4. Financial risk and capital management (cont'd)

2024

	Level 1	Level 2	Level 3	Total
Cash and cash Equivalents	**$ 5,972,561**	**$ -**	**$ -**	**$ 5,972,561**
Investments				
Bonds	**45,829,633**	**-**	**-**	**45,829,633**
Mortgages	**15,607,776**	**-**	**-**	**15,607,776**
Equities	**198,866,322**	**-**	**-**	**198,866,322**
Real estate	**-**	**-**	**58,273,851**	**58,273,851**
Infrastructure	**-**	**-**	**58,078,472**	**58,078,472**
	$ 266,276,292	**$ -**	**$ 116,352,323**	**$ 382,628,615**

2023

	Level 1	Level 2	Level 3	Total
Cash and cash Equivalents	$ 5,561,751	$ -	$ -	$ 5,561,751
Investments				
Bonds	47,084,110	-	-	47,084,110
Mortgages	15,027,597	-	-	15,027,597
Equities	194,251,973	-	-	194,251,973
Real estate	-	-	39,775,350	39,775,350
Infrastructure	-	-	55,106,053	55,106,053
	$ 261,925,431	$ -	$ 94,881,403	$356,806,834

The following table presents additional information about assets measured at fair value for which the Plan utilized level 3 inputs to determine fair value.

	2024	2023
Balance, beginning of year	**$ 94,881,403**	$ 59,772,887
Purchase of level 3 investments	**19,022,572**	30,092,156
Realized gain recognized in investment income	**3,571**	1,949,269
Unrealized gain recognized in investment income	**3,708,521**	6,143,591
Redemption of level 3 investments	**(1,263,744)**	(3,076,500)
Balance, end of year	**$ 116,352,323**	$ 94,881,403

4. Financial risk and capital management (cont'd)

Liquidity risk
Liquidity risk is the risk that the Plan will not be able to meet all cash outflow obligations as they come due. The Plan mitigates this risk by monitoring cash activities and expected outflows. The Plan's current liabilities arise as expenses and benefit payments are made. The Plan does not have material liabilities that can be called unexpectedly at the demand of a lender or claimant. The Plan has no material commitments for capital expenditure and there is no need for such expenditures in the normal course of operations. Benefit payments are funded by current operating cash flow including contributions made by members and the University, as well as investment income.

Capital management
The Plan employs investment policies and procedures that are reviewed by the Pension Plan trustees on a regular basis. These policies and procedures dictate the Plan's approach to growth, credit quality and profitability objectives.

The Plan's objectives when managing capital are to preserve and enhance the value of the Plan's investments through adequate diversification in high quality investments and achieve the highest investment return that can be obtained with the assumption of an acceptable degree of risk.

The investment policies and procedures outline that the Plan's assets shall be invested in fixed income and equity securities in an asset mix determined by the Sponsor Board. The Plan's investment in equities, bonds and short term securities shall be diversified by industry group and currency. Diversification within each asset class is provided by limiting the investment in a single security to 10% or less of the market value of Plan assets. The Plan's investment income unit trusts and similar investment instruments are limited to those securities that are listed on a recognizable stock exchange and are resident in jurisdictions that provide limited liability to unit holders. The fund managers have complete freedom to manage capital within their own mandate, no individual fund manager makes asset mix calls at the total fund level, subject to the Plan's policy asset mix of 20-25% of fixed income, 20-30% in Canadian equities, 20-30% in global equities, 15-25% in real estate/infrastructure and 0-10% in mortgages.

The investment strategy for the Pension Plan was revised effective November 28, 2014 and updated accordingly. The Pension Plan Trustees adopted the investment strategy of the previous Pension Investment Review Committee.

5. Pension obligations

The latest filed funding valuation for this defined benefit plan is as of April 30, 2022, prepared by Eckler Ltd. For more complete information, reference should be made to the actuarial valuation. The following is a summary only of the significant actuarial assumptions used in the valuation:

- 5.50% (2023 – 5.50%) future rate of investment return, net of investment expenses per annum
- assumed 50% at Rule of 85 (minimum age of 55) or age 60 (if earlier), 60% of remaining at age 65, 25% at each age between 66 and 70, with everyone remaining retiring at age 71.
- 3.50% (2023 – 3.50%) salary escalation rate
- 3.50% (2023 – 3.50%) pensionable earnings increase
- 5.50% (2023 – 5.50%) discount rate on plan liabilities

The next actuarial valuation is expected to be valued as of April 30, 2025.

6. Funding policy

Effective October 1, 2016, the employer, being the University of Prince Edward Island as represented by its Board of Governors, entered into an agreement with the employees of the University to adopt a shared risk model relating to the pension plan obligation. At September 30, 2016, the deficit in the pension plan was actuarially determined to be $10,039,000 which would be funded by both the employer and the employees. The employer's portion of this deficit at September 30, 2016 was determined to be $6,475,000 and would be funded over 15 years with annual payments of 1% of pensionable earnings per year. The employees' portion of this deficit totalled $3,564,000 and would be funded over 8.75 years with annual payments of 0.88% of pensionable earnings per year.

The Sponsor Board will determine the funding of pension plan deficits or the use of fund surpluses. The Sponsor Board is made up of representatives from the employer and the employees. The employer and the employees will have one vote each with no provision for a tie breaker, with all decisions required to be unanimous.

If in the future, the pension plan reports a surplus, the Sponsor Board can decide to reinstate benefits, reduce special deficit contributions, increase benefits or reduce plan risk. In the situation of future deficits, the Sponsor Board can reduce benefits or fund the deficit on a 50/50 basis between employees and the employer.

For 2022-23, the employer contributions include a payment of $422,432 that was made on behalf of the faculty unions, as agreed upon in the return to work protocol resulting after the winter semester labour disruption.

The most recent actuarial valuation for funding purposes was prepared by Eckler Ltd., as of April 30, 2022.

7. Investment income

	2024	2023
Government and corporate bonds	**$ 345,541**	$ 618,646
Mortgages	**580,179**	407,431
Equities	**24,506,436**	17,647,468
Real estate	**1,465,784**	4,881,885
Infrastructure	**3,357,788**	3,210,976
	$ 30,255,728	$ 26,766,406