Contents

Grant Thornton

Independent Auditors’ Report

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To the Investments and Administration Committee

Opinion

We have audited the financial statements of the University of Victoria Staff Pension Plan, which comprise the statement of financial position as at December 31, 2023, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University of Victoria Staff Pension Plan as at December 31, 2023, and its changes in net assets available for benefits and its changes in obligations for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canaditir(h)6.Abea6 .496uvy accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the University of Victoria Staff Pension Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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 pans, and for such internal contro as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the University of Victoria Staff Pension Plan’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University of Victoria Staff Pension Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University of Victoria Staff Pension Plan’s financial reporting process.

University of Victoria Staff Pension Plan
Statement of Financial Position

December 31 (expressed in $000s)		2023		2022
Assets				
Cash	**$**	**2,738**	$	1,697
Investments (Note 4)				
Short-term		**354**		751
Lon				

University of Victoria Staff Pension Plan
Statement of Changes in Net Assets Available for Benefits

Year ended December 31 (expressed in $000s)	**2023**	2022

University of Victoria Staff Pension Plan
Statement of Changes in Obligations for Benefits

Year ended December 31 (expressed in $000s)	**2023**	2022

1. Description of plan

The following description of the University of Victoria Staff Pension Plan (“the Plan”), established by the University of Victoria (“the University”), is a summary only. For more complete information, reference should be made to the Plan text, which is available from Pension Services.

(a) General

The Plan is primarily a defined benefit pension plan that covers primarily regular members of the Canadian Union of Public Employees (CUPE) locals 917, 951 and 4163 and exempt staff.

(b) Funding policy

In accordance with the Plan text, members are required to contribute no less than 4.53% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (“YMPE”) which was $66,600 (2022 - $64,900), and 6.28% of their basic salary in excess of that amount to the Basic Plan to fund basic pension benefits.

If a valuation requires contribution changes (up or down) as a result of normal cost changes, then the increase or decrease will be shared on a one-for-one basis between the University and plan members.

A valuation for the plan was completed for the year ended December 31, 2022. Due to the Plan’s strong financial position, the University’s contribution rate has been decreased to 10.84% (from 12.08%), and the member contribution rate has been decreased to 4.53% below the YMPE (from 4.86%) and 6.28% above the YMPE (from 6.61%). Members and the University contribute an additional 0.25% of salary to the Supplementary Retirement Benefit Account (Note 9). The new

1. Description of plan (continued)

(c) **Normal retirement**

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member reaches age 65. Pension benefits are calculated using the following formula:

> Benefit accrual rate **x** highest five year average salary **x** years of credited service (full time equivalent).

The benefit accrual rates since the plan's inception in 1972 are as follows:

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1. Description of plan (continued)

When the change in the CPI exceeds 3%, the Investments and Administration Committee (IAC) may authorize additional indexing from the Supplementary Retirement Benefit Account (Note 9) in lieu of carry-forward to pensioners who are at least age 66, provided the actuary certifies that the increase can be financed by the assets of the Supplementary Retirement Benefit Account on a sound actuarial basis. Effective January 1, 2023, the IAC authorized additional indexing of 3.3% for eligible pensioners.

(g) Termination and portability benefits

Upon termination of employment, members may leave their contributions on deposit for a deferred pension or elect to transfer the lump sum commuted value of their pension to a locked-in retirement account or another registered pension plan. If the lump sum value is less than 20% of the YMPE, the member may transfer the commuted value on a non-locked-in basis or receive a cash payment, less withholding tax.

