



University of Guelph Pension Plans

Annual Report on the Financial
Statements at September 30, 2016

Prepared for the Pensions Committee –
March 23, 2017

University of Guelph Pension Plans
Annual Report on the Financial Statements
for Year Ended September 30, 2016

A: Introduction

This report summarizes the total net assets at September 30, 2016 for the University of Guelph’s three registered defined benefit pension plans (the “Plans”). These Plans are the pension plans currently sponsored and administered by the University of Guelph.

The Plans include:

- Pension Plan for Professional Staff of the University of Guelph (Professional Plan),
- Retirement Plan of the University of Guelph (Retirement Plan), and
- Pension Plan for Non-Professional Staff of the University of Guelph (Non-Professional Plan).

Purpose for the Audited Statements: The audited financial statements of the Plans summarize the total net assets available in each of the Plans and the changes in those net assets over the course of the fiscal year. The statements are prepared by University management and audited by the Plans’ auditors, Ernst & Young LLP. The primary purpose of these statements is to meet requirements of regulation 909, section 76, of the Ontario Pension Benefits Act (“PBA”). Once approved, the statements will be filed with the Financial Services Commission of Ontario (“FSCO”).

These statements exclude the Plans’ pension obligations (actuarial liabilities) and related disclosures. The Plans’ obligations including funding requirements are disclosed under actuarial reports and reviews. The most current filed actuarial report was completed effective August 1, 2013. This approach to financial statement preparation reflects the practice of many other organizations in meeting filing requirements and reduces the expense of preparing these statements in meeting legislative reporting purposes.

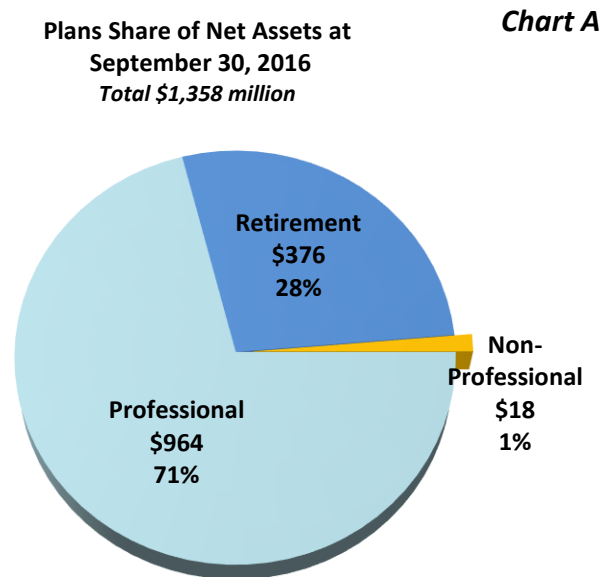
B: Plans’ Net Investments at September 30, 2016

The net investment assets totaling \$1.357 billion at September 30, 2016 (\$1.263 billion at September 30, 2015), for all three Plans and are held for the sole purpose of meeting member benefit obligations. To help ensure this designation, Plan investments are held in a Master Trust – a legally separate entity created specifically for the Plans. Assets of the Master Trust may not be withdrawn for the benefit of the University or any other party. Each plan holds units of the Master Trust (refer to Chart A for the share of net assets by Plan). Units in each Plan are based on contributions made to the Plan over time, net of Plan pension payments and expenses.

The investment framework for managing the pension plans’ assets including associated policies and objectives, responsibilities and procedures is documented in the [“Statement of Investment Policies and Procedures” or SIPP](#).

The SIPP sets out a target weight (expressed as a percentage of the total fund) for each of the different asset classes eligible for investment and permitted ranges for each type of asset class, delimiting actual allocations. Chart B displays the investment asset allocation by asset category at September 30, 2016.

Each of the Plans holds a proportionate share of each asset class and the asset performance for each of the Plans is the same as that of the overall investment in the Master Trust.

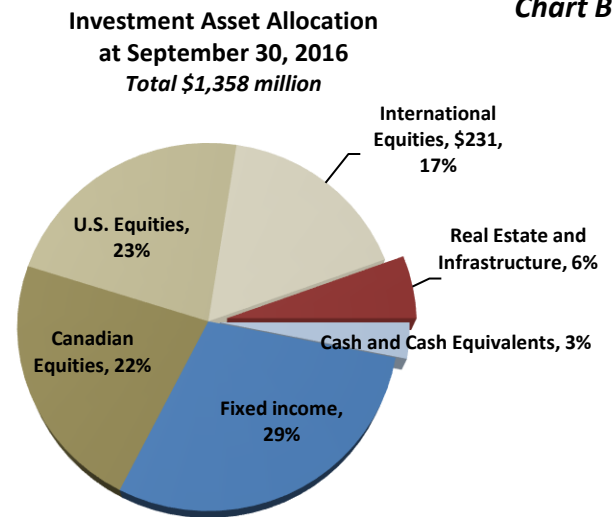


University of Guelph Pension Plans
Annual Report on the Financial Statements
for Year Ended September 30, 2016

Investment objectives include achieving sufficient returns to meet the obligations of the Plans while managing investment risk in a prudent manner. The portfolio of investments contains a mix of different asset categories or classes (e.g. equities, fixed income) that provides a diversification of returns helping to reduce the overall volatility of the portfolio.

