Grant Thornton

Financial Statements

University of Victoria Money Purchase Pension Plan

December 31, 2012

Contents

Independent auditor's report

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To the Trustees of University of Victoria Money Purchase Pension Plan

We have audited the accompanying financial statements of the University of Victoria Money Purchase Pension Plan, which comprise the statement of financial position as at December 31, 2012, and the statement of changes in net assets available for benefits and the statement of changes in obligations for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Victoria Money Purchase Pension Plan as at December 31, 2012 and it financial performance for the year then ended in accordance with Canadian accounting standards for pension plans.

Grant Thornton LLP

Victoria, Canada
February 26, 2013

Chartered accountants

University of Victoria Money Purchase Pension Plan
Statement of Financial Position

December 31	2012	2011
Assets		
Cash	$ **91,496**	$ 78,215
Investments (Note 4)		
Short-term	**802,832**	504,209
Canadian bonds	**10,046,141**	9,895,534
Mortgages	**683,350**	652,360
Canadian equities	**10,187,200**	9,250,455
US equities	**1,610,259**	1,569,876
Currency hedges	**34,028**	23,377
EAFE equities	**1,213,048**	911,211
Global equities	**6,403,043**	5,396,668
Real estate	**4,334,873**	3,649,901
	35,314,774	31,853,591
Receivables		
Accrued interest and dividend income	**33,940**	46,347
Miscellaneous	**65,939**	42,322
	99,879	88,669
	35,506,149	32,020,475
Liabilities		
Accounts payable and accrued liabilities	**5,048**	5,267
Net assets available for benefits	**35,501,101**	32,015,208
Obligations for benefits (Note 6)	**35,501,101**	32,015,208
Net assets available for benefits less obligations for benefits	**$ -**	$ -

Approved by the Board of Pension Trustees

See accompanying notes to the financial statements.

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

Year Ended December 31	2012	2011
Change in net assets		
Net return on investments (Note 5)		
Interest income	**$ 457,920**	$ 429,340
Mortgage income	**34,296**	27,011
Dividend income	**232,116**	226,021
Net realized and unrealized gain on investments	**2,471,652**	(399,114)
Investment administration costs	**(71,756)**	(65,237)
	3,124,228	218,021
Contributions (Note 1)		
Members' required	**787,661**	724,265
Members' additional voluntary	**21,423**	19,810
University's required	**1,775,778**	1,655,966
Transfers from other plans	**79,247**	3,749
	2,664,109	2,403,790
Payments to or on behalf of members		
Pensions to retired members or beneficiaries	**(160,660)**	(131,044)
Members' accounts transferred and refunded, and death benefits	**(2,123,061)**	(840,729)
	(2,283,721)	(971,773)
Operating expenses		
Office and administrative costs	**(13,574)**	(16,143)
Audit and registration fees and legal fees	**(5,149)**	(5,153)
	(18,723)	(21,296)
Increase in net assets	**3,485,893**	1,628,742
Net assets available for benefits, beginning of year	**32,015,208**	30,386,466
Net assets available for benefits, end of year	**$ 35,501,101**	$ 32,015,208

See accompanying notes to the financial statements.

University of Victoria Money Purchase Pension Plan
Statement of Changes in Obligations for Benefits

Year Ended December 31	2012	2011
Obligations for benefits, beginning balance	**$ 32,015,208**	$ 30,386,466
Net investment returns	**3,105,505**	196,725
Contributions	**2,664,109**	2,403,790
Benefits paid	**(160,660)**	(131,044)
Accounts transferred or refunded	**(2,123,061)**	(840,729)
Change in obligations for benefits	**3,485,893**	1,628,742
Obligations for benefits, ending balance	**$ 35,501,101**	$ 32,015,208

See accompanying notes to the financial statements.

1. Description of plan

The following description of the University of Victoria Money Purchase Pension Plan is a summary only. For more complete information, reference should be made to the Trust Agreement.

(a) General

The Plan is a defined contribution pension plan. The Plan covers all faculty and administrative and academic professional staff holding regular appointments of 50% or more of full-time but less than full time and for senior instructors and sessional lecturers.

(b) Funding policy

In accordance with the Trust Agreement, members are required to contribute 3% of their basic salary up to the Canada Pension Plan Year's Maximum Pensionable Earnings (YMPE) ($50,100 in 2012), and 5% of the basic salary in excess of that amount. The contributions are directed to the members' money purchase contribution accounts.

The University contributes 8.37% of basic salary up to the Canada Pension Plan YMPE, and 10% of the basic salary in excess of that amount. The contributions are directed to the members' money purchase contribution accounts.

The total combined member and University contributions to a member's money purchase contribution account in a calendar year are limited to the Income Tax Act (Canada) maximum ($23,820 in 2012).

Subject to Income Tax Act (Canada) maximums, members may elect to make additional contributions to a voluntary contribution account through payroll deduction or by transfer from other registered vehicles.

(c) Investment options

Members' money purchase contribution accounts and additional voluntary accounts are invested in a balanced fund.

