is adjusted on a proportionate basis.

Members are eligible to retire on their full pension if retirement occurs after age 65. Retirement is permitted as early as age 55, but the monthly pension amount is reduced to reflect that it will be paid for a greater number of years. Please refer to the pension booklet for early unreduced pension commencement options. Members who cease participating in the Plan prior to age 55 are provided with an opportunity to transfer the commuted value of their pension entitlement to a locked-in RRSP. If a member dies prior to retiring, the commuted value of the pension is paid to the member's spouse or beneficiary.

Plan Funding

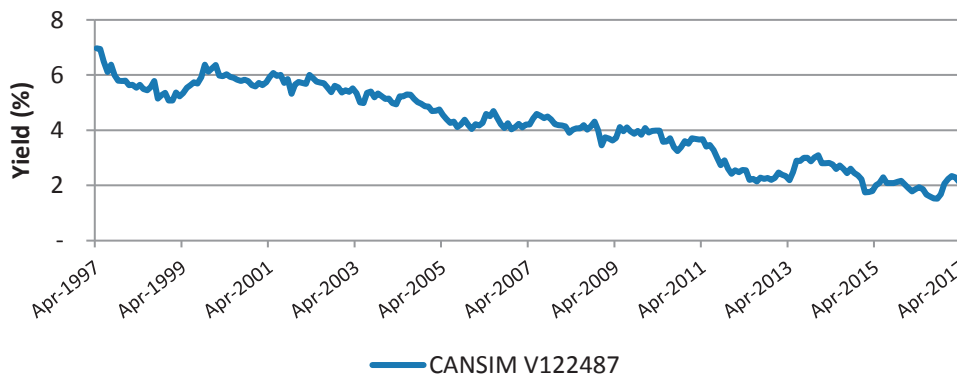
The Plan's financial position is measured periodically by an actuary engaged by the Board. As at April 30, 2017, which was the end date of the last fiscal Plan year, the Plan was fully funded on a going concern basis. This means that the Plan's current assets, along with future contributions and investment income, are expected to be sufficient to pay all past pensions earned to April 30, 2017 and pensions to be earned in the future. Note however that pensions are not guaranteed. The on-going health of the Plan is reliant on certain levels of future investment income and other expectations about the future.

Should the Plan's future investment returns fall short of expectations, or should the Plan encounter other adverse experience, it is possible that pension benefits could be reduced. Since the Plan's inception over 35 years ago, no members' accrued benefits have ever been reduced. One of the Board's key objectives is the prudent governance of the Plan, such that the likelihood of a benefit reduction ever being required for financial reasons is minimized.

The solvency ratio is a secondary measure of a Plan's financial position. The solvency ratio measures the extent to which all benefits accrued in the Plan would be settled (in the market) in

the event the Plan were immediately shut down (wound-up). The Plan's solvency liabilities are determined using long-term Government of Canada bond rates. Pension liabilities change in the opposite direction of interest rate movements. That is, liabilities decrease as interest rates increase. However, the decline in Government of Canada bond rates over the years has been increasing the Plan's solvency liabilities.

Government of Canada Long Bond Yields



The Plan's solvency ratio as at April 30, 2017 was 64%. This means that if the Plan had been wound-up on April 30, 2017, all Plan benefits would have been subject to a 36% reduction. The Board notes that there is no intent to wind-up the Plan anytime in the future. Even so, the Board will continue to measure and monitor the solvency ratio. While this Plan does not fund its solvency deficit since the Alberta Regulator has granted this Plan a solvency moratorium, the Trustees have allocated additional amounts to the fund to ensure future benefit security. The Board's primary focus remains on the prudent management of the Plan for the benefit of all current and future Plan participants.

