2017 ANNUAL REPORT

SFPP

SFPP

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Questions, concerns or feedback may be emailed to **board@sfpp.ca**

2017 HIGHLIGHTS

NET ASSETS

$3.0 BILLION

(after expenses)

PENSION OBLIGATION

$2.9 BILLION

(liability)

SURPLUS

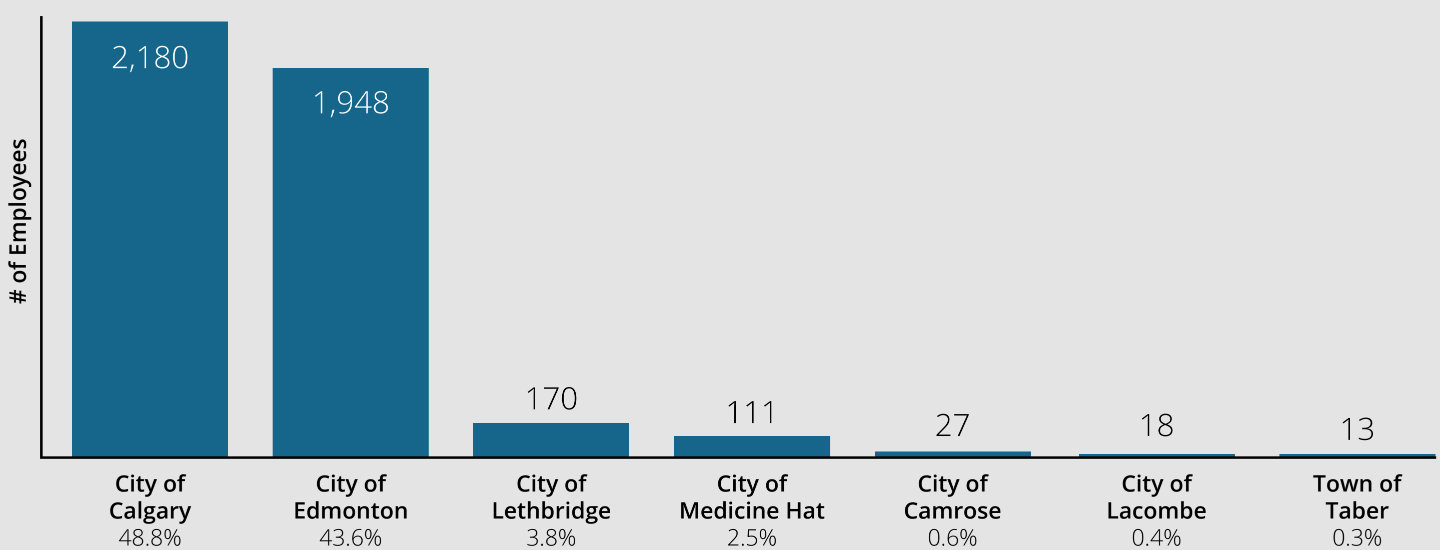
$71.1 MILLION

TOTAL MEMBERSHIP

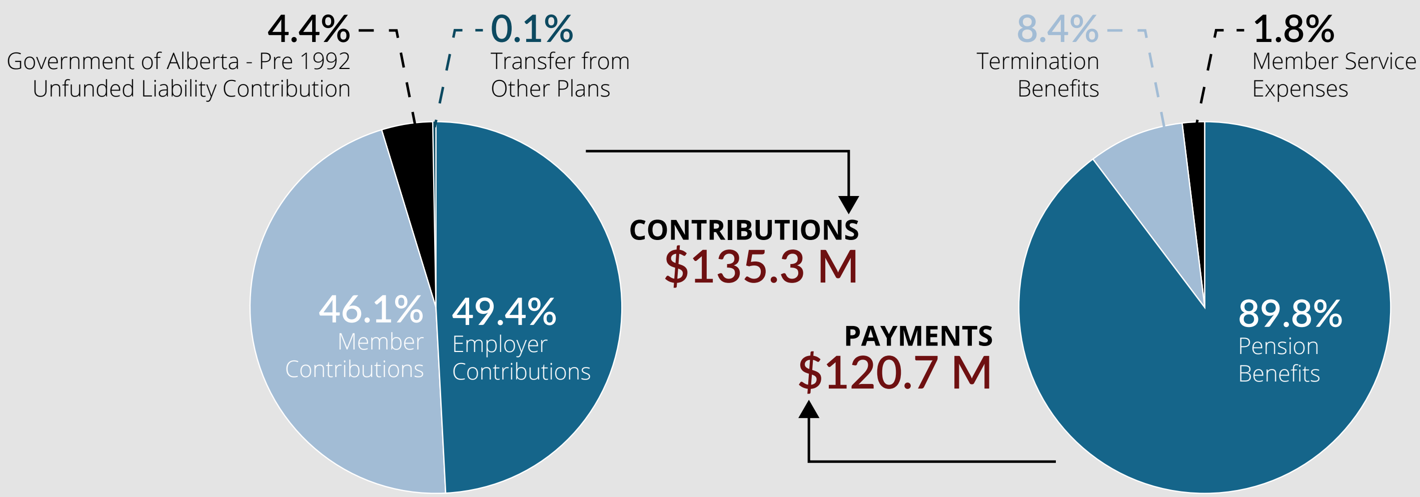
7,285

Active	4,467
Pensioners	2,607
Deferred	211

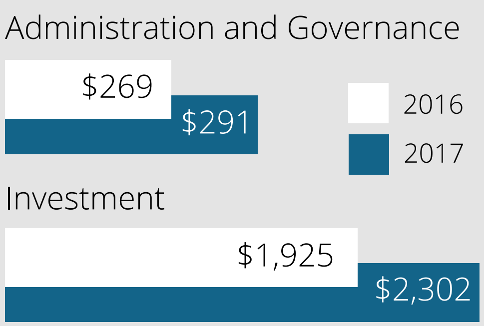
ACTIVE MEMBERSHIP BY EMPLOYER



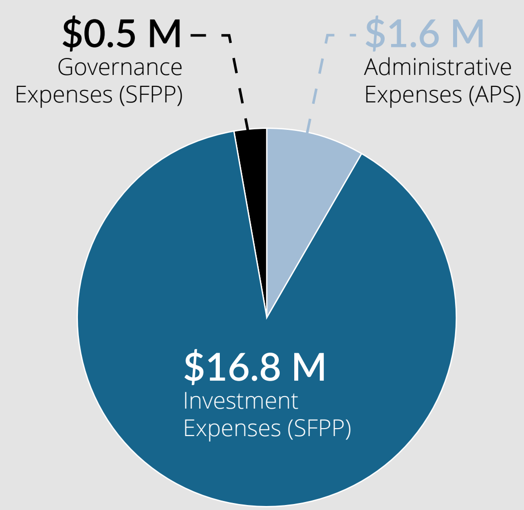
CONTRIBUTIONS AND PAYMENTS



PLAN COSTS PER MEMBER

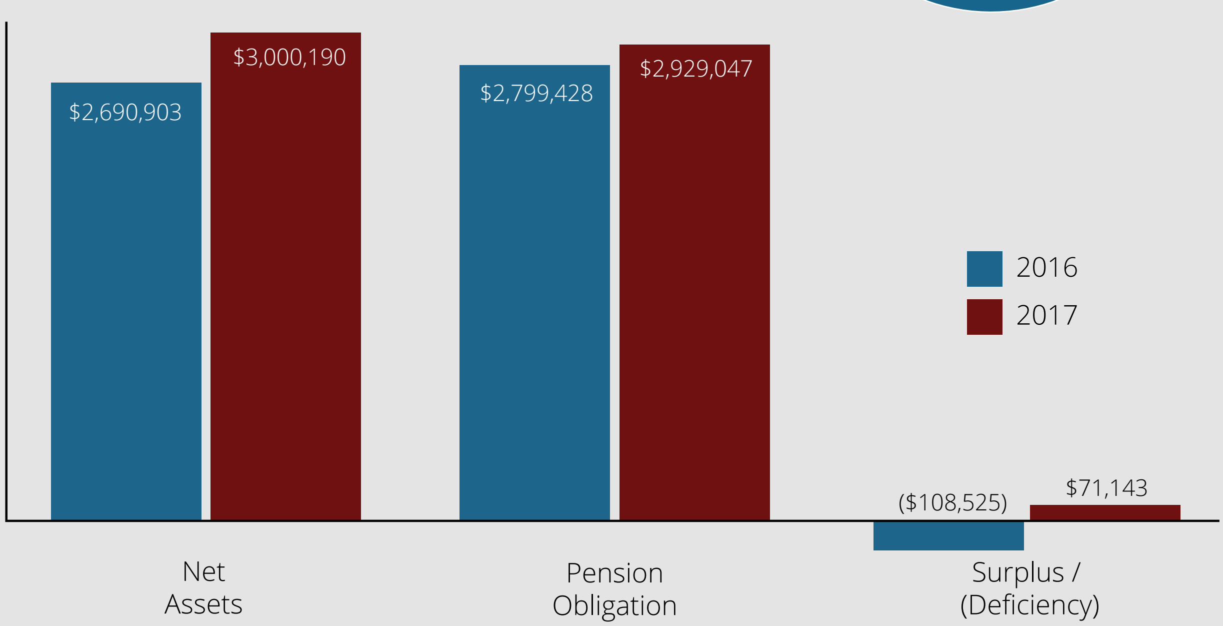


PLAN EXPENSES: $18.9M



SUMMARY OF FINANCIAL POSITION

As at Dec 31, 2017
(in thousands of dollars)



ABOUT **SFPP**

The Special Forces Pension Plan (**SFPP** or the **Plan**) is a defined benefit pension plan established in 1979 for Alberta municipal police officers.