(d) Retirement

All members are eligible for a retirement benefit. Normal retirement is the end of the month in which the member attains age 65. Members may elect early retirement any time after attaining the age of 55, or postpone retirement benefits until December 1st of the calendar year in which the member attains age 71.

1. Description of plan (continued)

(e) Retirement options

At retirement, members can apply the balance in their money purchase contribution accounts to one or a combination of the following forms of benefits:

- External annuity from a life insurance company.
- Transfer to (locked-in) registered retirement savings plans.
- Transfer to a combination of registered retirement income funds and life income funds.
- Variable benefit (provided their account balance is at least twice the Year's Maximum Pensionable Earnings).

(f) Termination and portability benefits

Upon termination of employment, members may retain the balance in their money purchase contribution account or transfer it to (locked-in) registered retirement savings plans.

Members may transfer pension entitlements from other registered pension plans to a voluntary account in the University of Victoria Money Purchase Pension Plan.

(g) Survivor benefits

The survivor benefit of a member, who dies before commencing a benefit, is the total in the member's money purchase contribution account and additional voluntary contribution account, if any. The beneficiary is the member's spouse (if the member has a spouse) unless the spouse has completed and filed a Spouse's Waiver of Pre-Retirement Benefits with the Pension Office. If the member does not have a spouse or the spouse has completed a waiver, the beneficiary is the member's estate unless the member has designated another beneficiary. A surviving spouse may leave the survivor benefit in the plan for a variable benefit or transfer the survivor benefit to another registered vehicle.

The survivor benefit for a pensioner on the variable benefit is the total in the member's variable benefit account.

(h) 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

As indicated in Note 2, these financial statements have been prepared in accordance with Canadian accounting standards for pension plans. Accounting standards for pension plans require entities to select accounting policies for accounts that do not relate to its investment portfolio or pension obligations in accordance with either International Financial Reporting Standards ("IFRS") or Canadian Accounting Standards for Private Enterprises ("ASPE"). The Trustees selected 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.

(a) Investments

Investments are stated at fair value. Fair value is determined using market values where available. Fair value for international investments, including the Currency Hedging Fund, 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.

(b) 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.

(c) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards for pension plans, requires management 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.

4. Investments (fair value)

The assets of the Plan are pooled for investment purposes with the Balanced Fund assets of the University of Victoria Combination Pension Plan. At December 31, 2012, 5.11% (2011: 5.02%) of the assets held in the Balanced Fund were in respect of the University of Victoria Money Purchase Pension Plan.

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 not observable for the asset or liability.

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

		2012	2011
Short-term notes	- Level 1	**$ 733,967**	$ 469,900
Short-term notes	- Level 2	**68,865**	34,309
Canadian bonds	- Level 1	**5,878,560**	5,926,612
Canadian bonds	- Level 2	**4,167,581**	3,968,922
Mortgages	- Level 1	**683,350**	652,360
Currency hedges	- Level 2	**34,028**	23,377
Canadian equities	- Level 1	**10,187,200**	9,250,455
US equities	- Level 1	**1,610,259**	1,569,876
EAFE equities	- Level 1	**1,213,048**	911,211
Global equities	- Level 1	**6,403,043**	5,396,668
Real estate	- Level 3	**4,334,873**	3,649,901
		$ 35,314,774	$ 31,853,591
Fair value hierarchy			
Level 1		**26,709,427**	24,177,082
Level 2		**4,270,474**	4,026,608
Level 3		**4,334,873**	3,649,901
		$ 35,314,774	$ 31,853,591

4. Investments (fair value) (continued)

Short-term notes consist of Canadian money market securities maturing in 12 months or less and include treasury bills and guaranteed investment certificates. Mortgages consist of units in a pool of first mortgages on income-producing property in Canada. Canadian bonds consist of government and corporate bonds and debentures. Global bonds consist of Maple Bonds and US treasury bonds. Equities consist of publicly traded shares. EAFE equities refer to investments in Europe, Australia and the Far East. Real estate investments consist mainly of diversified Canadian income-producing properties. Investments may be segregated or consist of units of pooled investment portfolios of the investment managers.

The Plan invests in the BC Investment Management Corporation's Currency Hedging Fund (the "Fund"). The Fund is 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 Fund 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.

5. Net return on investments

Net investment returns less operating expenses are distributed to members' money purchase contribution accounts and additional voluntary contribution accounts at the end of each month.

The Balanced Fund earned a gross return of 9.98% (2011: 0.92%) and a net return of 9.69% (2011: 0.64%). Net investment returns are as follows:

		2012		2011
Interest				
Cash and short-term notes	**$**	**6,768**	$	6,958
Bonds		**451,150**		417,738
Mortgages		**34,296**		27,011
Other		**2**		4,644
Dividends				
Canadian equities		**232,116**		226,021
Net realized gains (losses)		**2,499,393**		(380,669)
Net unrealized gains (losses)		**(27,741)**		(18,445)
		3,195,984		283,258
Investment costs:				
Management fees	**$**	**64,015**	$	59,394
Custodial fees		**4,188**		3,781
Other		**3,553**		2,062
		71,756		65,237
	$	**3,124,228**	$	218,021

6. Net assets available for benefits

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

	2012	2011
Money purchase contribution accounts ("MPCA")	**$ 31,554,947**	$ 28,286,512
Additional voluntary contribution accounts ("AVC")	**1,113,947**	1,518,797
Variable benefit accounts ("VBA")	**2,832,207**	2,209,899
	$ 35,501,101	$ 32,015,208

7. Money purchase contribution accounts ("MPCA")

Each member of the Plan has a MPCA, which is reported annually to the member. MPCAs are invested in the Balanced Fund.

