



Pension Board  
University of Victoria

# **Combination Pension Plan 2018 Annual Report**

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## **\*\* NEW IN 2019 \*\***

In the spirit of sustainability, some sections of the Annual Report have been extracted and added to Pension Services' new and improved website.

Please visit [www.uvic.ca/pensions](http://www.uvic.ca/pensions) or contact Pension Services to access the following information:

- Early and deferred retirement benefits
- Options at retirement
- Options when leaving UVic
- Survivor Benefits
- History of the Plan

Audited financial statements and detailed portfolio holdings continue to be available on Pension Services' website.

# Letter from the Chair

Clearly, 2018 with a net return of negative 0.4%, was disappointing and certainly not the year for which we may have hoped! However, conventional wisdom would say it had to come sooner or later. The extended bull markets since the crash of 2008 had yielded net annualized returns of 9.3% for the 9-year period to December 2017 and were widely predicted to falter at some point now or in the near future. Our most important equity indices performed poorly: TSX (-8.9%), S&P 500 (-4.4% in US\$), although the decline in the Canadian dollar actually turned the American market positive (+4.2%) for us. The fixed income universe yielded a modest +1.4%. The damage all occurred in the fourth quarter (for example the TSX declined -10.1%) as the so-called “Trump bump” from tax reductions faded and investors became worried about trade wars and rising interest rates. The central banks have since backed off on the last factor.

Taking the longer term view as we always recommend, the poor year reduced the 10-year return to an annualized 8.3%, which is still a very respectable result. Moreover, as I write this letter in mid-March, the TSX is up +12.4% year to date and the S&P 500 +7.5% in Canadian dollars, thereby erasing the poor results of Q4 2018. Whether this improvement can be sustained in the year ahead is of course open to debate and remains to be seen, but it is certainly an object lesson in the importance of the long view.

Although 2018 was a poor year, we actually did well relative to other pension plans. In 2018 we ranked at the 5th percentile of our peer universe, 24th percentile on a 4-year basis and 22nd over 10 years. Over 4 years, we are 2nd percentile in Canadian equities, 21st in foreign equities and 43rd in fixed income. Consequently, the Trustees remain satisfied with our manager selections on a performance basis. There is also evidence that our managers tend to perform rather better than their peers in down markets which adds some stability to our asset mix. More detailed information on the breakdown of our assets between managers and asset classes and the individual returns for those assets is included on page 12 of this report.

With continuing low interest rates and a general expectation among experts that market returns may be lower in the future, many pension plans are considering expanding their investments in alternatives such as real estate, infrastructure, private equity and other more exotic vehicles. 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. You may recall that in this letter last year I reported on statistical studies commissioned by the Trustees from our consultants, Willis Towers Watson, with some assistance from Phillips, Hager & North. Generally, the conclusion was that the potential small gains in the most unfavourable economic scenarios did not outweigh the added fees and governance costs. Since that time, the Trustees have decided that another, more modest, shift in our asset allocations is potentially advantageous and cost effective. Accordingly we are shifting our fixed investment assets from the very traditional PH&N Enhanced Total Return Bond Fund to their Core Plus Bond Fund. This fund accesses off-benchmark investments and global fixed income markets to seek yield-enhancing and diversifying opportunities beyond domestic Universe bonds. These yield-enhancing strategies, commonly known as “Plus” strategies, include the use of mortgages, private placement corporate debt, North American and global high yield bonds, and emerging market debt. It is hoped that these strategies offer both the potential to earn more while interest rates are near historic lows and further diversification in sources of incremental return. The new portfolio is projected to yield about 0.75% extra return relative to the previous one and to increase the fees by about 0.1% to 0.25%.

# Letter from the Chair

Also with respect to asset allocation, major changes are occurring in the real estate portfolio managed by bclMC, now rebranded as BCI. This portfolio has been purely domestic real estate and we have been invested since 2006 with a target allocation of 10% of our assets. It has been effective as a stabilizing influence on returns with steady income from rentals. However, our other assets have grown faster and there has been very little scope for new investment in the real estate portfolio making it difficult to maintain our target asset mix. BCI is in the process of combining this domestic portfolio with its (smaller) global portfolio with the intent of aggressively expanding the global component. This change is administratively complex for us because of the cash-flow demands of the global investments, but it may ultimately provide more returns and a better ability to maintain our target allocation. The Trustees are maintaining a “watching brief” at this time.