SFPP is governed in accordance with the *Public Sector Pension Plans Act (PSPPA)* and associated regulations. The President of Treasury Board and Minister of Finance (the **Minister**) is the administrator and trustee of SFPP. However, the Minister does not perform the daily tasks to operate the Plan. The following organizations are involved in the operation and governance of the Plan:

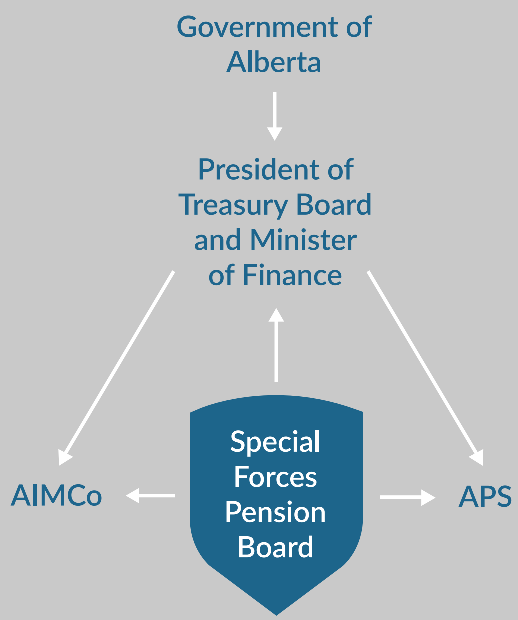
Plan Administrator: Alberta Pensions Services Corporation (**APS**)

Plan Investor: Alberta Investment Management Corporation (**AIMCo**)

Special Forces Pension Board (the **Board**)

> The Board is delegated certain functions by the Minister and acts in a fiduciary capacity on matters relating to the Plan. It provides risk oversight and sets contribution rates pursuant to actuarial valuations. Each year, the Board decides whether funding levels allow ad hoc COLA (for post-2000 service) to be granted to pensions in pay. The Board also sets general policy guidelines on the investment management of the Plan's assets and its administration, reviewing the actions of APS and AIMCo as delegated. It can make recommendations on changes to benefits, or other Plan matters, in addition to consulting and communicating with Plan members and stakeholders. Provincial and federal legislation provide the Board's authority and the rules under which the Plan is governed.
>
> The Board has seven members: three employer nominees, three employee nominees and one Government nominee.

Alberta Treasury Board and Finance holds ultimate responsibility to monitor its delegations and for the delivery of service each organization provides to SFPP.



MESSAGE FROM **THE BOARD CHAIR**

On behalf of the Board, I am pleased to present SFPP's annual report for the year ended December 31, 2017. This report includes a review of the work of the SFPB during the last fiscal year, along with the Plan's audited financial statements, a summary of the Plan's investments and a section pertaining to the administration of the Plan.

SFPP's funding continued to improve in 2017, from both an accounting basis and an actuarial basis. Financial statements show the Plan moved to a surplus position for the first time since 2006. The market value of the Plan's assets increased $309 million in 2017 to $3 billion, resulting in a $71 million surplus and a funded status of 102% on an accounting basis. Financial statements disclose the financial health of the Plan *now*—they outline a simplistic picture of our current liabilities.

The most recent actuarial valuation, as at December 31, 2016, also shows funding improvement, with a funded status of 89% on a going-concern basis, up from 80% in the 2013 valuation. The actuarial valuation estimates the Plan's financial position for the *future*—it is a calculation that determines if there is enough money to pay benefits based on future scenarios using economic and demographic assumptions, which are set by the Board in consultation with its actuary. Upon the valuation's completion in 2017, the Board reviewed the results together with its funding policy, which outlines a framework for decision-making based on funding levels identified in the valuation. As a result, the Board has decided to maintain current contribution rates through 2018 and 2019.

The improved funded position is thanks to strong performance of the SFPP fund, which returned 10.9%, outperforming the benchmark set by the Board by 1.3%. Our relationship with our investment manager is vital to the successful execution of the Board's investment policies. In this regard, we thank the staff at Alberta Investment Management Corporation (AIMCo) for their work during the year.

We would also like to thank the staff at our administrator, Alberta Pensions Services Corporation (APS), for their work with members and employers over the past year.

The SFPB management team is collaborating with APS staff to redevelop the SFPP website, sfpp.ca, to better serve SFPP members. Work began in early 2017 with the new site anticipated to launch in early 2018, concurrent with the Plan using a new logo which was designed in 2017.

In addition to its ongoing communication with members, the Board broadened its communication with Plan sponsors in 2017.
In particular, the Board renewed its focus on consultation and dialogue surrounding Plan governance that stalled two years ago amidst a change in Alberta's political environment.

Oversight of risks to the SFPP remained front and centre over the past year. The Board adopted a 2017-2019 Strategic Plan, which integrates risk management with funding impacts. Any risk that might impact delivery of a secure pension is ranked on an enhanced heat map and the Board ensures that appropriate mitigating strategies are in place. Regular oversight of risk management is a useful reminder to both newer and seasoned Board members.

SFPB's composition changed in the last fiscal year. In 2017, we said goodbye to Denis Jubinville and Sue Bohaichuk, and we welcomed Doris Wilson, a nominee of the City of Calgary, and Jodie Graham, a nominee of the City of Edmonton, to fill two vacancies as a result of previous members' terms expiring. Three other Board positions also sat vacant for several months in 2017 while awaiting approval of nominations. We anticipate those vacancies to be filled in 2018.

It has been a productive year, and we are optimistic about making further strides in 2018. There is much work ahead, but together with SFPB's management team, we will continue to provide thorough oversight and develop effective investment strategies in order to continue to improve the Plan's financial position and protect the security of pension benefits.

[Original signed]

Dwayne Smith
Board Chair

BOARD MEMBER ATTENDANCE

Based on 7 meetings

82%
Mike Baker

27%
Sue Bohaichuk

91%
Jodie Graham

100%
Denis Jubinville
* term expired May 31, 2017

82%
Dwayne Smith

100%
Doris Wilson

INVESTMENT SUMMARY

INVESTMENT MANAGEMENT SERVICES

Alberta Investment Management Corporation (AIMCo) is a provincial corporation of Alberta Treasury Board and Finance. It manages and invests the assets of the Plan on behalf of the Minister and the Board. AIMCo invests SFPP's assets for the benefit of its members, subject to legislation and the investment policies approved by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, in order to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

STATEMENT OF INVESTMENT POLICIES AND GOALS (SIP&G)

Plan assets are invested for the benefit of the Plan's beneficiaries in accordance with the Board's SIP&G. The SIP&G is reviewed and updated annually by the Board. It sets out the governing investment principles and guidelines, giving particular consideration to the Plan's provisions, characteristics and financial obligations and the Board's capital market expectations. It also defines the management structure and monitoring procedures.

HIGHLIGHTS

FAIR VALUE OF NET ASSETS
$3.0 BILLION

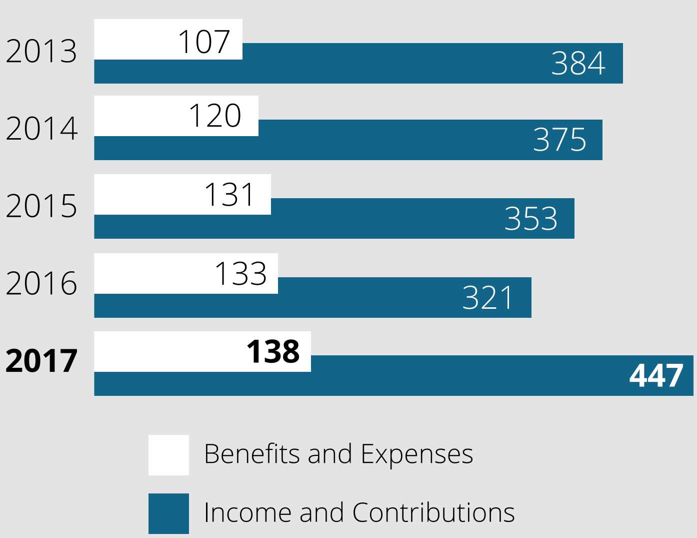
SURPLUS
$71.1 MILLION

PENSION OBLIGATION
$2.9 BILLION

In 2017, the financial position of SFPP reached a surplus position for the first time since 2006. At December 31, 2017, the fair value of the Plan's net assets increased by 11.5% (or $309 million) to $3.0 billion. The pension obligation increased 4.6% (or $130 million) to $2.9 billion. The Plan's funded position increased by $180 million to leave a surplus of $71 million, according to the 2017 audited financial statements.

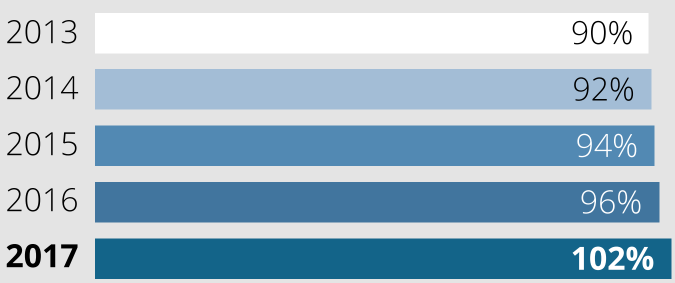
In 2017, inflows from investment income and contributions of $447 million were more than three times the outflows from benefit payments and expenses of $138 million.

SFPP INFLOWS AND OUTFLOWS
(in millions of dollars)
(per audited financial statements)



The Plan closed out 2017 with 102% of the total pension obligation supported by net assets.

