Financial Statements

University of Victoria Combination Pension Plan

December 31, 2015

Contents

Grant Thornton

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Combination Pension Plan as at December 31, 2015 and its financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Victoria, Canada
March 8, 2016 Chartered Professional Accountants

1. Description of plan

The following description of the University of Victoria Combination Pension Plan is a summary only. 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 Voluntary Contribution Accounts of active and inactive members) are held in the Balanced Fund. The Defined Retirement Benefit Fund holds the assets of the Defined Retirement Benefit Account from which defined benefit pensions and supplements are paid. For more complete information, reference should be made to the Trust Agreement.

(a) General

The Plan is a defined contribution pension plan which contains, subject to eligibility and member choice, a defined benefit supplement to bring a retirement pension up to a minimum calculated under a defined benefit formula. The Plan covers all full-time faculty and administrative and academic professional staff holding regular appointments.

(b) Funding policy

In accordance with the Trust Agreement and the recommendation of the plan actuary, members are required to contribute 4.35% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($53,600 in 2015), and 6.35% of the basic salary in excess of that amount. The contributions are directed to the members' combined contribution accounts (defined contribution).

The University contributes 6.02% of basic salary up to the Canada Pension Plan YMPE, and 7.65% of the basic salary in excess of that amount. The contributions are directed to the members' combined contribution accounts. The University contributes an additional 5.05% of basic salary to fund the defined benefit minimum. These defined benefit contributions are directed to the Defined Retirement Benefit Fund. In the event that the actuary recommends additional contributions to fund the defined benefit minimum, the plan document provides for one-third and two-thirds sharing between members and the University.

The total combined member and University contributions to a member's combined contribution account in a calendar year are limited to the Income Tax Act (Canada) maximum ($25,370 in 2015).

Subject to Income Tax Act (Canada) maximums, members may elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles.

(c) Investment options

Members' combined contribution accounts and additional voluntary accounts are invested in a balanced fund.

1. Description of plan (continued)

(d) Retirement

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member attains age 65. Members may elect early retirement any time after attaining the age of 55, or postpone retirement benefits until December 1st of the calendar year in which the member attains age 71.

(e) Retirement options

At retirement, members can apply the balance in their combined contribution accounts to one or a combination of the following forms of benefits:

- Internal variable annuity with, subject to eligibility, a defined benefit supplement. The defined benefit supplement is the amount, if any, by which the defined benefit minimum exceeds the internal variable annuity. The defined benefit minimum at normal retirement is 1.3% of the member's final average earnings up to the three year average YMPE, multiplied by years of service; plus 2% of the member's final average earnings that are in excess of the three year average YMPE, multiplied by years of service. The final average earnings are calculated as the member's average for the highest consecutive five years. The defined benefit minimum is limited to $2,890 per year of service credited after 1990 and is actuarially reduced for early retirement.
- External annuity from a life insurance company.
- Variable benefit.
- Transfer to (locked-in) registered retirement savings plans.
- Transfer to a combination of registered retirement income funds and life income funds.

(f) Termination and portability benefits

Upon termination of employment, members may retain the balance in their combined contribution account or transfer it to (locked-in) registered retirement savings plans or to another registered pension plan that will accept the transfer.

Members may transfer pension entitlements from other registered pension plans to a voluntary account in the University of Victoria Combination Pension Plan.

(g) Survivor benefits

A spouse is automatically entitled to the survivor benefit unless they waive that right by completing a Spousal Waiver (Pension Benefits Standards Regulation (BC) Form 4). The survivor benefit for a spouse is 100% of the benefit accrued by the Member. The surviving spouse is entitled to any of the options that are available to the Member, with the exception that the spouse need not have attained 55 years of age to commence a monthly benefit and the spouse's defined benefit minimum is the actuarial equivalent of the Member's defined benefit minimum. A surviving spouse must commence a pension benefit or elect a transfer from the plan by the later of one year following the Member's date of death or the end of the calendar year in which the spouse attains 71 years of age.

1. Description of plan (continued)

(g) Survivor benefits (continued)

The survivor benefit for a beneficiary who is not a spouse is the balance accumulated in the Combined Contribution Account (CCA) and, if applicable, Voluntary Contribution Account(s), payable in a cash lump sum, less applicable withholding tax. The survivor benefit for a pensioner on the variable benefit is the total in the member's variable benefit account.