8. Variable benefit accounts ("VBA")

Each member of the plan in receipt of a variable benefit pension has a VBA. VBAs are invested in the Balanced Fund.

9. Additional voluntary contribution accounts ("AVC")

Additional voluntary contribution accounts are divided into restricted voluntary accounts ("RVA") and unrestricted voluntary accounts ("UVA"). Transfers from other pension plans that have restrictions imposed by the exporting plans are placed in RVA. Contributions made by members on a voluntary basis and transfers that are unrestricted are placed in UVA. All RVA and UVA are invested in the Balanced Fund as follows:

	2012	2011
Restricted voluntary accounts	**$ 500,323**	$ 738,186
Unrestricted voluntary accounts	**613,624**	780,611
	$ 1,113,947	$ 1,518,797

10. Risk management

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, receivables, and accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values. Fair values of investments are exposed to market risk, liquidity risk and credit risk.

Market risk
Market risk is comprised of currency risk, interest rate risk, and other price risk.

Currency risk: 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, 2012 would have decreased (increased) investments held in foreign currencies by approximately $460,000 (2011: $390,000).

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 may purchase US Treasury Bonds, provided the foreign currency exposure is hedged through the purchase of currency contracts.

Interest rate risk: Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices – the longer the duration, the greater the effect. At December 31, 2012, the average duration of the bond and mortgage portfolio in the Balanced Fund was 6.2 years (2011: 6 years). Therefore, if nominal interest rates were to increase by 1%, the value of the Balanced Fund bond and mortgage portfolio would drop by 6.2% (2011: 6.0%).

Other price risk: Other price 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 Pension Trustees 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. Other price 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 current asset class holdings shown in Note 4, the expectation is that over the long-term, the Balanced Fund will return around 6.4%, within a range of +/- 9.5% (i.e., results ranging from –3.1% to 15.9%).

	Volatility %
Short-term holdings	+/- 1.5
Bonds and mortgages	+/- 5.4
Canadian equities	+/- 19.5
Foreign equities	+/- 17.1
Real estate	+/- 13.0

10. Risk management (continued)

Benchmark for investments	% change	Net impact on market value in thousands
DEX 91-day Treasury Bill Index	+/- 1.5	12
DEX Universe Bond Index	+/- 5.4	579
S&P/TSX Capped Composite Index	+/- 19.5	1,987
MSCI World Net Index	+/- 17.1	1,584
Canadian Consumer Price Index (real estate)	+/- 13.0	564

Other price risk is managed by diversification of the portfolio, both by investment managers (three) with differing investment styles and mandates and by allocation of equities across a range of sectors and companies.

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 defined contribution entitlements (see MPCA, AVC and VBA account balances in Note 6), and operating expenses. Liquidity requirements are managed through income generated by monthly contributions and investing in sufficiently liquid (eg. 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 to meet its debt obligations. At December 31, 2012, the maximum risk exposure for this type of investment is $11,532,000 (2011: $11,052,000).

The Plan limits credit risk by investing only in short term debt rated R1 or higher and other debt rated BBB or higher, as rated by the Dominion Bond Rating Service or equivalent. Debt rated below BBB is only permitted in the case of a high yield bond fund which has been specifically approved for investment by the Board of Pension Trustees.

The following shows the percentage of bond and mortgage holdings in the portfolio by credit rating.

Rating	%
AAA	8.6%
AA	44.2%
A	28.3%
BBB	16.5%
BB and below	2.1%
Unrated	0.3%

11. Capital disclosures

The purpose of the 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, to have sufficient assets to meet future obligations for benefits and to have sufficient liquidity to meet all benefit and expense payments.

In accordance with regulatory requirements, the Board of Pension Trustees has established a Statement of Investment Policies and Goals ("SIP&G") which sets out the investment principles, guidelines and monitoring procedures that are appropriate to the needs and objectives of the Fund. The SIP&G sets out benchmarks and asset allocation ranges that are intended to best secure the obligations for benefits and result in reasonable risk-adjusted return on investment. Individual investment decisions are delegated to investment managers subject to the constraints of the SIP&G and individual manager mandates. As required, the Board of Pension Trustees reviews the SIP&G and manager structure at least annually, and makes such changes to the SIP&G and/or mandates as it deems necessary. With the assistance of an outside consultant, the Board of Pension Trustees and the Pension Office regularly monitor the asset mix of each manager and fund to ensure compliance with the SIP&G and mandates.

The benchmark and ranges for the Balanced Fund are as follows:

	Benchmark	**Range**
Cash and equivalents	0%	0-18%
Universe bonds	36%	24-48%
Canadian equities	27%	17-37%
Foreign equities	27%	23-31%
Real estate	10%	5-15%