University of Victoria Combination Pension Plan 2017 Annual Report

Pension Board
University of Victoria

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Audited financial statements and detailed listing of portfolio holdings are available online at: www.uvic.ca/financialplanning/pensions.
A printed copy of these documents can also be requested from Pension Services.

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Message from the Chair

Both the Combination and Money Purchase plans returned gross 9.52% in 2017, about at the median of comparable pension plans. Our expenses remained very low and essentially unchanged from last year at 0.35% for a net return of 9.17%. This is a good result, especially when combined with our four year annualized net number of 8.56%. As is always the case, the underlying picture is more complicated with our Canadian equity returning 8.84% (slightly below the TSX benchmark of 9.10%); foreign equity 17.13% (a significant out-performance relative to the MSCI World ex Canada at 14.58%); and bonds at 2.96% relative to a universe at 2.56%. The best wide index of American stocks, the S&P 500, was up sharply in US dollars at 21.8% but the Canadian dollar appreciated significantly relative to its US counterpart thereby lowering this yield to 13.8% in Canadian funds. A major factor in the lower returns in Canada relative to the US was the drag from the energy sector (down about 13%). This huge discount was caused by the lack of facilities to transport Canadian oil to international customers other than the US. The discount peaked in December with West Texas Intermediate crude selling for about US$61 and Western Canada select about US$30 below that price. More detailed Information on the breakdown of our assets between managers and asset classes and the individual returns for those assets is included on pages 15 and 16 of this report.

Those of you who have been members of the Plan for a number of years will be aware that the distribution of assets has always been very traditional, including allocations to Canadian and Foreign equity and Canadian fixed income, and more recently a 10% allocation to Canadian Real Estate managed by the British Columbia Investment Management Corporation (bcIMC). During the past year, bcIMC recreated a new, wholly owned subsidiary, QuadReal, which will manage this portfolio in the future. The investment is focussed on office, retail and industrial space (not residential) and provides a steady income stream (5.64% in 2017) in addition to possible capital appreciation. Many larger pension funds also invest in other alternatives such as infrastructure, private equity and hedge funds. Depending on the exact investments these alternatives may provide more diversification, less risk and perhaps greater returns but in general these potential benefits come with greater cost, both in dollars and in administration and governance. With the growth of the Plan beyond a billion dollars coupled with the general industry consensus that returns will be lower in the future, the Trustees undertook studies over the last 2 years (assisted by Willis Towers Watson and Phillips, Hager & North) with two principal objectives: firstly, to determine whether the contribution increases introduced in 2011 represent the correct level of funding going forward; and secondly whether the introduction of alternative assets could improve the risk/return profile of the plan. The studies were statistical in nature, considering thousands of possible economic scenarios. Study of these results is ongoing, but at this stage the Trustees tend to the view that although introduction of alternatives such as infrastructure or low volatility equity may improve (by a very small number of percentage points) the risks to the Plan in the most extremely unfavourable economic scenarios, these gains may be accompanied by slightly reduced returns in the most favourable scenarios and overall are probably not worth the extra administrative and governance costs. At this stage, the studies do not suggest any necessity for changes to on-going contribution levels.

Another important aspect of Trustee work during 2017 was the need to meet a new requirement under BC/ Alberta pension law to conduct a triennial plan assessment, essentially what academia would call "self-assessment." The first assessment was for the three year period to Dec 31, 2016 and due Dec 31 2017. The assessment needs to review plan regulatory compliance, governance, funding, investments and the performance of service providers. The process was initiated in May with the help of Mercer, who prepared questionnaires and facilitated meetings to complete the exercise.

Message from the Chair

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Outcomes were generally very positive, mostly scoring 4 or 5 on a five-point scale. To address those deficiencies which were identified, the Trustees have prepared an action plan and priorities for the next two years, leading to the next assessment for the period ending Dec 31, 2019.

Turning to the administration of the Plan, our new Pension Director, Christa Taylor, was appointed January 1st 2017 and under her guidance the structure of Pension Services has undergone significant changes over the past year. The objectives are to build upon the services already provided to members; to better protect the office from so-called "key person risk"; and to provide greater support and continuing education to the trustees. Previously the Pension Director had primary responsibility for the Faculty and Professional Staff pension plans and the Manager, Pension Administration (Janet McPherson) was responsible for the Staff Plan, thereby creating "key-person" risk for both constituencies. Under the new structure the Director, and a newly appointed Associate Director, Oliver Cowern, will share responsibility for both constituencies. Janet has kindly agreed to phase into retirement with a part-time role until mid-2019 and through this transition she will continue to provide her expertise to the plans and to assist with succession planning and project management. Expanded services to members will include a newly designed web-site, planned for the spring of 2018, and a new structure in the member services area that will see additional staff from the department supporting Combination and Money Purchase pension plan members. With these changes in leadership, the department remains committed to enhancing the administration of the pension plans, with a focus on providing a positive experience and professional services for members.