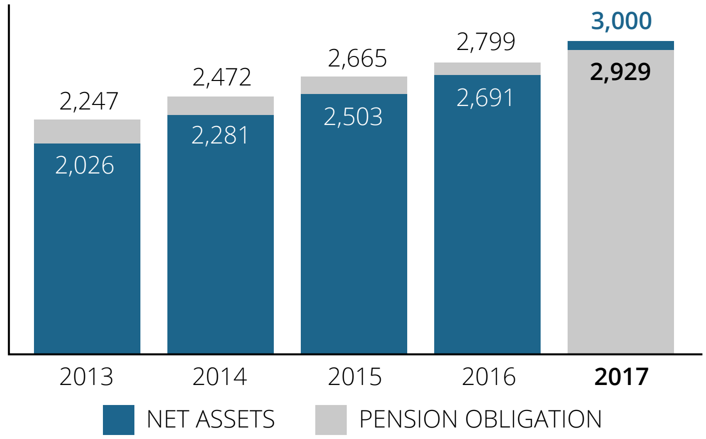
PERCENT OF PENSION OBLIGATION SUPPORTED BY NET ASSETS
(per audited financial statements)



The chart to the right shows the gap between total pension obligation and the net assets. By the end of 2017, the gap continued to narrow as the growth in net assets exceeded the growth in the pension obligation. The total pension obligation is based on the estimated net present value of future pension benefits paid to employees when they retire. Retirement benefits earned by employees provide a lifetime pension for each year of pensionable service based on a specified percentage applied to the average salary for the five highest consecutive years, subject to the maximum benefit limit allowed under the *Canadian Income Tax Act*. The estimated pension obligation increases annually for each additional year of pensionable service earned by employees. The pension obligation is an estimate because it is based on various assumptions used by the Plan's actuary. For example, an estimated discount rate is used to determine the present value of future retirement payments. A higher estimated discount rate will decrease the total pension obligation. A higher estimated life expectancy will increase the pension obligation. Net assets increase when there are positive overall investment returns and when employee and employer contributions exceed pension benefits paid. Net assets decrease when there are investment losses.

NET ASSETS COMPARED TO TOTAL PENSION OBLIGATION

(in millions of dollars)
(per audited financial statements)

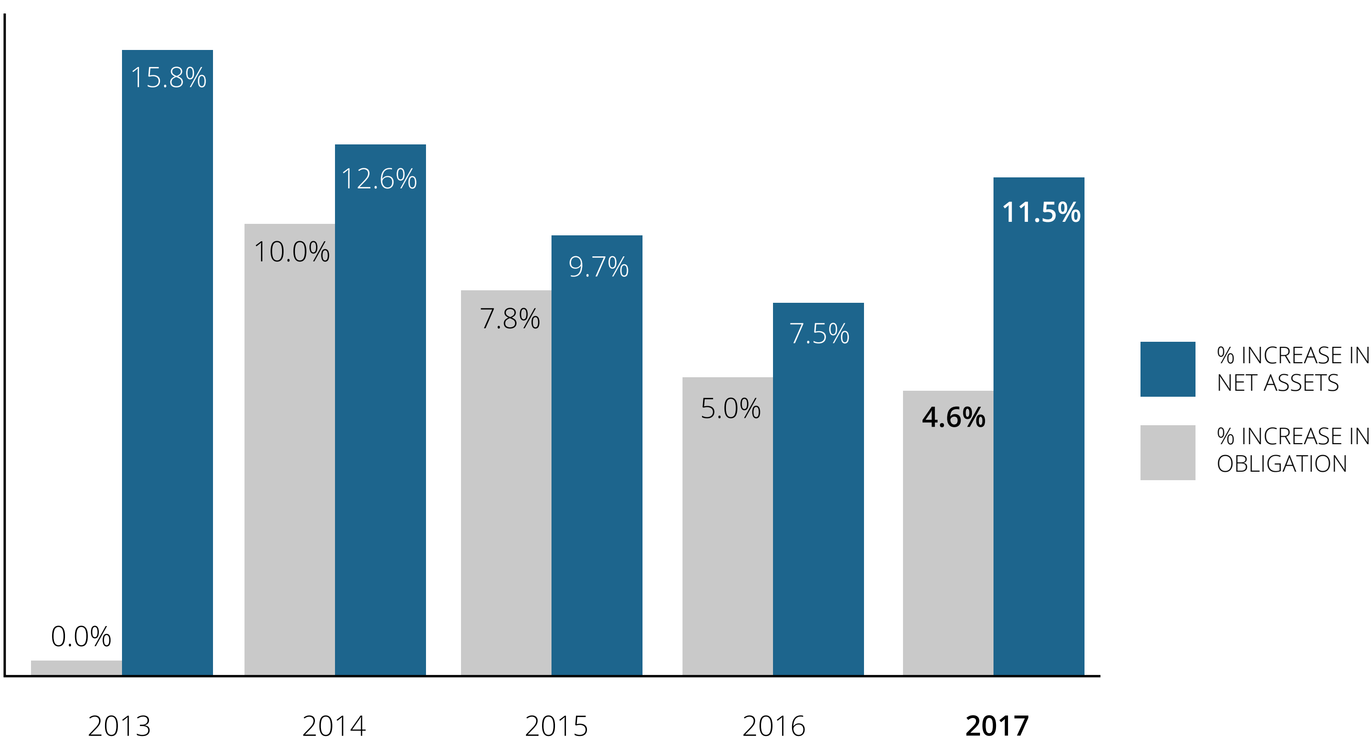


At December 31, 2017, the fair value of the Plan's net assets totaling $3.000 billion was higher than the estimated pension obligation of $2.929 billion resulting in a surplus of $71 million. There were no changes to the major assumptions from 2016. The discount rate used for accounting purposes remained at 5.9%, and the inflation rate and salary escalation rate remained at 2.0% and 3.0% respectively.

In 2017, the Plan's net assets grew by 11.5% while the total pension obligation grew by 4.6%.

SFPP CHANGE IN NET ASSETS AND PENSION OBLIGATION

(per audited financial statements)



BOARD ACTIVITIES

The Board has put in place a number of measures to ensure proper governance of the Plan's investments. Along with reviewing the SIP&G annually, the Board evaluates the investment management structure periodically and monitors the performance of the investment portfolio and compliance with policies quarterly. Board members seek to expand their knowledge of investment issues and trends through attendance at seminars, presentations from advisors and reviewing published industry research.

The Board monitors the services provided to the Plan by AIMCo. Services provided and charges for those services including performance standards are set out in the operating protocols and SIP&G between AIMCo and the Board.

The Board conducts detailed asset-liability modeling studies to identify the best asset mix for the Plan taking into account the nature of the Plan's benefit structure, financial assets and the most up-to-date expectations for the financial markets. The Board then reviews the fund objectives, taking into consideration the studies' recommendations, and will make any appropriate changes to the SIP&G.

LONG-TERM INVESTMENT OBJECTIVE (FUNDING)

An important goal of the board is to ensure the Plan is sustainable over the long-term so that the total pension obligation to members is fully supported by net assets in the Plan. In order to achieve this, in the most recent valuation report, the actuary used a discount rate of 5.3%, assuming an inflation rate of 2.0%.

PROXY VOTING

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long term value of investments. The Plan entrusts the proxy voting function to AIMCo, its primary service provider. Research and proxy voting have been outsourced by AIMCo to an independent adviser that specializes in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendation.

RISK MANAGEMENT SYSTEM

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

Investment risk management is a central thesis for the Plan's investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk, and concentration risk. As the ultimate risk to a pension plan is not being able to meet pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities and report to the Board on a quarterly basis.

INVESTMENT PERFORMANCE YEAR-IN-REVIEW

The growth in net assets of 11.5% or $309 million was comprised of a return on investments, net of expenses, of 10.9%, or $295 million and 0.6% or $14 million from contributions in excess of pension benefits.

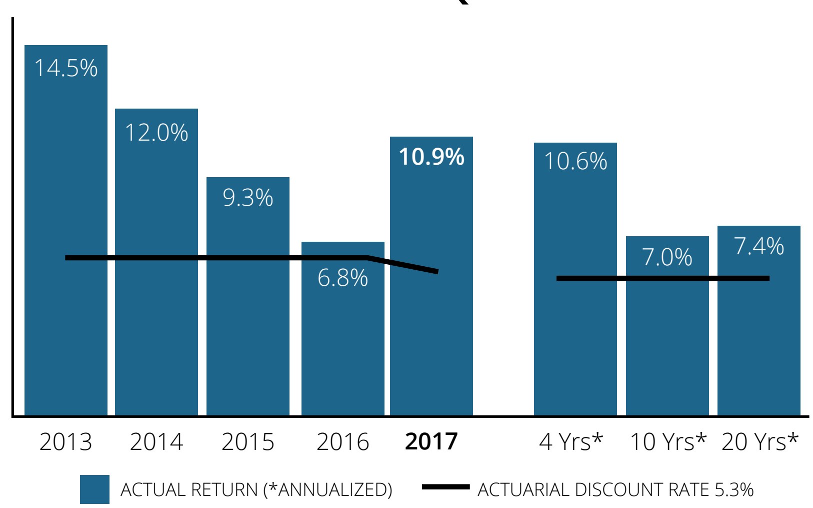
SFPP INVESTMENT RETURNS	
1st Quarter	3.3%
2nd Quarter	1.5%
3rd Quarter	0.8%
4th Quarter	5.0%
Annual 2017	**10.9%**

The year started out with SFPP earning 3.3% on its investments in the first quarter. The markets were strong following the surprise results from the U.S. election in 2016, and the inauguration of the new President. As the Bank of Canada and the U.S. Federal Reserve increased interest rates, bond yields widened, lowering the fixed income gains. In the second and third quarters, investment markets slowed with SFPP gaining 1.5% and 0.8% respectively.