The survivor benefit for a pensioner in receipt of an annuity from the plan is determined by the optional form selected by the member immediately prior to commencement of the annuity. The optional forms available for internal annuities are as follows:

- Joint and last survivor where 66.7%, 75% or 100% of the benefit will continue to the spouse, if pre-deceased by the member.
- Joint and last survivor where 66.7% of the benefit will continue after the first death of either the spouse or the member.
- Joint and last survivor where payments will continue in full for the lifetime of the member or spouse, whoever lives longer, and with a guaranteed minimum of 10 or 15 years.
- Single life where payments continue for the member's lifetime with a guaranteed minimum of 0, 5, 10 or 15 years.

If the member has a spouse, the member must select a form which provides at least a lifetime 60% survivor benefit unless the spouse completes a waiver.

(h)

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

As indicated in Note 2, these financial statements have been prepared in accordance with Canadian accounting standards for pension plans. Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either International Financial Reporting Standards ("IFRS") or Canadian Accounting Standards for Private Enterprises ("ASPE"). The Trustees selected IFRS for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the accounting standards for pension plans.

(a) Investments

Investments are stated at fair value. Fair value is determined using market values where available. Fair value for international investments, held by BC Investment Management Corporation are estimated based on preliminary market values supplied by the BC Investment Management Corporation, and any differences between the estimated values and final market values are adjusted in the subsequent period. Where listed market values are not available, estimated values are calculated by discounted cash flows or based on other approved external pricing sources. Price comparison reports are used to compare the prices of the bonds and publicly traded equities held in pooled funds against a secondary source. Mortgages are valued at the end of each month based on a discounted cash flow model. Real estate investments are valued quarterly by BC Investment Management Corporation's real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. At the end of each quarter BC Investment Management Corporation uses financial statements provided by the external managers and general partners or valuation reports to calculate the share values and the unit values for the externally managed holding corporations and limited partnerships. Investment sales and purchases are recorded on trade date.

(b) Investment income

Investment income is recorded on the accrual basis. Any adjustments to investments due to the fluctuation of market prices are reflected as part of the return on investments in the statement of changes in net assets available for benefits.

December 31, 2015 (expressed in $000's)

4. **Investments (fair value)** (continued)

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

	2015			2014
	Balanced Fund	DRBA	**Total**	Total
Short-term notes - Level 1	$ 118	$ 947	**$ 1,065**	$ 8,892
Short-term notes - Level 2	1,339	-	**1,339**	1,211
Canadian bonds - Level 1	124,770	28,459	**153,229**	140,432
Canadian bonds - Level 2	137,101	-	**137,101**	120,866
Mortgages - Level 1	21,145	-	**21,145**	20,006
Canadian equities - Level 1	86,959	34,765	**121,724**	123,215
Canadian equities - Level 2	87,855	-	**87,855**	90,506
Foreign equities - Level 2	343,096	74,703	**417,799**	346,638
Currency hedges - Level 2	-	-	**-**	686
Real estate - Level 3	85,939	11,496	**97,435**	105,252
	$ 888,322	$ 150,370	**$ 1,038,692**	$ 957,704
Fair value hierarchy				
Level 1	$ 232,992	$ 64,171	**$ 297,163**	$ 292,545
Level 2	569,391	74,703	**644,094**	559,907
Level 3	85,939	11,496	**97,435**	105,252
	$ 888,322	$ 150,370	**$ 1,038,692**	$ 957,704

The following table summarizes the changes in the fair value of the Plan’s financial instruments classified as level 3 investments:

	Balanced Fund	DRBA	**Total**
Beginning balance, January 1, 2015	$ 92,844	$ 12,408	**$ 105,252**
Sales	(11,582)	(1,548)	**(13,130)**
Realized and unrealized gains	4,677	636	**5,313**
Ending balance, December 31, 2015	$ 85,939	$ 11,496	**$ 97,435**
Beginning balance, January 1, 2014	$ 86,616	$ 10,759	**$ 97,375**
Purchases	-	800	**800**
Sales	(576)	(77)	**(653)**
Realized and unrealized gains	6,804	926	**7,730**
Ending balance, December 31, 2014	$ 92,844	$ 12,408	**$ 105,252**

4. **Investments (fair value)** (continued)

Short-term notes consist of Canadian money market securities maturing in 12 months or less and include treasury bills and guaranteed investment certificates. Canadian bonds consist of government and corporate bonds and debentures. Mortgages consist of units in a pool of first mortgages on income-producing property in Canada. Equities consist of publicly traded shares. Real estate investments consist mainly of diversified Canadian income-producing properties. Investments may be segregated or consist of units of pooled investment portfolios of the investment managers.

