Grant Thornton

Financial Statements

University of Victoria Staff Pension Plan

December 31, 2017

Contents

Independent Auditors' Report

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To the Investments and Administration Committee

We have audited the accompanying financial statements of the University of Victoria Staff Pension Plan, which comprise the statement of financial position as at December 31, 2017 and the statements of changes in net assets available for benefits and changes in obligations for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Staff Pension Plan as at December 31, 2017, and the changes in its net assets available for benefits and changes in its obligations for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Grant Thornton LLP

Victoria, Canada
May 14, 2018

Chartered Professional Accountants

University of Victoria Staff Pension Plan
Statement of Financial Position

December 31 (expressed in $000s)	**2017**	2016
Assets		
Cash	**$ 14**	$ 26
Investments (Note 4)		
Short-term	**2,706**	3,833
Canadian bonds	**96,623**	87,724
Mortgages	**4,859**	6,190
Canadian equities	**36,319**	35,758
Foreign equities	**81,737**	76,758
Real estate	**24,438**	23,239
Infrastructure	**27,056**	24,144
	273,738	257,646
Receivables		
Members' contributions	**195**	195
University contributions	**494**	497
Accrued interest and dividend income	**248**	238
Transactions to be settled and other	**15**	153
	952	1,083
	274,704	258,755
Liabilities		
Accounts payable and accrued liabilities	**151**	127
	151	127
Net assets available for benefits (Note 7)		
Available for supplementary benefits	**15,852**	14,601
Available for accrued pension benefits	**258,701**	244,027
	274,553	258,628
Obligations for benefits		
Voluntary contribution accounts	**988**	922
Supplementary benefits (Notes 7 and 9)	**15,852**	14,601
Accrued pension benefits (Note 6)	**220,835**	209,893
	237,675	225,416
Net assets available for benefits less obligations for benefits	**$ 36,878**	$ 33,212

See accompanying notes to the financial statements.

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

Year ended December 31 (expressed in $000s)	2017	2016
Change in net assets		
Net return on investments (Note 5)		
Interest and other income	**$ 3,917**	$ 4,589
Mortgage income	**175**	206
Dividend income	**1,500**	1,020
Net realized and unrealized gain on investments	**14,062**	10,355
Investment administration costs	**(1,146)**	(978)
	18,508	15,192
Contributions (Note 1(b))		
Members		
Basic	**2,209**	2,179
Supplementary	**121**	119
University		
Basic	**5,671**	5,591
Supplementary	**121**	119
CV transfer deficiency	**393**	377
	8,515	8,385
Total increase in assets	**27,023**	23,577
Payments to or on behalf of members		
Pensions to retired members		
Basic	**8,131**	7,545
Supplementary	**22**	23
Pensions to disabled members	**134**	153
Termination payments and transfers to other plans	**2,354**	2,263
	10,641	9,984
Operating expenses		
Office and administrative costs	**275**	267
Actuarial fees	**130**	6
Audit, registration and legal fees	**52**	46
	457	319
Total decrease of assets	**11,098**	10,303
Increase in net assets	**15,925**	13,274
Net assets available for benefits, beginning of year	**258,628**	245,354
Net assets available for benefits, end of year	**$ 274,553**	$ 258,628

See accompanying notes to the financial statements.

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

Year ended December 31 (expressed in $000s)	2017	2016
Change in obligations for benefits – accrued pension benefits		
Beginning balance	**$ 209,893**	$ 200,473
Actual plan experiences and changes in actuarial assumptions	**1,779**	-
Interest accrued on benefits	**12,084**	11,971
Benefits accrued	**7,698**	7,365
Benefits paid	**(10,619)**	(9,916)
Change in obligations for benefits	**10,942**	9,420
Ending balance	**$ 220,835**	$ 209,893
Change in obligations for benefits – supplementary benefits		
Beginning balance	**$ 14,601**	$ 13,555
Interest accrued on benefits	**1,031**	831
Contributions	**242**	238
Benefits paid	**(22)**	(23)
Change in obligations for benefits	**1,251**	1,046
Ending balance	**$ 15,852**	$ 14,601
Change in obligations for benefits – voluntary contribution accounts		
Beginning balance	**$ 922**	$ 914
Interest accrued on benefits	**66**	53
Contributions	**-**	-
Benefits paid	**-**	(45)
Change in obligations for benefits	**66**	8
Ending balance	**$ 988**	$ 922

See accompanying notes to the financial statements.

1. Description of plan

The following description of the University of Victoria Staff Pension Plan (“the Plan”), established by the University of Victoria (“the University”), is a summary only. For more complete information, reference should be made to the Plan text, which is available from Pension Services.