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. Trustee terms are normally three years, and as it happened there were no changes in the composition of the Board in 2018. We had three sub-committees composed as follows with the first named serving as Chair in each case: Investment (Lisa Hill, Michael Miller, and Susan Service); Policy & Procedures (Michael Miller, John Gilfoyle, and Kristi Simpson); Governance (Keith Dixon, Lisa Hill, and Michael Miller). Especial thanks are due to Lisa and Michael for undertaking this extra work. Michael has also continued in his role as Vice-Chair I thank him for his wise counsel and support throughout the year. With a new valuation to be completed using results to December 31st, 2018, Kristi Simpson will resume her role of Chair of the Valuation sub-committee for 2019 together with John Gilfoyle and Susan Service. David Boudinot and Ori Granot, who began their elected terms at the start of 2018 have been getting established as effective members of the Board and will respectively join the Policy and Procedures sub-committee and Investment sub-committee for the coming year. All these hard-working and very competent people deserve our thanks!

I look forward to meeting many of you at our Annual General Meeting on April 30th.

As I mentioned last year, 1st July 2018 was the 50th Birthday of the Pension Plan! We should all extend our thanks for the foresight of the University and our founding Trustees: George Brand, Stephen Jennings, Donald Lobb, Jean Petrie, Trevor Matthews, Neil Swainson, and Rennie Warburton.

Best Wishes to all for the coming year and beyond,



Keith R. Dixon  
Chair, Board of Pension Trustees





# Governance

The Combination Pension Plan (the “Plan”) is governed by the Pension Board. The Pension Board is legally responsible for the investment of funds and financial management of the Plan, and to ensure the Plan is administered in accordance with the Trust Agreement, the *Income Tax Act* (ITA), and British Columbia’s *Pension Benefits Standards Act* (PBSA).

There are eight Trustees on the Pension Board, serving terms of up to three years. Four Trustees are elected by Plan members, and four are appointed by the University’s Board of Governors.

In 2018, the Trustees were:

Appointed	Term ending
Dr. Keith Dixon (Chair) Professor Emeritus Department of Chemistry	December 31, 2020
Mr. John Gilfoyle Investment & Strategy Consultant	June 30, 2021
Ms. Lisa Hill Senior Vice-President, Portfolio Manager Raymond James Ltd.	August 31, 2020
Ms. Kristi Simpson Associate Vice-President, Financial Planning & Operations	Appointed ex-officio
Elected	Term ending
Mr. David Boudinot Acquisitions librarian UVic libraries	December 31, 2020
Dr. Ori Granot Facility Manager Department of Chemistry	December 31, 2020
Dr. Michael Miller (Vice-Chair) Professor Emeritus Department of Computer Science	December 31, 2019
Ms. Susan Service Professional accountant	December 31, 2019



The Trustees have a fiduciary duty to act in the best financial interest of the Plan beneficiaries and as a result, they have an obligation to ensure every decision made as Trustees is motivated by the aim of furthering the interest of the Plan’s beneficiaries.

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. Additional information, including the Trust Agreement, can be obtained at [www.uvic.ca/pensions](http://www.uvic.ca/pensions) or by request from Pension Services.

# Financial highlights

## INVESTMENTS

Market value of investments Expressed in \$000's	2016 \$	2017 \$	2018 \$
Balanced Fund	923,884	991,235	973,670
Defined Retirement Benefit Fund	169,033	194,479	199,136
<b>Total</b>	<b>1,092,917</b>	<b>1,185,714</b>	<b>1,172,806</b>

Investment returns Expressed in \$000's		2016		2017		2018	
Balanced Fund		\$	%	\$	%	\$	%
	Gross returns	44,131	4.98	87,614	9.52	260	0.03
	Expenses	-2,995	-0.34	-3,154	-0.35	-4,077	-0.45
	<b>Net returns</b>	<b>41,136</b>	<b>4.64</b>	<b>84,460</b>	<b>9.17</b>	<b>-3,817</b>	<b>-0.42</b>
Defined Retirement Benefit Fund							
	Gross returns	10,959	6.98	18,138	10.53	-2,438	-1.15
	Expenses	-588	-0.37	-651	-0.38	-877	-0.41
	<b>Net returns</b>	<b>10,371</b>	<b>6.61</b>	<b>17,487</b>	<b>10.15</b>	<b>-3,315</b>	<b>-1.56</b>

