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Starting this letter, I was somewhat amazed to see eleven previous versions residing on my computer! This time has been enjoyable and profoundly educational for me and I would like to thank all of you, especially those who have contributed directly to the work of the Trustees, for your continued help and support without which my role would have been impossible.

This was a good year for the Pension Plan with a gross return of 9.98% and expenses of 0.27% for a net return of 9.71%. This placed us in the 23rd percentile (i.e. 77% of plans had lower returns) of

Financial information at a glance

Investments and Returns	2010		2011		2012	
Market value of investments						
Balanced Fund	\$606,685,818		\$602,828,769		\$655,370,014	
Defined Retirement Benefit Fund	69,138,639		74,913,440		88,768,934	
Balanced Fund						
		%		%		%
Gross returns	\$53,089,894	9.56	\$5,665,161	0.92	\$60,095,200	9.98
Expenses	1,478,468	(0.26)	1,661,221	(0.27)	1,633,285	(0.27)
Net returns distributed to accounts	51,611,426	9.30	4,003,940	0.65	58,461,915	9.71
Defined Retirement Benefit Fund						
Gross returns (losses)	\$6,355,127	10.12	\$ (60,807)	(0.08)	\$7,808,820	10.14
Expenses	207,252	(0.33)	226,137	(0.28)	308,083	(0.40)
Net returns (losses)	6,147,875	9.79	(286,944)	(0.36)	7,500,737	(9.74)

Benefit Payments	2010	2011	2012
Lump sum payments and transfers	\$ 7,161,433	\$10,027,827	\$7,453,666
Pensions			
3.5% internal variable annuities	\$ 1,252,822	\$ 1,568,827	\$1,968,368
5% internal variable annuities	343,508	377,105	350,902
Defined benefit pensions	212,350	179,644	181,632
Defined benefit supplements	129,886	173,338	255,412
Variable benefits	11,682,940	13,079,992	14,181,481

In 1990 defined benefit pensions were replaced with a combination of the 3.5% internal variable annuity and defined benefit supplement; in 1997, the variable benefit was added; and, at the end of 2011, the 5% annuity ceased to be offered.

Contributions	2010	2011	2012
Members' required	\$ 5,522,639	\$ 6,920,824	\$ 7,716,152
University required	11,895,016	14,846,215	16,504,099
Members' voluntary	118,622	137,597	124,060
Transfers from other plans	1,535,196	1,563,497	1,421,061

Adjustments to Pensions	2010	2011	2012
	%	%	%
Defined benefit pensions and supplements	1.4	3.0	2.9
3.5% internal variable annuities (reduction)	4.4	3.6	(4.7)
5.0% internal variable annuities (reduction)	2.9	2.1	(6.1)

Full audited financial statements are available online at: <http://web.uvic.ca/vpfin/financialplanning/pension/pensionmain.htm>
 A print copy may also be requested from the Pension Office at (250) 721-7030 or by email at pensions@uvic.ca with the subject line "Combination Plan Financial Statements Print Copy".

Objectives

Plan assets are distributed over two funds: the Balanced Fund and the Defined Retirement Benefit Fund. Individual member accounts (Combined Contribution Accounts, Variable Benefit Accounts and Additional Voluntarily Contribution Accounts of active and inactive members) are held in the Balanced Fund, together with member accounts from the Money Purchase Pension Plan. The Defined Retirement Benefit Fund holds the assets of the Defined Retirement Benefit Account from which defined benefit pensions and supplements are paid.

The main long-term investment objectives set by the Pension Board and accepted by the Plan's investment managers (refer to Appendix E) are to secure the obligation of the Plan and the Uni-

versity for pension benefit payments. In recognition of the Plan's current characteristics, an average degree of risk in terms of short-term variability of returns may be tolerated in the Balanced Fund's investments in pursuit of longer term returns. A higher degree of risk in terms of short-term variability of returns may be tolerated in the Defined Retirement Benefit Fund's investments in pursuit of longer term returns.

The primary objective for the Funds is to achieve a rate of return, net of investment fees and based on a four-year moving average, which is above a benchmark rate of return associated with asset mix policy. The table below shows each Fund's actual asset mix at 31 December 2012, and the policy benchmark and range.