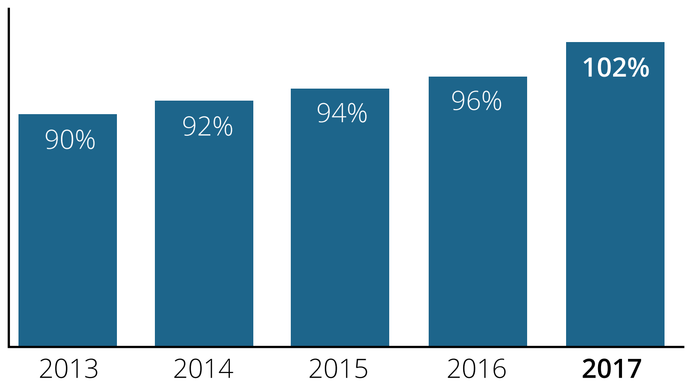
ANNUAL RETURNS BY YEAR AND % OF PENSION OBLIGATION SUPPORTED BY NET ASSETS

According to the audited financial statements, the Plan's investments generated a return of 10.9% in 2017 and 7.4% per annum over the past twenty years. At December 31, 2017, 102% of the total pension obligation was supported by nets assets, up from 96% at the end of 2016.

ACTUAL RETURN VERSUS REQUIRED RETURN



PERCENT OF PENSION OBLIGATION SUPPORTED BY NET ASSETS



At December 31, 2017, equities comprised 53.6% of the Plan's total assets (2016: 54.3%), followed by interest bearing securities at 25.4% (2016: 24.7%), and inflation sensitive and alternative investments at 19.9% (2016: 19.7%). Inflation sensitive and alternative investments include real estate, infrastructure, real return bonds and timberland. Strategic opportunities, tactical allocations and currency overlays made up 1.1% (2016: 1.3%).

The following chart summarizes the market returns in 2017 from various indexes around the world and the return of SFPP.

RETURNS FOR MAJOR MARKETS AND SFPP (IN CANADIAN DOLLARS)

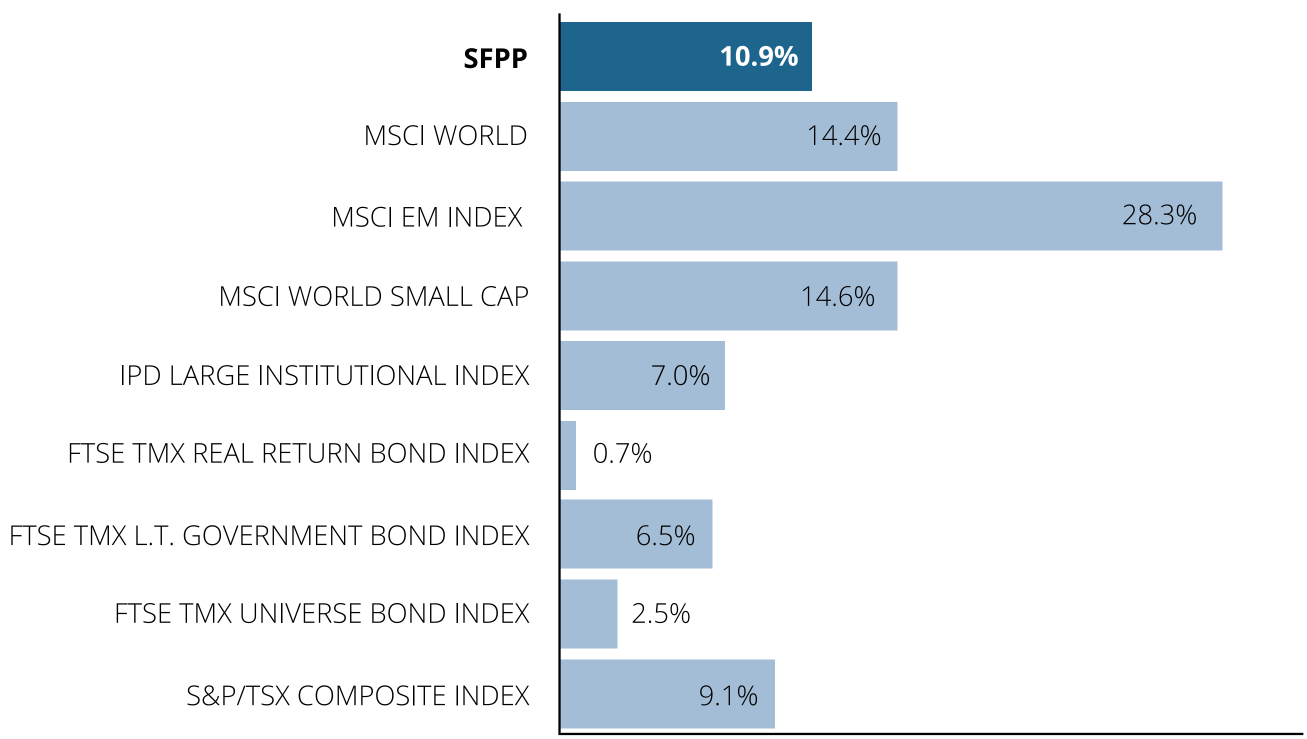
The Morgan Stanley Capital International (MSCI) World Index is a broad global equity benchmark that represents large and mid-cap equity performance across twenty-three developed countries. This index is used to benchmark the performance of the Plan's global developed equities. In 2017, the MSCI World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

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

The Canadian real estate market, represented by the IPD Large Institutional Index, gained 7.0% in 2017 compared to 5.8% in 2016.

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

Long-term bond indices improved over last year, with the FTSE TMX Long-term Government Bond Index recording a gain of 6.5% in 2017, compared to a gain of 1.3% in 2016. The FTSE TMX Universe Bond Index posted a gain of 2.5% in 2017 compared to a gain of 1.7% in 2016. The return on the FTSE TMX Real Return Bond Index declined from last year, posting a gain of 0.7% in 2017 as compared to a gain of 2.9% in 2016.



ASSET MIX

The table below shows the long-term policy asset weight for each class of investments held in the Plan compared to the actual asset mix for 2017 and the previous year.

		Policy Range		Actual	
Asset Class	**LT Policy**	**Minimum**	**Maximum**	**2017**	**2016**
Money Market	**1%**	**0%**	**10%**	**1.0%**	**1.3%**
Fixed Income	**24%**			**24.4%**	**23.4%**
Universal Bonds				5.9%	5.4%
Private Debt				1.1%	1.2%
Private Mortgages				1.9%	2.0%
Universe Bonds, Mortgages, Private Debt (1)	8%	4%	18%	8.9%	8.6%
Long Government Bonds	16%	12%	22%	15.5%	14.8%
Equities (2)	**50%**			**53.6%**	**54.3%**
Canadian	14%	8%	20%	15.7%	16.7%
Global Developed	24%	14%	34%	28.2%	27.9%
Emerging Markets	4%	0%	8%	4.3%	3.9%
Global Small Cap	3%	0%	6%	3.1%	3.2%
Private Equity	5%	0%	8%	2.3%	2.6%
Inflation Sensitive	**25%**			**19.9%**	**19.7%**
Real Return Bonds	5%	2%	10%	4.5%	4.7%
Real Estate	10%	7%	13%	9.1%	9.6%
Infrastructure				4.6%	3.7%
Timberland				1.7%	1.7%
Infrastructure and Timberland	10%	7%	13%	6.3%	5.4%
Strategic, Tactical and Currency Investments				**1.1%**	**1.3%**
Grand Total	**100%**			**100.0%**	**100.0%**

(1) The combined allocation to private mortgages and private debt is restricted to a range of 0% to 6%.

(2) The combined allocation to public and private equities is restricted to a maximum limit of 65%.

Money market includes investments that have a low absolute volatility with cash benchmarks. Fixed income includes universe bonds, long bonds, mortgages and private debt which have a high correlation to the interest rate risk associated with the Plan's pension obligation. Equities include ownership in both publicly traded and private enterprises, in Canada and outside Canada, that provide long-term growth to meet the funding requirements of the Plan's pension obligation. Inflation sensitive investments include any publicly traded or privately held investment that provides inflation based returns that are positively correlated with the inflation risk of the Plan's liability including, but not exclusive to, investments in real estate, infrastructure, real return bonds and timberland. The Board provides AIMCo with the autonomy to invest up to 5% of total assets in certain strategic opportunities that are outside the asset classes listed above.

INVESTMENT RESULTS IN RELATION TO THE BENCHMARKS

To evaluate performance and measure the value added by the investment managers from their active investment decisions, such as security selection, the actual investment results are compared to the investment policy benchmark. The benchmark return represents what could reasonably be earned without active management if invested in the market indices in proportion to the policy asset mix approved by the Board. Investment managers strive to earn more than market returns by over or underweighting specific investments in relation to the indices. The Plan's investment policy benchmark is based on the long-term asset mix weightings of the portfolio invested in the following indices: *FTSE TMX 91-Day T-Bill Index, FTSE TMX Universe Bond Index, FTSE TMX Long Term All Government Bond Index, FTSE TMX Real Return Bond Index*, S&P/TSX *Composite Index, MSCI World, EM net and World Small Cap Indexes, IPD Large Institutional All Property Index* and the blended Private Income Index to measure Infrastructure and Timberland.

The performance of AIMCo is reviewed against the policy benchmark to measure the effectiveness of its decisions. Performance is reviewed quarterly, with an emphasis on four-year returns. According to the Plan's SIP&G, the Board expects that the investments held by the Plan will return approximately 100 basis points, or 1.0% per annum, above the policy benchmark return over the long-term.

The table below shows the value added (lost) from the investment manager in each of the past four years along with the annualized returns over four years, ten years and twenty years.

INVESTMENT RETURNS (Ending December 31, 2017)

	Annual Returns				Annualized Returns		
	2017	**2016**	**2015**	**2014**	**4 Years**	**10 Years**	**20 Years**
Actual Return	10.9%	6.8%	9.3%	12.0%	9.8%	7.0%	7.4%
Policy Benchmark Return	9.6%	6.8%	7.1%	12.2%	8.9%	6.7%	7.0%
Value Added (Lost)	1.3%	0.0%	2.2%	(0.2%)	0.9%	0.3%	0.4%

The table below compares the actual returns from the Plan's investments against the benchmark index returns.

