University of Victoria Combination Pension Plan 2016 Annual Report

Pension Board
University of Victoria

Pension Board
University of Victoria

Notice of Annual General Meeting

Tuesday, April 18th, 2017

4:30 p.m.

Room A104

Bob Wright Centre

This is an informal meeting at which the Pension Board reports to the membership and answers questions.
The meeting will include a brief presentation.
The Pension Board hopes members will be able to attend.

The Pension Board has a new image!

Look for our new logo on correspondence and other communications.
A new website is also under construction. Stay tuned!

Pension Board
University of Victoria

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[1] Audited financial statements are available online at: www.uvic.ca/financialplanning/pensions/combination. A printed copy may also be requested from Pension Services.

The precise terms of the Plan are provided in the Plan Document, available on the Pension Services website. If there is a discrepancy between this report and the Plan Document, the Plan Document applies.

Pension Board
University of Victoria

Message from the Chair

Subsequent to the market crash of 2008, your pension plan has experienced a string of very good returns and our valuation as of December 31st 2015 shows that the plan has returned to a surplus position. In contrast, 2016 was in most respects a disappointing year. Our gross return of 4.98% did not compare well with the median of our peer universe at 6.8%, but we should focus on the fact that our 4 year (10.36% annualized) and 10 year (6.24% including the financial crisis of 2008) performance remains strong. In the past 4 years only 3 quarters have negative returns and industry standard measures of risk vs return are excellent for our plan. Remember also, that the Plan had a stellar year in 2015, performing at the 14th percentile in our peer group so some slippage in 2016 was perhaps not surprising. The concept of reversion to the mean is well established in investment management, as in many other fields, and we may suggest that we experienced a little of that last year, albeit nothing like enough to negate the previous good years! Our operating expenses remain extremely low at 0.34% (mostly investment management expenses whilst the pension office contributed only 0.05%) for a net return in 2016 of 4.64%.

Turning to a more detailed analysis of results in 2016, our performance measurement service (RBC Investor & Treasury Services) provided a 61 page report analyzing our results, so you will understand that such commentary is far from simple. A high spot was provided by our fixed income management where Phillips Hager and North claimed the #1 spot in our peer universe for domestic bonds with a return of 3.4% compared with the universe median at 1.7%. The currency fluctuations which benefited the Plan during 2015 turned against us in 2016. For example, US equity indices returned 12% on the year in US$ but only 8% in CDN$ and the situation was similar for overseas markets (5% in local currencies but 3.8% in CDN$). However, the largest under performance came in our equity portfolios, where our Canadian managers under-performed the index (16.9% to 21.1%) and foreign management was similarly weak (0.5% compared with 3.3%). The global underperformance was particularly significant since those equities represent the largest slice of our assets at 36%. Certainly, there are hard questions to be asked of our equity managers when next we meet with them, but looking over the longer term, it is noticeable that they have tended to err on the side of down market protection, performing well in poor markets (for example 2015) and less well in up markets (2016 was a banner year for the Canadian market, #1 in the world). This is by no means a bad bias for the long term health of a pension plan. Of course, outperformance in both types of markets would be ideal but perhaps unrealistic! Turning to yet more detailed analysis the difficulties of calling the narrowly focused Canadian market are evident in examples such as the underweight of gold in our portfolios, which cost about 1.8% of performance in the materials sector, the absence of one stock, Valeant, in our portfolio which gave us positive 1.9% in health care, and financials where we dropped 3.5% of performance relative to the index because we were underweight some of the best performing stocks, notably Sun Life and Bank of Montreal.

Information on the breakdown of our assets between managers and asset classes and the individual returns for those assets is included in the table on page 18 of this annual report. Early in 2014, the Trustees took the decision to decrease our exposure to Canadian equities (from a benchmark weight of 27% to 22%) whilst increasing the foreign equity benchmark from 27% to 32%. This move was similar to changes made by many Canadian pension funds and investment managers as concerns have deepened over the sector concentration (energy, materials and financials) and resulting high volatility of Canadian markets. Given the effect of currency on our overall returns and the subsequent performance of Canadian markets, this proved to be a good decision for 2015, but not so good for 2016. As always, it is the long term which counts!

Turning to the administration of the Plan, I reported last year on the resignation of our long serving pension director, Susan Service, at the end of 2015. The process of finding a replacement proved to be a long one, ultimately taking all of 2016! We are very grateful to Kristi Simpson, who assumed interim responsibility for the work of the director in addition to her “day job” as Associate Vice-President, Financial Planning & Operations. A heavy load indeed, so congratulations Kristi on splendid management during a very difficult time for the pension office. Credit is also due to the pension office staff who coped admirably with the extra load occasioned by these changes.

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Pension Board
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Message from the Chair

Ultimately, as of 1st January 2017, we are extremely fortunate to have a well-qualified and able new director in the person of Christa Taylor, who comes to us with experience in several health related pension plans in Alberta, most recently with Local Authorities Pension Plan (LAPP). Welcome Christa! As reported in my last letter from the chair, another recent change in the Pension Office has been the addition of a new Pension Governance and Communications Officer who will work closely with the Pension Board and its Trustees. We welcomed Marie Lapointe to this position in February 2016.

A major focus for the work of the Trustees in 2016 was completion and review of our valuation of the Plan's funding status as of 31st December 2015. You will recall that such valuations are required by law at three year intervals. The results showed the continued improvement in the Plan's funding status due to two factors: the contribution rate increases which were implemented in 2011 and the good investment returns of the three years since the previous valuation. On an aggregate basis, which includes all present and projected future liabilities there was a funding shortfall in 2012 of approximately $58 million which improved to $25 million as of 2015. On an accrued basis, which considers only those liabilities presently earned by members, the 2012 surplus of $13 million improved to $67 million, or a funding ratio of 180%. These results show the contribution rate increases had their intended effect and placed the Plan on a much more secure and sustainable footing. The next stage in this process will be a study, already contracted with our investment consultants (Willis Towers Watson), to determine the correct level of contribution rates going forward and whether it may be possible to ensure sustainability with lower rates. Other important considerations for this future study will be our overall asset mix and the possibility/desirability of adding other asset classes such as infrastructure or foreign real estate. It is also clear that the financial management industry is moving towards accepting as best practice the incorporation of environmental, social, and governance (ESG) considerations into stock selection, and there is some initial evidence that companies which incorporate sustainability considerations into their business plans may perform better. All three of our managers, bcIMC, Fiera and PH&N are signatories to the United Nations Principles of Responsible Investing. However, it remains the view of the managers, and the Trustees, that engaging with companies and urging sustainable approaches is a better option than divestment. It remains true that the Trustees have sole legal responsibility for setting investment policy and that a well-diversified portfolio minimizes investment risk. The new *BC Pension Benefits Standards Act* confirms that Trustees' fiduciary duty in B.C. must remain focussed on the best "financial" interests of the members.

