

University of Victoria
Long Term Disability Plan for Faculty and
Administrative and Academic Professional Staff

ANNUAL REPORT

YEAR ENDED MARCH 31, 2013

LONG TERM DISABILITY PLAN – 2013 ANNUAL REPORT

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Letter from the Chair

The Trustees are pleased to provide this initial annual report to the members of the Long Term Disability Plan for faculty and administrative and academic professional staff of the University of Victoria.

The report is intended to provide an update and overview of the Plan for the year ended March 31, 2013.

Financial Highlights

The Trust's financial position continued to improve over the year with plan assets available for benefits of \$9.0 million, up from \$8.1 million over the previous year. Liabilities also increased as claim costs continue to rise to \$13.1 million, up from \$12.7 million over the previous year resulting in an unfunded liability of \$4.0 million (2012-\$4.7 million). The Plan's funded ratio now stands at 69%, up from 63% in 2012.

Operating Highlights

Much discussion took place over the year in the development of a Plan Funding Policy which was approved by the University on June 2013. The parameters provided in this Policy will help guide the Trustees in the funding of the plan and the contribution rate outlined in the 2011 actuarial valuation, consistent with a 10 year amortization of the unfunded liability, was implemented on July 1, 2013.

Looking Ahead

We anticipate that the funded status of the plan will continue to improve over the next year although the number of new disability claims continues to grow which impacts progress toward fully funded status.

Murray Griffith
Chair, Trustees of the UVic LTD Trust
November 1, 2013

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Governance and Service Providers

Trustees Appointed by the University Board of Governors	Murray Griffith – Chair Executive Director, Financial Services Mary Ellen Purkis Dean, Human and Social Development Kane Kilbey Associate Vice President Human Resources Timothy Pelton Faculty Member, Curriculum & Instruction (to June 30, 2013) Laura Cowen Faculty Member, Mathematics and Statistics (July 1, 2013 to June 30, 2015) Catherine Franz Occupational Health & Safety Consultant
Secretary	Teresa Rush Administrative Assistant, Financial Services
Investment Manager	Phillips, Hager & North Investment Management Ltd - Vancouver
Custodial Services	RBC Investors Services Limited – Vancouver
Actuarial Services	Mercer (Canada) Limited – Vancouver
Auditor	Grant Thornton LLP – Victoria

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Financial information at a glance

	March 2013	March 2012	March 2011
Number of plan members	1,616	1,627	1,621
Number of members receiving benefits	41	42	37
Total amount of benefits paid	1,936,679	1,697,749	1,490,820
Member contributions	2,751,386	2,723,601	2,661,032
Market Value of Investments	8,592,150	7,598,194	6,434,381
Gross investment income	369,727	624,664	294,509
Investment return	4.66%	9.26%	5.22%
Operating expenses	133,707	143,647	207,366
Net assets available for benefits	9,025,344	8,069,428	6,642,733
Liabilities for future benefits	13,056,159	12,728,159	11,128,482
Funded ratio	69%	63%	60%

Introduction

The LTD Trust was established in 2007 to manage the self-insured, employee-pay-all Long Term disability plan for Faculty and Administrative and Academic professional Staff of the University of Victoria (“the Plan”).

The purpose of the Plan is to provide long term disability benefits to faculty, administrative and academic professional staff (“Qualified Employees”) of the University who are enrolled and paying contributions within the Plan.

The Trustees

The Trustees have responsibility for the administration and overall management of the Plan as outlined in the Trust Agreement between the University and the Trust. The Board of Trustees currently consists of five members.

The duties and powers of the Trustees include:

- Maintaining an adequate reserve for the payment of future reimbursement sums to the benefit carrier, and for future administration expenses reasonably anticipated as likely to be incurred;
- Ensuring, at intervals to be agreed with the University, that actuarial valuations are undertaken;
- Determining the contribution rate, as guided by the Funding Policy and in light of the latest actuarial valuation, and informing the Board of Governors of the rate;
- Receiving from the University all LTD deductions from Qualified Employees’ salaries;
- Authorize and direct monthly payment to the benefit carrier for the cost of LTD claims;
- Investing and re-investing Trust fund monies remaining after reimbursement of the benefit carrier, otherwise known as reserve monies;
- Retaining such investment, legal, actuarial or other expertise or assistance as considered necessary or appropriate.