## CONTRIBUTIONS

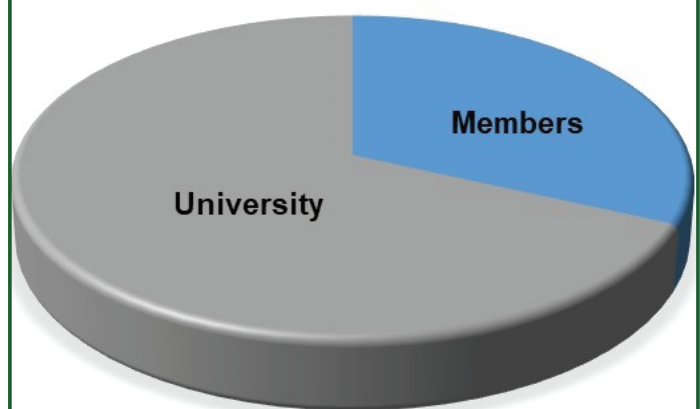
Members and the University share the cost of the Plan.

The required contributions are based on a percentage of members' salary, and members also have the option of making additional voluntary contributions by payroll deduction, or by transferring other vehicles into the Plan. Additional information on contributions can be found on Pension Services' website:

[www.uvic.ca/pensions](http://www.uvic.ca/pensions).

Contributions Balanced Fund and Defined Retirement Benefit Fund				
Expressed in \$000's		2016 \$	2017 \$	2018 \$
Members	Required	8,836	9,254	9,591
	Voluntary	311	244	263
	Transfers in	3,542	5,238	3,378
University (required)		18,960	19,675	20,559
<b>Total</b>		<b>31,649</b>	<b>34,411</b>	<b>33,791</b>

### 2018 REQUIRED CONTRIBUTIONS

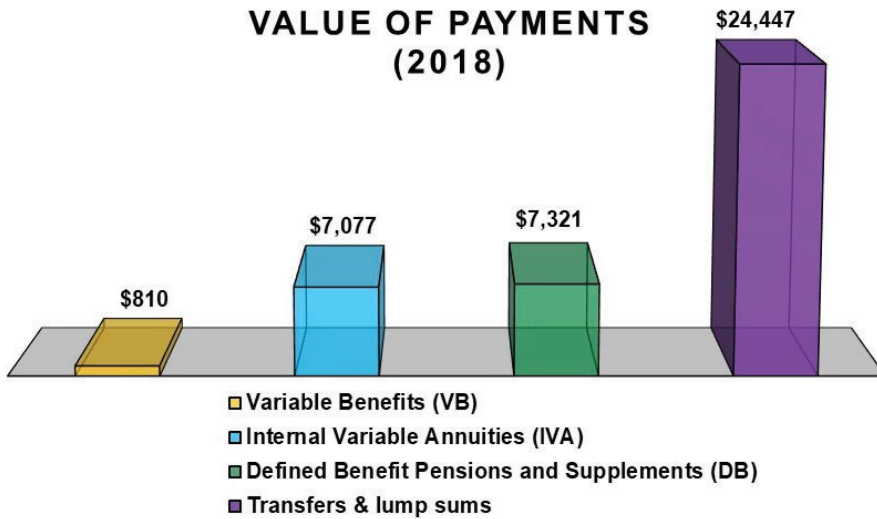


# Financial highlights

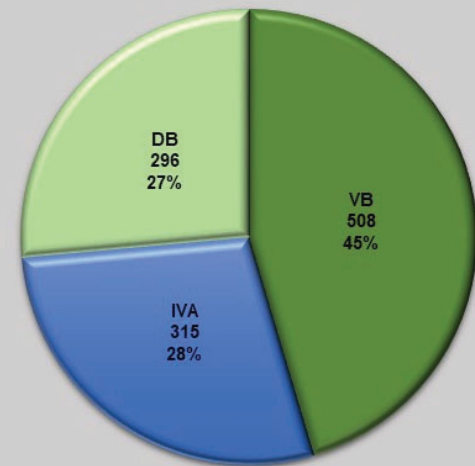
## Erratum

## BENEFIT PAYMENTS

**VALUE OF PAYMENTS  
(2018)**



**Number of pension payments  
(2018)<sup>1</sup>**



Value of benefit payments			
Expressed in \$000's	2016 \$	2017 \$	2018 \$
Variable Benefits (VB)	20,967	22,541	24,447
Internal Variable Annuities (IVA)	5,251	6,311	7,321
Defined Benefit Pensions and Supplements (DB)	553	687	810
Transfers & lump sums	6,534	14,537	7,077
<b>Total</b>	<b>33,305</b>	<b>44,076</b>	<b>39,655</b>