The following table illustrates the solvency liability associated with a 60-year old pensioner receiving \$1,000 per month. As you can see, the cost has increased by more than 70% over the last 20 years and has gone up by 14% in the last five years alone. We note that the pension regulators prescribe the assumptions such as interest rates and life expectancy to be used in solvency valuations leaving the Board absolutely no control over these costs.

| Date Calculated | Solvency Liability | Increase from 5 Years Prior | Increase Since 1997 |
|-----------------|--------------------|-----------------------------|---------------------|
| April 30, 1997 | \$126,000 | n/a | n/a |
| April 30, 2002 | \$139,000 | 10% | 10% |
| April 30, 2007 | \$165,000 | 19% | 31% |
| April 30, 2012 | \$189,000 | 15% | 50% |
| April 30, 2017 | \$215,000 | 14% | 71% |

Plan Amendments

No significant Plan changes occurred over the past Plan year ending April 30, 2017. Minor changes to the Plan's participation rules were made to reflect changes negotiated within the most recent collective agreement. These changes did not affect the Plan's cost of benefits.

The Trustees are reviewing the change of the Plan's year-end from April 30 to December 31 in order to simplify filing requirements and administrative responsibilities. We stress that a change to the Plan's year-end date will not impact any past or future benefits or eligibility requirements.

Plan Documents

The report was prepared by the Board to provide all participants with the Plan's key highlights. Additional and more detailed information can be obtained and can be made available for examination pursuant to section 43 and 46 of the Employment Pensions Plans Act at the Administration Office located in the Local 488 building in Edmonton. Any participant seeking additional information can call Debbie Pawlick in the Administration Office at (780) 483-1591. Members outside of Edmonton can call toll free at (800) 227-6139.

The Board welcomes your feedback about this annual report and any additional information that could be considered for future annual reports. Please forward your suggestions and comments to the Administration Office.

**Alberta Refrigeration Industry
Pension Trust Fund
Financial Statements
For the year ended April 30, 2017**

Alberta Refrigeration Industry Pension Trust Fund
Financial Statements
For the year ended April 30, 2017

Contents

| | |
|---|----------|
| Independent Auditor's Report | 2 |
| Financial Statements | |
| Statement of Financial Position | 3 |
| Statement of Changes in Net Assets Available for Benefits | 4 |
| Notes to Financial Statements | 5 |



Tel: 905 639 9500
Fax: 905 633 4939
Toll-free: 888 236 2383
www.bdo.ca

BDO Canada LLP
3115 Harvester Road, Suite 400
Burlington ON L7N 3N8 Canada

Independent Auditor's Report

To the Trustees of Alberta Refrigeration Industry Pension Trust Fund

We have audited the accompanying financial statements of Alberta Refrigeration Industry Pension Trust Fund (the "Fund" or "pension plan"), which comprise the statement of financial position as at April 30, 2017, and the statement of changes in net assets available for benefits 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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 Fund'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 Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

The scope of our audit did not extend to an examination of the payroll records of the contributing employers. Accordingly, our verification of contribution revenue was limited to the amounts recorded in the records of the Fund and we were not able to determine whether any adjustments might be necessary to contribution revenue and increase in net assets for the year ended April 30, 2017, assets as at April 30, 2017, and net assets available for benefits as at April 30 for the 2017 year.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of Alberta Refrigeration Industry Pension Trust Fund as at April 30, 2017, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Other Matters

The financial statements of the Fund for the year ended April 30, 2016 were audited by another auditor who expressed an unqualified opinion on those statements on September 2, 2016.

Chartered Professional Accountants, Licensed Public Accountants
Burlington, Ontario
November 20, 2017

Alberta Refrigeration Industry Pension Trust Fund

Statement of Financial Position

April 30 2017 2016

Assets


| | | |
|--|---------------|---------------|
| Investments (Note 2) | \$111,522,482 | \$ 96,024,808 |
| Cash | 795,808 | 1,574,476 |
| Contributions receivable | 555,850 | 535,344 |
| HST recoverable | 9,900 | 9,925 |
| Due from Alberta Refrigeration Industry Benefit Trust Fund (Note 3) | 793 | - |
| Prepaid expenses | 6,706 | 9,074 |
| | 112,891,539 | 98,153,627 |


Liabilities

| | | |
|--|-----------|-----------|
| Accounts payable and accrued liabilities | 190,150 | 66,981 |
| Reciprocal contributions payable | 27,690 | 44,012 |
| Due to Alberta Refrigeration Industry Benefit Trust Fund (Note 3) | - | 9,745 |
| Pension holdbacks (Note 4) | 4,257,607 | 3,207,544 |
| | 4,475,447 | 3,328,282 |

| | | |
|--|----------------------|----------------------|
| Net assets available for benefits | \$108,416,092 | \$ 94,825,345 |
|--|----------------------|----------------------|

