Financial Statements

University of Victoria Combination Pension Plan

December 31, 2018

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Grant Thornton LLP

To the Trustees of the University of Victoria Combination Pension Plan

Opinion

We have audited the financial statements of the University of Victoria Combination Pension Plan, which comprise the statement of financial position as at December 31, 2018, and the statements of changes in net assets available for benefits and changes in obligations for benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the University of Victoria Combination Pension Plan as at December 31, 2018, and its changes in net assets available for benefits and its changes in obligations for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the University of Victoria Combination Pension Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance 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.

In preparing the financial statements, management is responsible for assessing the University RI 9LFWRULD &RPELQDWLRQ 3HQVLRQ 3ODQ¶V DELOLW\ WR FRQW applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the University of Victoria Combination Pension Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the University of Victoria &RPELQDWLRQ 3HQVLRQ 3ODQ¶V ILQDQFLDO UHSRUWLQJ SURFHV

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Our objectives are to obtain reasonable assurance about whether the financial statements as a ZKROH DUH IUHH IURP PDWHULDO PLVVWDWHPHQW ZKHWKHU GX report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we

University of Victoria Combination Pension Plan
Statement of Financial Position

December 31 (expressed in $000's)	2018	2017
Assets		
Cash	**$ 3,892**	$ 3,201
Investments (Note 4)		
Short-term	**2,104**	11,316
Canadian bonds	**358,769**	322,705
Mortgages	**-**	15,439
Canadian equities	**255,170**	272,498
Foreign equities	**445,887**	459,608
Real estate	**110,876**	104,148
	1,172,806	1,185,714
Receivables		
Accrued interest and dividend income	**249**	897
Transactions to be settled	**34**	42
	283	939
	1,176,981	1,189,854
Liabilities		
Accounts payable and accrued liabilities	**1,055**	934
	1,055	934
Net assets available for benefits (Note 7)		
Available for defined contribution benefits	**976,826**	994,480
Available for defined benefit pensions and supplements	**199,100**	194,440
	1,175,926	1,188,920
Obligations for benefits		
Defined contribution benefits	**976,826**	994,480
Accrued defined benefit pensions and supplements (Note 6)	**64,341**	49,252
Net assets available for benefits less obligations for benefits	**$ 134,759**	$ 145,188

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

Year Ended December 31 (expressed in $000's)	**2018**	2017
Change in net assets		
Net return on investments (Note 5)		
Interest income	**$ 9,988**	$ 9,476
Mortgage income	**241**	549
Dividend income	**4,154**	2,935
Net realized and unrealized (loss) gain on investments	**(16,561)**	92,792
Investment administration costs	**(4,221)**	(3,170)
	(6,399)	102,582
Contributions (Note 1)		
Members' required	**9,591**	9,254
Members' additional voluntary11.04 re W* n BT /F1 9.96 Tf 1 0 0 1 10.68 327.43 Tm d 0		

See accompanying notes to the financial statements.

University of Victoria Combination Pension Plan
Statement of Changes in Obligations for Benefits

Year Ended December 31 (expressed in $000's)		**2018**		2017
Change in obligations for benefits - defined contribution				
Beginning balance, obligations for defined contribution benefits	**$**	**994,480**	$	927,578
Net investment returns		**(3,817)**		84,460
Contributions		**24,859**		25,835
Benefits paid		**(31,768)**		(28,852)
Accounts transferred or refunded		**(6,928)**		(14,541)
Change in obligations for benefits		**(17,654)**		66,902
Ending balance	**$**	**976,826**	$	994,480
Change in obligations for benefits - defined benefit				

See accompanying notes to the financial statements.

1. Description of plan

The following description of the University of Vic W R U L D & R P E L Q D W L R Q 3 H Q V L R Q 3 O D Q ³W

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:

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 YT 1 0 0 1 144.74 476.23 ar

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 variable benefit pensioner is the total in the member's Variable Benefit Account.

The survivor benefit for a pensioner in receipt of an internal variable annuity pension from the Plan is determined by the optional form selected by the member immediately prior to commencement of the annuity. 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) Adjustments to pensions

Internal variable annuities are adjusted each July 1st based on the investment performance of the underlying net assets for the preceding calendar year. As at July 1, 2018 the 3.5% and 5% internal variable annuities were increased for investment performance by 5.48% (2017: 1.1% increase) and 3.97% (2017: 0.34% decrease), respectively. In accordance with the Plan Document these annuities are then subject to adjustment arising from the longevity experience of the annuitant group. As at July 1, 2018 the internal variable annuities were reduced by 0.1% (2017: 0.1% reduction) to reflect the annual adjustment for net mortality loss.

Defined benefit pensions and the defined benefit minimum for eligible 3.5% annuitants, are adjusted each July 1st, by reference to the annual change in the Canadian Consumer Price Index (CPI) to a maximum of 3% per year since the commencement date of the pension. The maximum adjustment in any one year is also 3%.The increase in the CPI was 1.6% from 2017 to 2018 resulting in an adjustment to defined benefit pensions and minimum benefits on July 1, 2018 of 1.6% (2017: 1.5%).