You will recall that your Board of Trustees is composed of four trustees elected by the membership and four appointed by the Board of Governors. In 2017 Lisa Hill and I were re-appointed by the Board of Governors to three year terms effective July 1st 2017 and January 1st 2018 respectively and an election was held in October/ November to replace Martha O'Brien and Joe Sass who decided not to seek re-election. Joe has left the University for a new job with Kwantlen College and Martha has retired from the Law Faculty and has many travel plans including many conferences in her specialty of international tax law. Martha and Joe will both be greatly missed. We thank them both and I would like to extend a special personal thank-you to Martha for her able and wise assistance to me in her role as vice-Chair of the Trustees for the last several years. Newly elected Trustees, David Boudinot from the Library staff and Ori Granot from Chemistry began their three year terms on January 1st and we welcome them and wish them well in their new roles.

Our committee Chairs in 2017 were Lisa Hill (Investment), Martha O'Brien (Policy and Procedure), Kristi Simpson (Valuation) and myself (Governance and Communications). This is a significant workload for Lisa, Martha and Kristi in addition to their regular Trustee duties, so we all owe them our thanks.

I look forward to meeting many of you at our Annual General Meeting on April 24th, and in the meantime we can take pride in the fact that the Pension Plan, started 1st July 1968 (coincidentally the day I myself started at the University!) will celebrate its 50th birthday in 2018.

Best Wishes to all for that momentous date and beyond,

Keith R. Dixon
Chair, Board of Pension Trustees

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 (ITA)* and British Columbia's *Pension Benefit Standards Act (PBSA).*

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, serving for terms of up to three years. Four Trustees are elected by Plan members, and four are appointed by the University's Board of Governors ("BOG").

In 2017, the Trustees were:

- Dr. Keith Dixon (Chair)
  Professor Emeritus, Department of Chemistry
  Appointed term ending December 31, 2020

- Professor Martha O'Brien (Vice-Chair)
  Professor, Faculty of Law
  Elected term ended December 31, 2017

- Mr. John Gilfoyle
  Investment & Strategy Consultant
  Appointed term ending June 30, 2018

- Ms. Lisa Hill
  Senior Vice-President, Portfolio Manager
  Raymond James Ltd.
  Appointed term ending August 31, 2020

- Dr. Michael Miller
  Professor Emeritus, Department of Computer Science
  Elected term ending December 31, 2019

- Mr. Joe Sass
  Former Manager, Financial Accounting & Training
  Elected term ended December 31, 2017

- Ms. Susan Service
  Professional Accountant
  Elected term ending December 31, 2019

- Ms. Kristi Simpson
  Associate Vice-President, Financial Planning & Operations
  Appointed ex-officio

In November 2017, Mr. David Boudinot and Dr. Ori Granot were elected to three year terms ending December 31, 2020.

2017 HIGHLIGHTS

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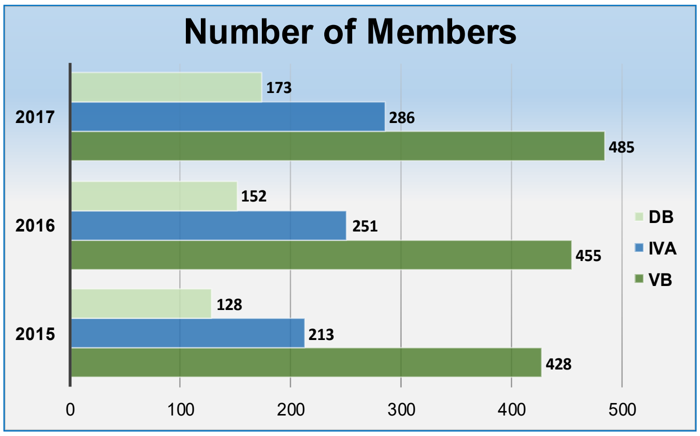
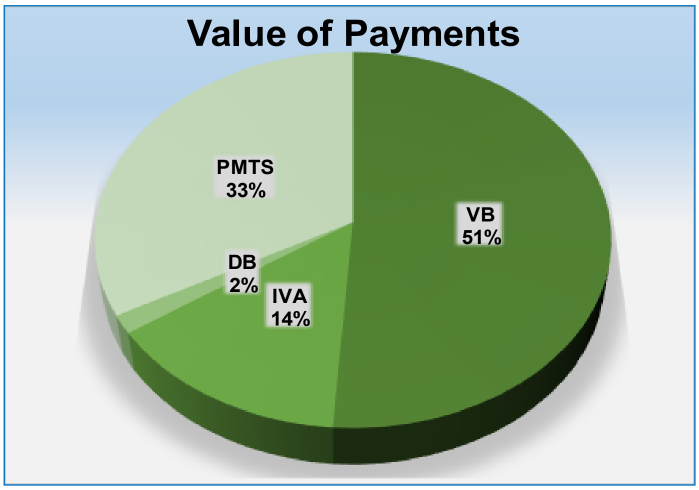
Investments: Value & Performance

Market Value of Investments (expressed in $000's)	**2015**	**2016**	**2017**
Balanced Fund	$888,322	$923,884	$991,235
Defined Retirement Benefit Fund	150,370	169,033	194,479
Total	$1,038,692	$1,092,917	$1,185,714