TABLE OF INVESTMENT RETURNS (1) (Ending December 31, 2017)	Investment (in millions)	Asset Mix	Annual Returns 2017	2016	2015	2014	Annualized Returns 4 Years
Overall Actual	**$2,997.6**	**100.0%**	**10.9%**	**6.8%**	**9.3%**	**12.0%**	**9.8%**
Policy Return (2)			9.6%	6.8%	7.1%	12.2%	8.9%
Consumer Price Index (CPI) (3)			2.1%	1.2%	1.4%	2.0%	1.7%
Money Market							
Short-term Fixed Income	**28.6**	**1.0%**	**0.9%**	**0.9%**	**0.9%**	**1.1%**	**0.9%**
FTSE TMX 91-Day T-Bill Index			0.6%	0.5%	0.6%	0.9%	0.7%
Fixed Income							
Universe Bonds	**176.2**	**5.9%**	**3.3%**	**3.3%**	**4.1%**	**9.8%**	**5.1%**
Private Debt (1)	**32.6**	**1.1%**	**2.3%**	**4.4%**	**6.1%**	**7.1%**	**5.0%**
Private Mortgages (1)	**57.4**	**1.9%**	**2.4%**	**1.5%**	**5.3%**	**10.0%**	**4.7%**
Bonds, Private Debt and Mortgages			**3.0%**	**3.0%**	**4.7%**	**9.6%**	**5.1%**
FTSE TMX Universe Bond Index			2.5%	1.7%	3.5%	8.8%	4.1%
Long-term Government Bonds	**464.9**	**15.5%**	**7.6%**	**2.4%**	**4.1%**	**18.8%**	**8.1%**
FTSE TMX Long-term All Government Bond Index			6.5%	1.3%	4.5%	17.9%	7.4%
Equities							
Canadian Equities	**469.7**	**15.7%**	**10.2%**	**20.0%**	**(7.4)**	**12.4**	**8.3**
S&P/TSX Composite Index			9.1%	21.1%	(8.3%)	10.4%	7.6%
Foreign Equities	**974.3**	**32.5**	**18.0%**	**5.0%**	**20.0%**	**13.8%**	**14.2%**
Combined (MSCI World & EM net Indexes)			16.1%	3.8%	16.7%	13.5%	12.5%
Global Small Cap Equities	**92.1**	**3.1**	**14.1%**	**12.1%**	**13.6%**	**8.0%**	**-**
MSCI World Small Cap Index (4)			15.0%	18.5%	7.7%	3.4%	-
Private Equities (1)	**69.9**	**2.3**	**1.0%**	**(3.8%)**	**9.8%**	**12.2%**	**4.2%**
CPI & 650 bps (5-year rolling average) (5)			8.0%	4.1%	17.1%	13.5%	10.6%

TABLE OF INVESTMENT RETURNS (1) **(Ending December 31, 2017)**			**Annual Returns**				**Annualized Returns**
	Investment (in million)	**Asset Mix**	**2017**	**2016**	**2015**	**2014**	**4 Years**
Inflation Sensitive							
Real Estate (1)	**271.5**	**9.1**	**9.0%**	**4.6%**	**9.2%**	**8.3%**	**7.3%**
IPD Large Institutional All Property Index			7.0%	5.8%	8.0%	7.1%	7.0%
Real Return Bonds	**137.4**	**4.5**	**1.3%**	**3.4%**	**3.0%**	**13.5%**	**5.2%**
FTSE TMX Real Return Bond Index			0.7%	2.9%	2.8%	13.2%	4.8%
Infrastructure (1)	**138.4**	**4.6**	**10.5%**	**8.1%**	**26.7%**	**8.1%**	**11.0%**
CPI & 450 bps (5-year rolling average) (6)			6.0%	5.7%	(0.8%)	11.3%	5.5%
Timberland (1)	**50.3**	**1.7**	**16.8%**	**10.0%**	**7.6%**	**(2.9%)**	**7.4%**
CPI & 450 bps (5-year Rolling Average (6)			6.0%	5.7%	(0.8%)	11.3%	5.5
Strategic, Tactical and Currency Investments							
Strategic Opportunities	31.3	1.0	5.0%	(3.2%)	42.9%	16.0%	15.5%
Tactical Asset Allocation	2.9	0.1	38.7%	13.1%	49.8%	(46.7%)	5.8%
Currency Hedges	0.1	0.0	N/A	N/A	N/A	N/A	N/A

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

(2) The policy benchmark is a product of the weighted average policy sector weights and sector returns.

(3) The Consumer Price Index (CPI) on a one month time lag.

(4) Prior to January 1, 2017, 1/3 S&P/TSX Small Cap Index + 2/3 MSCI Small Cap Index. Four year annualized return is combined with current benchmark.

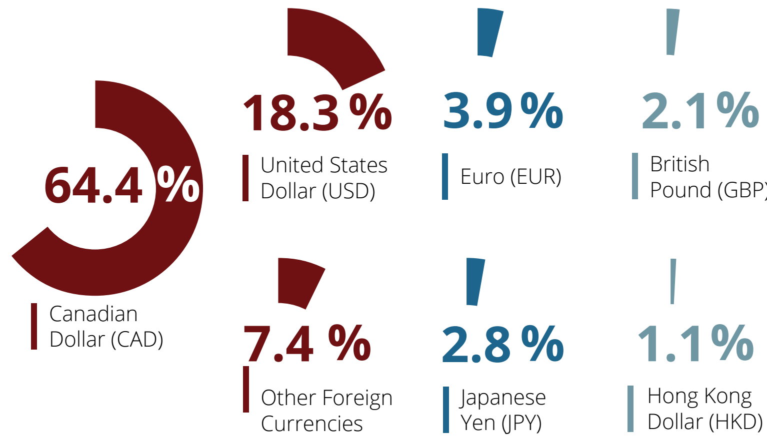
(5) Prior to January 1, 2017, MSCI All Country World Index (ACWI). Four year annualized return is combined with current benchmark.

(6) Prior to October 1, 2015, combination of FTSE TMX Universe Bond, L.T. Government Bond, and Real Return Bond indices, and S&P TSX Composite and MSCI ACWI indices. Four year annualized return is combined with current benchmark.

INVESTMENTS BY CURRENCY

At December 31, 2017, 64.4% (2016: 66.6%) of the Plan's investments were denominated in Canadian currency, followed by 18.3% (2016: 17.7%) in U.S. currency and 17.3% (2016: 15.7%) in currencies outside North America. The value of the Plan's foreign investment portfolio is exposed to foreign currency risk (i.e. potential loss) when the value of the Canadian dollar strengthens against other currencies. By year-end, the Canadian dollar was stronger against the U.S. dollar, meaning U.S. dollar investments were worth less when translated into Canadian dollars. At December 31, 2017, one U.S. dollar was worth $1.25 Canadian compared to $1.34 Canadian at the beginning of the year.

SFPP INVESTMENTS BY CURRENCY



INVESTMENT EXPENSES

In 2017, investment expense totalled $16.8 million compared to $13.8 million the previous year.

$ millions	2017	2016
Amounts charged by AIMCo for:		
Investment costs (a)	$13.0	$11.7
Performance based fees (a)	3.1	1.6
Investment expense before GST	16.1	13.3
GST (b)	0.7	0.5
Total investment expense including GST	$16.8	$13.8
Percent increase (decrease) in investment expense, before GST	21.1%	(10.1%)
Percent increase in average investments under management	9.7%	8.6%
Increase in value of investments attributed to AIMCo	1.3%	0.0%
Expenses as a percent of each dollar earned	5.4%	7.5%
Expenses as a percent of each dollar invested	0.6%	0.5%

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

(b) Two-thirds of GST paid is expensed in the year and the remaining one-third is recorded as a receivable until recovered from Canada Revenue Agency. In 2017, $0.2 of GST previously recorded as receivable was deemed unrecoverable and expensed in the current year.


SFPP
POLICE
POLICE
POLICE

BENEFIT ADMINISTRATION

Alberta Pensions Services Corporation (APS) guides the pension experience on behalf of Special Forces Pension Plan (SFPP) members, pensioners, municipal employers and Plan governors, as directed under a Pension Services Agreement with the President of the Treasury Board and Minister of Finance. APS also provides pension administration services on behalf of six other pension boards and two supplementary retirement plans.

APS' services for SFPP include:

- Contributions management;
- Member, pensioner, and employer information management;
- Member, pensioner, and employer benefit administration communications;
- Benefit calculations;
- Benefit disbursements;
- Policy development and implementation;
- Communications design and delivery; and
- Compliance, regulatory, and Plan financial reporting.