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Benefits

Long term disability benefits are calculated at 80% of monthly “net earnings” plus the amount required to maintain employee and University Pension Plan contributions. LTD benefits payable from the Plan are reduced by the amounts of any disability benefits payable from any University or government plan providing salary continuance or disability income paid during the disability period covered by this Plan. As the Plan is 100% funded by Qualified Employees, the benefits received are not taxable.

The definition of disability in the Plan Document is: “Means an employee who is wholly and continuously disabled due to sickness or injury and as a result is unable to perform the duties of his or her normal occupation or the duties of any occupation for which he or she is fitted by education, training or experience.” However, the long standing practice of the Plan is that claims are adjudicated only on a Qualified Employee’s “own occupation”, and there are no plans to change this practice for the foreseeable future.

Benefits are not paid to a Qualified Employee until the employee has been totally disabled for six months.

Benefits are indexed to the lower of:

- the annual increase in the Canada Consumer Price Index (“C.P.I.”); and
- the most recent annual across-the-board general salary adjustment granted to the Faculty.

Benefit payments from this Plan continue until the earliest of the following:

- the Qualified Employee is no longer considered to be “totally disabled”;
- the Qualified Employee’s death;
- the Qualified Employee’s normal retirement, meaning June 30 coinciding with or following the Qualified Employee’s 65th birthday.

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Contributions

The Plan is funded solely by contributions from Qualified Employees. Contribution rates are adjusted periodically to reflect the anticipated cost of new disabilities, the financial condition of the Plan, and the ongoing administration costs of the Plan. Since January 1, 2009, the contribution rate was 1.93% of basic monthly salary and has increased as of July 1, 2013 to 2.09% in accordance with the plan's latest actuarial valuation and university approved funding policy.

Historically, the Plan's contribution rate has been as follows:

Effective Date	Contribution Rate
July 1, 2013	2.09%
January 1, 2009	1.93%
July 1, 2008	1.75%
July 1, 2007	1.54%
July 1, 2006	1.24%

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Funding Policy

Shortly after the fiscal year, the University approved a Funding policy for the Plan which outlines key parameters the Trustees would follow in funding the plan.

In funding the Plan, the Trustees would ideally wish to accomplish four basic objectives:

1. Provide a high degree of certainty that the promised benefits will ultimately be delivered;
2. Contribution rates should be affordable for plan members;
3. The contribution rate as a percentage of salary should be stable and consistent over time;
4. The contribution rate should provide for intergenerational equity.

These basic objectives can be in conflict from time to time. The challenge facing the Trustees, therefore, is to operate the LTD Plan in a manner that provides a reasonable balance among these objectives.

The long term cost of the LTD Plan is influenced significantly by the number of members in receipt of benefits, the termination and recovery of disabled lives, the incidence of new disabilities, and the investment policy (and associated returns).

Benefit security is influenced significantly by the overall level of funding achieved by the LTD Plan, resulting from member contributions, the funding policy, the investment strategy employed by the Trustees and changes in plan liabilities. The contribution rate is influenced by:

- the recent plan experience related to termination and recovery of disabled lives;
- the recent plan experience related to incidence of disability;
- changes to government programs, such as Canada Pension Plan;
- demographic changes in the active membership;
- the overall funding target adopted by the Trustees;
- short to mid-term investment performance;
- the market value of assets; and
- the contribution setting methods used by the Trustees upon advice from the actuary.

Key funding parameters include:

- Liabilities will be valued on a going concern basis with an actuarial valuation every 3 years
- The target funding level for the plan is 100% of actuarial liabilities
- A deficit funded position exists when Plan assets are below 90% of actuarial liabilities
- Deficits (or unfunded liabilities) will be amortized over 10 years
- A surplus funded position exists when Plan assets exceed 110% of actuarial liabilities

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Investments

The Trustees have developed a Statement of Investment Objectives and Guidelines (“the Investment Policy”) for the Plan. It is reviewed by the Trustees on an annual basis.