You will recall that our Board of Trustees is composed of four trustees elected by the membership and four appointed by the Board of Governors (BOG). In 2017 the Board continued unchanged from 2015, namely myself, John Gilfoyle, Lisa Hill, Duc Le, Michael Miller, Martha O'Brien, Joe Sass, and Kristi Simpson. Martha continued in her role as Vice-Chair and continued also to provide her quiet wisdom and legal expertise (thank you Martha!). Our committee Chairs in 2016 were Kristi Simpson (Investment and Valuation committees), Martha O'Brien (Policy and Procedure), and myself (Governance and Communications). In 2017 Kristi will take a well-earned break from the Investment committee where she will be replaced as chair by Lisa Hill. Thank you Kristi for all your work in that area in addition to your many other responsibilities.

The terms for Duc Le (who decided not to stand for re-election) and Michael Miller expired at the end of 2016, so an election was held with four candidates for the two available positions. Michael was re-elected and we also welcome back Susan Service, elected into a new role as a trustee following her retirement as Pension Director at the end of 2015.

Finally, I look forward to meeting many of you at our Annual General Meeting on April 18th.

Best Wishes to all for 2017 and beyond,

Keith R. Dixon
Chair, Board of Pension Trustees

Pension Board
University of Victoria

Governance

The Combination Pension Plan (the “Plan”) is governed by a Board of Trustees (the “Pension Board”). The Pension Board oversees investments of funds, and financial management of the Plan, and ensures the Plan is administered in accordance with the Trust Agreement, the *Income Tax Act (Canada)* and *Pension Benefit Standards Act (BC)*.

The Trust Agreement between the University of Victoria and the Pension Board sets out the rights and responsibilities of the Pension Board, as well as the rules and procedures related to the appointment and election of Trustees. This document can be accessed on the Pension Services website: www.uvic.ca/financialplanning/pensions

There are eight Trustees on the Pension Board. Four of them are elected by Plan members for terms of up to three years, and four are appointed by the University’s Board of Governors (“BOG”), for terms up to three years.

As at December 31, 2016, the Trustees were:

2016 Board of Pension Trustees

- Dr. Keith Dixon (Chair)
  Professor Emeritus, Department of Chemistry
  Appointed term: January 1, 2015 to December 31, 2017
- Professor Martha O’Brien (Vice-Chair)
  Professor, Faculty of Law
  Elected term: January 1, 2015 to December 31, 2017
- Mr. John Gilfoyle
  Investment & Strategy Consultant
  Appointed term: July 1, 2015 to June 30, 2018
- Ms. Lisa Hill
  Senior Vice-President, Portfolio Manager (Raymond James Ltd)
  Appointed term: September 1, 2014 to August 31, 2017
- Mr. Joe Sass
  Former Manager, Financial Accounting & Training
  Elected term: January 1, 2015 to December 31, 2017
- Mr. Duc Le
  Former Chief Finance & Administration Officer (Ocean Networks Canada Society)
  Elected term: January 1, 2014 to December 31, 2016
- Dr. Michael Miller
  Professor, Faculty of Engineering
  Elected term: January 1, 2014 to December 31, 2016
- Ms. Kristi Simpson
  Associate Vice-President, Financial Planning & Operations
  Appointed ex-officio

In November 2016, Ms. Susan Service and Dr. Michael Miller were elected to three year terms ending December 31, 2019.

2016 Highlights

Pension Board
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2016 In Review

Financial Information

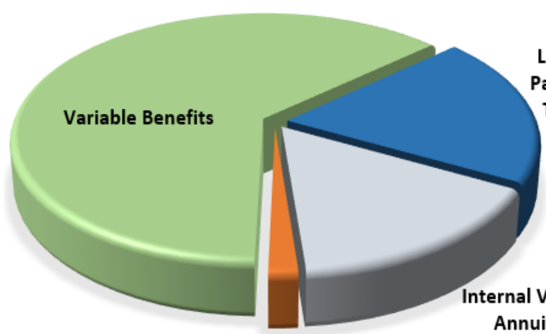
Investments & Returns (expressed in $000's)		2014		2015		2016	
Market Value of Investments	Balanced Fund	$826,180		$888,322		$923,884	
	Defined Retirement Benefit Fund	$131,525		$150,370		$169,033	
Balanced Fund			%		%		%
	Gross Returns	$91,098	12.21	$75,179	9.10	$44,131	4.98
	Expenses	(2,498)	(0.33)	(2,884)	(0.35)	(2,995)	(0.34)
	Net Returns[1]	$88,600	11.88	$72,295	8.75	$41,136	4.64
Defined Retirement Benefit Fund	Gross Returns	$14,884	13.30	$13,149	9.92	$10,959	6.98
	Expenses	(420)	(0.38)	(617)	(0.47)	(588)	(0.37)
	Net Returns	$14,464	12.92	$12,532	9.45	$10,371	6.61

[1] The Balanced Fund's net returns are distributed to members' accounts

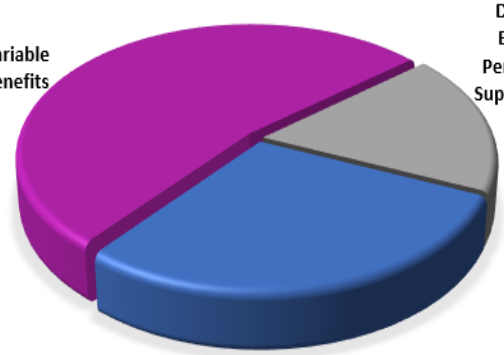
Benefit Payments & Types of Pensions

Benefit Payments (expressed in $000's)		2014	2015	2016
Lump Sum Payments & Transfers		10,796	3,996	6,534
Pensions	Internal Variable Annuities	3,234	4,081	5,251
	Defined Benefit Pensions and Supplements	532	545	553
	Variable Benefits	17,817	19,550	20,967
Total		32,379	28,172	33,305

2016 Benefit Payments ($)



Types of Pensions Paid in 2016



Types of Pensions (expressed in number of members)	2008	2010	2012	2014	2016
Defined Benefit Pensions & Supplements	31	53	86	116	152
Internal Variable Annuities	73	99	135	185	251
Variable Benefits	277	320	362	398	455
(Combination of options)	(28)	(58)	(99)	(132)	(190)
Total Pensioners	353	414	484	567	668

2016 Highlights

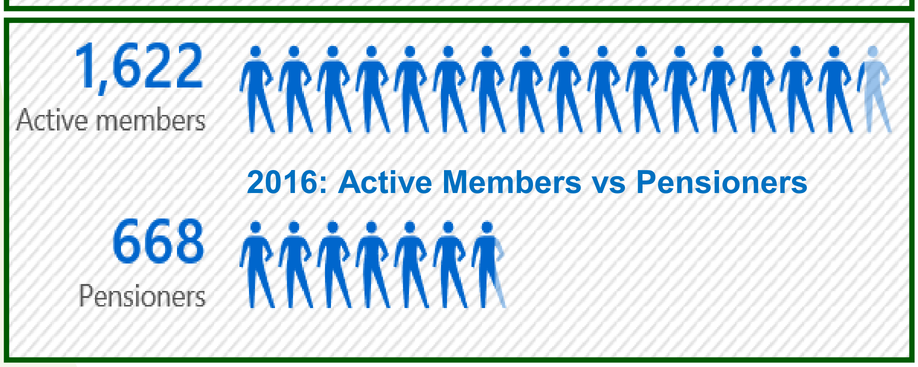
Membership

The table and charts shown here describe the growth in Plan membership over the past ten years.

