CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN

FINANCIAL STATEMENTS

DECEMBER 31, 2017

MRSB

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MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

These financial statements are prepared by Management of the Charlottetown Water and Sewer Corporation Superannuation Plan in accordance with Canadian Accounting Standards for penion plans and on a basis consistent with that of the preceding year as required by the Municipal Government Act of Prince Edward Island.

Responsibility for the integrity and objectivity of these financial statements rests with the Commission and Management. These financial statements are prepared on a full accrual basis of accounting. The information included in these financial statements is based on Management's best estimates and judgement, with due consideration given to materiality.

To fulfill its accounting and reporting responsibilities, Management maintains systems of financial management and internal control which give due consideration to costs, benefits and risks. These systems are designed to provide reasonable assurance that transactions are properly authorized, are executed in accordance with prescribed bylaws, regulations and/or legislation and are properly recorded so as to maintain accountability and safeguard the assets of the Plan. The systems are also designed and monitored to ensure reliable information is available on a timely basis.

These financial statements have been presented to an independent public accounting firm appointed by Council. The independent auditor completes an audit of these financial statements and issues an Independent Auditor's Report. The accompanying Independent Auditor's Report outlines the Auditor's responsibilities, the scope of the examination, and their opinion on the financial statements of the Plan.

Chief Administrative Officer

Deputy Chief Administrative Officer

September 13, 2018

INDEPENDENT AUDITOR'S REPORT

TO COMMISSIONERS OF CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN:

Report on the Financial Statements

We have audited the accompanying financial statements of the Charlottetown Water and Sewer Corporation Superannuation Plan, which comprise the statements of financial position as at December 31, 2017 and December 31, 2016, and the statements of changes in net assets available for benefits, and changes in pension obligation for the years 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Charlottetown Water and Sewer Corporation Superannuation Plan as at December 31, 2017 and December 31, 2016 and the changes in net assets available for benefits and changes in pension obligation for the years then ended in accordance with Canadian accounting standards for pension plans.

Comparative Information

The financial statements for the Charlottetown Water and Sewer Corporation Superannuation Plan as at December 31, 2016 released on June 12,2017 were audited by another public accounting firm.

MRSB Chartered Professional Accountant

CHARLOTTETOWN, P.E.I.

SEPTEMBER 13, 2018

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CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2017

	2017	2016 *(Restated)*
Assets		
Cash	$ 11,036	$ 39,019
Contributions receivable:		
Employer	14,829	-
Employees	1,725	-
Other receivables	5,546	6,316
Prepaid expenses	-	41,401
Due from related parties (Note 5)	-	18,253
Long-term investments (Note 6)	10,553,957	9,809,821
	10,587,093	9,914,810
Liabilities		
Due to related parties (Note 5)	122,404	-
Net Assets Available for Benefits	10,464,689	9,914,810
Accrued Pension Obligation	10,119,329	9,876,300
Net Surplus	$ 345,360	$ 38,510

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

ON BEHALF OF CHARLOTTETOWN WATER AND SEWER CORPORATION PLAN:

_____ **Mayor** _____ **Chair**

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CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEAR ENDED DECEMBER 31, 2017

	2017	2016 *(Restated)*
Increase in Assets		
Investment income (Note 7)	$ 763,074	$ 527,071
Change in fair value of long-term investments (Note 8)	268,933	-
Contributions:		
Employer - Current	155,033	196,535
Employee - Current	16,355	21,172
	1,203,395	744,778
Decrease in Assets		
Administrative expenses		
Actuarial fees	65,257	20,025
Audit fees	1,661	1,609
Investment management fees	38,451	55,424
Other investment expenses	9,886	-
Benefit payments	538,261	460,636
	653,516	537,694
Net Change in Net Assets Available for Benefits	549,879	207,084
Net Assets Available for Benefits - Beginning of Year	9,914,810	9,707,726
Net Assets Available for Benefits - End of Year	$ 10,464,689	$ 9,914,810

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

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CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
STATEMENT OF CHANGES IN PENSION OBLIGATIONS
YEAR ENDED DECEMBER 31, 2017