Performance (dollar figures expressed in $000's)		**2015**		**2016**		**2017**	
			%		%		%
Balanced Fund	**Gross Returns**	$75,179	9.10	$44,131	4.98	$87,614	9.52
	Expenses	(2,884)	(0.35)	(2,995)	(0.34)	(3,154)	(0.35)
	Net Returns[1]	$72,295	8.75	$41,136	4.64	$84,460	9.17
Defined Retirement Benefit Fund	**Gross Returns**	$13,149	9.92	$10,959	6.98	$18,138	10.53
	Expenses	(617)	(0.47)	(588)	(0.37)	(651)	(0.38)
	Net Returns	$12,532	9.45	$10,371	6.61	$17,487	10.15

Types of Benefit Payments[2]





Benefit Payments Number of members	**2015**	**2016**	**2017**
Variable Benefits (VB)	428	455	485
Internal Variable Annuities (IVA)	213	251	286
Defined Benefit Pensions and Supplements (DB)	128	152	173
(Combination of Options)	(158)	(190)	(218)
Total	611	668	726

Value of Benefit Payments (expressed in $000's)	**2015**	**2016**	**2017**
Variable Benefits (VB)	$19,550	$20,967	$22,541
Internal Variable Annuities (IVA)	4,081	5,251	6,311
Defined Benefit Pensions and Supplements (DB)	545	553	687
Lump Sum Payments & Transfers (Pmts)	3,996	6,534	14,537
Total	$28,172	$33,305	$44,076

[1] The Balanced Fund's net returns are distributed to members' accounts.
[2] Refer to Understanding the Plan section for an explanation of the types of benefits offered by the Plan.

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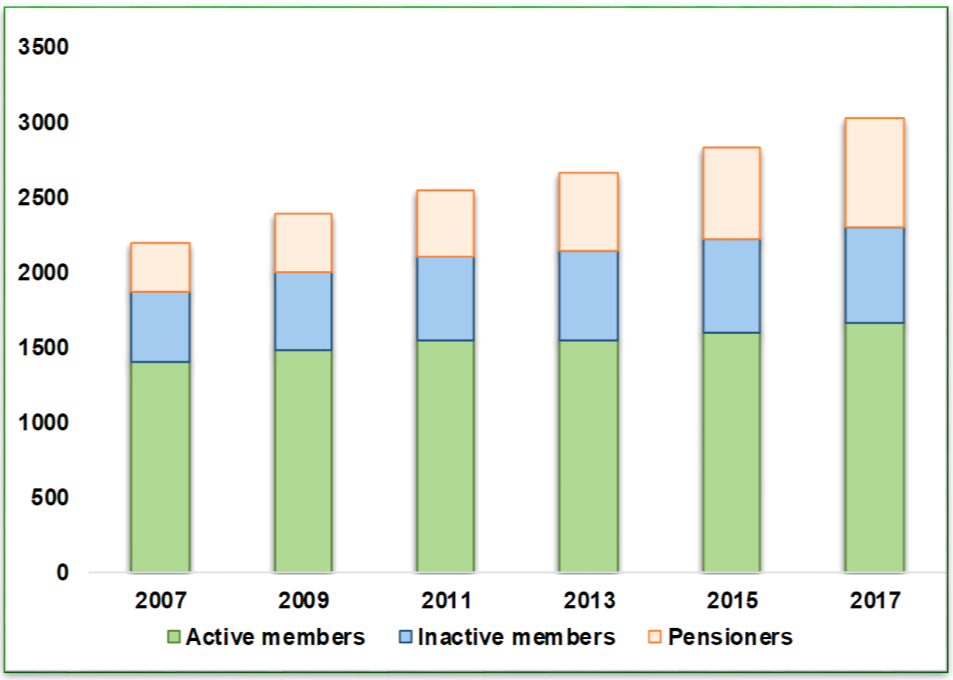
2017 Highlights

Membership

The following table and chart describe the status and growth in Plan membership over the past ten years (2007 to 2017).

	2007	2009	2011	2013	2015	2017
Active members	1,393	1,480	1,538	1,547	1,600	1,663
Inactive members	472	522	556	597	616	632
Pensioners	321	382	448	512	611	726
Total	**2,186**	**2,384**	**2,542**	**2,656**	**2,827**	**3,021**



Active members are employed by the University and contributing to the Plan.

In 2007, this group represented 63.7% of total membership, compared to 55.0% in 2017.

Inactive members have transferred to another UVic 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.

In 2017, 20.9% of membership were inactive members.

Pensioners are members and/or beneficiaries who are drawing a monthly pension from the Plan.

In 2007, this group represented 14.7% of total membership, compared to 24.0% in 2017.

Understanding the Plan

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Contributions

Members and the University share the cost of the Plan. The contribution rates are shown in the table below.