(a) General

The Plan is primarily a defined benefit pension plan that covers primarily regular members of the Canadian Union of Public Employees (CUPE) locals 917, 951 and 4163 and exempt staff.

(b) Funding

In accordance with the Plan text, members are required to contribute no less than 4.53% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (“YMPE”) ($55,300 in 2017), and 6.28% of their basic salary in excess of that amount to the Basic Plan to fund basic pension benefits. Members contribute an additional 0.25% of salary to the Supplementary Retirement Benefit Account (Note 9).

A valuation for the plan was completed for the year ended December 31, 2016 and no change to the University basic contribution rate of 11.75% was required. The University contributes an additional 0.25% of salary to the Supplementary Retirement Benefit Account (Note 9). The next valuation for the year ended December 31, 2019 will be performed in 2020.

Up to December 31, 2015, members could elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles, subject to Income Tax Act maximums. These contributions are invested with the plan’s other assets and investment returns match the rates earned by the other assets of the plan.

If a future valuation requires contribution changes (up or down) as a result of normal cost changes, then the increase or decrease will be shared on a one-for-one basis between the University and plan members. If there is sufficient surplus in the plan, and the University decides to take a contribution holiday, the employees will share equally in the surplus in the form of either a one-time benefit improvement and/or an employee contribution holiday.

Minimum contribution rates will be 10.5% for the University and 4.78% for the employee (6.53% on salary above the YMPE), except at a time when the plan has excess surplus as defined under the Income Tax Act and a further reduction in contributions becomes a requirement. The parties may also negotiate a one-time benefit improvement or a combination of an employee contribution holiday and one-time benefit improvement to use the employees’ share of excess surplus. Notwithstanding the above, should the University be required to make contributions as a result of a solvency and/or going concern deficiency, the University will contribute 100% of the cost and the University will then be entitled to 100% of future surplus until the amount contributed is fully recovered.

December 31, 2017 (expressed in $000s)

1. Description of plan (continued)

(c) Normal retirement

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member reaches age 65. Pension benefits are calculated using the following formula:

Benefit accrual rate **x** highest five year average salary **x** years of credited service (full time equivalent).

The benefit accrual rates since the plan's inception in 1972 are as follows:

	On average salary up to the average YMPE	On average salary over the average YMPE
On service up to December 31, 1989	1.65%	2.00%
On service during 1990 and 1991	1.30%	2.00%
On service from 1992 through 1999	1.50%	2.00%
On service from January 1, 2000	1.70%	2.00%

(d) Early retirement

Members may elect early retirement at the end of any month following attainment of age 60 with no reduction provided that the member retired from active status. Members may retire between age 55 and 60 on a reduced pension. The reduction rates for retirement on an immediate pension are 3% for each year that the member is under age 60 when the pension commences. The reduction rates for retirement from inactive status (deferred) are actuarial and are between 5% and 6% for each year that the member is under age 65 when the pension commences.

(e) Disability pensions

Prior to April 1, 2006, members who became totally and permanently disabled and were in receipt of a disability pension from Canada Pension Plan were eligible to receive a disability pension from the plan equal to the pension they would have received had they continued to contribute to the plan to normal retirement. Only those members who met disability criteria prior to April 1, 2006 are in receipt of this benefit.

(f) Adjustments to pensions

Pensions are adjusted each January 1st by reference to the change in the Canadian Consumer Price Index (CPI) to a maximum of +/-3% per year since the member's last contribution date. The change in the CPI effective January 1, 2017 was 1.4%.

When the change in the CPI exceeds 3%, the Investments and Administration Committee may authorize additional indexing from the Supplementary Retirement Benefit Account (Note 9) to pensioners who are at least age 66, provided the actuary certifies that the increase can be financed by the assets of the Supplementary Retirement Benefit Account on a sound actuarial basis.

1. Description of plan (continued)

(g) **Termination and portability benefits**

Upon termination of employment, members may leave their contributions on deposit for a deferred pension or elect to transfer the lump sum commuted value of their pension to a locked-in retirement account or another registered pension plan. If the lump sum value is less than 20% of the YMPE, the member may transfer the commuted value on a non-locked-in basis or receive a cash payment, less withholding tax.

(h) **Survivor benefits before retirement**

If a member has a spouse, their spouse is automatically entitled to the survivor benefit; however, they can designate another beneficiary if their spouse has waived their entitlement. A spouse who has not waived their entitlement has the choice of one of the following survivor benefits:

i) a lifetime monthly pension but guaranteed for 120 payments in any event which is the actuarial equivalent to the commuted value amount calculated in ii) below, payable the first of the month following the member's death; or

ii) a lump sum transfer of the full commuted value of the pension accrued to the member's date of death.