	2017	2016 *(Restated)*
Accrued Pension Obligation - Beginning of Year	$ **9,876,300**	$ 9,545,101
Increase in Pension Obligation		
Interest on accrued pension obligation	**550,959**	535,180
Benefits accrued	**117,544**	148,677
Actuarial loss	**112,787**	107,978
	781,290	791,835
Decrease in Pension Obligation		
Benefits paid	**538,261**	460,636
Change in Accrued Pension Obligation	**243,029**	331,199
Accrued Pension Obligation - End of Year	$ **10,119,329**	$ 9,876,300

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

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. Description of Plan

The following description of the Charlottetown Water and Sewer Corporation Superannuation Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Agreement Text.

a) General

The Plan is a defined benefit pension plan covering all permanent full-time employees of the Charlottetown Water and Sewer Corporation who entered the plan prior to its closing in 2000. Under the Plan, contributions are made by the Plan members and the Charlottetown Water and Sewer Corporation. The effective date of the Plan was December 29, 1945. The plan is now closed to new entrants.

b) Vesting Provision

Vesting occurs immediately upon becoming employed by the Charlottetown Water and Sewer Corporation on a permanent, full-time basis. Staff on long term disability do not make contributions and their contributions are funded by the Corporation.

c) Retirement Age

The normal retirement age is 65. Employees may retire on their full accrued pension at any time after age 55 if their age plus service total is at least 85 years. If 85 years is not met and they are within 10 years of normal retirement, they may retire on an actuarially reduced pension.

d) Pension Benefits

The pension benefit is based on the lesser of 2% of average salary, excluding overtime, for the three most highly consecutive paid years multiplied by years of pensionable service or $1,722.22. The maximum number of years of service credited is 35. Pensions in the course of payment may be increased through the application of the excess interest method of indexing not to exceed the Consumer Price Index increase since the retirement date.

e) Early Retirement

The amount of the pension payable to a member who retires early shall be the amount of the pension as determined using the normal pension calculation subject to an actuarial reduction in accordance with the actuarial assumptions being used at the most recent actuarial valuation. The actuarial reduction shall be calculated based on the length of time that is the lesser of normal retirement date minus actual retirement date or 85 minus age plus years of service as at actual retirement date.

f) Disability Benefits

Any member of the pension plan that becomes disabled and is eligible to receive benefits under the long-term disability insurance plan arranged by the Corporation shall continue to accrue pensionable service at the rate of earnings in effect before becoming disabled. Should the long-term disability benefit cease, and the member is not re-employed, the member shall be entitled to receive benefits in accordance with regular termination of employment.

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

1. Description of Plan (continued)

g) Death Benefits

Sixty percent of the pension to which any member, with 10 or more years of pensionable service, dying before actual retirement date was entitled to receive as at the time of death shall be paid to their spouse until the later of the death of the spouse or the date at which the youngest child attains the age of 18. Dependents shall include only the spouse of the member or the member's children while under the age of 18. If a member dies prior to actual retirement date with less than 10 years of pensionable service and is survived by dependents, the member's required contributions accumulated with interest shall be payable to the member's dependents. Should any pensioner die with dependents but less than 10 years pensionable service, their dependents shall receive a payment equal to the excess, if any, of his contributions with interest over the pension payments received by the pensioner.

h) Termination of Employment

In the event that a member ceases employment other than by death or retirement, they shall be entitled to a paid-up deferred annuity which will entitle the member at their normal retirement date to receive a pension subject to the following conditions: the amount of the pension shall be determined using the pension formula, taking into account the individual's salary as an active member, and shall be payable in the normal form; no further contributions shall be made to the plan on the individual's behalf; and the individual's entitlement shall be subject to the same conditions as apply to payments made under the plan and shall not be commutable or assignable. The individual may elect to receive a return of their contributions with interest.

2. Significant Accounting Policies

a) Basis of Presentation

The financial statements are presented in accordance with Accounting Standards for Pension Plans in Part IV of the Chartered Professional Accountants Handbook (CPA), Section 4600 - Pension Plans. Section 4600 provides specific accounting guidance on investments and pension obligations. For accounting policies that do not relate to either investments or pension obligations, the Plan must consistently comply with either international financial reporting standards ("IFRS") in Part I of the CPA Handbook or accounting standards for private enterprises ("ASPE") in Part II of the CPA Handbook. The Plan has elected to comply with, on a consistent basis, IFRS. To the extent that IFRS is inconsistent with Section 4600, Section 4600 takes precedence.