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

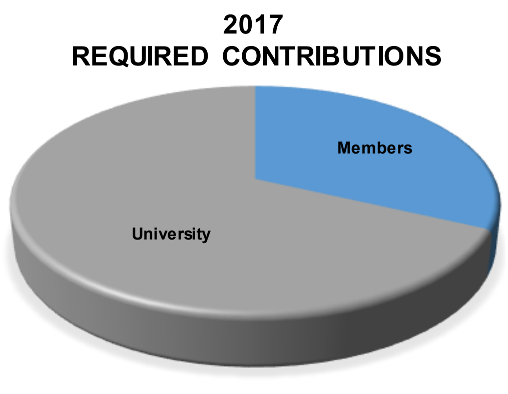
Combined Contribution Account (CCA).
This is the Defined Contribution account. Contributions by members and the University are credited to members' individual Combined Contribution Accounts (CCAs), and are subject to *Income Tax Act* maxima.

Defined Retirement Benefit Account (DRBA).
This is the Defined Benefit Minimum account, funded by University contributions.

Voluntary Account.
Subject to *Income Tax Act* maxima, 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). The University does not match those contributions. Transfers from spousal RRSPs are not permitted.

Example of 2018 Contributions ~ Annual Salary of $95,000					
	Member		University		Total
CCA Up to YMPE[1]	$55,900 x 4.35%	$2,432	$55,900 x 6.02%	$3,365	$5,797
CCA Above YMPE[1]	($95,000-$55,900) x 6.35%	2,483	($95,000-$55,900) x 7.65%	2,991	5,474
DRBA		NIL	$95,000 x 5.05%	4,798	4,798
Total		$4,915		$11,154	**$16,069**

Total Contributions (expressed in $000's)		**2015**	**2016**	**2017**
Members	**Required**	$8,516	$8,836	$9,254
	Voluntary	194	311	244
	Transfers (from other plans)	3,027	3,542	5,238
University (Required)		18,316	18,960	19,675
Total		**$30,053**	**$31,649**	**$34,411**



[1] YMPE: Year's Maximum Pensionable Earnings, the contributory earnings upper limit under the Canada Pension Plan ($55,300 in 2017; $55,900 in 2018).

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Understanding the Plan

The precise terms of the Plan are provided in the Plan Document, available on the Pension Services website (www.uvic.ca/financialplanning/pensions).
If there is a discrepancy between this report and the Plan Document, the Plan Document applies.

Early & Deferred Retirement

The Combination Pension Plan provides immediate vesting, which means there are no minimum service requirements to start receiving 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 reaches 65 years of age. This is the date at which the Internal Variable Annuity's 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 Internal Variable Annuity's defined benefit minimum 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 that year, 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 $111,800 (two times the 2018 YMPE[1]: $55,900 x 2 = $111,800) are paid out in cash, less withholding tax.

Options at Retirement

Members have a range of options designed to allow tailoring of retirement income to suit individual situations, preferences, and financial plans. Spousal consent is required for some options. Subject to some restrictions, options may be combined for maximum flexibility.

The selection of any one option or a combination of options is a matter for the individual member and their financial advisor. Pension Services cannot provide this type of advice.

Options at a Glance

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

With minor variations, there are two options available directly from the Plan: a member may choose between a Variable Benefit or an Internal Variable Annuity. The Variable Benefit option allows the member to retain control and ownership of the account balance, and to make withdrawals within statutory limits. The Internal Variable Annuity option requires control and ownership of the account balance to be relinquished in exchange for the promise of a future lifetime income.

Alternatively, a member may remove his or her funds from the Plan, and choose between an external annuity or another registered retirement vehicle from an external provider.

[1] YMPE: Year's Maximum Pensionable Earnings, the contributory earnings upper limit under the Canada Pension Plan ($55,300 in 2017; $55,900 in 2018).

Options at Retirement

1. The Variable Benefit

This option is similar to an external life income fund (LIF). The funds that accumulated in a member's account 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. After each month's withdrawal, the balance remaining in a member's account shares in the investment performance of the fund.

When the member dies, any remaining balance forms the survivor benefit (refer to the Survivor Benefits section of this report for more information). If the member has a spouse, as defined in British Columbia's *Pension Benefit Standards Act (PBSA)*, spousal consent is required for the Variable Benefit option.

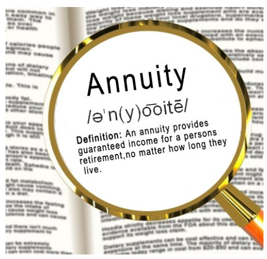
With one full calendar month of notice, a variable benefit pensioner may terminate the pension and apply the balance remaining to one or a combination of the other options, except that the Internal Variable Annuity's defined benefit minimum is no longer available. In addition, if the member is over 71 years of age, minimum withdrawal for the year must be satisfied before the funds are applied to another option.

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 and other pertinent information.

