

**Carpentry Workers' Pension Plan of
B.C.
Financial Statements
For the year ended June 30, 2017**

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Financial Statements
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Independent Auditor's Report

To the Members of Carpentry Workers' Pension Plan of B.C.

We have audited the accompanying financial statements of Carpentry Workers' Pension Plan of B.C. (the "Plan") which comprise the statement of financial position as at June 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.

Trustee's Responsibility for the Financial Statements

The Trustees are 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 they determine 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 Plan's preparation 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 Plan's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Trustees, 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 Plan derives revenue from hourly assessments remitted by contributing employers, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of the Plan. Therefore, we were not able to determine whether any adjustments might be necessary to employer contributions and increase in net assets available for benefits for the years ended June 30, 2017 and 2016, employers' contributions receivable and net assets available for benefits as at June 30, 2017 and 2016, and net assets available for benefits as at July 1, 2016 and 2015. Our audit opinion on the financial statements for the year ended June 30, 2016 was modified accordingly because of the possible effects of this limitation in scope.

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 the Plan as at June 30, 2017 and the changes in net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Professional Accountants

Vancouver, British Columbia
December 13, 2017

Carpentry Workers' Pension Plan of B.C.
Statements of Financial Position

June 30	2017	2016
Assets		
Investments (Note 3)	\$ 241,880,788	\$ 228,641,368
Receivables		
Accrued investment income	3,500,461	5,949
Employers' contributions receivable	983,391	1,371,392
Due from CMAW Benefit Plan (Note 5)	313,362	130,654
Prepaid expenses	-	4,439
	246,678,002	230,153,802
Liabilities		
Accounts payable and accrued liabilities	582,470	410,757
Net assets available for benefits	\$ 246,095,532	\$ 229,743,045

Approved by the Board of Trustees:

_____ *"Chris Wasilenchuck"* Trustee

_____ *"Jessie Gregory"* Trustee

Carpentry Workers' Pension Plan of B.C.
Statement of Changes in Net Assets Available for Benefits

Year ended June 30	2017	2016
Increase in assets		
Investments		
Investment income earned (Note 4)	\$11,467,212	\$ 11,929,469
Current year change in market value (Note 4)	8,961,399	1,690,437
	20,428,611	13,619,906
Contributions		
Employers	7,742,160	7,475,417
Total increase in assets	28,170,771	21,095,323
Decrease in assets		
Pension benefits paid		
Normal retirement	9,379,187	9,207,382
Lump sum payments	1,340,807	1,901,455
	10,719,994	11,108,837
Administrative expenses (Note 2)	1,098,290	1,128,912
Total decrease in assets	11,818,284	12,237,749
Increase in net assets for the year	16,352,487	8,857,573
Net assets available for benefits, beginning of year	229,743,045	220,885,471
Net assets available for benefits, end of year	\$246,095,532	\$229,743,045

Carpentry Workers' Pension Plan of B.C.

Notes to Financial Statements

June 30, 2017

1. Significant Accounting Policies

(a) Purpose of the Plan

The Carpentry Workers' Pension Plan (the "Plan") was established December 30th, 1971, between the British Columbia Provincial Council of Carpenters ("BCPC Council") and the Trustees. Effective October 5, 2006 the BCPC Council transferred its role as custodian under the Trust Agreement to the Construction, Maintenance & Allied Workers Bargaining Council (the "CMAW Council") and a new Agreement and Declaration of Trust was executed accordingly.

The Plan is a multi-employer negotiated contribution pension plan that is registered under the British Columbia Pension Benefits Standards Act and as such, a participating employer's contributions are limited to an amount that is determined by the collective agreements entered into by the CMAW Council and participating employers. The Plan is administered by a Board of Trustees who are elected by the active members of the Plan.

During fiscal 2017, the Plan converted from a defined benefit plan to a target benefit plan. After the conversion, the Plan is no longer required to meet solvency funding requirements, but rather, focuses on the going concern surplus.

The Plan is a Registered Pension Plan and Trust as defined in the Income Tax Act and is not subject to income taxes.