	2006	2008	2010	2012	2014	2016
Active members	1,339	1,416	1,519	1,544	1,566	1,622
Inactive members	448	517	530	580	600	635
Pensioners	284	353	414	484	567	668
Total	**2,071**	**2,286**	**2,463**	**2,608**	**2,733**	**2,925**

Active members are members who are still employed by the University and contributing to the Plan. Inactive members are members who have transferred to another plan or terminated employment but have not yet elected a benefit; the category also includes a small number of accounts held by surviving spouses of members who died before retirement. Pensioners are members and beneficiaries who are drawing a monthly pension from the Plan.

Membership Growth



- On December 1, 1996, there were 1,484 members enrolled in the Plan. Total membership has doubled over the last 20 years, and grew by 854 members over the last 10 years (a 41% increase).
- In 2016, the active members group represented 55% of total membership. The remaining 45% was divided almost equally among inactive members and pensioners.
- The number of pensioners has grown 135% in the last 10 years, while the active members group grew 21% over the same period.

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Understanding the Plan

Contributions

Members and the University share the cost of the Plan. A sample calculation of contributions is provided below.

Combined Contribution Account (CCA). This is the Defined Contribution account. Contributions by members and the University are credited to members' individual Combined Contribution Accounts (CCAs).

- Members' contributions are 4.35% of basic salary up to the YMPE[1], plus 6.35% of basic salary in excess of that amount.
- The University contributes to individual CCAs an amount equal to 6.02% of basic salary up to the YMPE[1], plus 7.65% in excess of that amount.

Total contributions to individual members' CCAs are therefore 10.37% of salary up to the YMPE[1], plus 14% in excess of that amount, subject to the limit that they may not exceed the lesser of 18% of the member's earnings and the annual defined contribution maximum set under the *Income Tax Act*.

Contributions (expressed as % of member's basic salary)			
Combined Contribution Account			
Up to YMPE[1]	Member University	4.35% 6.02%	Total 10.37%
Above YMPE[1]	Member University	6.35% 7.65%	Total 14.00%
Defined Retirement Benefit Account			
University		5.05%	
Voluntary Account			
Member	As elected, subject to statutory maximums		

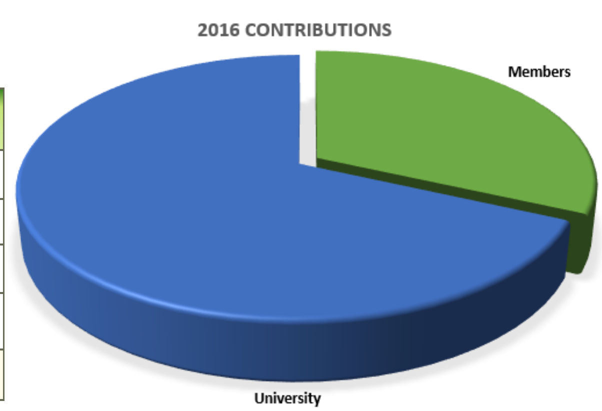
Defined Retirement Benefit Account (DRBA). This is the Defined Benefit Minimum account, funded by University contributions equal to 5.05% of earnings.

Voluntary Account. Subject to *Income Tax Act* maximums, members may elect to make additional contributions to a Voluntary Contribution Account through payroll deduction or by transfer from another registered plan (RRSP or Canadian registered pension plan). Transfers from spousal RRSPs are not permitted.

Example of 2017 Contributions ~ Annual Salary of $95,000					
	Member		**University**		**Total**
CCA Up to YMPE	$55,300 x 4.35%	$2,406	$55,300 x 6.02%	$3,329	$5,735
CCA Above YMPE	($95,000-$55,300) x 6.35%	$2,521	($95,000-$55,300) x 7.65%	$3,037	$5,558
DRBA			$95,000 x 5.05%	$4,798	$4,798
Total					**$16,091**

[1] YMPE: Year's Maximum Pensionable Earnings, the contributory earnings upper limit under the Canada Pension Plan ($55,300 in 2017; $54,900 in 2016)

Contributions (expressed in $000's)		**2014**	**2015**	**2016**
Members	**Required**	8,519	8,516	8,836
	Voluntary	168	194	311
	Transfers (from other plans)	2,235	3,027	3,542
University (Required)		18,242	18,316	18,960
Total		**29,164**	**30,053**	**31,649**



Early & Deferred Retirement

The Combination Pension Plan provides immediate vesting, which means there are no minimum service requirements for a pension. However, there are age requirements.

Normal retirement date
For a member of the Combination Pension Plan, this is the last day of the month in which the member attains 65 years of age. This is the date at which the defined benefit minimum is calculated without reduction.

Early retirement
A member may elect to take early retirement on or after the end of the month in which the member attains 55 years of age. In this case, the defined benefit minimum (described in the next pages) is reduced to its actuarial equivalent. The reductions are shown in the table in Appendix B.

Deferred retirement
A member may defer commencement of retirement benefits until the end of the calendar year in which the member attains 71 years of age. If a member does not select a benefit by October 31 of the year they turn age 71, they will be deemed to have selected an option that does not require spousal consent or waivers and provides maximum future flexibility; non locked-in amounts that are under two times the YMPE for 2017 ($55,300 x 2 = $110,600) are paid out in cash, less withholding tax.

A member can defer commencement of benefits up to the end of the year in which he or she turns 71 years of age, by leaving the money within his or her CCA.

Options at Retirement

Members have a range of options designed to allow tailoring of retirement income to suit individual situations, preferences, and financial plans. The detailed selection of any one option or a combination of options is a matter for the individual member and their financial advisor, and Pension Services cannot provide this type of advice. Spousal consent is required for some options. Subject to some restrictions, options may be combined for maximum flexibility.

Options at a Glance

1) Variable Benefit
2) Internal Variable Annuity (with defined benefit minimum)
3) Transfer Out

With minor variations, there are basically two options available directly from the Plan and essentially the same two options outside the Plan. Within the Plan, a member may choose between a lifetime annuity and a variable benefit (similar to an external life income fund). Alternatively the member may remove his or her funds from the Plan, and choose between an external annuity, for example from an insurance company, or a registered retirement/life income fund.