A beneficiary who is not a spouse is entitled to a lump sum equal to the full commuted value of the accrued pension.

(i) **Survivor benefits after retirement**

The survivor benefit after retirement or commencement of a disability pension is determined by the optional form selected by the member when the pension commenced. The normal form for a member who has a spouse is a joint and last survivor pension where 50% of the benefit continues to the surviving spouse. The normal form for a member who does not have a spouse is a single life pension where payments continue for the member's lifetime with a guaranteed minimum of 10 years if the member does not survive for 10 years after retirement.

If the member has a spouse, the member must select a form which provides at least a 60% survivor benefit unless the spouse completes a waiver.

(j) **Income taxes**

The Plan is a registered pension plan as defined in the Income Tax Act (Canada) and is not subject to income taxes.

2. Statement of compliance with Canadian accounting standards for pension plans

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

3. Summary of significant accounting policies

Basis of presentation

Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations. The University has chosen to apply International Financial Reporting Standards ("IFRS") for such accounts on a consistent basis and to the extent that these standards do not conflict with the requirements of the accounting standards for pension plans.

Investments

Investments are stated at fair value. Fair value is determined using market values where available. Fair value for international investments held by BC Investment Management Corporation, are estimated based on preliminary market values supplied by the BC Investment Management Corporation, and any differences between the estimated values and final market values are adjusted in the subsequent period. Where listed market values are not available, estimated values are calculated by discounted cash flows or based on other approved external pricing sources. Price comparison reports are used to compare the prices of the bonds and publicly traded equities held in pooled funds against a secondary source. Mortgages are valued at the end of each month based on a discounted cash flow model. Real estate investments are valued quarterly by BC Investment Management Corporation's real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. At the end of each quarter BC Investment Management Corporation uses financial statements provided by the external managers and general partners or valuation reports to calculate the share values and the unit values for the externally managed holding corporations and limited partnerships. Investment sales and purchases are recorded on trade date. Infrastructure investments are held through limited partnership units investing in infrastructure assets. The fair value of limited partnership units are stated at values reported in their respective audited financial statements. Investments are valued twice annually based on the most recent external managers' valuations of the underlying infrastructure assets.

Investment income

Investment income is recorded on the accrual basis. Any adjustments to investments due to the fluctuation of market prices are reflected as part of the return on investments in the statement of changes in net assets available for benefits.

December 31, 2017 (expressed in $000s)

3. Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management, within the assumption parameters regarding pension liabilities approved by the Plan's actuaries, to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Actual results could differ from those estimates. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the obligations for benefits.

4. Investments (fair value)

The Plan's investments are recorded at fair value or at amounts that approximate fair value. Fair value is the amount at which the investment could be exchanged in a current financial transaction between willing parties. The investments are categorized according to a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy are as follows:

Level 1 – Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 – Inputs that are unobservable for the asset or liability.

The Plan's proportionate share of investments in each fund, categorized according to the fair value hierarchy, is as follows:

		2017	2016
Short-term	Level 1	**$ 2,706**	$ 3,833
Canadian bonds	Level 1	**29,310**	34,587
Canadian bonds	Level 2	**67,313**	53,137
Mortgages	Level 1	**4,859**	6,190
Canadian equities	Level 1	**36,319**	35,758
Foreign equities	Level 2	**81,737**	76,758
Real estate	Level 3	**24,438**	23,239
Infrastructure	Level 3	**27,056**	24,144
		$ 273,738	$ 257,646
Fair value hierarchy			
Level 1		**$ 73,194**	$ 80,368
Level 2		**149,050**	129,895
Level 3		**51,494**	47,383
		$ 273,738	$ 257,646

December 31, 2017 (expressed in $000s)

4. Investments (fair value) (continued)

The following table summarizes the changes in the fair value of the Plan's financial instruments classified as level 3 investments:

		Real Estate		Infrastructure		**Total**
Beginning balance, January 1, 2017	$	23,239	$	24,144	**$**	**47,383**
Purchases		-		7,515		**7,515**
Sales		-		(5,755)		**(5,755)**
Unrealized gains		1,199		1,152		**2,351**
Ending balance, December 31, 2017	$	24,438	$	27,056	**$**	**51,494**
Beginning balance, January 1, 2016	$	22,756	$	15,994	**$**	**38,750**
Purchases		-		6,083		**6,083**
Sales		(1,817)		(16)		**(1,833)**
Unrealized gains		2,300		2,083		**4,383**
Ending balance, December 31, 2016	$	23,239	$	24,144	**$**	**47,383**

Short-term notes consist of Canadian money market securities, such as treasury bills, with terms of 12 months or less. Canadian bonds consist of government and corporate bonds and debentures. Mortgages consist of units in a pool of first mortgages on income-producing property in Canada. Equities consist of publicly traded shares. Real estate investments consist mainly of diversified Canadian income-producing properties. Infrastructure investments refer collectively to the roads, bridges, rail lines, and similar public works that are required for an industrial economy, or a portion of it, to function. Investments may be segregated or consist of units of pooled investment portfolios of the investment manager.

