Financial Statements

University of Victoria Staff Pension Plan

December 31, 2013

Contents

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Staff Pension Plan as at December 31, 2013, and its financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Grant Thornton LLP

Victoria, Canada
May 13, 2014

Chartered accountants

University of Victoria Staff Pension Plan
Statement of Financial Position Other

December 31		2013		2012
Assets				
Cash	**$**	**204,056**	$	3,324
Investments (Note 4)				
Short-term notes		**3,493,770**		3,156,813
Canadian bonds		**72,962,037**		69,035,549
Mortgages		**5,350,970**		4,704,302
Canadian equities		**28,543,260**		33,263,895
Foreign equities		**63,522,256**		41,834,131
Currency hedging fund		**114,569**		154,908
Real estate		**22,862,361**		21,191,689
Infrastructure		**11,007,169**		12,812,532
		207,856,392		186,153,819
Receivables				
Members' contributions		**184,236**		197,299
University contributions		**470,321**		547,236
Accrued interest and dividend income		**160,054**		190,787
Other		**20,552**		28,964
		835,163		964,286
		208,895,611		187,121,429
Liabilities				
Payables and accruals		**234,520**		157,520
Net assets available for benefits				
Available for supplementary benefits				

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

Year ended December 31		**2013**		2012
Change in net assets				
Net return on investments (Note 5)				
Interest income	**$**	**3,814,133**	$	3,105,818
Dividends		**759,540**		408,070
Realized net gains		**15,342,984**		

1. Description of plan

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:

	On average salary up to the average YMPE	On average salary over the average YMPE
On service up to December 31, 1989	1.65%	2.00%
On service during 1990 and 1991	1.30%	2.00%
On service from 1992 through 1999	1.50%	2.00%
On service from January 1, 2000	1.70%	2.00%

(d) Early retirement

Members may elect early retirement at the end of any month following attainment of age 60 with no reduction provided that the member retired from active status. Members may retire between age 55 and 60 on a reduced pension. The reduction rates for retirement on an immediate pension are 3% for each year that the member is under age 60 when the pension commences. The reduction rates for retirement from inactive status (deferred) are actuarial and are between 5% and 6% for each year that the member is under age 65 when the pension commences.

(e) Disability pensions

Prior to April 1, 2006, members who became totally and permanently disabled and were in receipt of a disability pension from Canada Pension Plan were eligible to receive a disability pension from the plan equal to the pension they would have received had they continued to contribute to the plan to normal retirement. Only those members who met disability criteria prior to April 1, 2006 are in receipt of this benefit.

(f) Adjustments to pensions

Pensions are adjusted each January 1st by reference to the change in the Canadian Consumer Price Index (CPI) to a maximum of +/-3% per year since the member's last contribution date. The change in the CPI effective January 1, 2013 was 2.0%.

When the change in the CPI exceeds 3%, the Investments and Administration Committee may authorize additional indexing from the Supplementary Retirement Benefit Account (Note 9) 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.

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

These financial statements have been prepared in accordance with Canadian accounting

3.

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:

		2013	2012
Short-term notes	Level 1	**$ 3,493,770**	$ 3,156,813
Canadian bonds	Level 1	**43,911,195**	39,643,848
Canadian bonds	Level 2	**29,050,842**	29,391,701
Mortgages	Level 1	**5,350,970**	4,704,302
Canadian equities	Level 1	**28,543,260**	33,263,895
Foreign equities	Level 1	**63,522,256**	41,834,131
Currency contracts	Level 2	**114,569**	154,908
Real estate	Level 3	**22,862,361**	21,191,689
Infrastructure	Level 3	**11,007,169**	12,812,532
		$ 207,856,392	$ 186,153,819
Fair value hierarchy			
Level 1		**$ 144,821,451**	$ 122,602,989
Level 2		**29,165,411**	29,546,609
Level 3		**33,869,530**	34,004,221
		$ 207,856,392	$ 186,153,819