Whether within the Plan, or external to it, if an annuity is purchased with a member's Combined Contribution Account (CCA) balance, the control and ownership of the account balance is relinquished in exchange for the promise of a future lifetime income. This is in contrast to the variable benefit or a retirement income fund, where the member retains control and ownership of the account balance, and makes withdrawals within statutory limits.

Options at Retirement (Continued)

1. Variable Benefit
This option is similar to an external life income fund (LIF).

The funds that accumulated in a member's CCA are held in a Variable Benefit Account (VBA). The member retains ownership of the funds and each year sets the monthly retirement benefit, subject to statutory minima and maxima:

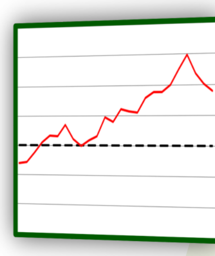
- The maximum for a particular year only applies to the locked-in (post-1992) portion of a member's account.
- The minimum does not take effect until the year the member reaches age 72. For a particular year after age 71, the minimum is the value of the account at the start of the year, multiplied by the appropriate percentage rate from an age-based table (a spouse's age may be used instead of the member's).
- For pensioners who have been on the option for a full calendar year, the maximum is the greater of: (a) actual investment returns for the preceding year; and (b) the locked-in portion of the account at the start of the year multiplied by the appropriate factor from an age-based table.

A booklet explaining the variable benefit in more detail is available upon request from Pension Services. The booklet contains a table of withdrawal rate limits.

The balance remaining in a member's account after each month's withdrawal shares in the investment performance of the Balanced Fund. When the member dies, any remaining balance forms the survivor benefit (refer to the Survivor Benefit section for more information). Therefore, if the member has a spouse, spousal consent is required for the variable benefit option.

With one full calendar month of notice, a variable benefit pensioner may terminate the pension and apply the balance remaining to one or a combination of the other options, except that the defined benefit minimum is not available. If the member is over 71 years of age, the minimum withdrawal for the year must be satisfied before the funds are applied to another option. If the funds are transferred to a life income fund (LIF), no withdrawal is permitted from the new life income fund until the following calendar year.

2. Internal Variable Annuity (with defined benefit minimum)
An internal variable annuity is purchased with the balance in a member's CCA. It is basically similar to an external annuity, with the initial amount payable depending on the available CCA balance, the age of the member, and the survivor option selected. There are three main differences between an internal annuity and an external annuity:



- Provided the member was not previously on the variable benefit, payments under the internal variable annuity option cannot fall below the minimum calculated on a defined benefit basis (refer to Appendix B for more information).
- Internal annuity payments are adjusted each July 1st to reflect the investment performance of the Plan during the prior calendar year, or that portion of the year that the annuity was being paid, relative to the 3.5% underlying performance assumption. If the Plan earned more or less than 3.5%, the payments are adjusted accordingly. For example, if the Plan earned 6% the annuity would increase on the following July 1st by approximately 2.5%; if the Plan lost 3%, the annuity would decrease by approximately 6.5%.

  The performance adjustment means that the internal annuities carry somewhat more risk than an external annuity, but also the potential for benefit if the Plan does well.
- Internal annuities are adjusted to reflect the longevity experience of the group of annuitants.

Understanding the Plan

Options at Retirement (continued)

Appendix B provides more detail and a table of 2017 single life annuity rates and actuarial reductions. A single life annuity ceases on the death of the annuitant (the member); however, other survivor benefit options are available. The amount of pension will differ based on the survivor benefit selected, as described in this report. If the member has a spouse, a minimum 60% joint life pension is required unless the spouse waives that right.

If only a portion of a member's CCA is applied to this option, there is a minimum of three times the YMPE (in 2017 the figure is 3 x $55,300 = $165,900); the defined benefit minimum is then reduced proportionately.

3. Transfer Out

Options external to the Plan include transfer of the account balance to another registered pension plan, a registered retirement savings plan, a registered retirement income fund, or an insurance company to purchase an annuity, in accordance with the requirements of the *Pension Benefit Standard Act (PBSA)*. Such transfer must be on a locked-in basis for that portion of the Member's account contributed after December 31, 1992 plus the investment earnings on those contributions, but there is no lock-in requirement for the balance in a member's account at December 31, 1992 plus the investment earnings on that amount after that date.

Options upon Cessation of Employment

If a member leaves the employ of the University before earliest retirement age (55 years of age), the member is eligible for one of the following options:

1. Leave Combined Contribution Account (CCA) on deposit for a future pension (default option, please refer to the previous section regarding Options at Retirement); or

2. Transfer out:
   - *For non-locked-in funds,* the following options are also available:
     - Direct transfer to another registered pension plan (RPP);
     - Direct transfer to registered retirement savings plan (RRSP);
     - Direct transfer to registered retirement income fund (RRIF);
     - Purchase annuity from life insurance company (conditions may apply); or
     - Cash, less applicable withholding tax.

   - *For locked-in funds,* the following options are also available:
     - Direct transfer to another registered pension plan (RPP);
     - Direct transfer to a locked-in retirement account (LIRA);
     - Direct transfer funds to a life income fund (LIF) (minimum 50 years of age); or
     - Purchase a deferred life annuity from an insurance company (minimum 50 years of age).

A member must commence a pension benefit or effect a transfer from the Plan by the end of the calendar year in which the member attains 71 years of age.

Lock-in conditions: Any portion of the member's account that is attributable to contributions made prior to 1993 or that meets the small benefit threshold set by *BC Pension Benefit Standard Act (PBSA)* is not subject to lock-in conditions.

Understanding the Plan

Survivor Benefits

Survivor benefits are paid to a spouse, beneficiary, or estate upon a member's death. The definition of spouse includes a common-law or same sex partner.

If a member has a spouse.
A spouse is automatically entitled to the pre-retirement survivor benefit unless they waive that right by completing a spousal waiver. The survivor benefit for a spouse is 100% of the benefit earned by the member.

A surviving spouse is entitled to any of the options that are available to the member, with the exception that the spouse need not have attained 55 years of age to commence a monthly benefit, and the spouse's defined benefit minimum is the actuarial equivalent of the member's defined benefit minimum.

A surviving spouse must commence a pension benefit or elect a transfer from the Plan by the later of one year following the Member's date of death or the end of the calendar year in which the spouse attains 71 years of age.

If the member's beneficiary is not a spouse.
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).

If the member is receiving the Variable Benefit (VB).
The survivor benefit for a pensioner on the variable benefit is the total in the member's Variable Benefit Account (VBA).