The purpose of the Investment Policy is to provide a framework for investment of the funds to achieve a return objective within levels of risk acceptable to the Trustees.

Given the purpose of the Plan, the Trustees have adopted an investment framework that emphasizes a Liability Driven Investment (“LDI”) approach while meeting the general investment objectives of preserving capital in real terms and generating sufficient annual cash flow to meet expenditure requirements.

An LDI approach takes into consideration both assets and liabilities on a plan’s balance sheet and shifts investment goals away from asset benchmarks and the relationships among asset classes that have no direct relationship to the liabilities. Instead, LDI focuses on managing the funded status of the plan (Assets/Liabilities).

The goal of a LDI strategy is to match the interest rate sensitivity of the assets to the interest rate sensitivity of the liabilities. This immunizes the Plan and its funded status from interest rate risk as asset movements will be highly correlated with movements in liabilities.

The assets of the Plan were 100% invested in the Phillips Hager & North Bond fund and the RBC Institutional cash fund.

Administration

Claims adjudication and benefit payment services are contracted under an Administrative Services Only (ASO) agreement to British Columbia Life & Casualty Company. Membership and general administration, including the collection of member contributions, is undertaken by the University. BC Life's expenses and other administration costs are funded by the contributions to the Plan.

The Trustees have engaged Mercer Canada Limited to provide actuarial services to the Plan. In addition to a year-end estimate of Plan liabilities done each March 31 for financial reporting purposes, Mercers provides a full actuarial valuation every three years. The last valuation was done as of July 1, 2011 and the next full valuation is scheduled for July 1, 2014.

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Financial Statements

The Plan's financial statements are prepared by the Accounting Office of the University of Victoria and audited by the accounting firm of Grant Thornton LLP. The financial statement for the year ended March 31, 2013 follow.

LONG TERM DISABILITY TRUST
FINANCIAL STATEMENTS
MARCH 31, 2013

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LONG TERM DISABILITY TRUST

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY FOR FINANCIAL STATEMENTS

The University of Victoria is responsible for the preparation of the financial statements of the Long Term Disability Trust. The statements have been prepared in accordance with Canadian generally accepted accounting principles and present fairly the financial position of the Long Term Disability Trust as at March 31, 2013 and the results of its operations for the year then ended.

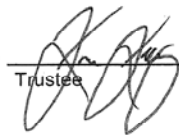
In fulfilling its responsibility and recognizing the limits inherent in all systems, the University's Administration has developed and maintains a system of internal controls designed to provide reasonable assurance that the Trust's assets are safeguarded from loss and that the accounting records are a reliable basis for preparation of the financial statements.

The financial statements have been examined by Grant Thornton LLP, the independent auditors appointed by the Trustees. The Independent Auditors' Report outlines the nature of their examination and expresses an opinion on the financial statements of the Trust for the year ended March 31, 2013.



Trustee

June 11, 2013



Trustee



Independent Auditors' Report

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To the board of trustees of the Long Term Disability Trust

We have audited the accompanying financial statements of the Long Term Disability Trust, which comprise the statement of financial position as at March 31, 2013, 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 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.

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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 Long Term Disability Trust as at March 31, 2013, and its financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Victoria, Canada
June 11, 2013


Grant Thornton LLP
Chartered accountants

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**LONG TERM DISABILITY TRUST
STATEMENT OF FINANCIAL POSITION
As at March 31, 2013**

	<u>2013</u>	<u>2012</u>
Assets		
Cash and cash equivalents	\$ 231,614	\$ 245,991
Cash held on deposit with benefit carrier	141,000	141,000
Income taxes receivable (note 7)	5,743	11,762
Due from University of Victoria	<u>227,147</u>	<u>227,338</u>
Investments (note 3)	<u>8,592,150</u>	<u>7,598,194</u>
	<u>9,197,654</u>	<u>8,224,285</u>
Liabilities		
Accounts payable and accruals	<u>172,310</u>	<u>154,857</u>
Net assets available for benefits	<u>9,025,344</u>	<u>8,069,428</u>
Accrued benefit obligations (note 4)	<u>13,056,159</u>	<u>12,728,159</u>
Deficit	<u>\$ (4,030,815)</u>	<u>\$ (4,658,731)</u>