On behalf of the Board:

 _____ Trustee

 _____ Trustee

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

Alberta Refrigeration Industry Pension Trust Fund

Statement of Changes in Net Assets Available for Benefits

| For the year ended April 30 | 2017 | 2016 |
|---|----------------------|----------------------|
| Increase in assets | | |
| Employer contributions | \$ 6,065,923 | \$ 6,466,658 |
| Reciprocal transfers | <u>659,283</u> | <u>524,656</u> |
| | 6,725,206 | 6,991,314 |
| Investment income (Note 5) | <u>13,522,838</u> | <u>2,259,344</u> |
| | <u>20,248,044</u> | <u>9,250,658</u> |
| Decrease in assets | | |
| Benefit costs | | |
| Pension payments | 1,679,146 | 1,339,693 |
| Termination and other lump sum payments | <u>3,513,435</u> | <u>3,655,758</u> |
| Total benefit payments | <u>5,192,581</u> | <u>4,995,451</u> |
| Fund and plan management expenses (Note 6) | | |
| Administration | 51,030 | 50,705 |
| Conferences | 30,612 | 26,826 |
| Insurance | 11,621 | 10,597 |
| Investment services and custodial fees | 1,138,694 | 424,472 |
| Office and Sundry | 15,485 | 17,779 |
| Professional and consulting fees | 223,678 | 142,800 |
| Registration fees | 10,816 | 5,324 |
| HST recoverable | <u>(17,220)</u> | <u>(9,925)</u> |
| Total expenses | <u>1,464,716</u> | <u>668,578</u> |
| | <u>6,657,297</u> | <u>5,664,029</u> |
| Increase in net assets | 13,590,747 | 3,586,629 |
| Net assets available for benefits, beginning of year | <u>94,825,345</u> | <u>91,238,716</u> |
| Net assets available for benefits, end of year | <u>\$108,416,092</u> | <u>\$ 94,825,345</u> |

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

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

1. Significant Accounting Policies

Purpose of the Pension Plan

The purpose of the pension plan is to provide pension benefits to eligible members. The Fund's assets are invested in accordance with the Statement of Investment Policies and Procedures.

Basis of Presentation

These financial statements are prepared using Canadian accounting standards for pension plans. For accounting policies that do not relate to the Fund's investment portfolio, the Fund has elected to apply Canadian accounting standards for private enterprises.

These financial statements are prepared on the going concern basis and present the aggregate financial position of the Fund as a separate financial reporting entity independent of the participating employers and pension plan members. They are prepared to assist pension plan members and others in reviewing the activities of the Fund for the fiscal period but they do not portray the funding requirements of the pension plan or the benefit security of individual pension plan members.

The pension plan is a target benefit plan that specifies the expected benefits to be paid to members upon pension eligibility. Contributions are limited to amounts in the collective agreement and employers are not required to fund actuarially determined funding deficiencies that may occur from time to time. Rather, such actuarially determined funding deficiencies are addressed by options such as negotiating changes to the contribution levels specified in the collective agreement, making changes to the Fund's investment strategies and/or by making adjustments to benefits paid by the Fund.

Contributions

Contributions are recognized on an accrual basis in the accounts on the basis of hours as reported by contributing employers at rates set in the applicable collective agreements.

Pension Benefits

Pension payments are shown as expenditures in the year of payment.

An actuarial valuation was performed by Segal Consulting as at April 30, 2014. There was an actuarial funding surplus of \$3,502,403 on a going concern basis and a solvency deficiency of \$9,390,526 in respect of members' pension rights. The next required actuarial valuation should be performed with a valuation no later than April 30, 2017.

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

1. Significant Accounting Policies - (Continued)

Investments

Investments of the Fund are stated at fair value with any realized and unrealized gains reported in the Statement of Changes in Net Assets Available for Benefits. Transaction costs are expensed.

Where ascertainable, fair values are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not ascertainable, fair values are derived using methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate.