(h) Survivor benefits before retirement

If a member has a spouse, their spouse is automatically entitled to the survivor benefit; however, they can designate another beneficiary if their spouse has waived their entitlement. A spouse who has not waived their entitlement has the choice of one of the following survivor benefits:

i) a lifetime monthly pension but guaranteed for 120 payments in any event which is the actuarial equivalent to the commuted value amount calculated in ii) below, payable the first of the month following the member’s death; or

ii) a lump sum transfer of the full commuted value

2. Statement of compliance with Canadian accounting standards for pension plans

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

3. Summary of significant accounting policies

Basis of presentation

Accounting standards for pension plans require entities to select accounting policies for accounts that do not

3. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management, within the assumption parameters regarding pension liabilities approved bxr7i 8ition p

4. Investments (continued)

The Plan's proportionate share of investments in each fund, categorized according to the fair value hierarchy, is as follows:

(Expressed in $000's)			**2023**		2022	
Short-term	Level 1	**$**	**354**	$	751	
Long-term fixed income	Level 1		**113,927**		107,742	
Global equities	Level 2		**156,585**		137,930	
Currency Hedging Contract	Level 2		**285**		-	
Real estate	Level 3		**37,317**		39,009	
Infrastructure	Level 3		**41,697**		39,896	
		$	**350,165**	$	352,328	
Fair value hierarchy						
Level 1		**$**	**114,281**	$	108,493	
Level 2			**E**		**0**	**0**

4. Investments (continued)

Short-term notes consist of Canadian money market securities, such as treasury bills, with terms of 12 months or less.

In 2021, the Staff Pension Plan reallocated funds from Canadian bonds and mortgages into long-term fixed income strategies and global equities.

The equities consist of publicly traded shares. Real estate investments consist of diversified Canadian and Global income-producing properties. Infrastructure investments refer collectively to the roads, bridges, rail lines, and similar public works that are required for an industrial economy, or a portion of it, to function. Investments may be segregated or consist of units of pooled investment portfolios of the investment manager.

Currency contracts may be held individually by BCI. The contracts are used for defensive purposes in order to protect clients' global investments from the impact of an appreciating Canadian dollar (relative to the foreign currency). The manager purchases and sells currencies through the spot market, forward contracts, and/or futures. Unit values are calculated based on the net realized and unrealized gains/losses of the derivative financial instruments.

Commitments

The Plan has commitments in the amount of $1.9 million (2022: $2.7 million) to fund private equity infrastructure investments. It is anticipated that these commitments will be met in the normal course of operations.

5. Net return on investments

The Plan realized a gross return of 10.75% (2022: loss of 12.44%) and a net return of 10.36% (2022: loss of 12.77%). Net returns are as follows:

(Expressed in $000's)		**2023**		2022
Interest and other income				
Cash and short-term notes	**$**	**32**	$	3
Long-term fixed income		**2,517**		2,301
Infrastructure		**4,437**		2,689
Dividends from Canadian equities		**325**		-
Net realized gains(losses)		**17,348**		(849)
Net unrealized gains (losses)		**10,012**		(51,147)
		34,670		(47,003)
Investment costs				
Manager fees		**1,052**		1,257
Custodial fees		**77**		56
Other		**54**		38
		1,183		1,351
Total net investment return	**$**	**33,487**	$	(48,354)

6. Investment income by investment type

(Expressed in $000's)		Income		Net realized/ unrealized gains (losses)		**Total**
Short-term notes	$	32	$	-	**$**	**32**
Canadian Bonds		2,517		8,369		**10,886**
Foreign equities		324		19,380		**19,704**
Real estate		-		(2,043)		**(2,043)**
Infrastructure		4,437		1,654		**6,091**
Total	$	41,310.44 $0 101 ref463.92Tw(416 76.02 0 101 1 1 .657/0021 ref(3216.1025 6 0 10				

7. Accrued pension benefit (continued)

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	December 31, 2023	December 31, 2022
Economic Assumptions:		
Interest - assets	**6.55%**	5.70%
Interest – liabilities	**6.55%**	5.70%
Salary escalation		2.25%
For 2024	**3%**	
Thereafter	**2.5%**	

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9. Actuarial valuation for funding purposes (continued)

The December 31, 2022 valuation on a going concern basis disclosed an actuarial surplus of $44 million (2019: $45.7 million). The solvency valuation resulted in a solvency deficiency of $57.2 million (2019: $87.4 million). The Pension Benefits Standards Regulation was amended effective December 31, 2019; the amendment introduced new going concern and funding methodologies. The solvency funding target is now 85% and any shortfall below that amount must be amortized over a factor of 5; a letter of credit may be secured in lieu of making payments. As the Plan's solvency funded ratio now exceeds 85%, this is not required.