On behalf of the board:



Trustee



Trustee

See accompanying notes to the financial statements

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LONG TERM DISABILITY TRUST STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS For the Year ended March 31, 2013

	<u>2013</u>	<u>2012</u>
Net return on investments		
Interest income	\$ 296,830	\$ 266,778
Realized gains	116,850	107,412
Unrealized (losses) gains	<u>(43,953)</u>	<u>250,474</u>
	<u>369,727</u>	<u>624,664</u>
Contributions		
Employee contributions	<u>2,751,386</u>	<u>2,723,601</u>
Payments to or on behalf of members		
Benefit carrier claims	<u>1,936,679</u>	<u>1,697,749</u>
Operating expenses		
Actuarial fees	9,123	36,779
Audit expense	9,374	7,700
Benefit carrier administration fees	76,914	68,632
Custodial fees	5,760	4,529
Interest expense	5,979	5,768
Investment management fees	14,893	13,388
Financial administration fees (note 8)	1,000	1,000
Legal fees	10,664	5,851
	<u>133,707</u>	<u>143,647</u>
Increase in net assets available for benefits, before taxes	1,050,727	1,506,869
Income taxes (note 7)	<u>94,811</u>	<u>80,174</u>
Increase in net assets available for benefits	955,916	1,426,695
Net assets available for benefits, beginning of year	<u>8,069,428</u>	<u>6,642,733</u>
Net assets available for benefits, end of year	<u>\$ 9,025,344</u>	<u>\$ 8,069,428</u>

See accompanying notes to the financial statements

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LONG TERM DISABILITY TRUST STATEMENT OF CHANGES IN BENEFIT OBLIGATIONS For the Year ended March 31, 2013

	<u>2013</u>	<u>2012</u>
Beginning balance, accrued benefit obligation	\$ 12,728,159	\$ 11,128,482
Change in actuarial assumptions	285,000	1,396,241
Benefit accrued	2,113,000	1,901,185
Benefit paid	<u>(2,070,000)</u>	<u>(1,697,749)</u>
	328,000	1,599,677
Ending balance, accrued benefit obligation	<u>\$ 13,056,159</u>	<u>\$ 12,728,159</u>

See accompanying notes to the financial statements

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LONG TERM DISABILITY TRUST NOTES TO FINANCIAL STATEMENTS MARCH 31, 2013

1. Description of Plan

The following is a summary of the Long Term Disability Trust (the Trust).

a) General

The Trust was established in July 2007 to administer a self-funded long term disability plan covering all faculty, administrative and academic professional staff holding regular appointments of 50%, or more, of full time at the University of Victoria.

b) Funding Policy

Members contribute 1.93% of basic salary, which is deducted by the University semi-monthly, and remitted to the Trust. The Trust holds these contributions, and pays the plan benefit carrier for benefit payments made to qualifying employees. The contribution rate is set by the Trustees referencing actuarial valuations, and covers the normal cost of providing benefits, plus an amount required to build a reserve against estimated future liabilities of the plan.

c) Plan Benefits

Long term disability benefits are calculated at 80% of monthly "net earnings", plus the amount required to maintain employee and University Pension Plan contributions. Benefits are indexed to the lower of (1) the annual increase in the Canada CPI index, and (2) the most recent annual across-the-board general salary adjustment.

As this is an employee-pay-all plan benefits paid to qualifying employees are tax-free.

d) Commencement and Duration of Benefits

If approved, LTD benefit payments commence following completion of six months of continuous disability, and following receipt of proof of total disability. Benefits continue until the earliest of the following:

- no longer considered to be totally disabled,
- start work at any occupation for wage or profit except as permitted under the Plan,
- fail to furnish proof of continuous disability,
- no longer under the care of a qualified physician, or fail to follow prescribed medical treatment, or participate in a recommended rehabilitation program,
- death,
- normal retirement date.

e) Investments

The assets of the Trust are invested in a Phillips, Hager and North Bond Fund.