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

b) Fair Value Measurement

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

In determining fair value, the Plan uses the guidance in IFRS 13, Fair Value Measurements ("IFRS 13"). As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

2. Significant Accounting Policies (continued)

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

All changes in fair value are recognized in the statement of changes in net assets available for benefits as part of the investment income.

Fair value hierarchy

Investment assets and investment-related liabilities are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

If different levels of inputs are used to measure the fair value of an investment, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement.

c) Contributions

Basic contributions from the employer and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases and transfers from other pension plans are recorded and service is created when the purchase amount is received. Employees are required to contribute 3.9% of earnings exclusive of overtime. As of January 1, 2004, the employer began contributing 13.85% of employees' salaries

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017

2. Significant Accounting Policies (continued)

d) Revenue Recognition and Income Distribution

Income from investments is recorded on an accrual basis and includes interest and dividends as well as realized and unrealized gains and losses on investments. Net investment income, including net realized capital gains, is distributed in additional units at the end of each quarter. The additional units are reinvested automatically. Immediately following the distribution and reinvestment of units, units are consolidated so that the number of units outstanding and the net asset value is unchanged.

e) Benefits

Benefit payments to retired members, refunds to former members and transfers to other pension plans are recorded in the period they are paid. Accrued benefits are recorded as part of the accrued pension obligation.

f) Administrative Expenses

Administrative expenses, incurred for plan administration and direct investment expenses, are recorded on an accrual basis. Plan administration expenses represent expenses incurred to provide services to the Plan members and employers. Management fees are paid directly through redemption of units or cash. Accordingly, there is no accrual for these fees in the valuation process of units. Transaction costs represent the Plan's pro-rated share of the total operating expenses of the pension fund in which the Plan owns units.

g) Use of Estimates and Judgments:

The preparation of financial statements in conformity with Canadian accounting standards for pension plans requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statements and the reported amounts of changes in net assets available for benefits during the year. Actual results could differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected. Significant estimates and judgments included in the financial statements include Level 2 and 3 investments in the fair value hierarchy and the accrued pension obligation. Actual results could differ from those estimates.

h) Income taxes:

The Plan is a registered plan, as defined by the Canadian *Income Tax Act* and, accordingly is not subject to Canadian income taxes.

3. Prior Period Adjustment

As a result of the actuarial valuation prepared with an effective date of December 31, 2016, prior period adjustments were required to bring the accrued pension obligation in line with the actuarial valuation as of that date. Prior period figures have been restated to reflect the required changes. As a result of the prior period restatement, the accrued pension obligation as of January 1, 2016 has been reduced by $424,399, the surplus - as of January 1, 2016 has been increased by $424,399, interest on the accrued benefit obligation has been reduced by $13,120, benefits accrued have been reduced by $1,623, increase in pensions in pay has been reduced by $120,400, benefits paid have been reduced by $12,464, and actuarial losses have been increased by $107,978.

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
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4. Funding Policy

As of January 1, 2004, the employer began contributing 13.85% of employees' salaries. The plan is to be 100% funded and rates are adjusted accordingly. Employees are required to contribute 3.9% of earnings exclusive of overtime.

5. Related Party Transactions

The amounts due to (from) related parties are non-interest bearing and have no specific terms of repayment. The following are the amounts due to (from) related parties:

		2017		2016
City of Charlottetown Superannuation Plan	$	**138,310**	$	-
Charlottetown Water and Sewer Corporation		**(15,906)**		(4,786)
City of Charlottetown		**-**		(13,467)
Total due to related parties	$	**122,404**	$	(18,253)

During the year, the Plan transferred received funds of $138,310 from the City of Charlottetown Superannuation Plan to clear an overdraft on the operating bank account.

During the year, the Charlottetown Water and Sewer Corporation claimed $1,307 in Harmonized Sales Tax rebates on behalf of the Plan. The City paid benefits of $14,426 for Charlottetown Water and Sewer Corporation employees on long-term disability.

During the year, the City of Charlottetown provided various administrative services for the Plan with no recovery of the associated costs.

