



# Financial Statements

University of Victoria Money Purchase Pension Plan

December 31, 2014

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# Independent Auditor's Report

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To the Trustees of University of Victoria Money Purchase Pension Plan

We have audited the accompanying financial statements of the University of Victoria Money Purchase Pension Plan, which comprise the statement of financial position as at December 31, 2014 and the statement of changes in net assets available for benefits and the statement of changes in obligations for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

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We believe that the audit evidence we have obtained 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 Money Purchase Pension Plans at December 31, 2014 and financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Victoria, Canada  
March 3, 2015

Chartered accountants

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# University of Victoria Money Purchase Pension Plan

## Statement of Changes in Net Assets Available for Benefits

Year Ended December 31

2014

2013

### Change in net assets

#### Net return on investments (Note 5)

Interest income	\$ 577,703	\$ 501,111
Mortgage income	38,536	31,718
Dividend income	114,104	131,798
Net realized and unrealized gain on investments	4,455,873	4,827,285
Investment administration costs	<u>(120,080)</u>	<u>(90,059)</u>
	<u>5,066,136</u>	<u>5,401,853</u>

#### Contributions (Note 1)

Members' required	852,474	809,182
Members' additional voluntary	48,926	28,580
University's required	1,980,791	1,867,715
Transfers from other plans	<u>258,753</u>	<u>78,898</u>
	<u>3,140,944</u>	<u>2,784,375</u>

#### Payments to or on behalf of members

Pensions to retired members or beneficiaries	(263,097)	(180,884)
Members' accounts transferred and refunded, and death benefits	<u>(1,553,107)</u>	<u>(1,425,674)</u>
	<u>(1,816,204)</u>	<u>(1,606,558)</u>

#### Operating expenses

Office and administrative costs	(20,235)	(16,440)
Audit registration and legal fees	<u>(5,793)</u>	<u>(5,716)</u>
	<u>(26,028)</u>	<u>(22,156)</u>

#### Increase in net assets

6,364,848 6,557,514

#### Net assets available for benefits, beginning of year

42,058,615 35,501,101

#### Net assets available for benefits, end of year

\$ 48,423,463 \$ 42,058,615

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University of Victoria Money Purchase Pension Plan  
Statement of Changes in Obligations for Benefits

Year Ended December 31

2014

2013

Obligations for benefits, beginning balance

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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

December 31, 2014

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### 1. Description of plan

The following description of the University of Victoria Money Purchase Pension Plan is a summary only. For more complete information, reference should be made to the Trust Agreement.

#### (a) General

The Plan is a defined contribution pension plan. The Plan covers all faculty and administrative and academic professional staff holding regular appointments of 50% or more of full-time but less than full time and for assistant teaching professors and sessional lecturers.

#### (b) Funding policy

In accordance with the Trust Agreement, members are required to contribute 3% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) (\$52,500 in 2014), and 5% of the basic salary in excess of that amount. The contributions are directed to the members' money purchase contribution accounts.

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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

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1. Description of plan (continued)

(e) Retirement options

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

- x External annuity from a life insurance company.
- x Transfer to (locked-in) registered retirement savings plans.
- x Transfer to a combination of registered retirement income funds and life income funds.
- x Variable benefit (provided their account balance is at least twice the Year's Maximum Pensionable Earnings).

(f) Termination and portability benefits

Upon termination of employment, members may retain the balance in their money

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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

December 31, 2014

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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

December 31, 2014

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### 4. Investments (fair value)

The assets of the Plan are pooled for investment purposes with the Balanced Fund assets of the University of Victoria Combination Pension Plan. At December 31, 2014, 5.52% (2013: 5.3%) of the assets held in the Balanced Fund were in respect of the University of Victoria Money Purchase Pension Plan.

The Plan's investments are recorded at fair value or at amounts that approximate fair value. Fair value is the amount at which the investment could be exchanged in a current financial transaction between willing parties. The investments are categorized according to a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs that are not observable for the asset or liability.

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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

December 31, 2014

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

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

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 4,849,098	\$ 4,334,873
Sales	(33,229)	-
Unrealized gains	<u>607,542</u>	<u>514,225</u>
Ending balance	<u>\$ 5,423,411</u>	<u>\$ 4,849,098</u>

Short-term notes consist of Canadian money market securities maturing in 12 months or less and include treasury bills and guaranteed investment certificates. Mortgages consist of units in a pool of first mortgages on income-producing property in Canada. Canadian bonds consist of government and corporate bonds and debentures. Foreign bonds consist of Maple Bonds and US treasury bonds. 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.

The Plan invests in the BC Investment Management Corporation's Currency Hedging Fund (the "Fund"). The Fund is used for defensive purposes in order to protect clients' foreign investments from the impact of an appreciating Canadian dollar (relative to the foreign currency). The Fund 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.

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# University of Victoria Money Purchase Pension Plan

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### 10. Risk management (continued)

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 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, 2014, the average duration of the fixed income securities in the Balanced Fund was 7.2 years (2013: 6.4 years). Therefore, if nominal interest rates were to increase by 1%, the value of the Balanced Fund fixed income securities would drop by 7.2% (2013: 6.4%).

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 6.4%, within a range of +/- 9.4% (i.e., results ranging from -3.0% to 15.8%).

	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 value in thousands
Benchmark for investments	% change	
FTSE TMX Canada 91-day Treasury Bill Index	+/-1.5	8
FTSE TMX Canada Universe Bond Index	+/- 5.4	812
S&P/TSX Capped Composite Index	+/-19.5	2,055
MSCI World Net Index	+/- 17.1	2,860
Canadian Consumer Price Index (real estate)	+/- 13.0	705

Other price risk is managed by diversification of the portfolio, both by investment managers (three) with differing investment styles and mandates and by allocation of equities across a range of sectors and companies.

### Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner in order to meet commitments as they come due. The primary liabilities in the Plan are defined contribution entitlements (see MPCA, AVC and VBA account balances in Note 6), and operating expenses. Liquidity requirements are managed through income generated by monthly contributions and investing in sufficiently liquid (eg. publicly traded) equities, pooled funds and other easily marketable instruments. 2

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University of Victoria Money Purchase Pension Plan  
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# University of Victoria Money Purchase Pension Plan

## Notes to the Financial Statements

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### 11. Capital disclosures

The purpose of the 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, to have sufficient assets to meet future obligations for benefits and to have sufficient liquidity to meet all benefit and expense payments.

In accordance with regulatory requirements, the Board of Pension Trustees has established a Statement of Investment Policies and Goals ("SIP&G") which sets out the investment principles, guidelines and monitoring procedures that are appropriate to the needs and objectives of the Plan. The SIP&G sets out benchmarks and asset allocation ranges that are intended to best secure the obligations for benefits and result in reasonable risk-adjusted return on investment. Individual investment decisions are delegated to investment managers subject to the constraints of the SIP&G and individual manager mandates. As required, the Board of Pension Trustees reviews the SIP&G and manager structure at least annually, and makes such changes to the SIP&G and/or mandates as it deems necessary. With the assistance of an outside consultant, the Board of Pension Trustees and the Pension Office regularly monitor the asset mix of each manager and fund to ensure compliance with the SIP&G and mandates.

The benchmark and ranges for the Balanced Fund are as follows:

	Benchmark	Range
Cash and equivalents	0%	0-21%
Universe bonds	36%	20-46%
Canadian equities	22%	14-27%
Foreign equities	32%	20-40%
Real estate	10%	5-15%

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