2. Internal Variable Annuity (with defined benefit minimum)

An Internal Variable Annuity can also be purchased with the balance in a member's CCA. The initial amount payable depends on the balance available in the member's CCA, the age of the member, and the survivor benefit option selected. There are three main differences between an internal annuity and an external annuity:

- Provided the member was not previously receiving 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 year to reflect the investment performance of the Plan during the prior calendar year relative to the 3.5% underlying performance assumption. If the Plan earned more or less than 3.5%, the payments are adjusted accordingly. Adjustments are pro-rated for a partial year payout.

  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 external annuities, but also the potential for benefit if the Plan does well.
- Internal annuities are also adjusted to reflect the longevity experience of the group of annuitants.

Appendix B provides a table of 2018 single life annuity rates and early retirement reduction factors. 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. Please refer to the Survivor Benefits section of this report for more information.

If only a portion of a member's CCA is applied to this option, a minimum account balance of $167,700 is required (three times the 2018 YMPE[1]: $55,900 x 3 = $167,700). In addition, the defined benefit minimum is reduced proportionately.

[1] YMPE: Year's Maximum Pensionable Earnings, the contributory earnings upper limit under the Canada Pension Plan ($55,300 in 2017; $55,900 in 2018).

Options at Retirement

3. Transfer Out

A member can also transfer the account balance to another registered pension plan or to a locked-in retirement account. If at least 50 years of age, a member can also transfer the account to a life income fund or purchase an annuity from an insurance company.

In accordance with the requirements of British Columbia's *Pension Benefit Standards Act (PBSA)*, such transfer must be on a locked-in[1] basis for that portion of the member's account contributed after December 31, 1992 (plus the investment earnings on those contributions); however, 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 on Cessation of Employment

A member who leaves the employ of the University before early retirement age is eligible for one of the following options:

1. Leave the Combined Contribution Account (CCA) on deposit for a future pension (default option). At or after reaching 55 years of age, the member can then select an option described in the Options at Retirement section of this report; or

2. Transfer out:
    - *For locked-in funds[1],* the following options are available:
        - Direct transfer to another registered pension plan (RPP) or to a locked-in retirement account (LIRA); or
        - If at least 50 years of age, direct transfer to a life income fund (LIF) or purchase a deferred life annuity from an insurance company.
    - *For non-locked-in funds[1],* the following options are available:
        - Direct transfer to another registered pension plan (RPP), a registered retirement savings plan (RRSP), or registered retirement income fund (RRIF);
        - Purchase annuity from life insurance company (conditions may apply); or
        - Cash, less applicable withholding tax.

A member must select an option by October 31 of the year in which he or she reaches 71 years of age.

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

Survivor Benefits

Survivor benefits are paid to a spouse, beneficiary, or estate upon a member’s death.

A spouse, as defined in British Columbia’s *Pension Benefit Standards Act (PBSA)*, is automatically entitled to the survivor benefit unless they choose to waive that right by submitting a spousal waiver.

If a member has a spouse.
The pre-retirement survivor benefit for a spouse is 100% of the value of the benefit earned by the member, and a surviving spouse is entitled to any of the options that are available to the member[1].

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 pre-retirement 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 receiving the Variable Benefit is the balance remaining in the member's Variable Benefit Account.

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 prior to commencement of the annuity. The value of the internal annuity will be adjusted based on the survivor benefit option selected by the member. For example, if you select survivor benefits that provide longer or higher payments to your beneficiary, your monthly pension payment will be lower. The following table describes the options available:

Option[2]	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] With the exception that the spouse need not have attained 55 years of age to commence a monthly benefit.
[2] 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.

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Investments

Objectives

The Funds
Plan assets are distributed over two funds: the Balanced Fund and the Defined Retirement Benefit Fund.

- The Balanced Fund
  Individual member accounts (Combined Contribution Accounts, Variable Benefit Accounts and Voluntary Contribution Accounts) are held in the Balanced Fund, together with the assets of the Money Purchase Pension Plan.

- The Defined Retirement Benefit Fund
  This 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.

Risk Tolerance
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.

Time Horizon
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 Sub-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.

Performance Expectations
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.

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Investment Returns

This table shows the annualized rates of return for the Balanced Fund portfolio over the last ten years.