The fair value of cash and short-term investments approximates cost plus accrued interest due to their short-term nature. The fair value of investments managed by investment counsellors is based on closing quoted market prices. Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represents the Fund's proportionate share of underlying net assets at fair values.

Investment transactions are recorded on a trade date basis.

Investment income includes interest, dividends, gain (loss) on sale of investments and fair value year end adjustments. Dividend income is recognized based on the ex-dividend date. Interest income is recognized on the accrual basis as earned. The gain (loss) on sale of investments is determined by the excess (shortfall) of proceeds over average cost of investments sold. The fair value adjustments represent the unrealized appreciation (depreciation) in fair value of the investments held at the year end less the related unrealized appreciation (depreciation) at the previous year end.

Foreign Currency

Foreign currency accounts are translated to Canadian dollars as follows:

At the transaction date, each asset, liability, revenue or expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

1. Significant Accounting Policies - (Continued)

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for pension plans requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates as additional information becomes available in the future.

Income Tax Status

The pension plan is registered pursuant to the Alberta Employment Pension Plans Act and the Income Tax Act (Canada), and is not subject to income taxes.

2. Investments

(a) Investments by Type

| | 2017 | | 2016 | |
|----------------|----------------------|----------------------|----------------------|----------------------|
| | Fair Value | Cost | Fair Value | Cost |
| Cash | \$ 904,434 | \$ 904,742 | \$ 1,491,106 | \$ 1,491,337 |
| Equities | | | | |
| Canadian | 19,574,003 | 19,954,410 | 18,072,836 | 20,105,534 |
| Foreign | 20,173,151 | 17,274,859 | 20,267,583 | 20,631,605 |
| Private equity | 11,607,604 | 10,925,205 | 8,143,946 | 8,765,137 |
| Fixed income | | | | |
| Domestic bonds | 23,532,262 | 23,474,942 | 32,016,725 | 31,671,218 |
| Mortgages | 7,280,660 | 7,279,772 | 6,786,014 | 6,786,014 |
| Private debt | 11,656,215 | 11,252,429 | 5,389,512 | 5,203,110 |
| Real Assets | | | | |
| Real estate | 13,341,993 | 12,598,107 | 3,857,086 | 3,900,700 |
| Infrastructure | 3,452,160 | 3,328,762 | - | - |
| | \$111,522,482 | \$106,993,228 | \$ 96,024,808 | \$ 98,554,655 |

(b) Reconciliation of fair value of investments

| | 2017 | 2016 |
|----------------------------|-----------------------|----------------------|
| Balance, beginning of year | \$ 96,024,808 | \$ 90,823,257 |
| Purchases, net of sales | 8,438,573 | 9,297,509 |
| Fair value adjustments | 7,059,101 | (4,095,958) |
| | \$ 111,522,482 | \$ 96,024,808 |

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

2. Investments - (Continued)

(c) Investment Allocation

Percentage of total investments at fair value as reported by the custodian:

| | Fund Policy Range % | Target % | 2017 % | 2016 % |
|-------------------|------------------------|-------------|--------------|--------------|
| Cash | 0 | 0.0 | 0.8 | 1.6 |
| Equities | | | | |
| Canadian equities | 5.0-25.0 | 10.0 | 17.5 | 18.8 |
| Foreign equities | 5.0-25.0 | 10.0 | 18.1 | 21.1 |
| Private equities | 0-15.0 | 10.0 | 10.4 | 8.5 |
| Fixed income | | | | |
| Domestic debt | 10.0-35.0 | 10.0 | 21.1 | 33.3 |
| Mortgages | 0-15.0 | 10.0 | 6.5 | 7.1 |
| Private debt | 8.0-30.0 | 25.0 | 10.5 | 5.6 |
| Real assets | | | | |
| Real estate | 0-15.0 | 12.5 | 12.0 | 4.0 |
| Infrastructure | 0-15.0 | 12.5 | 3.1 | - |
| | | | 100.0 | 100.0 |

(d) Commitment

The Fund has made an aggregate commitment for foreign infrastructure, public equity and debt, private equity and debt and real estate investments in the amounts of USD\$40,000,000 and GBP£2,500,000, of which USD\$20,564,068 and GBP£939,896 have been called. As a result, the Fund has outstanding commitments of USD\$19,435,932 and GBP£1,560,104 as at April 30, 2017.

