



## Financial Statements

University of Victoria ~~Combination~~ Pension Plan

December 31, 2016

# Contents

	Page
Independent Auditor's Report	1-2
Statement of Financial Position	3
Statement of Changes in Net Assets Available for Benefits	4
Statement of Changes in Obligations for Benefits	5
Notes to the Financial Statements	6-20





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 Combined Pension Plans as at December 31, 2016, and the changes in net assets available for benefits and changes in obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Victoria, Canada  
March 13, 2017

Chartered Professional Accountants

---

University of Victoria Combination Pension Plan  
Statement of Financial Position

Approved by the Board of Pension Trustees

See accompanying notes to the financial statements.

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

Year Ended December 31 (expressed in \$000's)	2016	2015
Change in net assets		
Net return on investments (Note 5)		
Interest income	\$ 11,335	\$ 9,990
Mortgage income	605	708
Dividend income	2,143	2,921
Net realized and unrealized gain on investments	41,007	74,710
Investment administration costs	<u>(2,992)</u>	<u>(2,865)</u>
	<u>52,098</u>	<u>85,464</u>
Contributions (Note 1)		
Members' required	8,836	8,516
Members' additional voluntary	311	194
University's required		
Combined contribution accounts	10,716	10,359
Defined retirement benefit account	8,244	7,957
Transfers from other plans	<u>3,542</u>	<u>3,027</u>
	<u>31,649</u>	<u>30,053</u>
Payments to or on behalf of members		
Pensions to retired members or beneficiaries	(26,771)	(24,176)
Members' accounts transferred and refunded, and death benefits	<u>(6,534)</u>	<u>(3,996)</u>
	<u>(33,305)</u>	<u>(28,172)</u>
Operating expenses		
Office and administrative costs	(450)	(418)
Actuarial fees	(93)	(146)
Audit, registration and legal fees	<u>(48)</u>	<u>(72)</u>
	<u>(591)</u>	<u>(636)</u>
Increase in net assets	49,851	86,709
Net assets available for benefits, beginning of year	<u>1,046,788</u>	<u>960,079</u>
Net assets available for benefits, end of year	<u>\$ 1,096,639</u>	<u>\$ 1,046,788</u>

See accompanying notes to the financial statements.

---

# University of Victoria Combination Pension Plan





---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

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 1<sup>st</sup> 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:

- x 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.

---

# University of Victoria Combination Pension Plan Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

1. Description of plan (continued)

---

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

(i) Income taxes

The Plan is a registered pension plan as defined in the Income Tax Act (Canada) and is not subject to income taxes, but is subject to indirect taxes including British Columbia provincial sales tax (PST) and goods and services tax (GST). The Plan receives a 33% rebate of the GST paid.

---

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 t37byce.he nt

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

3. Summary of significant accounting policies (continued)

(c) 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 by the Plan's actuaries, to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the defined benefit minimum.

---

4.

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (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:

2016

2015

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

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

---

---

# University of Victoria Combination Pension Plan Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

5.

---

# University of Victoria Combination Pension Plan

---



---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (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, 2016	December 31, 2015
Economic assumptions :		
Valuation discount rate	6.50% per annum	6.50% per annum
Assumed return on CCA	6.00% per annum	6.00% per annum

in 0 2.7(it1)]TJ (ar)4e

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

### 7. Net assets available for benefits

The net assets available for benefits as at December 31 are allocated as follows:

	2016		2015
Combined contribution accounts ("CCA")	\$ 464,224	\$	466,792
Variable benefit accounts ("VBA")	359,246		342,181
Additional voluntary contribution accounts ("AVC")	16,265		14,984
Defined retirement benefit account ("DRBA")	169,061		151,032
Internal variable annuity account ("IVAA")	87,843		71,799
	\$ 1,096,639		

---

---

---

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

### 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, 2016 would have decreased (increased) investments held in foreign currencies by approximately \$20.5 million (2015: \$20.9 million).

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

The Fixed Income Manager may purchase US Treasury Bonds, provided the foreign currency exposure is hedged through the purchase of currency contracts.

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. Duration is an appropriate measure of interest rate risk for fixed-income securities (bonds, mortgages and short-term notes) as a rise in interest rates will cause a decrease in the price of fixed income securities – the longer the duration, the greater the effect. At December 31, 2016, the average duration of the fixed income securities was 7.6 years (2015: 7.4 years). Therefore, if nominal interest rates were to increase by 1%, the value of the fixed income securities would drop by 7.6% (2015: 7.4%).

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

### 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 5.9%, within a range of +/- 9.2% (i.e., results ranging from -3.3% to 15.1%) and the Defined Retirement Benefit Fund will return around 6.4%, within a range of +/- 11.9% (i.e., results ranging from -5.5% to 18.3%).

	Volatility %	
Short-term holdings	+/- 1.5	
Bonds and mortgages	+/- 5.4	
Canadian equities	+/- 19.5	
Foreign equities	+/- 17.1	
Real estate	+/- 13.0	
	%	Net impact on market
Benchmark for investments	change	

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (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, 2016, the maximum risk exposure for this type of investment is \$299.7 million (2015: \$284.5 million) in the B 2

---

---

# University of Victoria Combination Pension Plan

## Notes to the Financial Statements

December 31, 2016 (expressed in \$000's)

---

### 14. Capital disclosures (continued)

The benchmark and ranges for the funds are as follows:

	Balanced Fund		DRBA	
	Benchmark	Range	Benchmark	Range
Cash and equivalents	0%	0-21%	0%	0-20%
Canadian bonds	36%	20-46%	20%	15-25%
Canadian equities	22%	14-27%	25%	15-35%
Foreign equities	32%	20-40%	45%	40-50%
Real estate	10%	5-15%	10%	5-15%

The Plan is also subject to the Pension Benefits Standards Act (BC) and Regulations, which require that solvency and going concern actuarial valuations are performed every three years, at which time the Plan must take measures to eliminate any funding deficiencies that may arise.

---