(b) Basis of Presentation

The financial statements have been prepared in accordance with the provisions of *Section 4600 - Pension Plans in Part IV - Accounting Standards for Pension Plans* of the Chartered Professional Accounting (CPA) Canada Handbook - Accounting. For accounting policies that do not relate to the Plan's investment portfolio, the Plan has elected to apply Canadian accounting standards for private enterprises in accordance with Section 4600.

These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of the participating employers and Plan members. They are prepared to assist members and others in reviewing the activities of the Plan for the fiscal periods but they do not portray the funding requirements of the Plan or the benefit security of individual members. These financial statements do not provide all the information that is needed to fully assess benefit security.

The Plan's Rules and Regulations specify the expected benefits to be paid to members upon pension eligibility. For accounting purposes, the Plan is considered to be a defined contribution pension plan since contributions are limited to amounts contractually agreed to 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 making changes to the plan's investment strategies, making adjustments to benefits paid by the plan and/ or by the collective bargaining parties negotiating changes to the contribution levels specified in accordance with the agreement.

Carpentry Workers' Pension Plan of B.C. Notes to Financial Statements

June 30, 2017

1. Significant Accounting Policies - Continued

(c) Revenue Recognition

Employer contributions are recorded on the accrual basis. Contributions are recorded on the basis of employer contribution reports received in respect of work months up to June 30.

Investment income is recognized as revenue in the year earned and includes gains and losses resulting from changes in the fair market value of investments.

(d) 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 revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future. Items requiring significant estimates made by management include the fair value of real estate and infrastructure investments.

(e) Investments

Investments are stated at fair value in accordance with International Financial Reporting Standards (IFRS) 13. Fair value amounts represent estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time that it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of the investments and is presented as current year change in market value in the Statement of Net Assets Available for Benefits.

Fair values of investments are determined as follows:

Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.

Bonds, debentures and equities are valued at year-end quoted market prices.

Real estate consists of shares in privately owned real estate development companies and shares in a pension realty corporation. Share values of privately owned companies are based on share prices provided by management of those companies using a combination of the discounted cash flows method and estimated market value approach. Shares of the pension realty corporation are valued based on independent appraised values of properties held by the corporation.

Mortgages are valued using discounted cash flows based on current market yields for mortgages of similar risk and term to maturity and estimated market value from the mortgage fund management.

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

1. Significant Accounting Policies - Continued

(e) Investments - Continued

Infrastructure consists of shares in privately owned infrastructure funds. The shares of the European fund are valued using discounted expected future cash flows using a discount rate including a risk-free rate applicable in the country where the asset is located and a risk premium. The shares of the North American fund are based on a net asset value per unit provided by management of this fund.

Investments are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Plan determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the investments is reduced to the highest of the present value of the expected cash flows, the amount that could be realized by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(f) Pension Rights

No provision is made in the financial statements of the Plan for the accrued pension rights of members or transfer deficiency obligations arising from lump sum payments made when the Plan has a solvency deficiency of less than 1.

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

2. Administrative Expenses

The Plan shares expenses with the CMAW Benefit Plan ("the "Benefit Plan"). These expenses are shared between the Benefit Plan and the Pension Plan based on the administrator's best estimate. The total net amount of expenses charged by the Pension Plan during the year totaled \$18,848 (2016 - \$48,663) (Note 5). Administrative expenses of the Plan are presented below.

	<u>2017</u>	<u>2016</u>
Actuarial fees	\$ 402,848	\$ 303,197
Administrator fees	327,159	363,687
Audit and accounting	64,759	24,636
Computer consulting	8,105	12,799
Computer development	-	63,523
Custodial fees and bank charges	48,405	51,357
Investment consulting fees	14,371	21,703
Legal fees	72,872	124,727
Office and miscellaneous	40,928	39,477
Pension registration fees	38,649	38,775
Rent and occupancy costs	-	5,614
Trustees' expenditures	56,809	79,417
GST Adjustment	23,385	-
	<u>\$1,098,290</u>	<u>\$1,128,912</u>