Asset Mix Policy

		Balanced Fund		Defined Retirement Benefit Fund	
Representative index		Actual weight (%)	Benchmark (Range) (%)	Actual weight (%)	Benchmark (Range) (%)
Cash & equivalents	DEX 91-day T-Bill Index	2.3	0 (0-18)	4.3	3 (0-20)
Universe bonds	DEX Universe Bond Index	30.4	36 (24-48)	4.1	0 (0-10)
Real return bonds	DEX RRB Overall Index	-	-	17.2	22 (17-27)
Canadian equities	S&P/TSX Capped Composite	28.8	27 (17-37)	38.6	38 (28-48)
Foreign equities	MSCI World	26.2	27 (23-31)	25.7	27 (22-32)
Real estate	CPI + 4%	12.3	10 (5-15)	10.1	10 (5-15)

Investment returns are measured on a time-weighted basis. The return objectives include realized and unrealized capital gains or losses, plus income from all sources.

The Investment Committee monitors and reviews performance and reports to the Pension Board on a quarterly basis. While short-term results are of interest, it is important to recognize that an investment strategy ought to provide good results over the longer term. As a consequence, the Pension Board focuses on eval-

uating investment performance over rolling four-year periods. Over rolling four-year periods, the domestic managers are expected to meet the benchmark plus 0.5% per annum, plus investment management and pooled fund custodial fees. The global manager is expected to meet the standard plus 1.0% per annum, plus investment management and pooled fund custodial fees. The real estate manager is expected to return the Canadian Consumer Price Index plus 4%.

Balanced Fund—expense ratio detail

The table below provides the detail of all expenses incurred in investing and operating the pension plan. Expenses are deducted from gross gain (loss) to determine net gain (loss). Due to the effect of com-

4. Registered Retirement and Life Income

Survivor benefits continued

Under the Income Tax Act a beneficiary who is not a spouse is required to withdraw the death benefit in cash as soon as is practicable. Withholding tax of up to 30% will be deducted from any cash payment. The actual tax payable depends on the beneficiary's marginal tax rate in the year in which the cash payment is issued.

The survivor benefit for a pensioner in receipt of an annuity or defined benefit (supplement) pension from the Plan is determined by the optional form selected by the member at the pension start date. The optional forms available are as follows:

x

APPENDIX A: Annuity rate table

The table below shows the rates that will be used in 2013 to convert a member's Combined Contribution Account balance into a single life 3.5% internal variable annuity, and the actuarial reduction factors that are applied to the defined benefit minimum if the pension starts before normal retirement age (age 65). A single life annuity ceases on the death of the annuitant. Survivor benefits are available by selecting an optional form (joint life and guaranteed terms), but the amount payable is reduced. The optional form is selected at the time the annuity commences and, like the annuity, is irrevocable. The optional forms available from the Plan are described in the section Understanding the Plan, Survivor benefits.

Table of Rates for Annual Single Life 3.5% Annuity Commencing in 2013 Provided by \$1000 and Actuarial Reduction Factor of Combined Contribution Account for Defined Benefit Minimum		
Age in Years Upon Commencement of the Annuity	Annual Annuity Rate per \$1,000	Actuarial Reduction Factor for Defined Benefit Minimum
55	53.63	0.55267
56	54.66	0.58285
57	55.75	0.61540
58	56.92	0.65055
59	58.15	0.68860
60	59.46	0.72987
61	60.85	0.77474
62	62.33	0.82366
63	63.91	0.87711
64	65.57	0.93566
65	67.34	n/a
66	69.22	n/a
67	71.21	n/a
68	73.34	n/a
69	75.63	n/a
70	78.10	n/a
71	80.78	n/a

* The defined benefit minimum is determined by multiplying the results of the formula described on page 12 by the actuarial reduction factor, if applicable. A factor of 0.72987 at age 60 means the actuarial reduction is 27.013% (1-0.72987). Reductions are prorated to the nearest whole month.