<sup>1</sup> The number of payments does not correspond to the number of pensioners shown elsewhere in this report because some members are combining options and receiving more than one type of payment.

## EXPENSES

The following table details the expenses incurred to invest and administer the Plan. Expenses are deducted from gross returns to determine net returns, which are distributed to members' accounts.

Balanced Fund expenses						
	2016		2017		2018	
Expressed in \$000's	\$	%	\$	%	\$	%
Investment management <sup>2</sup>	2,450	0.29	2,565	0.29	3,432	0.38
Custodial and consulting	118	0.01	120	0.01	108	0.01
Office and administration <sup>3</sup>	388	0.04	428	0.04	494	0.05
Audit and legal	39	0.00	41	0.01	43	0.01
<b>Total expenses</b>	<b>2,995</b>	<b>0.34</b>	<b>3,154</b>	<b>0.35</b>	<b>4,077</b>	<b>0.45</b>

<sup>2</sup> The 2018 figure includes BCI's allocation of an accrued liability related to an ongoing GST/HST court case contesting the Government of Canada's challenge to the Pooled Investment Portfolios' immunity from taxation, for the period ended March 31, 2018.

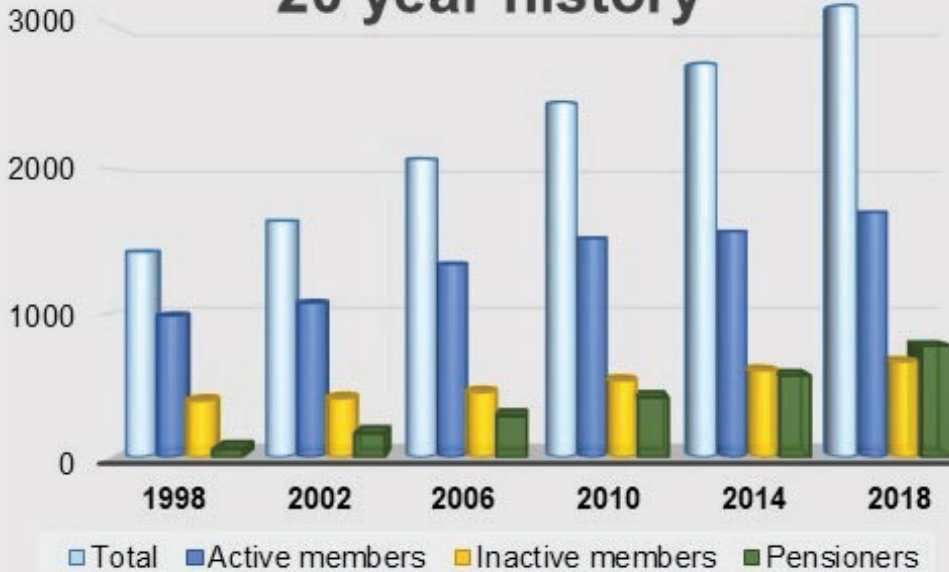
<sup>3</sup> 2% of the 2018 office and administration expenses were for individual Trustee expenses.

# Membership highlights

The following charts describe the status and growth in Plan membership since 1998, as well as the distribution of assets among different member groups in 2018.

## MEMBERSHIP HISTORY

### Membership 20 year history



	1998	2008	2018
Active members	980	1,416	1,701
Inactive members	388	517	661
Pensioners	57	353	773
Total	1,425	2,286	3,135

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

This group has doubled in the last 20 years, growing from 980 members in 1998 to 1,701 in 2018. Currently, it represents 54% of total membership.

**Inactive members** have transferred to another UVic plan or terminated employment but have not yet elected a benefit; therefore, their assets remain invested in the Fund until they make a selection. The category also includes a small number of accounts held by surviving spouses of members who died before retirement.