If the member is receiving the Internal Variable Annuity (IVA).
The survivor benefit for a pensioner in receipt of an annuity from the Plan is determined by the optional form selected by the member immediately prior to commencement of the annuity. The optional forms available for internal annuities are as follows:

Option[1]	Description	Note
Joint and Last Survivor	A selected percentage of the selected benefit will continue to the spouse, if pre-deceased by the member.	Percentages available: 66.7%; 75%; 100%
Joint and Last Survivor	A percentage of the selected benefit will continue after the first death of either the spouse or the member.	Percentage available:66.7%
Joint and Last Survivor	Payments will continue in full (at 100%) for the lifetime of the member or spouse, whoever lives longer, and with a guaranteed minimum period.	Percentage available:100% Guaranteed minimum period: 10 or 15 years
Single Life	Payments continue for the member's lifetime with an optional guarantee period selected by the member.	Guaranteed minimum period: 0, 5, 10 or 15 years

[1] Please note, if the member has a spouse, the member must select a form which provides at least a lifetime 60% survivor benefit unless the spouse chooses to waive that right.

Understanding the Plan

Solvency Status

Under the *Pension Benefits Standards Regulation (BC)*, a pension plan containing a defined benefit component must undertake a plan valuation to assess the financial health of the plan at intervals not exceeding 3 years. In this case, the defined benefit component in the Combination Plan is the "Defined Retirement Benefit", as described in this report.

One type of valuation required is the "solvency valuation", which measures whether the Plan would have the ability to meet its obligations (liabilities) to its members if the Plan were to be terminated and wound up at the valuation date. The last valuation date for the Combination Pension Plan was December 31, 2015 and at that time, the solvency ratio (the percentage of solvency assets compared to solvency liabilities) was 257.2%.

Investments

Objectives

Plan assets are distributed over two funds: the Balanced Fund and the Defined Retirement Benefit Fund. Individual member accounts (Combined Contribution Accounts, Variable Benefit Accounts and Additional Voluntary Contribution Accounts of active and inactive members) are held in the Balanced Fund, together with member accounts from the Money Purchase Pension Plan. The Defined Retirement Benefit Fund holds the assets of the Defined Retirement Benefit Account from which defined benefit pensions and supplements are paid.

The main long-term investment objectives set by the Pension Board, and accepted by the Plan's investment managers, are to secure the obligation of the Plan and the University for pension benefit payments.

In recognition of the Plan's current characteristics, an average degree of risk in terms of short-term variability of returns may be tolerated in the Balanced Fund's investments in pursuit of longer term returns. A higher degree of risk in terms of short-term variability of returns may be tolerated in the Defined Retirement Benefit Fund's investments in pursuit of longer term returns.

The primary objective for the Funds is to achieve a rate of return, net of investment fees and based on a four-year moving average, which is above a benchmark rate of return associated with asset mix policy.

Investment returns are measured on a time-weighted basis. The return objectives include realized and unrealized capital gains or losses, plus income from all sources.

The Pension Board's Investment Committee monitors and reviews performance and reports to the Pension Board. While short-term results are of interest, it is important to recognize that an investment strategy ought to provide good results over the longer term. As a consequence, the Pension Board focuses on evaluating investment performance over rolling four-year periods.

Over rolling four-year periods, the minimum return expectations are:

- The domestic managers are expected to meet the benchmark plus 0.5% per annum, plus investment management and pooled fund custodial fees.
- The foreign equity manager is expected to meet the standard plus 1.0% per annum, plus investment management and pooled fund custodial fees.
- The real estate manager is expected to return the Canadian Consumer Price Index plus 4%.

The benchmark for the total fund is a composite of the benchmarks for the individual asset classes.

INVESTMENTS

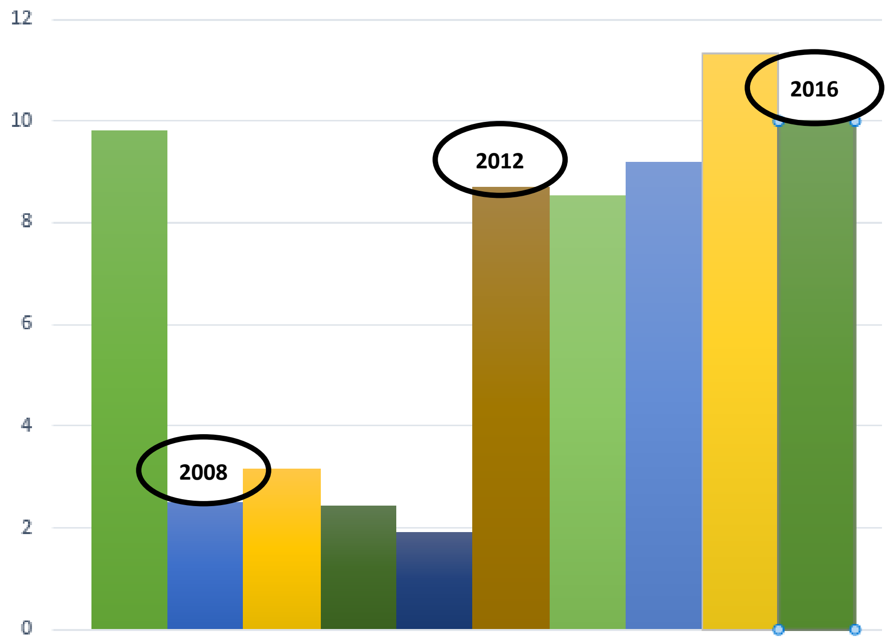
Investment Returns

The table below shows the annualized rates of return on the Balanced Fund portfolio over the last ten calendar years.

Gross returns are calculated before expenses. Net returns are calculated after all investment and operating expenses. The net rate of return is credited to members' individual Combined Contribution Accounts (CCA), Variable Benefit Accounts (VBA) and Voluntary Contribution Accounts.

Past performance is not a reliable indicator of future performance.

4 Year Net Annualized Returns
2007 to 2016



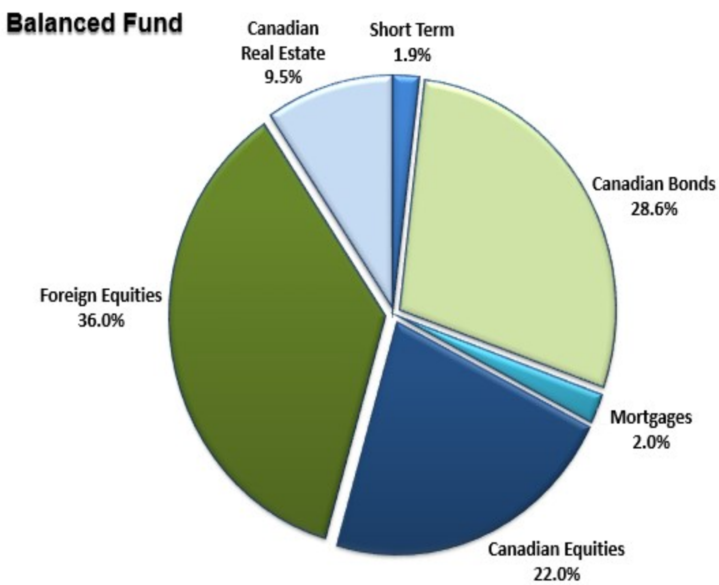
Balanced Fund Annualized Returns (%)
Period ended December 31