(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

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 Ca
Private Enterprises "ASPE". The Trustees selected IFRS for
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.

3. Summary of significant accounting policies (continued)

(c) Use of estimates

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December 31, 2018 (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:

	2018			2017
	Balanced Fund	DRBA	**Total**	Total
Short-term notes - Level 1	$ 117	$ 114	**$ 231**	$ 9,445
Short-term notes - Level 2	1,873	-	**1,873**	1,871
Canadian bonds - Level 1	316,675	42,094	**358,769**	125,511
Canadian bonds - Level 2	-	-	**-**	197,194
Mortgages - Level 1	-	-	**-**	15,439
Canadian equities - Level 1	100,253	51,651	**151,904**	161,430
Canadian equities - Level 2	103,266	-	**103,266**	111,068
Foreign equities - Level 2	353,774	92,113	**445,887**	459,608
Real estate - Level 3	97,712	13,164	**110,876**	104,148
	$ 973,670	$ 199,136	**$ 1,172,806**	$ 1,185,714
Fair value hierarchy				
Level 1	$ 417,045	$ 93,859	**$ 510,904**	$ 311,825
Level 2	458,913	92,113	**551,026**	769,741
Level 3	97,712	13,164	**110,876**	104,148
	$ 973,670	$ 199,136	**$ 1,172,806**	$ 1,185,714

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classified as level 3 investments:

	Balanced Fund	DRBA	**Total**

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.

December 31, 2018 (expressed in $000's)

5. Net return on investments

Net investment returns less operating expenses are distributed to members ¶accounts at the end of each month.

The Balanced Fund realized a gross return of 0.03% (2017: 9.52%) and a net loss of -0.42% (2017: 9.17%). The Defined Retirement Benefit Account realized gross return of -1.15% (2017: 10.53%) and a net loss of -1.56% (2017: 10.15%). Net investment returns by fund are as follows:

		2018		2017
	Balanced Fund	DRBA	**Total**	Total
Interest				
Cash and				
short-term notes	$ 142	$ 2	**$ 144**	$ 151
Bonds	8,664	1,180	**9,844**	9,325
Mortgages	241	-	**241**	549
Dividends				
Canadian equities	2,440	1,714	**4,154**	2,935
Net realized gains	27,039	6,377	**33,416**	47,508
Net unrealized (losses) gains	(38,266)	(11,711)	**(49,977)**	45,284

260

December 31, 2018 (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, 2018	December 31, 2017
Economic assumptions:		
Valuation discount rate	6.50% per annum	6.25% per annum
Assumed return on CCA	6.00% per annum	6.00% per annum
Salary scale ±faculty members	2.50% per annum plus career progression increments (CPI), merit increments (MI), and dollar amount adjustments (DPA)	2.50% per annum plus career progression increments (CPI), merit increments (MI), and dollar amount adjustments (DPA)
Salary scale ±administrative and academic professional staff members	5.264% for the first 8 years of service, 2.00% thereafter	5.264% 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 8% per year, trending down from 8% per year at age 30 to 1.5% per year from age 40 until age 55.	Termination rate starts at 8% per year, trending down from 8% 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 45 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 45 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

December 31, 2018 (expressed in $000's)

7. Net assets available for benefits

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

		2018		2017
Combined contribution accounts ("CCA")	**$**	**455,882**	$	478,925
Variable benefit accounts ("VBA")		**394,093**		394,693
Additional voluntary contribution accounts ("AVC")		**16,963**		18,664
Defined retirement benefit account ("DRBA")		**199,099**		194,440
Internal variable annuity account ("IVAA")		**109,889**		102,198
	$	**1,175,926**	$	1,188,920

8. &RPELQHG FRQWULEXWLRQ DFFRXQWV ³&&$´

Each member of the plan who is not a pensioner has a CCA which is reported annually to the member. CCAs are invested in the Balanced Fund.

9. 9DULDEOH EHQHILW DFFRXQWV ³9%$´

Each member of the plan in receipt of a variable benefit pension has a VBA. VBAs are invested in the Balanced Fund.

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DQG XQUHVWULFWHG YRO Transfers from other pension plans that have restrictions imposed by the exporting plans are placed in RVA. Contributions made by members on a voluntary basis and transfers that are unrestricted are placed in UVA. All RVA and UVA are invested in the Balanced Fund as follows:

		2018		2017
Restricted voluntary accounts	**$**	**7,358**	$	9,079
Unrestricted voluntary accounts		**9,605**		9,585
	$	**16,963**	$	18,664

December 31, 2018 (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, 2018, the maximum risk exposure for this type of investment is $318.7 million (2017: $310.8 million) in the Balanced Fund and $42.2 million (2017: $38.7 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	30.6%	30.6%
AA	37.3%	37.3%
A	16.3%	16.3%
BBB	13.2%	13.2%
BB and below	1.3%	1.3%
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14. Capital disclosures (continued)

The benchmark and ranges for the funds are as follows:

	Balanced Fund		DRBA	
	Benchmark	**Range**	**Benchmark**	**Range**

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