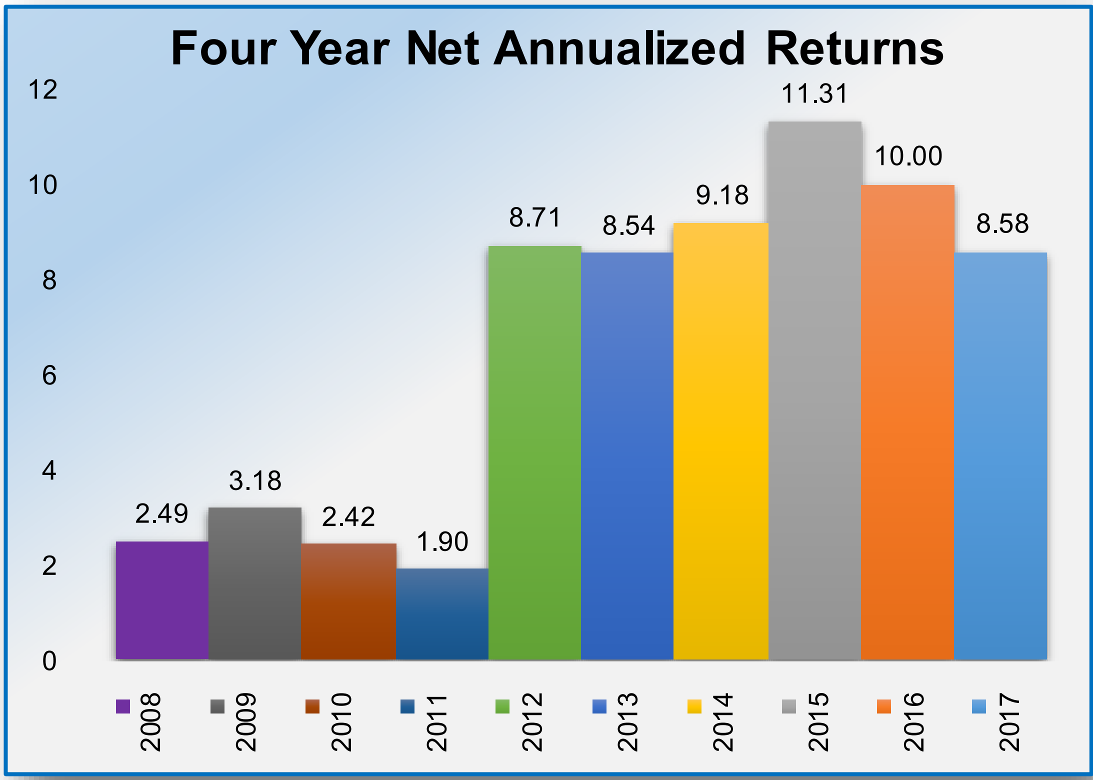
The four year net returns are also illustrated in the chart below.

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.

Balanced Fund Annualized Returns (%)
Period ended December 31, 2017

	1 year		4 year		10 year	
	Gross	**Net**	**Gross**	**Net**	**Gross**	**Net**
2017	**9.52**	**9.17**	**8.94**	**8.58**	**6.89**	**6.58**
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



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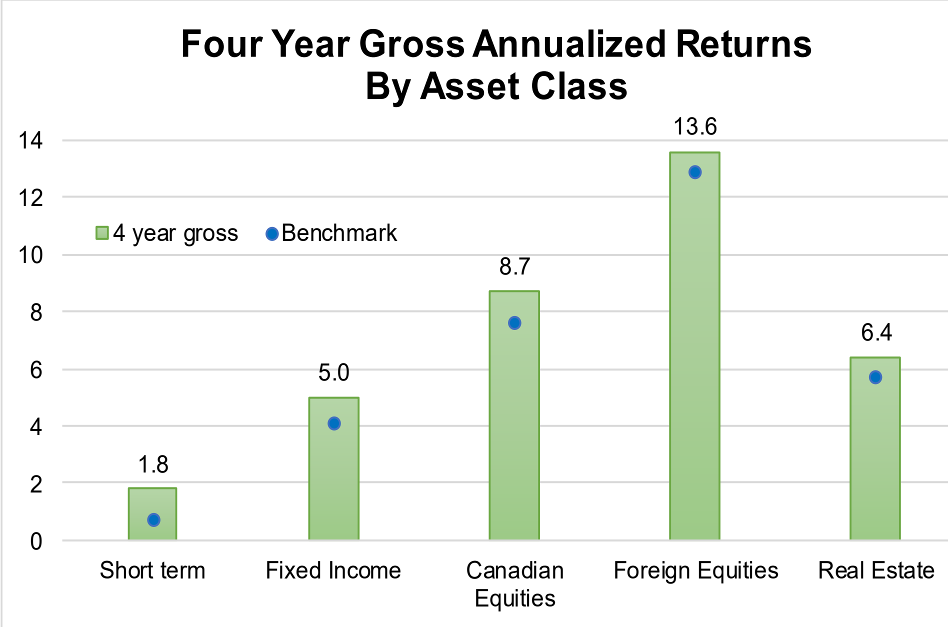
INVESTMENTS

Asset Mix and Returns

The information shown here provides a snapshot of the asset mix, the allocation among the Fund's investment managers, and the associated performance returns for each asset class, compared to a set benchmark.