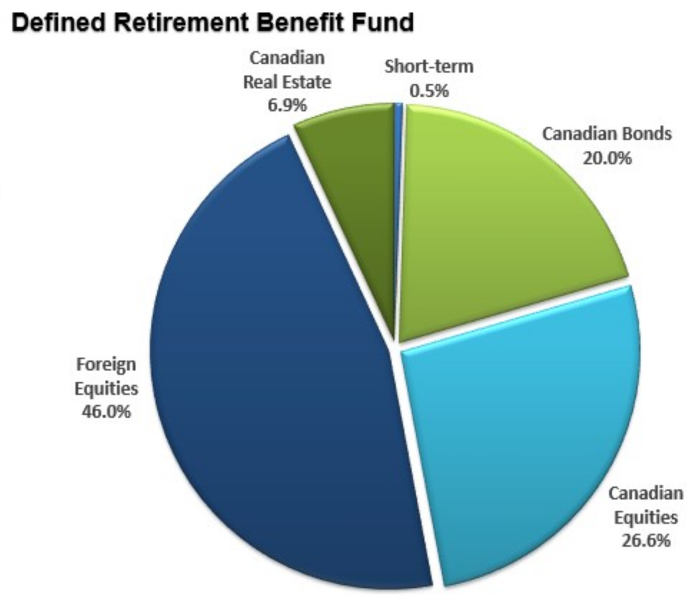
	1 year		4 year		10 year	
	Gross	Net	Gross	Net	Gross	Net
2016	**4.98**	**4.64**	**10.36**	**10.00**	**6.24**	**5.93**
2015	9.10	8.75	11.66	11.31	6.97	6.71
2014	12.21	11.88	9.47	9.18	7.36	7.08
2013	15.31	15.01	8.82	8.54	7.32	7.06
2012	9.98	9.71	8.98	8.71	7.28	7.03
2011	0.92	0.65	2.17	1.90	5.86	5.59
2010	9.56	9.30	2.68	2.42	6.00	5.76
2009	16.01	15.72	3.44	3.18	6.31	6.07
2008	(15.05)	(15.29)	2.75	2.49	5.81	5.57
2007	2.94	2.69	10.05	9.81	8.49	8.23

INVESTMENTS

Funds' Asset Mix

The Funds' asset mix as at December 31, 2016, are shown in the charts below. A summarized list of portfolio holdings (Balanced Fund and Defined Retirement Benefit Fund) is also included in Appendix C. In an effort to reduce the use of paper, the full and detailed listing of portfolio holdings is now available at www.uvic.ca/financialplanning/pensions/combination/annualreports or by contacting Pension Services.

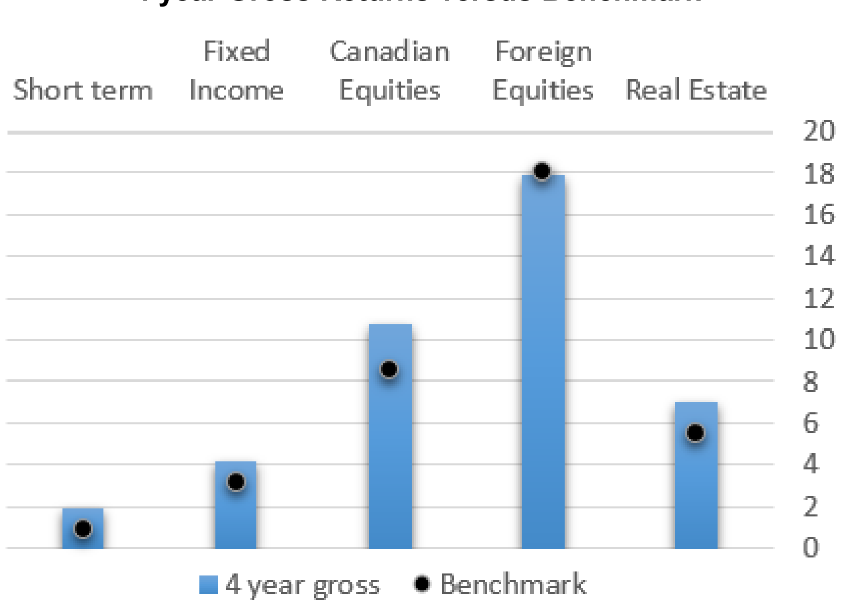




Funds' Asset Mix and Returns

The chart below and the table on the following page provide weight and gross return information (1 year and 4 year) versus benchmark for each asset class and underlying manager.

4 year Gross Returns versus Benchmark



Pension Board
University of Victoria

INVESTMENTS

Funds' Asset Mix and Returns (Continued)

Balanced Fund Asset Mix and Performance as at 31 December 2016	Actual Weight	Benchmark Weight (Range)	1 year Gross Return	1 year Benchmark Return	4 year Gross Return	4 year Benchmark Return
	%	%	%	%	%	%
SHORT-TERM[1]						
BC Investment Management Corporation Fiera Capital Corporation Phillips, Hager & North Investment Management Ltd	- 0.2 1.7					
Total	1.9	0 (0-21)	0.9	0.5	1.8	0.8
FIXED INCOME[2]						
Phillips, Hager & North Investment Management Ltd	30.6	36 (20-46)	3.4	1.7	4.2	3.1
CANADIAN EQUITIES[3]						
BC Investment Management Corporation Fiera Capital Corporation	11.1 10.9	11 each (9-13)	17.8 15.8		11.2 10.2	
Total	22.0	22 (14-27)	16.9	21.1	10.7	8.5
FOREIGN EQUITIES[4]						
BC Investment Management Corporation	36.0	32 (20-40)	0.5	3.3	17.9	18.0
REAL ESTATE[5]						
BC Investment Management Corporation	9.5	10 (5-15)	5.7	5.6	7.0	5.5
TOTAL FUND[6]						
			5.0	6.8	10.4	9.1

[1] Short Term Benchmark: FTSE TMX Canada 91-day T-Bill Index
[2] Fixed Income Benchmark: FTSE TMX Canada Universe Bond Index
[3] Canadian Equities Benchmark: S&P/TSX Composite Index
[4] Foreign Equities Benchmark: MSCI World Ex-Canada Net, $Cdn, Index
[5] Real Estate Benchmark: Canadian Consumer Price Index plus 4%
[6] Total Fund Benchmark: Composite Benchmark

Fund Expenses

The table below provides the detail of all expenses incurred in investing and operating the Plan. Expenses are deducted from gross returns to determine net returns. Due to the effect of compounding, expenses can have a material impact on final account balances over extended periods of time. Expenses are often described as expense ratios and expressed as basis points (0.33% is 33 basis points).