6. Long-term Investments

The long term investments of the Plan consist of units held in the following pension funds:

	Units	**Adjusted Cost Base**	**Market Value 2017**	Market Value 2016
Burgundy Balanced Pension Fund	**298,793**	**$ 10,283,870**	**$ 10,553,957**	$ -
Fiera Balanced Pension Fund	**-**	**-**	**-**	4,949,878
Greystone Balanced Pension Fund	**-**	**-**	**-**	4,859,943
	298,793	**$ 10,283,870**	**$ 10,553,957**	$ 9,809,821

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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6. Long-term Investments (continued)

As at December 31, 2017 the Plan's pro-rated share of units in the Burgundy Balanced Pension Fund was 0.78% (2016 - 0.00%). Investments in the Burgundy Balanced Pension Fund consist of the following listed assets based on the Plan's pro-rated share:

		2017
Canadian short-term investments	$ 369,046	3.50%
Canadian fixed income	14,077	0.13%
Other funds fixed income	3,243,095	30.73%
Canadian equities	3,893,776	36.90%
Other funds equities	1,587,760	15.04%
US equities	1,445,221	13.69%
Other foreign equities	982	0.01%
Total long term investments	$ 10,553,957	100.00%

Detailed comparative information was not available.

Fund investment assets recorded at fair value have been categorized based upon a fair value hierarchy of significant inputs used in measuring fair value. The following fair value hierarchy table presents information about the Plan's assets measured at fair value on a recurring basis at December 31, 2017:

-	Level 1	Level 2	Level 3	Total
Short-terms investments	$ -	$ 369,046	$ -	$ 369,046
Fixed income	-	14,077	-	14,077
Fixed income - other funds	-	3,243,095	-	3,243,095
Equities	5,339,979	-	-	5,339,979
Equities - other funds	-	1,587,760	-	1,587,760
Total long-term investments	$ 5,339,979	$ 5,213,978	$ -	$ 10,553,957

During the years ended December 31, 2017 and December 31, 2016, there were no significant transfers between levels.

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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7. Investment Income

Investment income from the Burgundy Balanced Pension Fund consists of the following based on the Plan's pro-rated share:

		2017
Dividends	$	36,282
Interest		21,072
Realized gain on sale of investments		24,832
Capital gains distributions from other funds		14,726
Realized gain on foreign exchange		22
Unrealized appreciation of investments		40,169
Total investment income	$	137,103

The Plan also earned $321,216 investment income from the Fiera Balanced Pension Fund and $304,754 investment income from the Greystone Balanced Pension Fund prior to the sale of the units in these funds. Detailed comparative information was not available.

8. Change in Fair Value of Long-term Investments

The change in fair value of long term investments consists of the following:

		2017
Unrealized gain on investments	$	270,087
Realized gain (loss) on disposal of investments		(1,154)
Change in fair value of long term investments	$	268,933

9. Actuarial Valuation

Actuarial valuations of the Plan are completed every three years with the most recent valuation prepared as of the effective date of December 31, 2016 by Eckler Partners Ltd., a firm of consulting actuaries. The valuation results are extrapolated on an annual basis by the actuaries. Ecklers Partners Ltd. provided the extrapolation for the effective date of December 31, 2017 as well as the extrapolation for the effective date of December 31, 2015. Both extrapolations used the same assumptions noted below. The next valuation is scheduled to be completed as of December 31, 2019.

In determining liabilities and current service costs, the actuaries have used the projected unit credit method, prorated on service. Actuarial gains and losses are amortized over the expected average remaining service life of active employees, which is 5 years.

CHARLOTTETOWN WATER AND SEWER CORPORATION SUPERANNUATION PLAN
NOTES TO THE FINANCIAL STATEMENTS
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9. Actuarial Valuation (continued)

The actuaries reported the following on the 2017 extrapolation:

	2017	2016
Actuarial value of pension fund assets	$ 10,464,689	$ 9,914,810
Accrued pension obligations	10,119,329	9,876,300
Plan surplus	$ 345,360	$ 38,510

The actuarial valuation was prepared using the following assumptions:

Assumption	December 31, 2017	December 31, 2016
Pre-retirement discount rate	5.70% per annum	5.50% per annum
Post-retirement discount rate	5.50% per annum	5.50% per annum
Expected return on plan assets	5.70% per annum	5.70% per annum
Expected inflation	2.00% per annum	2.00% per annum
Retirement age	70% at the age at which "Rule of 85" is attained 30% at age 65	70% at the age at which "Rule of 85" is attained 30% at age 65
Rate of compensation increase	3.50% per annum	3.50% per annum
Withdrawals	None	None
Maximum pension	lessor of 2% or $1,722.22 per year of service	less or of 2% or $1,722.22 per year of service
Percentage married	100%	100%
Spouse's age	Males assumed to be 3 years older	Males assumed to be 3 years older
Pre-retirement mortality	None	None
Post-retirement mortality	CPM2014 Combined Mortality table projected with Scale CPM-B	CPM2014 Combined Mortality table projected with Scale CPM-B
Termination	None	None

10. Capital Management

Charlottetown Water and Sewer Corporation Superannuation Plan considers its capital to be its net assets available for benefits. The entity's objective when managing its capital is to safeguard its ability to continue as a going concern in order to provide services to carry out its mandate. Capital is under the direction of Council with the objective of minimizing risk and ensuring adequate liquid investments are on hand for current cash flow requirements.