Currency contracts may be held individually by BC Investment Management Corporation. The contracts are used for defensive purposes in order to protect clients' foreign investments from the impact of an appreciating Canadian dollar (relative to the foreign currency). The manager purchases and sells currencies through the spot market, forward contracts, and/or futures. Unit values are calculated based on the net realized and unrealized gains/losses of the derivative financial instruments.

Commitments

The Plan has commitments in the amount of $2.7 million (2016: $9.8 million) to fund private equity infrastructure investments. It is anticipated that these commitments will be met in the normal course of operations.

December 31, 2017 (expressed in $000s)

5. Net return on investments

The Plan realized a gross rate of return of 7.65% (2016: 6.63%) and a net rate of return of 7.01% (2016: 6.08%). Net returns are as follows:

	2017	2016
Interest		
Cash and short-term notes	**$ 32**	$ 21
Bonds	**2,739**	3,072
Mortgages	**175**	206
Other income	**1,146**	1,496
Dividends from Canadian equities	**1,500**	1,020
Net realized gains	**16,901**	7,673
Net unrealized gains	**(2,839)**	2,682
	19,654	16,170
Investment costs		
Manager fees	**1,009**	852
Custodial fees	**75**	71
Other	**62**	55
	1,146	978
Total net investment return	**$ 18,508**	$ 15,192

6. Obligations for pension benefits

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and administrator's best estimated assumptions. An actuarial valuation was made as of December 31, 2016 by Willis Towers Watson. The calculations to December 31, 2017 are based upon an extrapolation from the December 31, 2016 valuation. The next required valuation will be as at December 31, 2019, completed in 2020.

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

	December 31, 2017	December 31, 2016
Economic Assumptions:		
Interest - assets	5.65%	5.90%
Interest – liabilities	5.65%	5.90%
Salary escalation		
2016 to 2018	2.00%	2.00%
2019 onwards	2.50%	2.50%
Cost of living increase	2.00% per annum	2.00% per annum

December 31, 2017 (expressed in $000s)

6. Obligations for pension benefits (continued)

	December 31, 2017	December 31, 2016
Demographic Assumptions:		
Mortality table	110% of the 2014 Canadian Pensioners Mortality Table (2014CPM) projected generationally using improvement scale CPM-B	115% of the 2014 Canadian Pensioners Mortality Table projected generationally using improvement scale CPM-B

7. Net assets available for benefits

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

		2017		2016
Basic Plan	**$**	**257,713**	$	243,105
Supplementary Retirement Benefit Account		**15,852**		14,601
Additional Voluntary Contribution Accounts		**988**		922
	$	**274,553**	$	258,628

8. Actuarial valuation for funding purposes

The Plan is subject to the Pension Benefits Standard Act (BC) regulations (“PBSA”), which require solvency and going concern actuarial valuations to be performed every three years, at which time the Plan must take measures to eliminate any funding deficiencies that may arise. For this purpose, the plan actuary values both accrued assets and benefit obligations to the financial statement date, as well as contributions and benefits for future service.

The valuation on a going concern basis disclosed an actuarial surplus of $46.0 million (2013: $26.5 million). The solvency valuation resulted in a solvency deficiency of $64.8 million (2013: $41.9 million). Under the PBSA, the solvency deficiency must be amortized over a period of five years, unless an extension is granted, or a letter of credit is secured in lieu of making the payments. The University has arranged a letter of credit to secure the solvency deficiency payment.

9. Supplementary retirement benefit account

The Supplementary Retirement Benefit Account is a reserve to provide pensioners who have reached age 66 with increases that are supplemental to the increases provided under the Basic Plan (Note 1(f)). Supplementary increases are authorized by the Staff Pension Plan Investments and Administration Committee in consultation with the plan actuary and are subject to the availability of funds in the Supplementary Retirement Benefit Account. The increases are limited so that the total increase in any one year from the combined basic and supplementary provisions does not exceed the increase in the Canadian CPI.