Balanced Fund Expense Ratio (expressed in $000's)	2014		2015		2016	
	$	%	$	%	$	%
Investment management expenses	1,982	0.26	2,331	0.28	2,450	0.29
Custodial and consulting expenses	127	0.02	129	0.02	118	0.01
Office and administration expenses	355	0.05	362	0.05	388	0.04
Audit and legal expenses	34		62		39	
Total expenses	2,498	0.33	2,884	0.35	2,995	0.34

Pension Board
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Service Providers

Service providers at the end of December 2016		
Investment Managers	BC Investment Management Corporation (bcIMC)	Manages one-half the Canadian equity portion, and all the foreign equity and real estate portions of the Balanced Fund. Also manages the foreign equity and real estate portion of the Defined Retirement Benefit Fund.
	Fiera Capital Corporation	Manages one-half the Canadian equity portion of the Balanced Fund.
	Phillips, Hager & North Investment Management Limited	Manages the fixed income portion of the Balanced Fund and the domestic portion of the Defined Retirement Benefit Fund.
Custodian	RBC Investor Services Trust	Custodian of Plan assets, excluding bcIMC funds. Payment service for pensions and taxable lump sums.
Investment consultant	Willis Towers Watson	
Performance measurement	RBC Investor Services Limited	
Actuary	Mercer (Canada) Limited	
Auditor	Grant Thornton LLP	

Contact Us

More information about the University of Victoria Combination Pension Plan can be found on the Pension Services Website: www.uvic.ca/financialplanning/pensions

General enquiries or requests for statements can be directed to Pension Services:

Email: pensions@uvic.ca
Phone: (250) 721-7030

Physical & courier address:
Pension Services
University of Victoria
Michael Williams Building
(Formerly ASB) Room B278
3800 Finnerty Road
Victoria BC V8P 5C2

Mailing address:
Pension Services
University of Victoria
PO Box 1700, STN CSC
Victoria BC V8W 2Y2

Retiring members should contact Pension Services **at least 3-6 months before** their retirement date.

Meetings with the Pension Entitlements Officer are available by appointment.

Pension Board
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Appendix A

History of the Plan

Pension plans are of two major types: defined benefit and defined contribution. Under the typical defined benefit plan, a member's pension is determined by a formula based on years of service, salary and age at retirement. Pension payments to the member during his or her retirement remain constant, except for any cost-of-living adjustments. In a defined contribution plan, the contributions of the member and his or her employer, together with net investment earnings or losses, accumulate throughout the member's career. At retirement, the accumulated sum is used to purchase a pension. In a defined contribution plan, net investment returns are obviously of great importance to the member, particularly if the pension is paid in the form of a variable annuity adjusted each year during his or her retirement according to the Plan's performance.

Original Plan provides greater of defined contribution or defined benefit. When the pension plan was established in 1968 to replace the earlier TIAA-CREF money purchase contracts, it retained the defined contribution features for payments at death, before retirement, or on termination of employment, but pensions were to be calculated under a defined benefit formula based on years of service and final average salary to compensate the long-service employees of that time for the inadequacy of earlier University of Victoria pension plans. In 1972, in order to qualify for registration under the *Income Tax Act* and still retain the advantages of the defined contribution features for members who leave the University before retirement, the Plan was amended so that pensions would also be determined on a defined contribution basis. It was possible to retain the defined benefit as a minimum benefit, but the Plan became in essence and intent a defined contribution plan with the expectation that the majority of members would receive a variable annuity that would exceed the defined benefit.

Amendments in 1980s allow members to choose between defined contribution and defined benefit. In 1983 the Plan was amended to permit members, who are eligible to receive a defined contribution pension, to purchase an annuity from a life insurance company. A further amendment in 1985 permitted the selection at retirement of a defined contribution pension even when the initial amount was smaller than the defined benefit.

Income Tax Reform in 1990. In 1991 the Plan was segregated into a **Money Purchase Pension Plan** and a **Combination Pension Plan.** The **Money Purchase Pension Plan** is a defined contribution pension plan for members of the faculty and administrative and academic professional staff holding term appointments or regular (continuing) appointments of 50% or more of full time but less than full time and for assistant teaching professors and sessional lecturers. The **Combination Pension Plan** is for full time continuing members of the faculty and administrative and academic professional staff.

Also in 1991, contributions to member accounts became limited to the defined contribution maximum permitted under the *Income Tax Act*, initially $12,500. In 1994, in response to these limits, the Supplemental Benefit Arrangement (SBA) was created. The SBA is a complement to the Combination Pension Plan. It provides money purchase benefits and, since 2000, defined benefits that can not be provided under the registered pension plan.

Introduction of pension standards in 1993. On January 1, 1993, minimum pension standards legislation became effective in BC. The most significant impact this had on members of the Combination Pension Plan is that contributions made on or after January 1, 1993 must be locked-in to provide a lifetime retirement income. Contributions made prior to 1993 were restricted under the Plan Document. The restrictions did not amount to full lock-in under pension standards and were removed effective June 1, 2006.

Member contribution rates. Members of the Combination Pension Plan contribute an amount equal to:
(a) 3% of basic salary up to the contributory earnings upper limit for the Canada Pension Plan (the "Year's Maximum Pensionable Earnings" - YMPE), plus
(b) 5% on the salary in excess of that limit, plus
(c) one-third of the amount by which, if any, the University's defined benefit contribution exceeds 1% (1.35% effective May 1, 2011).

Employee contributions are directed to individual Combined Contribution Accounts (CCAs). The CCA balances provide the main part of a member's final pension entitlement in the same way as a defined contribution account.

APPENDIX A

History of the Plan

University contribution rates. Up to December 31, 1990 the University contributed 10% of basic salary minus its Canada Pension Plan contribution. Of this amount, 12% of basic salary less the member's contribution, was directed to each individual's CCA, and the remaining employer contribution was directed into the Defined Retirement Benefit Account (DRBA).

In 1991, to comply with new Income Tax Act rules, the University contributions to individual members' CCAs were revised to equal:

(a) 10.37% of basic salary up the YMPE, plus

(a) 14% of basic salary in excess of the YMPE, less

(a) the individual member's contribution, plus

(a) up to an additional 1% if, on the advice of the actuary, the 1% is not required to fund the defined benefit minimum.

At the same time, University contributions to fund the defined benefit minimum were revised to equal:

(a) 1% of salary, which at the discretion of the Pension Board acting on the advice of the actuary, could be directed in whole or in part to member's CCAs, plus

(a) such additional contributions as are recommended by the Plan actuary to maintain the Defined Retirement Benefit Account on a sound actuarial basis (4.05% of salary effective May 1, 2011).