APPENDIX B: Portfolio holdings at 31 December 2012, Balanced Fund

Short-term investments (2.27% of total)				
			Par Value or Units	Market Value
Canada Treasury Bills			\$1,350,000	\$ 1,346,861.79
Pooled Funds				
bclMC Canadian Money Market Fund ST2			10.755	41,448.92
Phillips, Hager & North Institutional STIF			1,431,344.141	14,313,441.41
				\$15,701,752.12
Canadian bonds (28.45% of total)				
	Interest Rate	Maturity Date	Par Value or Units	Market Value
Federal (government and government guaranteed)				
Canada	1.500	2017	\$3,044,000	\$ 3,060,629.37
Canada Housing Trust	3.750	2020	2,762,000	3,084,087.87
Canada Housing Trust	3.800	2021	1,237,000	1,392,406.78
NHA MBS #96505011 by Peoples Trust Co	4.200	2019	185,000	191,105.00
NHA MBS #96503636 by Equitable Trust Co	4.350	2018	620,000	613,366.00
Provincial (government and government guaranteed)				
New Brunswick	4.800	2041	391,000	481,186.50
Ontario	3.150	2022	494,000	511,384.85
Ontario	3.500	2043	506,000	518,107.06
Ontario	4.600	2039	2,874,000	3,449,110.39
Ontario	4.650	2041	2,397,000	2,939,455.48
Ontario	4.700	2037	2,843,000	3,429,698.54
Ontario	5.600	2035	4,328,000	5,787,925.29
Ontario	5.850	2033	1,974,000	2,683,317.42
Ontario	6.200	2031	428,000	595,487.10
Ontario	6.500	2029	867,000	1,222,955.52
Ontario	7.600	2027	18,153,000	27,427,894.14
Ontario	8.000	2026	675,000	1,033,433.10
Ontario	8.100	2023	1,970,000	2,903,646.04
Ontario	8.500	2025	265,000	417,000.56
Ontario Hydro	8.250	2026	1,199,000	1,863,630.88
Quebec	3.500	2022	5,332,000	5,618,749.63
Quebec	4.250	2043	81,000	92,247.42
Quebec	5.000	2041	1,496,000	1,890,091.28
Quebec	5.750	2036	743,000	1,001,113.74
Quebec	6.000	2029	183,000	244,277.55
Quebec	6.250	2032	1,188,000	1,647,731.05
Quebec	8.500	2026	1,405,000	2,193,244.34
Quebec	9.375	2023	1,681,000	2,612,184.91
Municipal (government and government guaranteed)				
Municipal Finance Authority BC	3.350	2022	139,000	143,872.09
South Coast BC Transportation	3.800	2020	705,000	755,011.29
Corporate				
Cadillac Fairview Finance Trust	3.240	2016	870,000	906,296.40
CBC Monetization Trust	4.688	2027	207,359	232,913.92
CDP Financial Inc	4.600	2020	138,000	156,696.79
Hospital for Sick Children	5.217	2049	330,000	409,108.59
Pooled Funds				
Phillips, Hager & North High Yield Bond Fund			600,422.597	7,020,921.56
Phillips, Hager & North Investment Grade Corp Bond Trust			10,481,764.963	107,951,697.35
				\$196,481,985.80

APPENDIX B: Portfolio holdings at 31 December 2012, Balanced Fund continued

Canadian equities continued		
	Shares or Units	Market Value
Telecommunication Services		
Rogers Communications Inc Class B Non-Vtg	57,300	\$ 2,587,668.00
Utilities		
Emera Inc	40,000	1,389,600.00
Pooled Funds		
bcIMC Active Canadian Equity Fund	13,746.134	101,985,262.85
Sceptre Small Cap Fund	79,302.758	11,220,499.65
		\$199,240,810.44
Foreign equities (26.13% of total)		
	Units	Market Value
bcIMC Active US Equity Fund	3,824.860	\$ 16,963,331.70
bcIMC Active US Small Cap Equity Fund	3,176.618	4,102,897.14
bcIMC Enhanced Indexed US Equity Fund	5,775.562	10,427,148.09
bcIMC Active Asian Equity Fund	5,502.167	11,907,179.54
bcIMC Active Emerging Equity Fund	2,165.740	2,249,332.82
bcIMC Active Global Equity Fund	6,086.024	6,913,229.80
bcIMC Indexed Asian Equity Fund	1,023.110	1,053,108.47
bcIMC Indexed European Equity Fund	8,403.713	10,764,442.52
bcIMC Indexed Global Equity Fund	102,084.268	116,067,873.65
		\$180,448,543.73

APPENDIX C: Portfolio holdings at 31 December 2012, Defined Retirement Benefit Fund

Short-term investments (4.29% of total)