While membership in this group has grown to 661 in 2018, its relative size in the Plan has decreased over time, representing 21% in 2018, versus 27% in 1998.

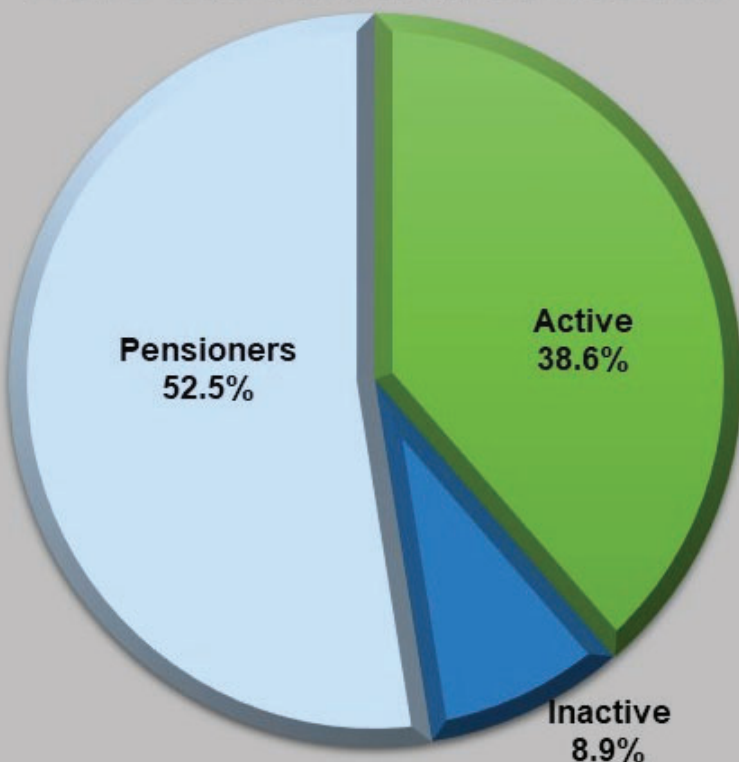
**Pensioners** are members and/or beneficiaries who are drawing a pension from the Plan.

In 2018, this group represented approximately 25% of membership. This fastest growing group doubled in the last 10 years, reaching 773 members in 2018, versus 353 in 2008.

## 2018 DISTRIBUTION OF ASSETS

Pensioners accounted for 52.5% of total Balanced Fund's assets in 2018, while active and inactive members shared the remaining 47.5%.

### 2018 distribution of assets





# Investments

## POLICIES & OBJECTIVES

### The Funds

Plan assets are distributed over two Funds: the Balanced Fund and the Defined Retirement Benefit Fund (DRBF).

- **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 DRBF**  
The DRBF holds the assets of the Defined Retirement Benefit Account from which defined benefit pensions and supplements are paid.

### Investment Policy and Environmental, Social, and Governance (ESG) factors

As required, the Pension Board has established a Statement of Investment Policies and Procedures (SIPP) to formulate those investment principles, guidelines and monitoring procedures that are appropriate to established objectives. The Policy is reviewed at least annually, and sets out the categories of permitted investments, diversification, asset mix and rate of return expectations.

Under the SIPP, investment managers are encouraged to consider ESG related risks. In addition, managers are required to report at least annually on how ESG factors are incorporated into their investment decision making, and the Pension Board considers this information in its evaluation of prospective investment managers.

Currently, all investment managers involved with the Balanced Fund and the DRBF are signatories to the United Nations-supported Principles for Responsible Investment.



### 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 may be tolerated in the DRBF's investments.

### 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 benchmark 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 total fund benchmark for the Balanced Fund is a composite of the benchmarks for the individual asset classes.

### Performance monitoring

The primary objective 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.

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.