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

3. Investments

	% of Portfolio	<u>2017</u>	<u>2016</u>
Fixed Income Investments			
Short term deposits	1.38	\$ 3,333,237	\$ 2,187,105
Bonds	44.80	108,369,988	110,078,415
Mortgages	5.29	12,805,973	12,978,584
	51.47	<u>124,509,198</u>	<u>125,244,104</u>
Equities - Canadian	11.81	28,547,076	24,416,902
Equities - Global	14.98	36,228,558	31,050,230
Infrastructure - North America	4.45	10,761,816	11,276,468
Infrastructure - European	4.71	11,395,249	11,485,656
Real estate, Net	12.58	30,438,891	25,168,008
	48.53	<u>117,371,590</u>	<u>103,397,264</u>
	100.00	<u>\$241,880,788</u>	<u>\$228,641,368</u>

Cash consists of bank balances bearing interest at the prevailing rates for chequing accounts and shares in a credit union. Bonds consist of units held in pooled funds that are invested in corporations, Provincial governments and the Federal government. Mortgages consist of an investment in a mortgage fund and two traditional mortgages. The mortgages are collateralized by commercial and residential real estate properties, mature January 2024 and February 2024 and bear interest at 5.25% plus an inflationary adjustment set each January 1st which resulted in rates at June 30, 2017 of 6.26% and 6.34% respectively. Equities consist of units in Canadian and global equity pooled funds. Infrastructure consists of investments in units of North American and European infrastructure funds.

The net investment in real estate is comprised of the following:

	<u>2017</u>	<u>2016</u>
Shares in privately held real estate development companies	\$ 30,369,280	\$ 25,097,351
Shares in pension realty corporation	69,611	70,657
	<u>\$ 30,438,891</u>	<u>\$ 25,168,008</u>

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

4. Investment Income

	Year Ended June 30,		2017	2016
	Investment Income Earned	Current Year Change in Market Value	Total	Total
Short term deposits	\$ 14,455	\$ -	\$ 14,455	\$ 15,354
Bonds	4,307,286	(4,116,827)	190,459	8,533,690
Mortgages	509,024	(393,074)	115,950	563,165
Equities	1,772,059	6,999,044	8,771,103	(650,955)
Real estate	114,606	5,272,110	5,386,716	1,282,044
Infrastructure funds	4,749,782	1,200,146	5,949,928	3,876,608
	\$ 11,467,212	\$ 8,961,399	\$ 20,428,611	\$ 13,619,906

The investment income is net of investment fees. Investment fees charged directly to the Fund for the year ended June 30, 2017 were \$ 546,026 (2016 - \$ 476,126). The investment income earned from the mortgage fund and infrastructure funds represents distributions received in the year.

5. Due from CMAW Benefit Plan

The amount receivable from the CMAW Benefit Plan is the net result of administrative and other expenses being incurred by the Pension Plan and charged back to the Benefit Plan. The amount due is non-interest bearing and has no specific terms of repayment (Note 2).

Carpentry Workers' Pension Plan of B.C. Notes to Financial Statements

June 30, 2017

6. Actuarial Valuation

The last actuarial valuation of the Plan was done by Morneau Shepell Ltd. (the "Actuary") as at June 30, 2016 and was dated March 27, 2017. The actuarial value of assets, accrued pension benefits liability and surplus as at June 30, 2016 on a going concern basis are summarized in the report as follows:

Actuarial value of assets	\$ 229,666,000
Actuarial accrued pension benefits liability	<u>163,201,000</u>
Surplus	<u>\$ 66,465,000</u>

In determining the actuarial value of the Plan's assets, the Actuary has used an asset valuation method that smoothes the impact of short-term fluctuations in the market value of the assets. The accrued pension benefits liability represents the value of pension and other benefit obligations of the Plan in respect of benefits accrued to June 30, 2016 for all active and inactive members of the Plan adjusted for amendments to the Plan which were effective July 1, 2016. This obligation is measured using actuarial assumptions and methods adopted by the Plan Trustees based on advice from the Actuary. As underlying conditions change over time, liability valuation assumptions may also change and could cause a material change in the actuarial present value of accrued benefits. An assumed rate of investment return of 5.5% net of all expenses has been used for the June 30, 2016 going-concern valuation.