The Fund has made an aggregate commitment for Canadian public equity and debt, private equity and debt and real estate investments in the amount of \$18,400,000, of which \$8,633,334 has been called. As a result, the Fund has an outstanding commitment of \$9,766,666 as at April 30, 2017.

3. Due from (to) Alberta Refrigeration Industry Benefit Trust Fund

The amount due from (to) Alberta Refrigeration Industry Benefit Trust Fund (the "Welfare Fund") represents expenditures paid by the Fund (Welfare Fund) on behalf of the Welfare Fund (Fund). The amount is non-interest bearing and is unsecured.

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

4. Pension Holdbacks

The pension plan has a funding deficiency and, pursuant to applicable pension legislation, is required to defer a portion of the payment for termination benefits. The amounts deferred bear interest at prescribed rates. The deferred amount, plus interest, is required to be paid at the earlier of five years from the date of the initial payment or the date upon which the pension plan is fully funded as prescribed in applicable pension legislation.

5. Investment Income

| | <u>2017</u> | <u>2016</u> |
|-----------------------------------|----------------------|---------------------|
| Interest and other | \$ 2,167,935 | \$ 3,316,266 |
| Dividends | 1,226,407 | 1,010,699 |
| Gain on sale of investments | 3,069,395 | 2,028,337 |
| Unrealized fair value adjustments | 7,059,101 | (4,095,958) |
| | <u>\$ 13,522,838</u> | <u>\$ 2,259,344</u> |

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

6. Fund and plan management expenses

| | <u>2017</u> | <u>2016</u> |
|---|---------------------|-------------------|
| Administration | <u>\$ 51,030</u> | <u>\$ 50,705</u> |
| Investment services and custodial fees | | |
| Investment management | <u>1,093,113</u> | 305,741 |
| Custodial | <u>45,581</u> | 118,731 |
| | <u>1,138,694</u> | 424,472 |
| Professional and consulting fees | | |
| Actuarial | 20,892 | 16,001 |
| Audit | 39,108 | 10,815 |
| Consulting | 96,353 | 76,708 |
| Legal | <u>67,325</u> | 39,276 |
| | <u>223,678</u> | 142,800 |
| General (recovery) | | |
| Bank charges and interest | 1,820 | 940 |
| Conferences | 30,612 | 26,826 |
| Computer maintenance | 2,567 | - |
| HST rebate | (17,220) | (9,925) |
| Insurance | 11,621 | 10,597 |
| Printing and stationery | 4,344 | 11,261 |
| Registration fees | 10,816 | 5,324 |
| Telephone, postage, courier and general | <u>6,754</u> | 5,578 |
| | <u>51,314</u> | 50,601 |
| Total | <u>\$ 1,464,716</u> | <u>\$ 668,578</u> |

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

7. Financial Instrument Risks

The Fund may be exposed to a variety of financial risks including credit risk, liquidity risk and market risk (including currency risk, interest rate risk and other price risk) as a result of its investment activities. These risks have not changed from the prior year.

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation that is entered into with the Fund. The risk of default on transactions in listed securities is considered minimal, as the trade will fail if either party to the transaction does not meet its obligation. The Fund also has credit risk to the extent that contributions receivable are not collectible. The Fund manages this risk by closely monitoring delinquent contributors and ensuring late contributions and deviations are pursued.

While the Fund may be exposed to credit risk with respect to bonds, it manages this risk by diversifying fixed income investments by issuer, market and debt ratings as specified in the Fund's Statement of Investment Policies and Procedures. As at April 30, the Fund's fixed income investments (excluding mortgages, and private debt) by credit rating are as follows:

| | 2017 | | 2016 | |
|-----|-----------------------------|---------------|-----------------------------|---------------|
| | Fixed Income Investments | % of Total | Fixed Income Investments | % of Total |
| AAA | \$ 5,124,058 | 21 | \$ 6,241,295 | 19 |
| AA | 6,045,974 | 26 | 9,315,736 | 29 |
| A | 6,345,004 | 27 | 7,659,875 | 24 |
| BBB | 6,017,226 | 26 | 8,799,819 | 27 |
| | \$ 23,532,262 | 100 | \$ 32,016,725 | 99 |

Liquidity Risk

The Fund is also exposed to *liquidity risk* in the event that investments must be sold quickly. The Fund's assets are invested primarily in securities that are traded in an active market and can be readily disposed of as liquidity needs arise, assuming orderly markets.