Balanced Fund Asset Mix and Performance as at 31 December 2017	Actual Weight	Benchmark Weight (Range)	1 year Gross Return	1 year Benchmark Return	4 year Gross Return	4 year Benchmark Return
	%	%	%	%	%	%
SHORT-TERM			*Benchmark: FTSE TMX Canada 91-day T-Bill Index*			
BC Investment Management Corporation Fiera Capital Corporation Phillips, Hager & North Investment Management Ltd	- 0.2 0.9					
Total	1.1	0 (0-21)	1.0	0.6	1.8	0.7
FIXED INCOME			*Benchmark: FTSE TMX Canada Universe Bond Index*			
Phillips, Hager & North Investment Management Ltd	30.2	36 (20-46)	3.0	2.5	5.0	4.1
CANADIAN EQUITIES			*Benchmark: S&P/TSX Capped Composite Index*			
BC Investment Management Corporation Fiera Capital Corporation	11.2 11.1	11 each (9-13)	7.9 9.6		8.7 8.5	
Total	22.3	22 (14-27)	8.8	9.1	8.7	7.6
FOREIGN EQUITIES			*Benchmark: MSCI World Ex-Canada Net $Cdn Index*			
BC Investment Management Corporation	37.1	32 (20-40)	17.1	14.6	13.6	12.9
REAL ESTATE			*Benchmark: Canadian Consumer Price Index plus 4%*			
BC Investment Management Corporation	9.3	10 (5-15)	5.6	5.9	6.4	5.7
TOTAL FUND			*Benchmark: Composite Benchmark*			
			9.5	8.1	**8.9**	**8.0**

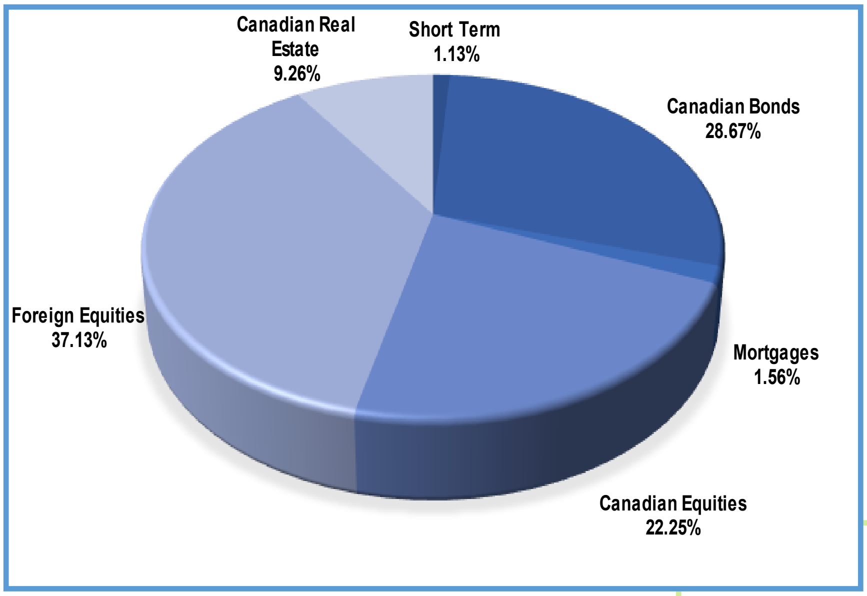
INVESTMENTS

Pension Board
University of Victoria

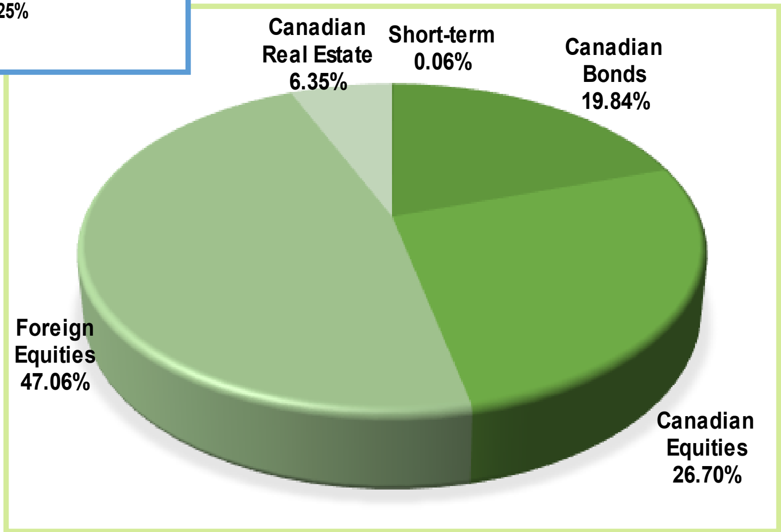
Asset Mix

The following charts illustrate the funds' asset mix, as at December 31, 2017. The investment managers for each asset class are listed in the Service Providers section of this report. Portfolio holdings for both funds are summarized in Appendix C.

Balanced Fund



Defined Retirement Benefit Fund



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 (for example, 0.33% is 33 basis points).

Balanced Fund Expense Ratio (expressed in $000's)

	2015		2016		2017	
		%		%		%
Investment management expenses	$2,331	0.28	$2,450	0.29	$2,565	0.29
Custodial and consulting expenses	129	0.02	118	0.01	120	0.01
Office and administration expenses	362	0.05	388	0.04	428	0.04
Audit and legal expenses	62		39		41	0.01
Total expenses	$2,884	0.35	$2,995	0.34	$3,154	0.35

Pension Board
University of Victoria

Funding

Solvency Status

Under the British Columbia *Pension Benefits Standards Regulation (PBSR)*, 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. The defined benefit component in the Combination Plan is the “Defined Retirement Benefit”, as described in this report.