The actuarial accrued pension benefits liability includes accruals for the following:

Active members	\$ 46,833,000
Inactive members	-
Deferred vested members	26,092,000
Regular pensioners	73,723,000
Disabled pensioners	3,957,000
Beneficiaries	11,794,000
Outstanding transfer deficiencies	<u>802,000</u>
Total actuarial accrued pension benefits liability	<u>\$ 163,201,000</u>

The Plan is registered under the Pension Benefits Standards Act of British Columbia. After conversion to the target benefit plan, the Plan is no longer required to meet solvency funding requirements. Rather, the Plan will be measured using the going concern basis specifically designed for target benefit plans. Based on the actuarial valuation prepared in accordance with the Pension Benefits Standards Regulations, the Plan had a going concern surplus of \$66,465,000 as at June 30, 2016. The next actuarial valuation is expected to be filed for June 30, 2019.

Benefit entitlements are determined as the product of the member's commuted value, the Plan's target benefit funded ratio in accordance with Plan provisions, and the applicable legislation as it applies to target benefit plans. As such, the solvency liabilities are equal to the liabilities determined on a going-concern basis.

Carpentry Workers' Pension Plan of B.C. Notes to Financial Statements

June 30, 2017

7. Financial Instrument Risks

The Plan may be exposed to a variety of financial risks including credit risk, liquidity risk and market risk (including interest rate risk, currency risk, and other price risk). There have been no changes to these risks from the prior year.

(a) 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 Plan, including the inability or unwillingness to pay borrowed principal and interest when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations.

The Trustees have put in place investment policies and procedures that have established investment criteria designed to manage credit risk by setting limits to credit exposure from individual entities and by requiring interest bearing investments to meet a minimum credit rating.

The Plan's most significant credit risk exposure arises from its investments in interest bearing investments. While the Plan may have credit risk exposure to bonds, fixed income and infrastructure instruments, it manages this risk by investing in pooled bond and infrastructure funds which hold a diversified portfolio of bonds and projects.

As at June 30, 2017, the fixed income portfolio, which represented 51.47% of the Plan, was invested as follows:

Credit Rating	<u>2017</u>	
	Value	Allocation
AAA	\$ 10,741,777	8.63 %
AA	40,402,614	32.45 %
A	53,754,997	43.17 %
BBB	2,785,109	2.24 %
BB	2,746,019	2.21 %
B	324,140	0.26 %
CCC	55,043	0.04 %
Unrated	13,699,499	11.00 %
	<u>\$124,509,198</u>	<u>100.00%</u>

(b) Liquidity Risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely and cost effective manner. The Plan's assets include significant investments in securities that are traded in an active market and can be readily disposed of as liquidity needs arise. Liquidity requirements are managed through income generated from the investments and monthly contributions. These sources of funds are used to pay pension benefits, operating expenses and make additional investments as excess funds become available. All liabilities are accrued and expected to be paid within twelve months.

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

7. Financial Instrument Risks - Continued

(c) Market Risk

Interest Rate 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 Plan invests in interest-sensitive investments such as bonds and other fixed income investments.

As at June 30, 2017, had prevailing interest rates increased or decreased by 1% with all other variables held constant, net assets available for benefits would have decreased or increased, respectively by approximately \$15,554,000. In practice, actual results may differ from this sensitivity analysis and the differences could be material.

Currency Risk

Investments denominated in currencies other than the Canadian dollar expose the Fund to fluctuations in foreign exchange rates. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments.

At June 30, 2017 the Plan had \$57,486,422 of investments exposed to currency risk. If the Canadian dollar had appreciated or depreciated by 10% against the underlying foreign currencies of the foreign investments at that date, with all other variables held constant, unrealized losses would be approximately \$5,749,000 lower or higher respectively.