The Burgundy Balanced Pension Fund manages its capital in accordance with its investment objectives while maintaining sufficient liquid assets to manage liquidity risk. The Burgundy Balanced Pension Fund is not subject to externally imposed capital requirements.

11. Financial Instrument Risk

a) Risk Management

The Burgundy Balanced Pension Fund (the "Fund") is exposed to a number of risks arising from financial instruments. The Fund manager seeks to manage these risks through its investment approach, which involves evaluating the economics of individual companies and their management through independent research and analysis. The Fund manager focuses on strong business fundamentals and prefers to invest in companies that have a history of profitability, dividend payments and high levels of cash flows. Generally, an investment in a company is made if its securities can be purchased at a price that is a certain percentage below the Fund manager's estimate of their intrinsic value and a sale is made when the price of a company's securities meets or exceeds the Fund manager's estimate of their intrinsic value.

The Fund also invests in certain Burgundy Funds ("Underlying Funds") that meet its investment objective in accordance with target weightings. These target weightings may be achieved by holding both Underlying Funds and individual securities, and may be subject to change. As at December 31, 2017 and 2016 the target weightings for the Fund were 35% in fixed income investments, 35% in Canadian equity investments, 14.7% in U.S. equity investments, 11% in European equity investments, and 4.3% in Asian equity investments. While the Fund manager will generally not manage the asset mix of the Underlying Funds actively, the Fund manager may review and change the target weightings, at its sole discretion, as it deems necessary in order to meet the objective of the Fund.

The various risks that the Fund may be exposed to as a result of its direct investment holdings are described below. The Fund may also be exposed to these risks indirectly if it holds an underlying fund that is subject to these risks.

b) Other Price Risk/Market Risk

Changes in market prices (other than those arising from currency and interest rate risks can cause the fair value of a financial instrument to fluctuate. These changes can be caused by factors specific to the individual security such as potential or actual profitability of the underlying company, number and caliber of competitors and the effect of potential or actual regulation on business operations. Changes can also be caused by factors affecting all similar securities traded in the market such as macroeconomic or political conditions.

c) Currency Risk

Currency risk is the risk that the fair value of a financial instrument denominated in a foreign currency will fluctuate due to changes in the rate of exchange between the Canadian and foreign currencies. Exchange rates may change independently of the securities market in a particular country and, as a result, gains and losses may be affected by changes in exchange rates.

d) Interest Rate Risk

Interest rate risk is the risk that the fair value of interest bearing financial instruments will fluctuate due to changes in market interest rates. In general, with all other factors held constant, as interest rates fall, the value of fixed income securities rises and when interest rates rise, the value of fixed income securities falls.

11. Financial Instrument Risk (continued)

e) Credit Risk

Credit risk is the risk that financial loss will occur as a result of failure to discharge an obligation by a party to a financial instrument. These financial instruments may include lower rated corporate debt securities or emerging market government debt securities that are at a greater risk of default. The fair value of the securities incorporates the credit worthiness of the debt issuer. As at December 31,2017 and 2016, the Fund was not exposed to significant credit risk as the interest bearing securities held were short-term in nature with a minimum DBRS credit rating of R1.

All security transactions are settled through approved brokers and the risk of default is considered minimal. Payment for purchases is made only when the securities have been received by the broker. Delivery of securities sold is made only when the payment is received by the broker.

f) Liquidity Risk

Liquidity risk refers to the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The fund is exposed to liquidity risk as a result of potential weekly redemptions of redeemable units.

The Fund seeks to reduce this risk by maintaining sufficient cash and investments in liquid securities that are traded in an active market and can be readily disposed of in exchange for cash and used to meet cash obligations such as redemptions and expenses. Other financial assets and other financial liabilities are short-term in nature.