Balanced Fund
Net Investment Returns to 30 September 2014
(unaudited)

Net returns are returns after all investment and operating expenses. It is the rate of return credited to members’ Combined Contribution Accounts, Money Purchase Contribution Accounts, Variable Benefit Accounts and Voluntary Contribution Accounts.

<table>
<thead>
<tr>
<th></th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Combination Plan</td>
<td>4.13%</td>
<td>2.70%</td>
<td>1.59%</td>
<td>8.65%</td>
</tr>
<tr>
<td>Money Purchase Plan</td>
<td>4.13%</td>
<td>2.69%</td>
<td>1.59%</td>
<td>8.64%</td>
</tr>
</tbody>
</table>

Letter from the Chair on fossil fuel investments

As you are probably aware, at our AGM in April, several members raised questions about the Pension Plan’s investments in companies involved in extraction and marketing of fossil fuels. At that meeting, the Trustees emphasized the primacy of their fiduciary duty to act in the best financial interests of all members and beneficiaries. Statute law in British Columbia remains very clear on this question and there is no recent case law, so the Trustees must continue to act according to this well-defined fiduciary duty. At the AGM, the Trustees also committed to study the possibility that government decisions to reduce burning of fossil assets might result in a so called “carbon bubble” and an over-valuation of fossil fuel companies. To this end, the Trustees have written to each of the Plan managers and to our Investment Consultant, asking for their views and whether they have procedures in place to include this risk in stock analysis. In addition, several Trustees have attended national and international investment conferences both for sessions specifically addressing fossil fuel issues and also actively seeking informal consultations with our colleagues from other institutions to hear their views and to determine what actions they are considering.

In response to our initiatives, we have received several hundred pages of analysis and comment from our various service providers, along with dozens of web references. Clearly, it is impossible to do justice to all this material in a brief letter but some major themes do emerge.

...continued over
Letter from Chair continued

1. Our managers all have programs in place to include environmental, societal, and governance (ESG) questions in their stock analysis. In particular, they note that the risk reserves may not be extracted is not new, even if one believes the present scale is without precedent. Investment analysts are well-used to evaluating companies for the likelihood that reserves will ultimately be produced, over what time, and at what cost. Companies vary widely by size, location, type of reserves, extraction/production and transport costs, and many other factors. It follows that their risks from “stranded assets” also vary greatly. More generally, we believe our managers are successfully managing ESG factors and, for example, one of our managers provided a Sustainalytics score for their energy portfolio which is over 100% better than the average of industry peers.

2. Our managers are unanimous in believing that divestment of Canadian fossil fuel companies would have an adverse impact on the risks and returns of the Plan’s portfolios. It is simply too large a market segment to exclude without consequence to absolute and relative performance.

3. Divestment is unlikely to be an effective tool to influence fossil fuel companies. Studies show that the pool of capital which might be divested by university and public pension funds is relatively small and, even if divested in its entirety, share prices are unlikely to suffer precipitous declines. Other investors may welcome the opportunity to increase holdings at short-term discounts.

4. Engagement with the management of target firms to ensure consideration of ESG factors is likely to be a more effective strategy than divestment and, as noted above, all our managers do this. It is also important to recognize that some of the largest fossil fuel companies are also the largest investors in alternative energy. Pressure from involved shareholders and possible future restrictions on fossil fuels will lead to further research and development of these alternatives, and to potentially profitable diversification for the companies involved. In any event, it is likely that the fossil fuel companies will provide the most viable investment opportunities over the next 5-10 years, but beyond this period alternative energies may present meaningful opportunities.

Helping us reach you

Periodically, the Pension Office is unable to contact a member, either because the member has moved without providing a new address, or has become infirm. Privacy laws prevent the Pension Office from contacting the spouse, beneficiary or family members for assistance. Exceptions to the privacy laws are when there is either a Power of Attorney (POA) document on file or written consent for us to contact a named individual. A POA may make directions regarding your pension on your behalf. An authorized contact just allows the Pension Office to contact that individual to ask for your new address or POA document. In the future, we will be asking retirees to optionally provide us with an authorized contact or POA.

Our colleagues at other institutions are broadly in agreement with essentially all of the foregoing and have taken essentially the same steps to question their managers on the role of ESG factors in stock selection. They intend, as do we, to continue to press managers on this question. Some defined contribution plans which include member choice in their structures have been able to include a “non-fossil fuel” option (with mixed success), but this is not an option for a hybrid plan with a defined benefit component such as ourselves.

Overall, the Trustees are very aware of the strength of feeling and commitment of some members, but do not feel divestment of fossil fuel companies at this time is consistent with their fiduciary responsibilities, nor is it the most effective means of managing this particular environmental and social risk. We will, of course, continue to monitor the situation, through our service providers and involvement with conferences and colleagues at other institutions.

Thank you all for your interest and patience on this complex issue.

Sincerely,

Pension Office

Pension Office
Mail: PO Box 1700, Stn CSC
Victoria, BC V8W 2Y2
Physical: Room B278, Administrative Services Building
Phone: (250) 721-7030
Email: pensions@uvic.ca

The material provided in this bulletin is for general information. If there is a discrepancy between it and governing documents, those documents apply.