10. Supplementary retirement benefit account

The Supplementary Retirement Benefit Account is a reserve to provide pensioners who have reached age 66 with increases that are supplemental to the increases provided under the Basic Plan (Note 1(f)). Supplementary increases are authorized by the Staff Pension Plan Investments and Administration Committee in consultation with the plan actuary and are subject to the availability of funds in the Supplementary Retirement Benefit Account. The increases are limited so that the total increase in any one year from the combined basic and supplementary provisions does not exceed the increase in the Canadian CPI.

11. Related party transactions

Administrative costs of $587,000 (2022 - $609,000) represent a portion of the general administration costs incurred by the University and charged to the Pension Plan. The costs include salaries for Pension Services and other operating and administrative costs.

12. Risk management

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, receivables, and payables and accruals. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to price risk, liquidity risk and credit risk.

Market risk

Market risk is comprised of <u>currency risk</u>, <u>interest rate risk</u>, and <u>other price risk</u>.

<u>Currency risk</u>: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in US, Euro and other international foreign exchange rates. For example, a 5% strengthening (weakening) of the Canadian dollar against foreign currencies at December 31, 2023 would have decreased (increased) the value of global equities and infrastructure investments by approximately $9.9 million (2022: $8.9 million).

12. Risk management (continued)

Market risk (continued)

Currency risk associated with global equities may be hedged at the discretion of the Global Equity Manager, BCI, in order to protect the value of global equity investments from the impact of an appreciating Canadian dollar (relative to the foreign currency).

The Fixed Income Manager, the Global Equity Manager and the Infrastructure Manager will (or may) purchase securities denominated in foreign currencies. The Investments and Administration Committee may give discretion to a manager to hedge some or all of its foreign currency exposures. The Committee will make such direction for either defensive or strategic reasons.

Interest rate risk: Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates and that pension liabilities are exposed to the impact of changes in long term market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices – the longer the duration, the greater the effect. At December 31, 2023, the average duration of the bond portfolio was 7.31 years (2022 – 7.09 years). Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 7.31% (2022 – 7.09%).

Other price risk: Other price risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the investment policy provisions approved by the Board of Governors for a structured asset mix to be followed by the investment managers, the requirement for diversification of investments within each asset class and credit quality constraints on fixed income instruments. Other price risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on volatility of the current asset class holdings outlined above, the Pension Plan has an estimated volatility of 13.3%. The volatility measures are calculated as average annual standard deviations over 20 years.

	Estimated volatility %
Short-term holdings	+/-1.1
Long-term fixed income (Universe Bonds)	+/- 5.8
Long-term fixed income (Enhanced Strategy)	+/- 11.5
Global equities	+/- 18.0
Real estate	+/- 12.5
Infrastructure	+/- 12.5

12. Risk management (continued)

Market risk (continued)

Benchmark for investments	% change	Net impact on market value (in thousands)
FTSE Canada 91-day Treasury Bill Index	+/- 1.1	+/- 4
FTSE Canada Universe Bond Index	+/- 5.8	+/- 3,233
PH&N Enhanced PRisM Long Fund	+/-11.5	+/- 6,692
MSCI World ex-Canada Net Index	+/- 18.0	+/- 28,185
Canadian Consumer Price Index (real estate)	+/- 12.5	+/- 4,665
Canadian Consumer Price Index (inf-11w2.4astr-7.75(u)0(cture)		

13. Capital disclosures

The purpose of Plan is to provide benefits to plan members. As such, when managing capital, the objective is to preserve assets in a manner that provides the Plan with the ability to continue as a going-concern. With the assistance of an outside consultant, the Plan’s Investments and Administration Committee and Pension Services regularly monitor the asset mix to ensure compliance with the Statement of Investment Policies and Procedures so that both immediate and long-term obligations can be met within an acceptable level of risk. An Asset-Liability Modeling Study (ALM) was also completed in 2018 for the purpose of determining a