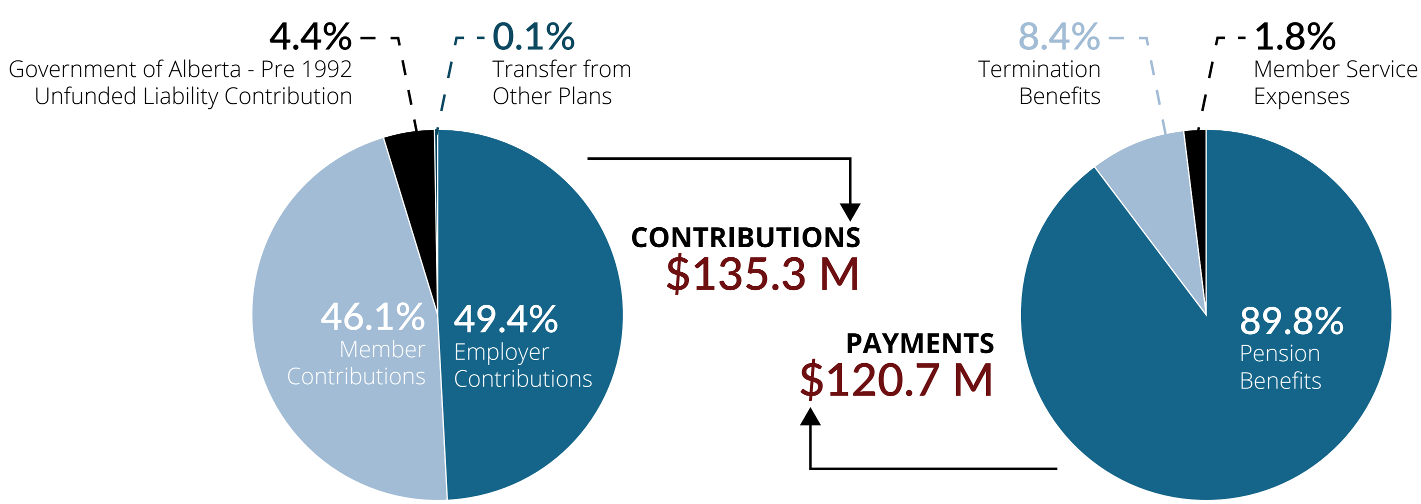
2017 ADMINISTRATION HIGHLIGHTS

APS measures members' experience as it relates to pension benefit administration products and services provided by APS. In 2017, SFPP member satisfaction with APS was 81%, an increase from 78% in 2016.

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

- Darwin Bozek was appointed as APS' new President and Chief Executive Officer in August, bringing a renewed focus on clients—the Plan boards—and their members.
- APS provided the planning, redesign, development and content for the modernization of the Plan's website, sfpp.ca. The site is scheduled to go live in the second quarter of 2018. The current website received 12,831 total visits in 2017.
- Mypensionplan.ca provides members access to resources to help plan their retirement and the ability to update their personal information online. In 2017, SFPP registrations on mypensionplan.ca increased by 95%—from 1,052 enrollments to 2,054. In total, 28% of all current SFPP members were registered for the tool by the end of 2017.
- APS provided 46 member counselling sessions, including 19 in-house, 24 out-of-town and three group information sessions for SFPP members.

CONTRIBUTIONS AND PAYMENTS



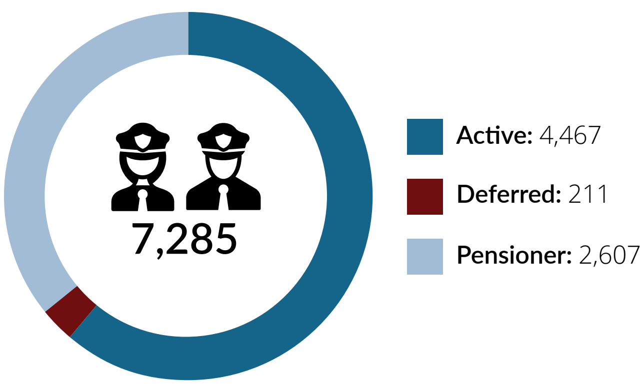
A LOOK AT
SFPP MEMBERSHIP

As part of its benefit administration services, APS collects and tracks statistical and membership trend data about SFPP that might be of interest to members. The following sections provide some of the Plan statistics.

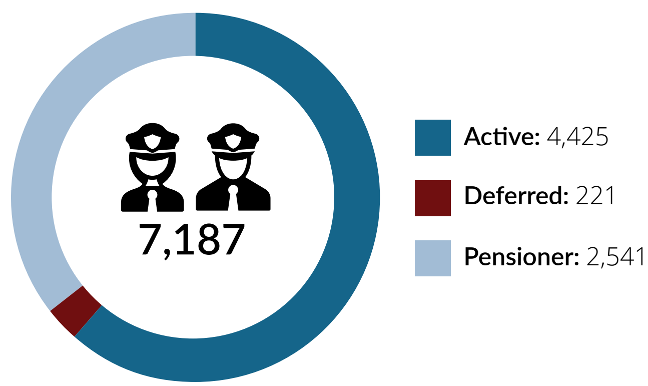
In 2017, 179 new members joined the Plan, 78 members retired, 61 members deferred funds and 58 members terminated and left the Plan.

TOTAL MEMBERSHIP BREAKDOWN

2017



2016



ACTIVE MEMBERS:
Those currently contributing to the Plan.

- Active membership in SFPP increased by 1% in 2017, rising to 4,467 at December 31, 2017, from 4,425 at the end of 2016.

DEFERRED MEMBERS:
Those who terminated their employment, but left contributions in the Plan.

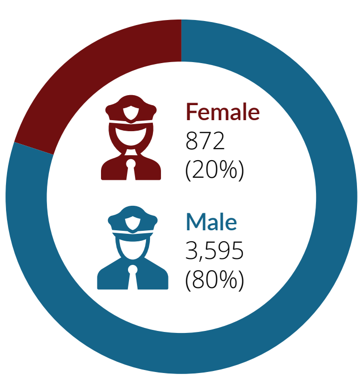
- There are 211 inactive plan members, a 5% decrease from 2016.

RETIRED MEMBERS:
Those receiving a pension, including a spousal pension.

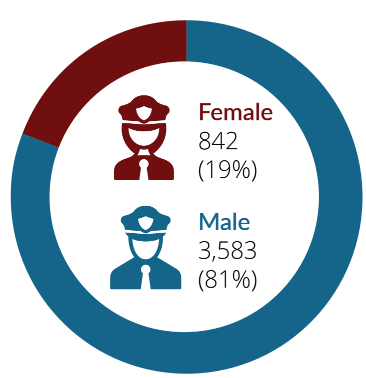
- There are 2,607 retired plan members, a 2.6% increase from 2016.