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2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Accounting standards for pension plans apply to all pension plans as well as benefit plans with characteristics similar to pension plans (such as long term disability plans) and require entities to select accounting policies for accounts that do not relate to its investment portfolio or accrued benefit obligations in accordance with either Part I International Financial Reporting Standards (IFRS) or Part II Canadian Accounting Standards for Private Enterprises (ASPE) of the CICA Handbook. The Trust selected to apply Part II 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.

a) Financial Instruments

Financial assets and financial liabilities are recognized when the Plan becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognized when the contractual rights to the cash flows from the financial assets expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expires.

All financial assets and financial liabilities are initially measured at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's-length transaction between knowledgeable, willing parties who are under no compulsion to act.

Financial assets and financial liabilities are subsequently measured as described below.

b) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term highly liquid investments that are readily convertible to known amounts of cash within three months, have been classified as held for trading and recorded at fair value.

c) Investment assets and investment liabilities

All investment assets and investment liabilities are measured at fair value at the date of the statement of financial position in accordance with IFRS 7 Financial Instruments, International Financial Reporting Standards in Part 1 of the CICA Handbook.

Pooled funds are valued at the unit value supplied by the pooled fund administrator and which represent the Plan's proportionate share of underlying net assets at fair value determined using closing bid prices.

Transaction costs are not included in the fair value of investment assets and investment liabilities either on initial recognition or on subsequent re-measurement. Transaction costs are included in the statement of changes in net assets available for benefits as part of expenses incurred in the period.

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2. Significant Accounting Policies (continued)

d) Investment Income

Income from investments is recognized on an accrual basis and includes interest income.

e) Realized and Unrealized Gains and Losses on Investments

Realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

Unrealized gains or losses on investments represent the differences between carrying value at the year end and the carrying value at the previous year end or purchase value during the year, less the reversal of previously recognized unrealized gains and losses in respect of disposals during the year.

f) Contributions

Contributions from the members are recorded on an accrual basis.

g) Net assets available for benefits

Net assets available for benefits are amounts available for the servicing of future claims under the Trust agreement, and terms of the Plan.

h) Estimation Uncertainty

When preparing the financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimates and assumptions that have the most effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

Fair value of financial instruments: management uses valuation techniques in measuring the fair value of financial instruments, where active market quotes are not available. Details of the assumptions used are given in the notes regarding financial assets and liabilities. In applying the valuation techniques management makes maximum use of market inputs, and uses estimates and assumptions that are, as far as possible, consistent with observable data that market participants would use in pricing the instrument. Where applicable data is not observable, management uses its best estimate about the assumptions that market participants would make. These estimates may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Accrued benefit obligation: management estimates the accrued benefit obligation with the assistance of an independent actuary; however, the actual outcome may vary due to estimation uncertainties. The estimate of its accrued benefit obligation is based on assumptions as outlined in Note 4 to these financial statements.

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3. Investments

Investments are reported at fair value and are as follows:

	<u>2013</u>		<u>2012</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Phillips Hager and North Bond Fund, Series 0	\$ 8,424,119	\$ 8,592,150	\$ 7,386,210	\$ 7,598,194
RBC Institutional Cash	\$ 231,614	\$ 231,614	\$ 245,991	\$ 245,991

4. Obligations for Plan Benefits

An actuarial valuation was made as of June 30, 2011 by Mercer Human Resource Consulting, a firm of consulting actuaries. Salary figures used in the actuarial analysis are based on annual salary increases effective July 1, 2011.

The actuarial liability is the actuarial present value of the disability benefits expected to be paid in the future to members who were disabled at the valuation date. This liability is divided into two components: the Disabled Life Reserve (DLR) for individuals in receipt of benefits at the valuation date, and the Incurred But Not Reported (IBNR) reserve for individuals who are disabled but not reported at the valuation date and who have not completed the six month elimination period. The next actuarial valuation is expected to commence as of July 1, 2014. The estimated liability as at March 31, 2013 has been calculated by Mercer using updated data and assumptions consistent with the 2011 actuary report.