The components of investments denominated in foreign currencies as at June 30, 2017 are as follows:

	<u>2017</u>
US Dollar	\$ 16,910,835
Euro	14,640,187
British Pound	7,881,905
Japanese Yen	8,605,080
Hong Kong Dollar	3,433,759
Swiss Franc	2,331,255
Czech Republic	341,857
Swedish Krona	227,905
Other	3,113,639
	<u>\$ 57,486,422</u>

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

7. Financial Instrument Risks - Continued

Other Price Risk

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 Plan manages other price risk by diversifying investments in accordance with the Plan's Statement of Investment Policy Objectives and Procedures approved by the Trustees.

As at June 30, 2017, had market prices increased or decreased by 10%, with all other variables held constant, net assets available for benefits would have increased or decreased by approximately \$18,520,000. In practice, actual results may differ from this sensitivity analysis and the difference could be material.

Sensitivity Analysis

The sensitivity analysis included in this note should be used with caution as the changes are hypothetical and are not predictive of future performance. The above sensitivities are calculated with reference to year-end balances and will change due to fluctuations in the balances in the future. In addition, for the purpose of the sensitivity analysis, the effect of a variation in a particular assumption on the fair value of the financial instruments was calculated independently of any change in another assumption. Actual changes in one factor may contribute to changes in another factor, which may magnify or counteract the effect on the fair value of the financial instrument.

Carpentry Workers' Pension Plan of B.C.
Notes to Financial Statements

June 30, 2017

7. Financial Instrument Risks - Continued

Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements is based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. 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 included in Level 1, that are observable for the asset, either directly or indirectly.

Level 3:

For securities valued based on inputs that are based on unobservable market data. As at June 30, 2017 and 2016 the following table represents a summary of investments held by level:

	2017	2016
Level 1 - Cash and equities	\$ 68,108,871	\$ 57,654,237
Level 2 - Bonds and fixed income	108,369,988	110,078,415
Level 3 - Real estate, infrastructure, mortgages	65,401,929	60,908,716
	\$ 241,880,788	\$ 228,641,368

Fair value measurements using level 3 inputs

	Mortgages	Infrastructure	Real Estate
Balance at July 1, 2016	\$ 12,978,584	\$ 22,762,124	\$ 25,168,008
Net purchases and sales	220,463	(1,805,205)	-
Gains (Losses)	(393,074)	1,200,146	5,270,883
Balance at June 30, 2017	\$ 12,805,973	\$ 22,157,065	\$ 30,438,891

Carpentry Workers' Pension Plan of B.C. Notes to Financial Statements

June 30, 2017

8. Description of the Plan

The following description of the Plan is a summary only. For more complete information, reference should be made to the Trust Agreement and Plan Document.

(a) Funding Policy

Benefits are funded by contributions made by the participating employers under the terms of the Collective Agreements. The rate of contribution from the participating employers is \$2.12 to \$4.09 per hour.

(b) Hours of Covered Employment

The most common way a member accrues pensionable service credits is through Hours of Covered Employment. Hours are accrued when a person was a member of the Union and was employed by a participating employer and are pro-rated to the standard rate of contribution per hour.

(c) Benefits

The Plan is designed to provide a monthly life income for members and spouses who retire under the plan after completing certain age and service requirements.

9. Capital Management

The Trustees define the Fund's capital as the funded status (surplus/(deficit)) of the Plan, as determined annually based on the fair value of the net assets of the Plan and an actuarial valuation prepared by the Plan's independent actuary (Note 6). The Trustees' objective is to ensure that the Plan is fully funded over the long-term through the management of investments, contribution rates and benefits. Investments (Note 3) are based on an asset mix that is projected to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's Statement of Investment Policy Objectives and Procedures approved by the Trustees.

The funded status of the Plan and the related cash flows are also impacted by the level of contributions and benefits. The Trustees are responsible for determining benefits for the Plan based on negotiated contribution rates.

The Plan is subject to the regulations of the Financial Institutions Commission of British Columbia ("FICOM") which require a pension plan to file an actuarial valuation report for a funding valuation at least once every three years. The Trustees are responsible for determining when an actuarial valuation of the Plan should be filed, subject to the requirements under the regulations.