ACTIVE MEMBERSHIP GENDER DISTRIBUTION

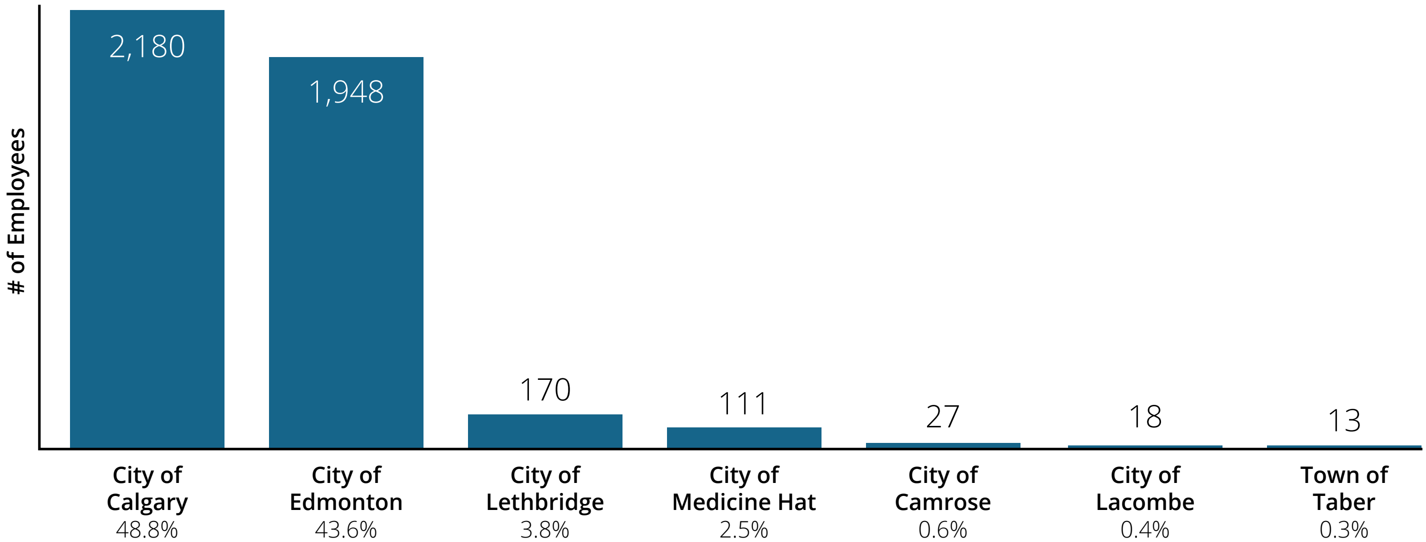
2017



2016

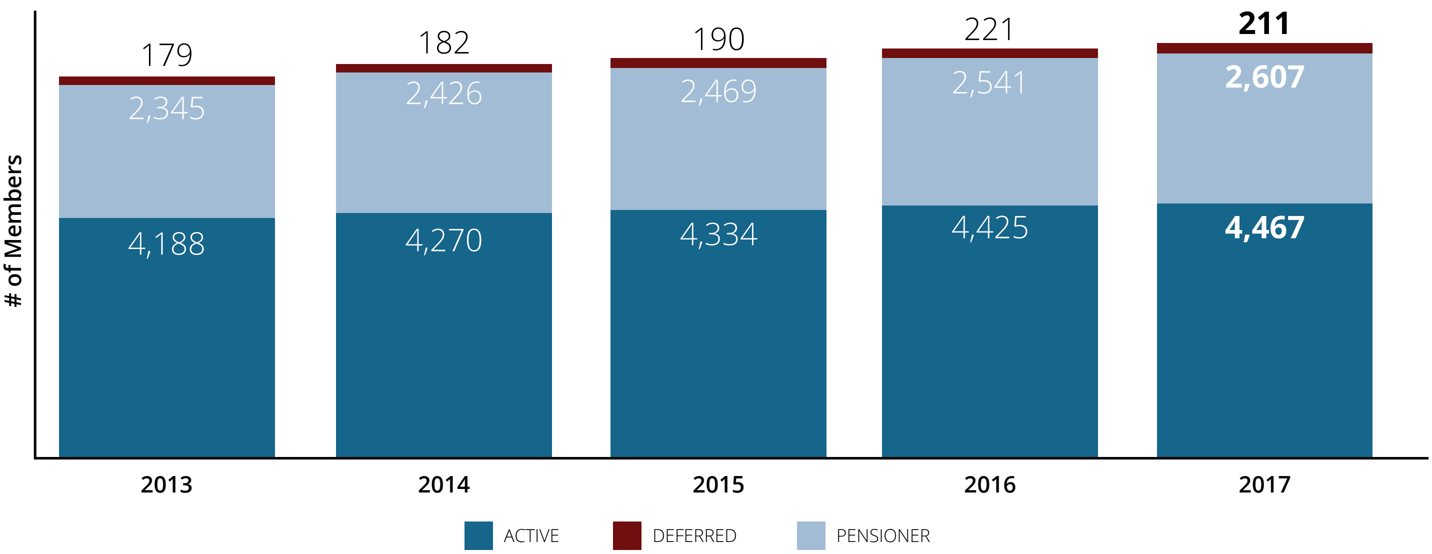


ACTIVE MEMBERSHIP BY EMPLOYER



MEMBERSHIP TRENDS - 5 YEAR COMPARISON

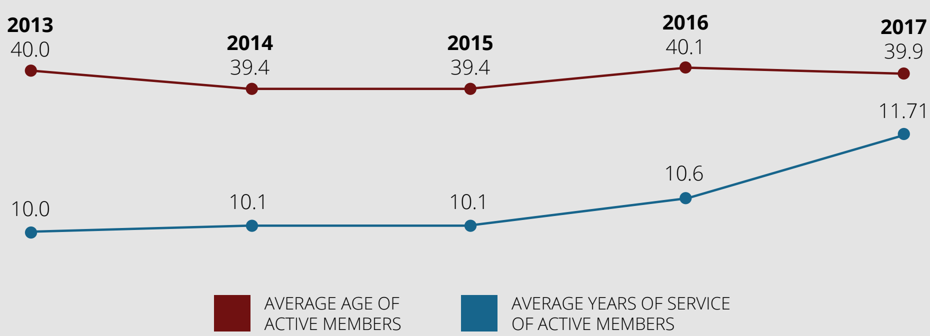
MEMBERSHIP BREAKDOWN



RATIO OF ACTIVE MEMBERS TO PENSIONERS

2013	1.79
2014	1.76
2015	1.76
2016	1.74
2017	**1.71**

AVERAGE YEARS OF SERVICE AND AVERAGE AGE OF ACTIVE MEMBERS



PENSIONER INFORMATION

PENSIONERS AND BENEFIT PAYMENTS

The number of former employees and their spouses receiving a pension from SFPP increased by 2.6%, rising to 2,607 in 2017 from 2,541 in 2016. Spousal pensions account for 12% of all pensions in payment. During the year, the total payments of benefits to pensioners rose by 4.0% to $107.2 million in 2017 from $103.4 million in 2016.

SFPP PENSIONER PROFILE

	2016	2017
Number of New Pensioners	59	**106**
Average Age at Retirement	54.7	**51**
Average Annualized Yearly Pension Paid Out (Gross) *	$ 40,300.56	**$ 41,184.14**

*Only original pensioners are considered in the calculation of average yearly pension amount. Including spouses and beneficiaries, who may be splitting the pension among themselves, deflates the average pension amount.

CURRENT PENSION CHOICES IN PAYMENT

	2017
Joint Life - Reduced	**58.74%**
Joint Life - Not Reduced	**31.79%**
Single Life - Guaranteed Term	**7.40%**
Single Life - No Guaranteed Term	**2.07%**

ADDITIONAL INSIGHTS

SFPP MEMBER SERVICES AND PLAN EXPENSES

SFPP's share of APS' operating and Plan-specific costs is based on cost allocation policies approved by the President of Treasury Board and the Minister of Finance. SFPP's share of APS' costs was almost $2.1 million in 2017. Based on average membership, SFPP's per member service expense is $291 which includes APS' operating costs, Board costs and other professional fees.

SFPP EXPENSES

	2016	2017
APS Corporate Operating Costs	$ 1,657,000	$ 1,649,000
Special Forces Pension Board and Plan-Specific Costs, including Actuarial and Investment Consulting	$ 272,000	$ 472,000
Total Plan Operating Costs	**$ 1,929,000**	**$ 2,121,000**
Expenses Per Member	$ 269	$ 291

A LOOK **AT 2018**

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

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

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

- Enhancing the organization's focus on serving the Plan boards by constantly demonstrating the value of services to better meet client and member needs. This is reflected in the 2018 scorecard by including measurements for evaluating APS' core services.
- Successfully launching the modernized SFPP website in 2018, as well as the websites for two of the other Plans APS administers, to elevate members' understanding of and engagement with their pension plan.
- Achieving an approval rating of at least 67% (based on the industry average) on the new website.
- Increasing mypensionplan.ca registrations, transforming member interactions, and further optimizing service delivery.
- Launching the online retirement tool PensionEase, which will allow members to submit their pension benefit applications online, also further optimizing service delivery.
- Continuing the optimization of Compass, the pension administration system, for the purpose of providing members with more efficient benefit administration.
- Enhancing online security to better protect client and member information by establishing a cyber-security framework and implementing a managed security services model.
- Achieving the goal of paying pensions within 30 days of a member's pension commencement date, once all member information is received, at a rate of 95%. Among other strategies for achieving this goal, APS continues to be proactive in following-up with members on receiving required documents.

SFPP

FINANCIAL STATEMENTS

Year Ended December 31, 2017

Independent Auditor's Report

Auditor General OF ALBERTA

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2017, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

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

Auditor General

April 20, 2018

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at December 31, 2017

	($ thousands)	
	2017	**2016**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,997,558	$ 2,687,940
Contributions receivable		
Employers	1,485	2,658
Employees	1,345	2,829
Province of Alberta	453	661
Accounts receivable	358	1,295
Receivable for investment sales	-	2,500
Total Assets	3,001,199	2,697,883
Liabilities		
Accounts payable	1,009	3,673
Liability for investment purchases	-	3,307
Total Liabilities	1,009	6,980
Net assets available for benefits	$ 3,000,190	$ 2,690,903
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 2,929,047	$ 2,799,428
Surplus (Deficit) (Note 6)	71,143	(108,525)
Pension obligation and surplus or deficit	$ 3,000,190	$ 2,690,903

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended December 31, 2017

($ thousands)

	2017			2016
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Contributions (Note 7)	$ 128,694	$ 6,607	$ 135,301	$ 135,362
Investment income (Note 8)	300,613	10,851	311,464	185,589
COLA transfer increase (decrease) (Note 15)	750	(750)	-	-
	430,057	16,708	446,765	320,951
Decrease in assets				
Benefit payments (Note 10)	118,585	-	118,585	117,511
Investment expenses (Note 11)	16,238	534	16,772	13,831
Administrative expenses (Note 12)	2,121	-	2,121	1,929
	136,944	534	137,478	133,271
Increase in net assets	293,113	16,174	309,287	187,680
Net assets available for benefits at beginning of year	2,600,088	90,815	2,690,903	2,503,223
Net assets available for benefits at end of year	$ 2,893,201	$ 106,989	$ 3,000,190	$ 2,690,903

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN PENSION OBLIGATION
Year ended December 31, 2017

($ thousands)

	2017			2016
	Pre-1992	Post-1991	Total	Total
Increase in pension obligation				
Interest accrued on opening pension obligations	$ 47,804	$ 120,352	$ 168,156	$ 160,015
Benefits earned	-	101,341	101,341	94,545
	47,804	221,693	269,497	254,560
Decrease in pension obligation				
Benefits, transfers and interest	63,586	57,962	121,548	119,997
Net experience gains (Note 5b)	11,102	7,228	18,330	-
	74,688	65,190	139,878	119,997
Net increase in pension obligation	(26,884)	156,503	129,619	134,563
Pension obligation at beginning of year	810,239	1,989,189	2,799,428	2,664,865
Pension obligation at end of year (Note 5)	$ 783,355	$ 2,145,692	$ 2,929,047	$ 2,799,428

The accompanying notes are part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Year ended December 31, 2017

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2016.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2016 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2017 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 10.26% of pensionable salary for employers and 9.16% for employees. Contributions towards the post-1991 actuarial deficiency were 2.79% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2017 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund below) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2017 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the salary above YMPE, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65. The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE.

d) DISABILITY PENSIONS

Pensions may be payable to members who become totally disabled and retire early with at least five years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of pensionable service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability pensions.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of pensionable service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

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

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the *Public Sector Pension Plans Act* Schedule 4).

h) PURCHASED SERVICE AND TRANSFERS

All Purchased Service purchases are to be cost-neutral to the Plan. Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2017, COLA at 30% (January 2016: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

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

b) FUTURE CHANGES IN ACCOUNTING POLICY

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

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools").