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

	Real Estate	Infrastructure	Total
Beginning balance, January 1, 2013	$ 21,191,690	$ 12,812,532	**$ 34,004,222**
Purchases	-	768,247	**768,247**
Sales	-	(4,210,303)	**(4,210,303)**
Unrealized gains	1,670,671	1,636,693	**3,307,364**
Ending balance, December 31, 2013	$ 22,862,361	$ 11,007,169	**$ 33,869,530**
Beginning balance, January 1, 2012	$ 18,177,951	$ 9,015,664	**$ 27,193,615**
Purchases	1,296,418	2,000,735	**3,297,153**
Unrealized gains	1,717,321	1,796,133	**3,513,454**
Ending balance, December 31, 2012	$ 21,191,690	$ 12,812,532	

5. Net return on investments

The Plan earned a gross rate of return of 12.46% (2012: 9.62%) and a net rate of return of 11.91% (2012: 9.13%). Net returns are as follows:

	2013	2012
Interest		
Cash and short-term notes	**$ 23,459**	$ 34,784
Bonds	**3,310,742**	2,792,838
Mortgages	**206,773**	214,136
Other	**273,159**	64,060
Dividends from Canadian equities	**-**	408,070
Net realized gains	**15,082,252**	4,624,788
Net unrealized gains	**4,305,448**	8,435,879
	23,201,833	16,574,555
Investment costs		
Manager fees	**533,004**	445,937
Custodial fees	**66,750**	64,564
Other	**121,633**	197,646
	721,387	708,147
Total net investment return	**$ 22,480,446**	$ 15,866,408

6. Obligations for pension benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and administrator's best estimated assumptions. An actuarial valuation was made as of December 31, 2010 by Towers Watson Canada Inc., a firm of consulting actuaries, and was then extrapolated by the actuary to December 31, 2013. The next required actuarial valuation for funding purposes will have an effective date of December 31, 2013.

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:

Interest assumption – Assets	**6.00%**	6.00%
Interest assumption – Liabilities	**6.00%**	6.00%
Salary escalation	**3.25%**	3.25%
Cost of living increase	**2.25%**	2.25%

6. Obligations for pension benefits (continued)

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends (consistent with assumptions underlying the valuation of the accrued pension benefits). The actuarial present value of accrued pension benefits includes both the accrued pension benefit and the voluntary contribution accounts. The actuarial value of net assets is based on market values.

Actuarial present value of accrued pension benefits	**2013**	2012
Actuarial present value of accrued pension benefits, beginning of year	**$ 174,846,350**	$ 165,935,571
Increase (decrease) during the year due to:		
Interest accrued on benefits	**10,690,526**	10,140,636
Benefits accrued	**7,655,092**	7,348,339
Benefits paid	**(8,714,887)**	(8,578,1963

11. Risk management (continued)

Price risk (continued)

Market risk: Market 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. Market 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 Plan's current asset class holdings shown below, the expectation is that over the long-term, the Plan will return around 6.3% (2012: 6.1%), within a range of +/- 8.2% (i.e., results ranging from -1.9% to 14.5%). The volatility measures are calculated as average annual standard deviations over 20 years.

	Estimated volatility %
Canadian equities	+/- 21.1
Foreign equities	+/- 17.5
Real estate	+/- 10.0
Short-term holdings	+/- 2.0
Bonds	+/- 4.9
Infrastructure	+/- 15.0

Benchmark for investments	% change	Net impact on market value (in thousands)
DEX 91-day Treasury Bill Index	+/- 2.0	+/- 70
DEX Universe Bond Index	+/- 4.9	+/- 3,575
S&P/TSX Capped Composite Index	+/- 21.1	

11. Risk management (continued)

Credit risk (continued)

The Plan limits the risk in the event of non-performance related to derivative financial instruments by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Rating	Allocation
Cash and short-term securities	6.8%
AAA	11.0%
AA	41.4%
A	18.1%

14. Prior period adjustment

The Plan has determined that the accrued pension benefits that were reported in 2012 were overstated due to the additional voluntary contribution accounts being incorrectly included.

As a result of the correction, the following financial statement items as at December 31, 2012 have been increased (decreased) by the following amounts:

Statement of Financial Position	As previously reported	Adjustment	As restated
Accrued pension benefits	$ 174,846,350	$ (977,606)	$ 173,868,744
Net assets available for benefits less obligations for benefits	$ 1,401,729	$ 977,606	$ 2,379,335