From January 1, 1991 to June 30, 1993, and from July 1, 1998 to December 31, 2001, the 1% contribution was not required for the defined benefit minimum and, on the advice of the Plan actuary, was redirected to members' CCAs. Since that time, Plan actuaries have recommended that the 1% of salary be gradually returned to its original purpose, namely to fund the defined benefit minimum (registered plan and/or the Supplemental Benefit Arrangement).

Consequently, for 2002, the Pension Board changed the allocations to 0.8% to CCAs and 0.2% to the defined benefit minimum. For 2003 and 2004, the corresponding allocations were 0.7% and 0.3% and, effective January 1, 2005, the full 1% was allocated to accounts funding the defined benefit minimum. The 1% was increased to 5.05% effective May 1, 2011.

Immunization options. A Canadian Government Treasury Bill Fund was created in 1991 and a Short Term Bond and Mortgage Fund was added in 2003. These investment options were removed in 2010 due to lack of use and onerous regulatory requirements. A GIC option was similarly available from 1995 to 2002.

Variable Benefit. On January 1, 1997, the variable withdrawal plan was added as an option for retiring members. The variable withdrawal plan is essentially an income fund operated by the pension plan. It provides members with a regular but flexible retirement income. It was renamed the variable benefit in 2006.

On January 1, 2012, the 5% internal variable annuity ceased to be offered. The change did not affect pensioners already in receipt of the annuity.

In September 2015, The amended Pension Benefits Standards Regulation became effective. The Plan was amended to reflect the new legislation.

Pension Board
University of Victoria

APPENDIX B

Annuity Rates and Reduction Factors

2017 Table of Rates for Annual Single Life[1] 3.5% Annuity and Actuarial Reduction Factors for Defined Benefit Minimum		
Member Age At Retirement	**Annual Annuity Rate per $1,000**	**Early Retirement Reduction Factor**
55	51.58	0.5896
56	52.42	0.6194
57	53.31	0.6512
58	54.26	0.6850
59	55.27	0.7212
60	56.35	0.7598
61	57.49	0.8012
62	58.72	0.8456
63	60.03	0.8933
64	61.44	0.9446
65	62.96	1.0000
66	64.59	n/a
67	66.35	n/a
68	68.25	n/a
69	70.30	n/a
70	72.54	n/a
71	74.97	n/a

This table shows the rates that will be used in 2017 to convert a member's Combined Contribution Account balance into a single life[1] 3.5% internal annuity, based on the member's age at retirement.

The Defined Benefit Minimum Formula

Provided the member was not previously on the variable benefit, the internal variable annuity payments cannot fall below the defined benefit minimum, which is the sum of A + B, based on the member's highest consecutive five year's salary:

A) Up to Average YMPE[2] x 1.3% x Years of service

B) In excess of Average YMPE[2] x 2% x Years of service

The defined benefit minimum is currently limited to $2,914.44 per year of service credited after 1990.

Early Retirement Reduction Factor

These factors are applied to the Defined Benefit Minimum, if the member retires before age 65. The result of the defined benefit minimum formula shown below is multiplied by the corresponding reduction factor shown in the table.

Example of **annuity calculation** for a **$300,000** final account balance **at age 62**:

$300,000 ÷ 1,000 x **58.72** = $17,616 per year ÷ 12 = $1,468 per month

Example of the reduction applied **at age 62** to a **defined benefit minimum of $40,000** per year

$40,000 x **0.8456** = $33,824 per year ÷ 12 = $2,819 per month

[1] A single life annuity ceases on the death of the annuitant; however, other survivor benefit options are available. The annuity amount payable is reduced with other options, as described in this report (see Options at Retirement).

[2] The Average YMPE is the three year average YMPE defined by the Canada Pension Plan. Visit www.cra.gc.ca for more information.

Pension Board
University of Victoria

APPENDIX C

Portfolio holdings as at December 31, 2016

Balanced Fund

ASSET	Shares or Units	Market Value (expressed in $000's)
SHORT-TERM INVESTMENTS (1.9% of total)		
CANADA TREASURY BILLS	1,340,000	1,338
POOLED FUNDS	1,666,787	16,702
CANADIAN BONDS (28.6% of total)		
FEDERAL (Government & Government Guaranteed)	62,643,000	64,235
PROVINCIAL (Government & Government Guaranteed)	86,227,000	103,231
MUNICIPAL (Government & Government Guaranteed)	1,525,000	1,572
CORPORATE	590,263	700
POOLED BOND FUNDS	11,176,150	110,791
MORTGAGES (2.0% of total)		
POOLED MORTGAGE FUNDS	1,884,374	19,989
CANADIAN EQUITIES (22.0% of total)		
CONSUMER DISCRETIONARY	151,197	7,522
CONSUMER STAPLES	66,221	4,032
ENERGY	629,523	16,568
FINANCIALS	854,463	36,651
HEALTH CARE	0	0
INDUSTRIALS	180,694	13,456
MATERIALS	193,789	9,803
INFORMATION TECHNOLOGY	86,180	6,027
TELECOMMUNICATION SERVICES	48,486	2,073
POOLED FUNDS	53,343	120,324
FOREIGN EQUITIES (36.0% of total)		
POOLED FUNDS	153,294	353,929
REAL ESTATE (9.5% of total)		
POOLED FUNDS	10,085	92,966
TOTAL BALANCED FUND PORTFOLIO[1]		**981,908**
COMBINATION PENSION PLAN	**94.1%**	**923,884**
MONEY PURCHASE PENSION PLAN	**5.9%**	**58,024**

1 Some inconsistencies may exist due to rounding

In an effort to reduce the use of paper, a full and detailed listing of portfolio holdings is now available at www.uvic.ca/financialplanning/pensions/combination/annualreports *or by contacting Pension Services.*

Pension Board
University of Victoria

APPENDIX C

Portfolio holdings as at December 31, 2016
Defined Retirement Benefit Fund

ASSET	Shares or Units	Market Value ($) (expressed in $000's)
SHORT-TERM INVESTMENTS (0.5% of total)		
POOLED FUNDS	19,863	859
CANADIAN BONDS (20.0% of total)		
POOLED BOND FUNDS	3,407,449	33,756
CANADIAN EQUITIES (26.6% of total)		
POOLED FUNDS	5,464,733	44,896
FOREIGN EQUITIES (46.0% of total)		
POOLED FUNDS	33,534	77,782
REAL ESTATE (6.9% of total)		
POOLED FUNDS	1,274	11,741
TOTAL DEFINED RETIREMENT BENEFIT FUND PORTFOLIO[1]		
		169,034

1 Some inconsistencies may exist due to rounding

In an effort to reduce the use of paper, a full and detailed listing of portfolio holdings is now available at www.uvic.ca/financialplanning/pensions/combination/annualreports or by contacting Pension Services.