The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

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

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

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

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

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

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

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

d) INVESTMENT INCOME

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

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

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

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

e) INVESTMENT EXPENSES

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

f) VALUATION OF PENSION OBLIGATION

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

g) MEASUREMENT UNCERTAINTY

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

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

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

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

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

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

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

NOTE 3 INVESTMENTS

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

($ thousands)

	Fair Value Hierarchy [(a)]			**2017**	**2016**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 28,651	$ -	$ 28,651	$ 35,608
Bonds, mortgages and private debt and loans	-	641,080	89,991	731,071	627,660
	-	669,731	89,991	759,722	663,268
Equities					
Canadian	358,016	26,983	84,701	469,700	448,893
Global developed	594,163	65,809	186,355	846,327	749,083
Private	-	-	69,865	69,865	68,901
Emerging markets	97,489	7,458	23,065	128,012	105,423
Global small cap equity	92,071	-	-	92,071	87,218
	1,141,739	100,250	363,986	1,605,975	1,459,518
Inflation sensitive					
Real estate	-	-	271,468	271,468	257,390
Infrastructure	-	-	138,412	138,412	100,989
Real return bonds	-	137,387	-	137,387	125,795
Timberland	-	-	50,315	50,315	45,143
	-	137,387	460,195	597,582	529,317
Strategic, tactical and currency investments *	-	2,959	31,320	34,279	35,837
Total investments	$1,141,739	$ 910,327	$ 945,492	$2,997,558	$2,687,940

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

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

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,141,739 (2016: $964,111).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $910,327 (2016: $835,824). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $945,492 (2016: $888,005).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2017	2016
Balance, beginning of year	$ 888,005	$ 841,859
Investment income *	76,317	46,816
Purchases of Level 3 pooled fund units	307,108	158,335
Sale of Level 3 pooled fund units	(325,938)	(159,005)
Balance, end of year	$ 945,492	$ 888,005

* Investment income includes unrealized losses of $27,602 (2016: $23,079).

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

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

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries are valued similar to private equities. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

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

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

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

Asset Class	Long-term Policy Weight	Actual Asset Mix 2017 ($ thousands)	2017 %	Actual Asset Mix 2016 ($ thousands)	2016 %
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 28,651	1.0	$ 35,608	1.3
Fixed income (bonds and mortgages)	24%	731,071	24.4	627,660	23.4
Equities	50%	1,605,975	53.6	1,459,518	54.3
Inflation sensitive	25%	597,582	19.9	529,317	19.7
Strategic, tactical and currency	(a)	34,279	1.1	35,837	1.3
		$2,997,558	100.0	$2,687,940	100.0

a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

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

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

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	88.7%	90.3%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	11.1%	9.7%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

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

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

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2017, the Plan's share of securities loaned under this program is $412,596 (2016: $309,651) and collateral held totals $445,069 (2016: $328,499). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 36% (2016: 33%) of the Plan's investments, or $1,065,546 (2016: $898,695), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 18% (2016: 18%) and the Euro, 4% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.6% (2016: 3.3%).

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

	($ thousands)			
	2017		**2016**	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 548,895	$ (54,890)	$ 476,497	$ (47,650)
Euro	116,830	(11,683)	88,558	(8,856)
Japanese yen	85,031	(8,503)	68,488	(6,849)
British pound	63,573	(6,358)	49,946	(4,995)
Hong Kong dollar	33,373	(3,337)	26,177	(2,618)
Other foreign currency	217,844	(21,784)	189,029	(18,903)
Total foreign currency investments	$1,065,546	$ (106,555)	$ 898,695	$ (89,870)

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

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.5% (2016: 3.3%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.2% (2016: 6.4%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

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

f) Use of Derivative Financial Instruments in Pooled Investment Funds

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

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	**2017**	**2016**
Contracts in net favourable position (current credit exposure)	66	$ 40,952	$ 15,156
Contracts in net unfavourable position	10	(19,942)	(4,855)
Net fair value of derivative contracts	76	$ 21,010	$ 10,301

[(i)] Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a net favourable position totaling $40,952 (2016: $15,156) were to default at once.

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

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

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	**2017**	**2016**
Structured equity replication derivatives	$ 6,509	$ 6,717
Foreign currency derivatives	7,479	3,359
Interest rate derivatives	6,156	(653)
Credit risk derivatives	866	878
Net fair value of derivative contracts	$ 21,010	$ 10,301

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

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

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

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

[(v)] Deposits: At December 31, 2017 deposits in futures contracts margin accounts totalled $3,592 (2016: $6,311) and deposits as collateral for derivative contracts totalled $(106) (2016: $737).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2016 by Mercer (Canada) Limited and was then extrapolated to December 31, 2017.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,929,047 (2016: $2,799,428) reflect management’s best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2017	2016
	%	
Discount rate	5.90	5.90
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

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

An actuarial valuation of the Plan as at December 31, 2019 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2020.

b) NET EXPERIENCE GAINS

Net experience gains of $18,330 (2016: $nil) arose from differences between the actuarial assumptions used in the 2016 valuation and 2017 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

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

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

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	162,683	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	117,228	2.2
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	501,516	5.8

* The current service cost as a % of pensionable earnings as determined by the December 31, 2017 extrapolation is 21.19%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 6 SURPLUS (DEFICIT)

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

	($ thousands) 2017			2016
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (191,613)	$ 83,088	$ (108,525)	$ (161,642)
Increase in Plan Fund net assets available for benefits	16,095	277,018	293,113	176,149
Increase in Indexing Fund net assets		16,174	16,174	11,531
Net increase in pension obligation	26,884	(156,503)	(129,619)	(134,563)
Surplus (Deficit) at end of year	$ (148,634)	$ 219,777	$ 71,143	$ (108,525)

	($ thousands) 2017			2016
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 618,626	$ 2,072,277	$ 2,690,903	$ 2,503,223
Increase in Plan net assets available for benefits	16,095	293,192	309,287	187,680
Plan closing net assets available for benefits	$ 634,721	$ 2,365,469	$ 3,000,190	$ 2,690,903

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

	($ thousands) 2017	2016
Current service		
Employers	$ 49,849	$ 50,393
Employees	44,789	45,353
Unfunded liability		
Employers	16,925	16,222
Employees	16,925	16,222
Province of Alberta	5,977	5,728
Past service		
Employers	120	162
Employees	628	1,250
Transfers from other plans	88	32
	$ 135,301	$ 135,362

NOTE 8 INVESTMENT INCOME

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

	($ thousands)			
	Income	Change in Fair Value	2017 Total	2016 Total
Interest-bearing securities	$ 34,758	$ 6,708	$ 41,466	$ 17,194
Equities				
Canadian	21,463	25,676	47,139	79,103
Foreign	151,016	19,079	170,095	62,179
Private	8,647	(5,622)	3,025	2,042
	181,126	39,133	220,259	143,324
Inflation Sensitive				
Real estate	14,969	9,197	24,166	12,831
Real return bonds	11,120	(9,194)	1,926	4,176
Infrastructure	13,704	(562)	13,142	8,228
Timberland	5,126	3,029	8,155	4,366
	44,919	2,470	47,389	29,601
Strategic, tactical and currency investments	4,923	(2,573)	2,350	(4,530)
	$ 265,726	$ 45,738	$ 311,464	$ 185,589

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $47,709 and $(1,873) respectively (2016: $10,303 and $(11,048) respectively). Realized and unrealized gains and losses on currency hedges total $607 and $(705) respectively (2016: $(5,201) and $641 respectively).

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

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

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

	2017	2016	2015	2014	2013
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.6	6.8	7.1	12.2	13.3
Value added return (loss) by investment manager	1.3	-	2.2	(0.2)	1.2
Time weighted rate of return, at fair value [(a)]	**10.9**	**6.8**	**9.3**	**12.0**	**14.5**
Other sources [(b)]	0.6	0.7	0.4	0.6	1.3
Per cent change in net assets [(c)]	**11.5**	**7.5**	**9.7**	**12.6**	**15.8**
Per cent change in pension obligation [(c)]	**4.6**	**5.0**	**7.8**	**10.0**	**-**
Per cent of pension obligation supported by net assets	**102**	**96**	**94**	**92**	**90**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.7% (PBR: 9.8%), ten years is 7.0% (PBR: 6.7%) and twenty years is 7.4% (PBR: 7.0%). The Plan's actuary estimates the long-term net investment returns on assets for funding purposes to be 5.3% (2016: 6.1%)

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

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

NOTE 10 BENEFIT PAYMENTS

	($ thousands) 2017	2016
Retirement benefits	$ 106,912	$ 103,120
Disability pensions	278	234
Termination benefits	10,137	12,157
Death benefits	1,258	2,000
	$ 118,585	$ 117,511

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 12,967	$ 11,658
Performance based fees [(a)]	3,045	1,555
GST [(b)]	682	540
	16,694	13,753
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	78	78
Total investment expenses	$ 16,772	$ 13,831
Increase (decrease) in expenses [(a)]	21.3%	(9.2%)
Increase in average investments under management	9.7%	8.6%
Increase in value of investments attributed to AIMCo	1.3%	0.0%
Investment expense as a percent of:		
Dollar earned	5.4%	7.5%
Dollar invested	0.6%	0.5%
Investment expenses per member	$ 2,302	$ 1,925

NOTE 11 INVESTMENT EXPENSES CONTINUED

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

The per cent increase (decrease) in investment costs and performance based fees is 21.2% (2016: (10.8%)).

[b] GST includes $159 (2016: $nil) which was recorded as a receivable in prior years but determined to be unrecoverable and was expensed in the year.

NOTE 12 ADMINISTRATIVE EXPENSES

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

	($ thousands) 2017	2016
General administration costs	$ 1,649	$ 1,657
Board costs	103	65
Actuarial fees	165	113
Other professional fees	204	94
	$ 2,121	$ 1,929
Member service expenses per member	$ 291	$ 269

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

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $18,893 (2016: $15,760) or $2,593 (2016: $2,194) per member and 0.63% (2016: 0.59%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2017	2016
The following amounts were paid:		
Remuneration		
Chair	$ 9,699	$ 2,378
Members	26,363	25,160
Travel, training and conference expenses		
Chair	7,252	323
Members	23,358	11,395

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the *Public Sector Pension Plans Act* (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall, on the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2017 there was a transfer of $750 (2016: $650)

NOTE 16 CAPITAL

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

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,896,626 at December 31, 2017 (2016 $2,655,190), comprising of $611,145 (2016: $609,369) Pre-1992 and $2,285,481 (2016: $2,045,821) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 5.58% of pensionable salary shared equally between employees and employers (2.79% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2017 (see Note 1b).

NOTE 17 COMPARATIVE FIGURES

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

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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Special Forces Pension Plan

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