10. Related party transactions

Administrative costs of $275 (2016: $267) represent a portion of the general administration costs incurred by the University and charged to the Pension Plan. The costs include salaries for Pension Services and other operating and administrative costs.

11. Risk management

The Plan’s investments are recorded at fair value. Other financial instruments consist of cash, receivables, and payables and accruals. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to price risk, liquidity risk and credit risk.

Price risk

Price risk is comprised of <u>currency risk</u>, <u>interest rate risk</u>, and <u>market risk</u>.

<u>Currency risk</u>: Currency risk relates to the possibility that the investments will change in value due to future fluctuations in US, Euro and other international foreign exchange rates. For example, a 5% strengthening (weakening) of the Canadian dollar against foreign currencies at December 31, 2017 would have decreased (increased) the value of foreign equities and infrastructure investments by approximately $5.4 million (2016: $5.0 million).

Currency risk associated with foreign equities may be hedged at the discretion of the Global Equity Manager, BC Investment Management Corporation, in order to protect the value of foreign equity investments from the impact of an appreciating Canadian dollar (relative to the foreign currency).

The Fixed Income Manager, the Foreign Equity Manager and the Infrastructure Manager will (or may) purchase securities denominated in foreign currencies. The Investments and Administration Committee may give discretion to a manager to hedge some or all of its foreign currency exposures. The Committee will make such direction for either defensive or strategic reasons.

11. Risk management (continued)

Price risk (continued)

Interest rate risk: Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates and that pension liabilities are exposed to the impact of changes in long term market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices – the longer the duration, the greater the effect. At December 31, 2017, the average duration of the bond portfolio was 7.35 years (2016: 7.61 years). Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 7.35% (2016: 7.61%).

Market risk: Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the investment policy provisions approved by the Board of Governors for a structured asset mix to be followed by the investment managers, the requirement for diversification of investments within each asset class and credit quality constraints on fixed income instruments. Market risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the Plan's current asset class holdings shown below, the expectation is that over the long-term, the Plan will return around 5.8% (2016: 5.5%), within a range of +/- 8.5% (i.e., results ranging from -3.0% to 14.0%). The volatility measures are calculated as average annual standard deviations over 20 years.

Price risk (continued)

	Estimated volatility %
Short-term holdings	+/- 2.4
Bonds and mortgages	+/- 5.1
Canadian equities	+/- 21.1
Foreign equities	+/- 17.5
Real estate	+/- 10.1
Infrastructure	+/- 17.7

Benchmark for investments	% change	Net impact on market value (in thousands)
FTSE TMX Canada 91-day Treasury Bill Index	+/- 2.4	+/- 65
FTSE TMX Canada Universe Bond Index	+/- 5.1	+/- 5,176
S&P/TSX Capped Composite Index	+/- 21.1	+/- 7,663
MSCI World ex-Canada Net Index	+/- 17.5	+/- 14,304
Canadian Consumer Price Index (real estate)	+/- 10.1	+/- 2,468
Canadian Consumer Price Index (infrastructure)	+/- 17.7	+/- 4,789

December 31, 2017 (expressed in $000s)

11. Risk management (continued)

Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost effective manner in order to meet commitments as they come due. The primary liabilities in the Plan are future benefit obligations (Note 6) and operating expenses. Liquidity requirements are managed through income generated by monthly contributions and investing in sufficiently liquid (e.g. publicly traded) equities, pooled funds and other easily marketable instruments.

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed income security issuer or derivative contract counter-party to meet its debt obligations. At December 31, 2017, the maximum risk exposure for this type of investment is $104,188 (2016: $97,746).

The Plan limits the risk in the event of non-performance related to derivative financial instruments by dealing principally with counter-parties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.

The following shows the percentage of fixed income holdings in the portfolio by credit rating:

Rating	Allocation
Cash and short-term securities	3.5%
AAA	40.1%
AA	28.2%
A	14.4%
BBB	9.2%
BB and below	0.6%
Mortgages	4.0%
Total	100.0%

12. Capital disclosures

The purpose of Plan is to provide benefits to plan members. As such, when managing capital, the objective is to preserve assets in a manner that provides the Plan with the ability to continue as a going-concern. With the assistance of an outside consultant, the Plan’s Investments and Administration Committee and Pension Services regularly monitor the asset mix to ensure compliance with the Statement of Investment Policies and Goals so that both immediate and long-term obligations can be met within an acceptable level of risk. An Asset-Liability Modeling Study (ALM) was also completed in 2012 for the purpose of determining a strategic asset mix that meets the objectives of the Plan given its underlying liability structure. The results of the study were used in the development of a strategic asset mix that meets the objectives of the Plan.