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

7. Financial Instrument Risks - (Continued)

Market Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments. It arises when the Fund invests in interest-sensitive investments such as bonds and other fixed income investments that will fluctuate due to changes in prevailing levels of market interest rates. The Fund mitigates this risk by investing in interest-bearing investments with varying maturity dates in accordance with its Statement of Investment Policies and Procedures. As at April 30, the terms to maturity of interest-bearing investments (excluding direct lending, mortgages, and private debt) is as follows:

| 2017 (millions) | Less than 1 year | 1 - 5 years | 5 - 10 years | > 10 years | Total |
|---------------------------|------------------------|----------------|-----------------|---------------|-------|
| Cash and short-term notes | \$ 2 | \$ - | \$ - | \$ - | \$ 2 |
| Fixed income | 1 | 10 | 6 | 6 | 23 |
| | \$ 3 | \$ 10 | \$ 6 | \$ 6 | \$ 25 |

| 2016 (millions) | Less than 1 year | 1 - 5 years | 5 - 10 years | > 10 years | Total |
|---------------------------|------------------------|----------------|-----------------|---------------|-------|
| Cash and short-term notes | \$ 3 | \$ - | \$ - | \$ - | \$ 3 |
| Fixed income | 2 | 12 | 9 | 9 | 32 |
| | \$ 5 | \$ 12 | \$ 9 | \$ 9 | \$ 35 |

As at April 30, 2017 had prevailing interest rates decreased or increased by 1%, with all other variables held constant, net assets available for benefits would have increased or decreased by approximately \$1,700,000 (2016 - \$2,200,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign currencies. The Fund's holdings in foreign currency investments are summarized in Note 2(a).

As at April 30, 2017, had the Canadian dollar appreciated or depreciated by 5% relative to other currencies, with all other variables held constant, net assets available for benefits would have decreased or increased, respectively by approximately \$2,000,000 (2016 - \$1,000,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Alberta Refrigeration Industry Pension Trust Fund

Notes to Financial Statements

April 30, 2017

7. Financial Instrument Risks - (Continued)

Market Risk - (continued)

Other price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, other than those arising from interest rate risk or currency risk, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in a market.

The Fund manages market risk by diversifying investments in accordance with the Fund's Statement of Investment Policies and Procedures. As at April 30, 2017, had market prices, including those of the pooled equity funds, private equities/debt, infrastructure investments, mortgages, direct lending investments and real estate investments, increased or decreased by 5%, the net assets available for benefits of the Fund would have increased or decreased, respectively, by approximately \$3,400,000 (2016 - \$2,600,000). In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements based upon transparency of inputs to the valuation of an asset or liability as of the measurement date is required. The three levels are defined as follows:

Level 1:

For securities valued based on unadjusted quoted prices in active markets for identical assets.

Level 2:

For securities valued based on inputs, other than quoted prices in active markets for identical assets.

Level 3:

For securities valued based on inputs that are based on unobservable market data.

The following table represents a summary of investments held by level:

| | 2017 | 2016 |
|---|----------------------|----------------------|
| Level 1 - equity and cash | \$ 40,651,588 | \$ 39,831,525 |
| Level 2 - short-term notes and fixed income | 23,532,262 | 32,016,725 |
| Level 3 - private equity/debt, direct lending, mortgages and infrastructure | 47,338,632 | 24,176,558 |
| | \$111,522,482 | \$ 96,024,808 |

Alberta Refrigeration Industry Pension Trust Fund Notes to Financial Statements

April 30, 2017

7. Financial Instrument Risks - (Continued)

Financial Instruments Fair Value Hierarchy - (continued)

The schedule below presents a reconciliation of Level 3 investments measured at fair value using unobservable inputs during the year. Fair value adjustments include realized and unrealized gains (losses) which are included in investment income.

| | 2017 | 2016 |
|----------------------------|----------------------|----------------------|
| Balance, beginning of year | \$ 24,176,558 | \$ 16,851,676 |
| Purchases, net of sales | 21,207,717 | 7,803,285 |
| Fair value adjustments | 1,954,357 | (478,403) |
| | <u>\$ 47,338,632</u> | <u>\$ 24,176,558</u> |

There were no transfers between levels in the year.