Currency contracts are held individually by BC Investment Management Corporation. The contracts are used for defensive purposes in order to protect clients' foreign investments from the

6. Obligations for pension benefits – defined benefit minimum

An actuarial valuation, in respect of the defined benefit minimum, is performed at least once every three years. The latest valuation was made as of December 31, 2012 by Mercer (Canada) Limited. The calculations to December

December 31, 2015 (expressed in $000's)

6. Obligations for pension benefits – defined benefit minimum (continued)

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

	December 31, 2015	December 31, 2014
Economic assumptions:		
Valuation discount rate	6.50% per annum	7.00% per annum
Assumed return on CCA	6.00% per annum	6.50% per annum
Salary scale – faculty members	4.25% per annum	4.25% per annum
Salary scale – administrative and academic professional staff members	5.06% for the first 8 years of service, 2.00% thereafter	5.06% for the first 8 years of service, 2.00% thereafter
Annual rate of inflation	2.00% per annum	2.00% per annum
YMPE increase, increase to ITA maximum pension and contribution limits	3.00% per annum	3.00% per annum
Demographic assumptions:		
Termination rates	Faculty members:	Faculty members:
	Termination rate starts at 6% per year, trending down from 6% per year at age 30 to 1.5% per year from age 40 until age 55.	Termination rate starts at 6% per year, trending down from 6% per year at age 30 to 1.5% per year from age 40 until age 55.
	Academic and Professional Staff members:	Academic and Professional Staff members:
	Termination rate starts at 10% per year, trending down from 10% per year at age 35 to 4.5% per year from age 40 until age 55.	Termination rate starts at 10% per year, trending down from 10% per year at age 35 to 4.5% per year from age 40 until age 55.
Mortality table	90% of the Public Sector Canadian Pensioners Mortality Table with improvement scale CPM-B	90% of the Public Sector Canadian Pensioners Mortality Table with improvement scale CPM-B

11. Defined retirement benefit account ("DRBA")

The DRBA is a reserve to fund existing defined benefit pensions and supplements and to offset future obligations for defined benefit supplements.

12. Internal variable annuity account ("IVAA")

The IVAA provides benefits to members who elected to take internal variable annuities with all or part of their CCA, VBA and AVC. The IVAA is invested in the Balanced Fund.

13. Risk management

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to market risk, liquidity risk and credit risk.

Market risk
Market risk is comprised of currency risk, interest rate risk, and other price risk.

Currency risk: 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, 2015 would have decreased (increased) investe, a

13. Risk management (continued)

Market risk (continued)

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 Pension Trustees 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 the volatility of the current asset class holdings shown in Note 4, the expectation is that over the long-term, the Balanced Fund will return around 6.1%, within a range of +/- 9.2% (i.e., results ranging from –3.1% to 15.3%) and the Defined Retirement Benefit Fund will return around 6.7%, within a range of +/- 11.9

December 31, 2015 (expressed in $000's)

13. Risk management (continued)

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer to meet its debt obligations. At December 31, 2015, the maximum risk exposure for this type of investment is $284.5 million (2014: $266.6 million) in the Balanced Fund and $29.4 million (2014: $24.6 million) in the Defined Retirement Benefit Fund.

The Plan limits credit risk by investing only in short term debt rated R1 or higher and other debt rated BBB or higher, as rated by the Dominion Bond Rating Service or equivalent. Debt rated below BBB is only permitted in the case of a high yield bond fund which has been specifically approved for investment by the Board of Pension Trustees.

The following shows the percentage of bond holdings in the portfolio by credit rating.

Rating	Balanced Fund	Defined Retirement Benefit Fund
AAA	25.4%	23.0%
AA	39.8%	