



Financial Statements

University of Victoria Staff Pension Plan

December 31, 2016

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Independent Auditors' Report

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To the Investments and Administration Committee

We have audited the accompanying financial statements of the University of Victoria Staff Pension Plan, which comprise the statement of financial position as at December 31, 2016 and the statements of changes in net assets available for benefits and 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 Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Victoria, Canada
May 12, 2017

Chartered Professional Accountants

University of Victoria Staff Pension Plan

Statement of Financial Position

December 31 (expressed in \$000s)	2016	2015
Assets		
Cash	\$ <u>26</u>	\$ 80
Investments (Note 4)		
Short-term	3,833	1,600
Canadian bonds	87,724	89,198
Mortgages	6,190	7,680
Canadian equities	35,758	27,764
Foreign equities	76,758	78,240
Real estate	23,239	22,756
Infrastructure	<u>24,144</u>	15,994
	<u>257,646</u>	243,232
Receivables		
Members' contributions	195	211
University contributions	497	509
Accrued interest and dividend income	238	259
Transactions to be settled and other	<u>153</u>	1,265
	<u>1,083</u>	2,244
	258,755	245,556
Liabilities		
Accounts payable and accrued liabilities	127	171
Currency hedges	<u>-</u>	31
	<u>127</u>	202
Net assets available for benefits (Note 7)		
Available for supplementary benefits	14,601	13,555
Available for accrued pension benefits	<u>244,027</u>	231,799
	<u>258,628</u>	245,354
Obligations for benefits		
Voluntary contribution accounts	922	914
Supplementary benefits (Notes 7 and 9)	14,601	13,555
Accrued pension benefits (Note 6)	209,893	200,473
	225,416	214,942
Net assets available for benefits less obligations for benefits	\$ 33,212	\$ 30,412

University of Victoria Staff Pension Plan

Statement of Changes in Net Assets Available for Benefits 994

Year ended December 31 (expressed in \$000s)

2016

2015

Change in net assets

Net return on investments (Note 5)

Interest and other income	\$	4,589	\$	3,190
Mortgage income		206		251
Dividend income		1,020		994
Net realized and unrealized gain on investments		10,355		12,935
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University of Victoria Staff Pension Plan
Statement of Changes in Obligations for Benefits

Year ended December 31 (expressed in \$000s)

2016

2015

University of Victoria Staff Pension Plan
Notes to the Financial Statements

December 31, 2016

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

1. Description of plan (continued)

(g) Termination and portability benefits

Upon termination of employment, members may leave their contributions on deposit for a deferred pension or elect to transfer the lump sum commuted value of their pension to a locked-in retirement account (LIRA) or another Registered Pension Plan. If the lump sum value is less than 20% of the YMPE, the member may transfer the commuted value on a non-locked-in basis or receive a cash payment, less withholding tax.

(h) Survivor benefits before retirement

If a member has a spouse, their spouse is automatically entitled to the survivor benefit; however, they can designate another beneficiary if their spouse has waived their entitlement. A spouse who has not waived their entitlement has the choice of one of the following survivor benefits:

- i) a lifetime monthly pension but guaranteed for 120 payments in any event which is the actuarial equivalent to the commuted value amount calculated in ii) below, payable the first of the month following the member's death; or
- ii) a lump sum transfer of the full commuted value of the pension accrued to the member's date of death.

A beneficiary who is not a spouse is entitled to a lump sum equal to the full commuted value of the accrued pension.

(i) Survivor benefits after retirement

The survivor benefit after retirement or commencement of a disability pension is determined by the optional form selected by the member when the pension commenced. The normal form for a member who has a spouse is a joint and last survivor pension where 50% of the benefit continues to the surviving spouse. The normal form for a member who does not have a spouse is a single life pension where payments continue for the member's lifetime with a guaranteed minimum of 10 years if the member does not survive for 10 years after retirement. The optional forms available are as follows:

- x Joint and last survivor where 60%, 66.7% or 100% of the benefit continues to a surviving spouse (>>BDC /C2_0 1 5 0 Td f.4(>>Bt)-1(s).217 0 Td4.4(ber)-6.3(does)-8(not)-1.1()JTJ T*

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

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

Basis of presentation

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. The University has chosen to apply International Financial Reporting Standards ("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.

Investments

Investments are stated at fair value. Fair value is determined using market values where available. Fair value for foreign 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. Infrastructure investments are held through limited partnership units investing in infrastructure assets. The fair value of limited partnership units are stated at values reported in their respective audited financial statements. Investments are valued twice annually based on the most recent external managers' valuations of the underlying infrastructure assets.

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.

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

3. Summary of significant accounting policies (continued)

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 obligations for benefits.