8. Capital Management

The Fund considers its capital to be its net assets available for benefits. The Fund's objective when managing its capital is to accumulate funds to provide retirement benefits to pension plan members, as further described in Note 9.

The Fund's ability to meet its objective is affected primarily by the level of retirement benefits provided, contributions negotiated in the applicable collective agreements and by the return on the Fund's investment assets, which are invested in accordance with the Fund's Statement of Investment Policies and Procedures, most recently amended and approved effective June 8, 2016 and within the applicable regulatory limits.

The Statement of Investment Policies and Procedures was established to ensure the Fund's assets are invested in a prudent and effective manner so that they will be sufficient to meet the obligations of the pension plan as they fall due. The trustees monitor investment managers to ensure that they achieve the expected returns relative to benchmark performance and to ensure the investment assets are invested within acceptable risk levels. The long-term overall investment objective of the Fund is to achieve a minimum annual rate of return of 6.75% per annum, representing the discount rate assumed in the pension plan's actuarial valuation. Actual results related to the Fund's investment portfolio are disclosed in Note 5.

There have been no changes in what the Fund considers to be its capital and there have been no significant changes to the Fund's capital management objectives, policies and processes in the year.

Alberta Refrigeration Industry Pension Trust Fund Notes to Financial Statements

April 30, 2017

9. Pension Plan Information

Description of Pension Plan Benefits

Actual benefits including conditions and limitations thereto are governed by the provisions of the Pension Plan Text and reference should be made to the Pension Plan Text for more detailed information, including details pertaining to the pension formula used to determine a retiring member's monthly benefit.

The following is a brief summary of the pension plan benefits:

The pension plan's registration number with Canada Revenue Agency and Alberta Treasury Board and Finance is 0422972.

All members, on whose behalf employers contribute, participate in the pension plan. Contributions to the pension plan are paid pursuant to collective agreements.

Pension plan members become eligible for full benefits on or after age 65 provided the member has applied in writing to the Trustees. Benefits are calculated as the sum of a member's past service benefit, and a member's membership service benefit. A member's past service benefit is equal to \$13.00 per month per year, up to a maximum of ten years, and were granted as a result of service before May 1, 1980. A member's monthly membership service is equal to \$0.075 multiplied by every covered hour of employment after the first 100 hours, after May 1, 2007. Prior to May 1, 2007, membership service benefits were calculated based on covered hours of employment during the plan year.

A member is eligible for an unreduced benefit if the member is age 60 with a minimum of 5 years credited service and the member is in good standing. A member can apply to receive a reduced benefit provided that the member is at least age 55 when application is made. Benefits are calculated in the same manner as for normal retirement, but are reduced, taking into consideration the number of months that the member is under age 60. Members may qualify for an unreduced pension at age 60 if the minimum number of years are reached and they are a member in standing with the Union. Normal retirement is at age 65 with no reduction.

The pension plan also pays benefits to the member's designated beneficiary in the event of the member's death before commencement of pension payments.

Members who terminate participation in the pension plan where less than 350 hours of employment were credited to the member in two pension plan years or such shorter period as prescribed by applicable legislation will be entitled to a deferred pension. Members who are not vested upon termination forfeit any benefits.

Persons whose contributions are governed by a reciprocal agreement with the Fund have contributions transferred to their home pension fund.

Members will earn a benefit in the Plan until December 1 in the calendar year in which they reach age 71.

No monthly pension or other benefits are guaranteed.

Alberta Refrigeration Industry Pension Trust Fund Notes to Financial Statements

April 30, 2017

10. Comparative Figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