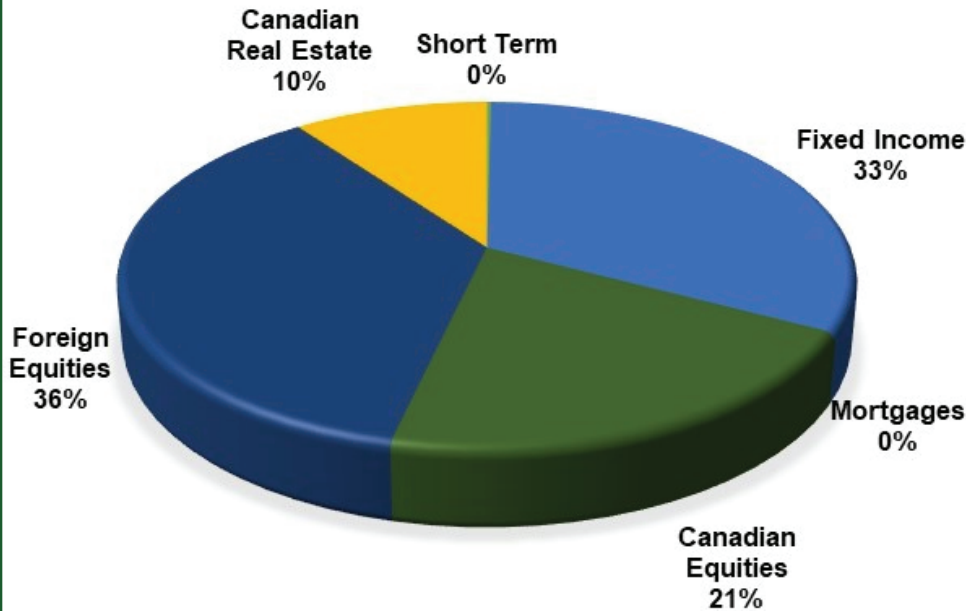
# Investments

## ASSET MIX

The following charts illustrate the Funds' asset mix, as at December 31, 2018. Assets are invested with three investment managers, as described in the Service Providers section of this report. The Portfolio Holdings section also provides a summary of the Funds' holdings.