4. Investments (fair value)

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 hiu.1(e -1.1 -0.01)-24.4(ount)-7.9(or)--6.3(ov)4.1(ed)]TJ '42ovan'.4(at)-1.1(e f)-13.1(ai)3es and as quo8

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

5. Net return on investments

The Plan earned a gross rate of return of 6.63% (2015: 7.59%) and a net rate of return of 6.08% (2015: 7.02%). Net returns are as follows:

	<u>2016</u>	2015
Interest		
Cash and short-term notes	\$ 21	\$ 23
Bonds	3,072	2,830
Mortgages	206	251
Other income	1,496	337
Dividends from Canadian equities	1,020	994
Net realized gains	7,673	19,793
Net unrealized gains	<u>2,682</u>	(6,858)
	<u>16,170</u>	17,370
Investment costs		
Manager fees	852	785
Custodial fees	71	75
Other	55	84
	978	944
Total net investment return	\$ 15,192	\$ 16,426

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

6. Obligations for pension benefits (continued)

	December 31, 2016	December 31, 2015
Demographic Assumptions:		
Mortality table	115% of the 2014 Canadian Pensioners Mortality Table projected generationally using improvement scale CPM-B	115% of the 2014 Canadian Pensioners Mortality Table projected generationally using improvement scale CPM-B

7. Net assets available for benefits

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

	2016	2015
Basic Plan	\$ 243,105	\$ 230,885
Supplementary Retirement Benefit Account	14,601	13,555
Additional Voluntary Contribution Accounts	922	914
	\$ 258,628	\$ 245,354

8. Actuarial valuation for funding purposes

An actuarial valuation of the Plan's assets and pension obligations is performed every three years on both a going concern and solvency basis (as required under the British Columbia Pension Benefits Standards Act [PBSA]) to determine an appropriate contribution rate. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service. The most recent valuation for funding purposes was prepared by Willis Towers Watson as of December 31, 2013 and a copy of this valuation is filed with the British Columbia Pension Standards Branch.

The valuation on a going concern basis disclosed an actuarial surplus of \$26.5 million as at December 31, 2013 (2010: \$9.9 million). The solvency valuation as at December 31, 2013 resulted in a solvency deficiency of \$41.9 million (2010: \$33.0 million), which, under the PBSA Regulation, must be amortized over a period of five years, unless an extension is granted, or a letter of credit is secured in lieu of making the payments. The University has arranged a letter of credit to secure the solvency deficiency payment.

The next required valuation will be as at December 31, 2016, completed in 2017.

University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

9. Supplementary retirement benefit account

The Supplementary Retirement Benefit Account is a reserve to provide pensioners who have reached age 66 with increases that are supplemental to the increases provided under the Basic Plan (Note 1(f)). Supplementary increases are authorized by the Staff Pension Plan Investments and Administration Committee in consultation with the plan actuary and are subject to the availability of funds in the Supplementary Retirement Benefit Account. The increases are limited so that the total increase in any one year from the combined basic and supplementary provisions does not exceed the increase in the Canadian CPI.

10. Related party transactions

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University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

11. Risk management (continued)

Price risk (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 and that pension liabilities are exposed to the impact of changes in long term market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices – the longer the duration, the greater the effect. At December 31, 2016, the average duration of the bond portfolio was 7.61 years (2015: 7.40 years). Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 7.61% (2015: 7.40%).

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 5.5% (2015: 5.7%), within a range of +/- 8.5% (i.e., results ranging from -3.0% to 14.0%). The volatility measures are calculated as average annual standard deviations over 20 years.

Price risk (continued)

	<u>Estimated volatility %</u>
Short-term holdings	+/- 2.3
Bonds and mortgages	+/- 5.0
Canadian equities	+/- 21.0
Foreign equities	+/- 17.5
Real estate	+/- 10.1
Infrastructure	+/- 17.7

Benchmark for investments	<u>% change</u>	<u>Net impact on market value</u> (in thousands)
FTSE TMX Canada 91-day Treasury Bill Index	+/- 2.3	+/- 88
FTSE TMX Canada Universe Bond Index	+/- 5.0	+/- 4,696
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University of Victoria Staff Pension Plan

Notes to the Financial Statements

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

11. Risk management (continued)

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 future benefit obligations (Note 6) and operating expenses. Liquidity requirements are managed through income generated by monthly contributions and investing in sufficiently liquid (e.g. publicly traded) equities, pooled funds and other easily marketable instruments.

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer or derivative contract counter-party to meet its debt obligations. At December 31, 2016, the maximum risk exposure for this type of investment is \$97,746 (2015: \$98,478).

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:

<u>Rating</u>	<u>Allocation</u>
Cash and short-term securities	5.7%
AAA	25.2%
AA	31.1%
A	16.0%
BBB	15.3%
BB and below	