	Units	Market Value
bcIMC Canadian Money Market Fund ST2		

Canadian equities continued		
	Shares or Units	Market Value
Health Care		
Catamaran Corp	5,700	\$ 266,646.00
Valeant Pharmaceuticals International Inc	6,600	391,644.00
Industrials		
Bombardier Inc Class B Sub-Vtg	60,200	226,352.00
CAE Inc	22,900	230,603.00
Canadian National Railway Co	10,200	921,366.00
SNC-Lavalin Group Inc	13,700	552,384.00
Information Technology		
CGI Group Class A Sub-Vtg	16,400	376,216.00
Materials		
Agrium Inc	3,400	337,076.00
First Quantum Minerals Ltd	7,400	162,134.00
Potash Corp of Saskatchewan Inc	21,200	858,176.00
Sherritt International Corp	21,200	121,900.00
Teck Resources Ltd Class B Sub-Vtg	13,500	488,025.00
Turquoise Hill Resources Ltd	12,615	95,874.00
Telecommunication Services		
Rogers Communications Inc Class B Non-Vtg	16,400	740,624.00
Telus Corp Non-Vtg	6,400	413,952.00
Pooled Funds		
Phillips, Hager & North Institutional Gold & Precious Metals Fund	410,882.010	3,319,639.02
Phillips, Hager & North Small Float Fund	320,407.875	5,115,055.39
		\$34,251,969.01
Foreign equities (25.61% of total)		
	Units	Market Value
bcIMC Active US Equity Fund	532.050	\$2,359,652.50
bcIMC Active US Small Cap Equity Fund	346.535	447,582.74
bcIMC Enhanced Indexed US Equity Fund	735.643	1,328,122.94
bcIMC Active Asian Equity Fund	694.121	1,502,140.51
bcIMC Active Emerging Equity Fund	266.180	276,454.05
bcIMC Active Global Equity Fund	602.173	684,020.18
bcIMC Indexed Asian Equity Fund	192.898	198,554.05
bcIMC Indexed European Equity Fund	1,133.055	1,451,347.48
bcIMC Indexed Global Equity Fund	12,743.780	14,489,435.34
		\$22,737,309.79
Currency hedges (0.09% of total)		
	Units	Market Value
bcIMC Euro Currency Hedging Fund	77.265	\$83,883.17
Real estate (10.09% of total)		
	Units	Market Value
bcIMC Realpool Investment Fund	1,256.117	\$8,953,168.83
Total Defined Retirement Benefit Fund investment portfolio at market value		<u>\$88,768,934.07</u>

Pension plans are of two major types: defined benefit and defined contribution. Under the typical defined benefit plan, a member's pension is determined by a formula based on years of service, salary and age at retirement. Pension payments to the member during his or her retirement remain constant, except for any cost-of-living adjustments. In a defined contribution plan, the contributions of the member and his or her employer, together with net investment earnings or losses, accumulate throughout the member's career. At retirement, the accumulated sum is used to purchase a pension. In a defined contribution plan, net investment returns are obviously of great importance to the member, particularly if the pension is paid in the form of a variable annuity adjusted each year during his or her retirement according to the Plan's performance.

Original Plan provides greater of defined

defined benefit minimum were revised to equal:

- (a) 1% of salary, which at the discretion of the Pension Board acting on the advice of the actuary, could be directed in whole or in part to member's CCAs, plus
- (b) such additional contributions as are recommended by the plan actuary to maintain the Defined Retirement Benefit Account on a sound actuarial basis (4.05% of salary effective 1 May 2011).

From 1 January 1991 to 30 June 1993, and from 1 July 1998 to 31 December 2001, the 1% contribution was not required for the defined benefit minimum and, on the advice of the plan actuary, was redirected to members' CCAs. Since that time, plan actuaries have recommended that the 1% of salary be gradually returned to its original purpose, namely to fund the defined benefit minimum (registered plan and/or the Supplemental Benefit Arrangement). Consequently, for 2002, the Pension Board changed the allocations to 0.8% to CCAs and 0.2% to the defined benefit minimum. For 2003 and 2004, the corresponding alloca-

tions were 0.7% and 0.3% and, effective 1 January 2005, the full 1% was allocated to accounts funding the defined benefit minimum. The 1% was increased to 5.05% effective 1 May 2011.

Immunization options. A Canadian Government Treasury Bill Fund was created in 1991 and a Short Term Bond and Mortgage Fund was added in 2003. These investment options were removed in 2010 due to lack of use and onerous regulatory requirements. A GIC option of 32g9.00 i0 i 19s a1.8(a9theect)-4.7()1.4.7()120.rm Bon03.7

APPENDIX E: Service providers

Service providers at the end of December 2012		
Investment Managers	BC Investment Management Corporation (bcIMC)	Victoria, BC
	x manages one-half the Canadian equity portion, and all the global equity and real estate portions of the Balanced Fund	
	x Manages the global equity and real estate portions of the Defined Retirement Benefit Fund	
	Fiera Capital Corporation	Vancouver, BC
	x manages one-half the Canadian equity portion of the Balanced Fund	
	Phillips, Hager & North Investment Management Limited	Vancouver, BC
	x manages the fixed income portion of the Balanced Fund and the domestic portion of the Defined Retirement Benefit Fund	
Custodian	RBC Investor Services Trust	Vancouver, BC
	x custodian of plan assets, excluding bcIMC funds	
	x payment service for pensions and taxable lump sums	
Investment consultant	Towers Watson	Vancouver, BC
Performance measurement	RBC Investor Services Limited	Vancouver, BC
Actuary	Mercer (Canada) Limited	Vancouver, BC
Auditor	Grant Thornton LLP	Victoria, BC