A valuation provides a snapshot of a plan’s estimated financial condition at a particular point in time. 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%.

The next valuation will be completed in 2019, for the period ending December 31, 2018.

Service Providers

Service Providers at the end of December 2017		
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 & Treasury Services	Custodian of Plan assets, excluding bcIMC funds. Payment service for pensions and taxable lump sums
Investment consultant	Willis Towers Watson	
Performance measurement	RBC Investor & Treasury Services	
Actuary	Mercer (Canada) Limited	
Auditor	Grant Thornton LLP	

Appendix A
History of the Plan

Pension Board
University of Victoria

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 (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 (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.

Appendix A
History of the Plan

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.

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 14% of basic salary in excess of the YMPE, less
b. the individual member's contribution, plus
c. 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
b. 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 (1997) & 5% Internal Variable Annuity (2012). 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.

New Pension Legislation (2015). In September 2015, the amended *Pension Benefits Standards Act* (BC) and Regulation became effective. The Plan was amended to reflect the new legislation.

Appendix B
Annuity Rates & Reduction Factors

Pension Board
University of Victoria

2018 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	51.52	0.58976
56	52.36	0.61954
57	53.25	0.65126
58	54.19	0.68509
59	55.20	0.72122
60	56.27	0.75985
61	57.41	0.80122
62	58.63	0.84561
63	59.94	0.89331
64	61.34	0.94465
65	62.84	1.00000
66	64.46	n/a
67	66.21	n/a
68	68.10	n/a
69	70.15	n/a
70	72.37	n/a
71	74.78	n/a

Annuity Rates
This table shows the rates that will be used in 2018 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 receiving 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 $2,944.44 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 is multiplied by the corresponding reduction factor shown in the table.

Example of annuity calculation for a $300,000 final account balance at age 64:
$300,000 ÷ 1,000 x 61.34 = $18,402 per year ÷ 12 = $1,534 per month

Example of the reduction applied at age 64 to a defined benefit minimum of $40,000 per year
$40,000 x 0.94465 = $37,786 per year ÷ 12 = $3,149 per month

[1] A single life annuity ceases on the death of the annuitant. While other survivor benefit options are available, the annuity amount payable is adjusted with other options (refer to the Survivor Benefits section of this report).

[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

Balanced Fund, as at December 31, 2017

ASSET	Market Value (expressed in $000's)
SHORT-TERM INVESTMENTS (1.13% of total)	
CANADA TREASURY BILLS	1,992
POOLED FUNDS	9,939
CANADIAN BONDS (28.67% of total)	
FEDERAL (Government & Government Guaranteed)	121,255
PROVINCIAL (Government & Government Guaranteed)	88,473
MUNICIPAL (Government & Government Guaranteed)	0
CORPORATE	271
POOLED BOND FUNDS	92,581
MORTGAGES (1.56% of total)	
POOLED MORTGAGE FUNDS	16,442
CANADIAN EQUITIES (22.25% of total)	
CONSUMER DISCRETIONARY	8,639
CONSUMER STAPLES	4,829
ENERGY	17,041
FINANCIALS	37,253
HEALTH CARE	0
INDUSTRIALS	16,736
MATERIALS	11,434
INFORMATION TECHNOLOGY	8,259
TELECOMMUNICATION SERVICES	2,309
POOLED FUNDS	128,400
FOREIGN EQUITIES (37.13% of total)	
POOLED FUNDS	391,987
REAL ESTATE (9.26% of total)	
POOLED FUNDS	97,762
TOTAL BALANCED FUND PORTFOLIO	**1,055,602**
COMBINATION PENSION PLAN	**991,235**
MONEY PURCHASE PENSION PLAN	**64,367**

Note: Some inconsistencies may exist due to rounding.

Appendix C
Portfolio Holdings

Pension Board
University of Victoria

Defined Retirement Benefit Fund, as at December 31, 2017

ASSET	**Market Value ($)** (expressed in $000's)
SHORT-TERM INVESTMENTS (0.6% of total)	
POOLED FUNDS	112
CANADIAN BONDS (19.84% of total)	
POOLED BOND FUNDS	38,576
CANADIAN EQUITIES (26.70% of total)	
POOLED FUNDS	51,921
FOREIGN EQUITIES (47.06% of total)	
POOLED FUNDS	91,523
REAL ESTATE (6.35% of total)	
POOLED FUNDS	12,347
TOTAL DEFINED RETIREMENT BENEFIT FUND PORTFOLIO	
	194,479

Note: Some inconsistencies may exist due to rounding.

A full and detailed listing of portfolio holdings is now available at www.uvic.ca/financialplanning/pensions. or by contacting Pension Services.

Pension Board
University of Victoria

Contact Us

The precise terms of the Plan are provided in the Plan Document, available on the Pension Services website (www.uvic.ca/financialplanning/pensions).
If there is a discrepancy between this report and the Plan Document, the Plan Document applies.

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:
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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 3-6 months before their retirement date. Meetings with the Pension Entitlements Officer are available by appointment.

Coming Soon:
Pension Services' new website!