The financial position of the Plan as at March 31 is as follows:

		<u>2013</u>	<u>2012</u>
Net Assets		\$ 9,025,344	\$ 8,069,428
Liabilities	- Disability Life Reserve	11,750,159	11,399,183
	- Incurred But Not Reported	1,306,000	1,328,976
		<u>13,056,159</u>	<u>12,728,159</u>
Unfunded Liability		\$ (4,030,815)	\$ (4,658,731)
Funded ratio		69%	63%

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4. Obligations for Plan Benefits (continued)

The assumptions used in determining the actuarial value of accrued disability benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were:

	<u>2013</u>	<u>2012</u>
Discount rate	1.5%	2.1%
Cost of living adjustment	2%	2%
Retirement age assumption	65	65

5. Risk Management

The Trust's assets are invested in Phillips, Hager & North's Bond Fund and the RBC Institutional Cash Fund. All assets are recorded at fair value. The main investment risks are interest rate risk, liquidity risk and credit risk.

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 funds as a rise (fall) in interest rates will cause a decrease (increase) in bond prices - the longer the duration, the greater the effect. At March 31, 2013, the modified duration of the bond portfolio was 6.2 years. Therefore, if interest rates were to increase by 1% across all maturities, the value of the bond portfolio would drop by 6.2%, contrarily if interest rates were to decrease by 1% across all maturities, the value of the bond portfolio would increase by 6.2%.

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 Trust are future benefit obligations and operating expenses. Liquidity requirements are managed through income generated by contributions and investing in sufficiently liquid assets and other easily marketable instruments.

Credit risk

The value of fixed income and debt securities depends, in part, on the perceived ability of the issuer that issued the securities to pay the interest and to repay the original investments. 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 March 31, 2013, the maximum risk exposure for this type of investment is \$8,823,893. This risk is reduced by the investment constraints of the fund which calls for the fund to provide relatively high yields and stability of capital by investing primarily in a well-diversified portfolio of high quality Canadian corporate and government bonds. The credit risk is mitigated in that the value of any one investment at month-end must not exceed 15% of the fund's assets at market value. This does not apply to government or government guaranteed debt instruments.

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5. Risk Management (continued)

The credit risk is also mitigated by the credit rating and issuer analysis. Table 1 below shows the percentage of fixed income holdings in the portfolio by credit rating as of March 31, 2013 and compared to March 31, 2012. Table 2 below shows the percentage of fixed income holdings by type of issuer as of March 31, 2013 and compared to March 31, 2012.

Table 1		2013	2012
	<u>Ratings Summary</u>	<u>%</u>	<u>%</u>
	AAA	9.9	19.9
	AA	38.4	9.1
	A	22	42.5
	BBB	9.4	16.1
	BB	0	0.1
	CMHC mortgages	0.7	0.8
	Conventional mortgages	0.0	0.0
		2013	2012
Table 2	<u>Issuer Analysis</u>	<u>%</u>	<u>%</u>
	Federal bonds	8.2	6.8
	Provincial bonds	32	29.8
	Corporate bonds	39.5	42.7
	Mortgages	0.7	0.8
	Cash and short term	19.6	19.9

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the inputs used in making the measurements. The fair value hierarchy is made up of the following levels:

- Level 1 - valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The Trust's portfolio consists of bonds and mortgages and are pooled into a combined mutual fund. The lowest level of the hierarchy for the portfolio is a level 2.

6. Capital Disclosures

The purpose of the Trust is to provide benefits to members on long term disability. The Trust's objectives when managing its capital are to protect the value of the funds against inflation and provide stability in benefit distributions. With the assistance of an investment consultant, the Trust's Board of Directors regularly monitors the Trust's investments to ensure that immediate and long-term obligations can be met within an acceptable level of risk.

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7. Income Tax

Income taxes are paid on a calendar basis and are based on the difference between income earned on investment funds less plan expenses exclusive of employee contributions and benefit carrier claims. and benefit carrier claims.

The Trust pays quarterly tax instalments and at March 31, 2013 had a receivable balance of \$5,743 for the difference between the amount paid and the estimated tax owing.

8. Related Party Transaction

The Trust receives accounting and administrative services from the University of Victoria and was charged a fee of \$1,000 for the year.

9. Comparative Figures

Certain comparative amounts have been reclassified to conform to the current year's presentation.

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Contact Information

Plan enquiries can be directed to any of the Trustees as follows:

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