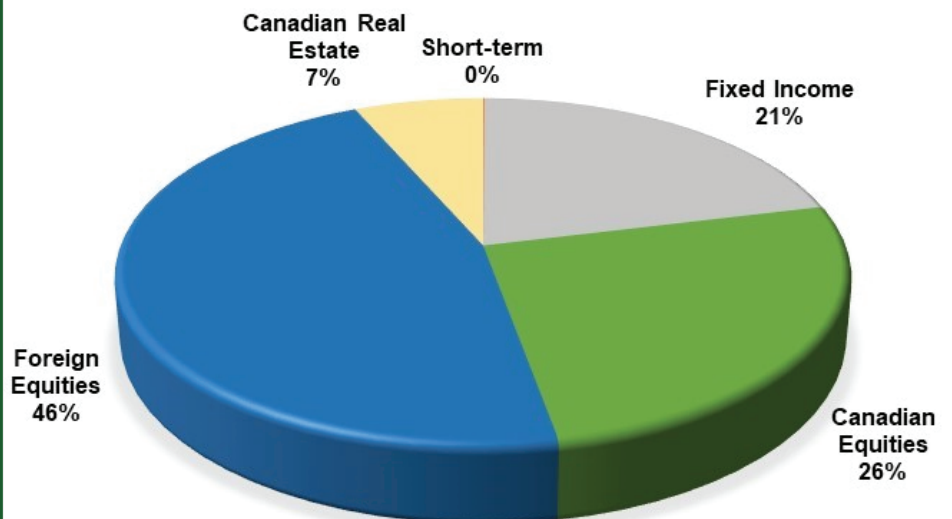
### BALANCED FUND

Total value: \$973,670,000



### DEFINED RETIREMENT BENEFIT FUND

Total value: \$199,136,000



# Investments

## TOTAL PLAN PERFORMANCE (BALANCED FUND)

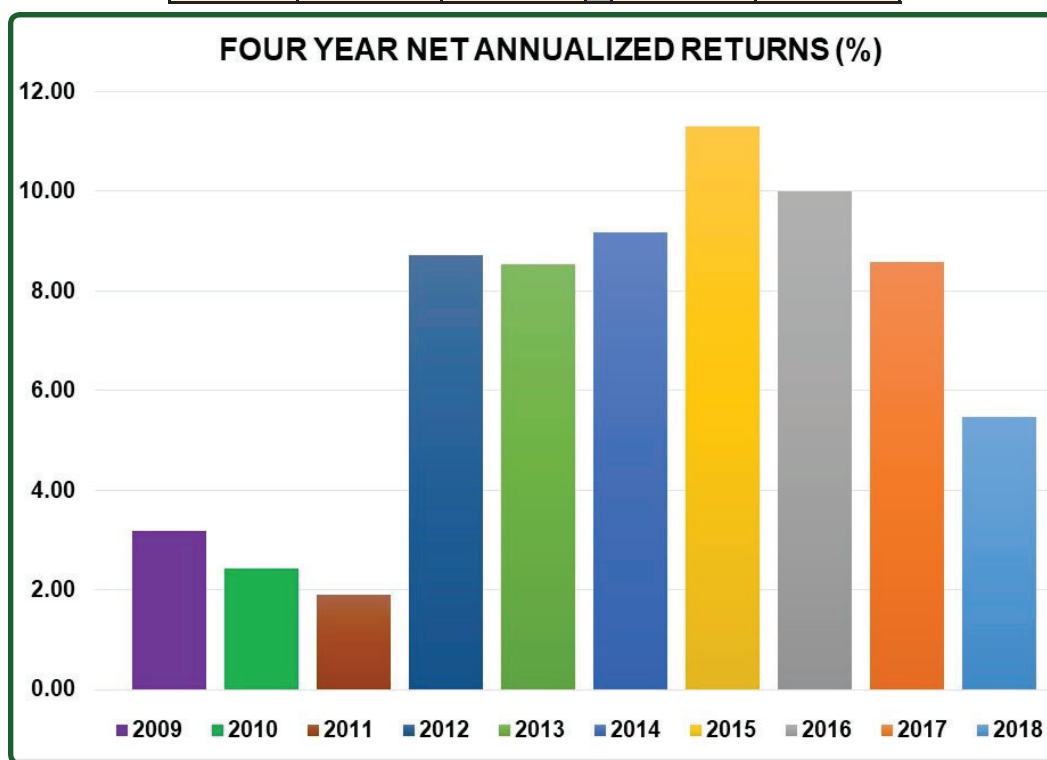
This table shows the annualized rates of return for the Balanced Fund portfolio over the last ten years.

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 Additional Voluntary Contribution Accounts (AVCA).

Past performance is not a reliable indicator of future performance.

Balanced Fund annualized returns (%)				
Period ended December 31, 2018				
	1 year		4 year	10 year
	Gross	Net	Net	Net
2018	0.03	-0.42	5.47	8.32
2017	9.52	9.17	8.58	6.58
2016	4.98	4.64	10.00	5.93
2015	9.10	8.75	11.31	6.71
2014	12.21	11.88	9.18	7.08
2013	15.31	15.01	8.54	7.06
2012	9.98	9.71	8.71	7.03
2011	0.92	0.65	1.90	5.59
2010	9.56	9.30	2.42	5.76
2009	16.01	15.72	3.18	6.07



# Investments

## MANAGERS ALLOCATION AND PERFORMANCE (BALANCED FUND)

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

Please refer to the Service Providers section for a full description of the investment managers' mandates.

Balanced Fund	Allocation (%)			Return (%)			
	Actual	Benchmark		1 year	1 year	4 year	4 year
	Weight	Weight (Range)	Allowable range	Gross	Benchmark	Gross	Benchmark
<b>SHORT-TERM</b>							
BCI	0.0						
PH&N	0.0						
Fiera	0.2						
<b>Total</b>	0.2	0.0	0-21	1.7	1.4	1.2	0.8
<b>FIXED INCOME</b>							
PH&N	32.5	36.0	20-46	1.5	1.4	2.9	2.3
<b>CANADIAN EQUITIES</b>							
BCI	10.6		9-13	-6.5		3.7	
Fiera	10.4			-8.1		3.2	
<b>Total</b>	21.0	22.0	14-27	-7.4	-8.9	3.5	2.5
<b>FOREIGN EQUITIES</b>							
BCI	36.3	32.0	20-40	1.2	-0.2	10.0	9.1
<b>REAL ESTATE</b>							
BCI	10.0	10.0	05-15	6.7	6.0	5.9	5.8
<b>TOTAL FUND</b>							
				0.0	-0.8	5.8	5.0

In 2018, the benchmarks were:

- Short term  
FTSE Canada 91-day T-Bill Index
- Fixed income  
FTSE Canada Universe Bond Index
- Canadian equities  
Benchmark: S&P/TSX Capped Composite Index
- Foreign equities  
MSCI World Ex-Canada Net \$Cdn Index
- Total fund  
Composite benchmark



# Portfolio holdings

## BALANCED FUND, AS AT DECEMBER 31, 2018

ASSET	Shares (or units)	Market value \$
		Expressed in \$000's
<b>SHORT-TERM INVESTMENTS (0.20%)</b>		
CANADA TREASURY BILLS	2,000,000	1,997
POOLED FUNDS	30	125
<b>CANADIAN BONDS (32.52%)</b>		
POOLED BOND FUNDS	34,477,504	337,790
<b>CANADIAN EQUITIES (20.90%)</b>		
CONSUMER DISCRETIONARY	149,780	6,405
CONSUMER STAPLES	121,969	6,712
ENERGY	417,474	13,648
FINANCIALS	584,359	32,478
HEALTH CARE	0	0
INDUSTRIALS	193,228	17,750
MATERIALS	161,231	11,123
INFORMATION TECHNOLOGY	128,142	7,853
TELECOMMUNICATION SERVICES	86,847	2,740
POOLED FUNDS	48,362	118,382
<b>FOREIGN EQUITIES (36.34%)</b>		
POOLED FUNDS	137,906	377,363
<b>REAL ESTATE (10.04%)</b>		
POOLED FUNDS	10,085	104,228
<b>TOTAL BALANCED FUND PORTFOLIO</b>		<b>1,038,594</b>
<b>COMBINATION PENSION PLAN</b>	<b>94%</b>	<b>973,669</b>
<b>MONEY PURCHASE PENSION PLAN</b>	<b>6%</b>	<b>64,923</b>

Some inconsistencies may exist due to rounding.

A full and detailed listing of portfolio holdings can be obtained at [www.uvic.ca/pensions](http://www.uvic.ca/pensions) or by contacting Pension Services.

# Portfolio holdings

## DEFINED RETIREMENT BENEFIT FUND, AS AT DECEMBER 31, 2018

ASSET	Shares (or units)	Market value \$
		Expressed in \$000's
<b>SHORT-TERM INVESTMENTS (0.06% )</b>		
POOLED FUNDS	8,135	114
<b>CANADIAN BONDS (21.14%)</b>		
POOLED BOND FUNDS	4,296,470	42,094
<b>CANADIAN EQUITIES (25.94%)</b>		
POOLED FUNDS	7,075,118	51,651
<b>FOREIGN EQUITIES (46.26%)</b>		
POOLED FUNDS	33,669	92,113
<b>REAL ESTATE (6.61%)</b>		
POOLED FUNDS	1,274	13,164
<b>TOTAL DEFINED RETIREMENT BENEFIT FUND PORTFOLIO</b>		<b>199,136</b>

Some inconsistencies may exist due to rounding.

A full and detailed listing of portfolio holdings can be obtained at [www.uvic.ca/pensions](http://www.uvic.ca/pensions) or by contacting Pension Services.

# Funding

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. Assets for the defined benefit component of the Combination Plan are held in the “Defined Retirement Benefit Fund (DRBF)”, 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

<b>Investment managers</b>	BC Investment Management Corporation (BCI)	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 (PH&N)	Manages the fixed income portion of the Balanced Fund and the domestic portion of the Defined Retirement Benefit Fund.
<b>Custodian</b>	RBC Investor & Treasury Services	Custodian of Plan assets (excluding BCI funds) and benefit payment service.
<b>Investment consultant</b>	Willis Towers Watson	
<b>Performance measurement</b>	RBC Investor & Treasury Services	
<b>Actuary</b>	Mercer (Canada) Limited	
<b>Auditor</b>	Grant Thornton LLP	

# Contact us

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Additional information about the University of Victoria Combination Pension Plan can be obtained on Pension Services' Website: [www.uvic.ca/pensions](http://www.uvic.ca/pensions).

General enquiries can also 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 3-6 months before their retirement date.  
Individual meetings are available by appointment.

The precise terms of the Plan are provided in the Plan Document, which can be obtained at [www.uvic.ca/pensions](http://www.uvic.ca/pensions), or by request from Pension Services.

We make every effort to ensure that all information in this report is accurate and complete.  
Should any discrepancy exist, the Plan Documents, statutes, or regulations shall apply.