Implementation to the New SIPP: In 2016, the University's Board of Governors as administrator of the Plans undertook a major review of the SIPP with the objective of ensuring the asset mix was appropriate for the long-term objectives of meeting pensioner obligations within an acceptable level of risk. The result was a significant change from the previous SIPP targets and asset classes, highlighted by shift from equity investments to both longer term bonds and a more diversified asset mix. The Board of Governors approved the new SIPP in April of 2016. The task of realigning the older asset mix with the new targets was assigned to the Investment Subcommittee. Major steps include the selection of new asset classes and specialized managers. Given the scale of the changes, implementation as at September 30, 2016 was not complete. While significant progress has been made, it is expected to take another year in order to ensure an effective and diligent conversion of assets to their final target weights. In the interim, the funds are managed with the portfolio using interim target weights, adjusted as new mandates are created and assets moved.

Relative to the new SIPP, at September 30, 2016 allocations were within target ranges as specified by the new SIPP with the exception of total equities with a weight of 62%, above the target range of 40-50% and real estate and infrastructure with a weight of 6%, below the target range of 15-25%.



C: Major Changes in Net Assets Available for Benefits

Total Change in Plans' Net Assets:

Combined net assets available for benefits for all three University pension plans increased by \$94.6 million to \$1.36 billion during the year ended September 30, 2016 (refer to Table A).

This growth reflected contributions and net investment returns offsetting disbursements and transfers out to non-University of Guelph plans.

Investment returns during the year were mixed with modest gains in the first and third quarters, a mild loss in the second quarter, and a strong fourth quarter resulting in a return of 8.8% for the year.

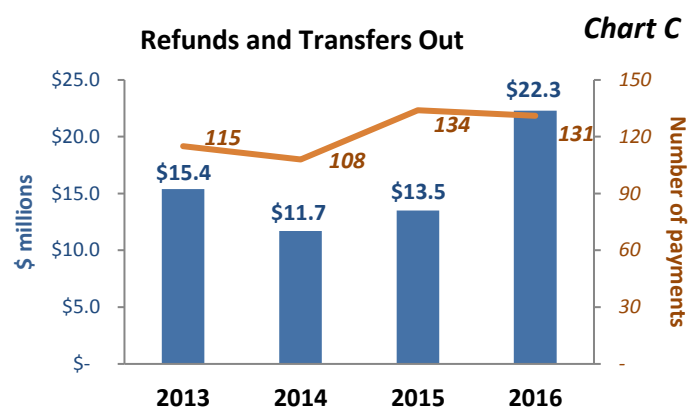
	2013	2014	2015	2016
Pension Payments	50.1	51.7	53.4	56.6
Refunds and Transfers Out	15.4	11.7	13.5	22.3
Pension Expenses	6.8	8.0	8.6	9.0
Total Expenses and Payments	72.3	71.4	75.5	87.9
Employer Contributions	34.0	38.5	43.5	43.7
Employee Contributions & Transfers In	16.9	18.9	18.9	20.9
Increase in Fair Value of Investments	151.1	168.1	31.9	117.9
Total Income and Contributions	202.0	225.5	94.3	182.5
Increase in Net Assets	129.7	154.1	18.8	94.6
Total Plans Net Assets	1,089.9	1,244.0	1,262.8	1,357.4

Pension payments increased by 6% (to \$56.6 million) reflecting a growing number and proportion of retirees. Retirees are now 45% of plan membership, an increase of 3% or 200 over 2013, continuing a trend over the past decade.

University of Guelph Pension Plans
Annual Report on the Financial Statements
for Year Ended September 30, 2016

Refunds and Transfers Out of the Plans increased 65% over last year to \$22 million due to an increase in high value settlement payments (due in large part to very low interest rates used to determine commuted values) , despite a 2% drop in the number of these payments (refer to Chart C).

Increases was noted in both the Retirement and Professional Plans reflecting both more employees electing to take commuted values and an increase in payments associated with marital and estate settlements.



Increase in Fair Value of Investments:

Table B shows the breakdown of the “Increase in Fair Value” of the Plans’ assets over the period. Combined net realized and unrealized gains (losses) provided \$78 million, or 66% of the total increase in fair value of investments of \$118 million for the year ended September 30, 2016.

While the long term objective of the portfolio is to achieve the “expected” return (currently 6.0%), annual market volatility can create major swings in employer contribution requirements especially under current provincial solvency funding rules.

Combined Plans: Increase in Fair Value of Investments *Table B*
In \$ millions (For the Fiscal Years Ended September 30th)

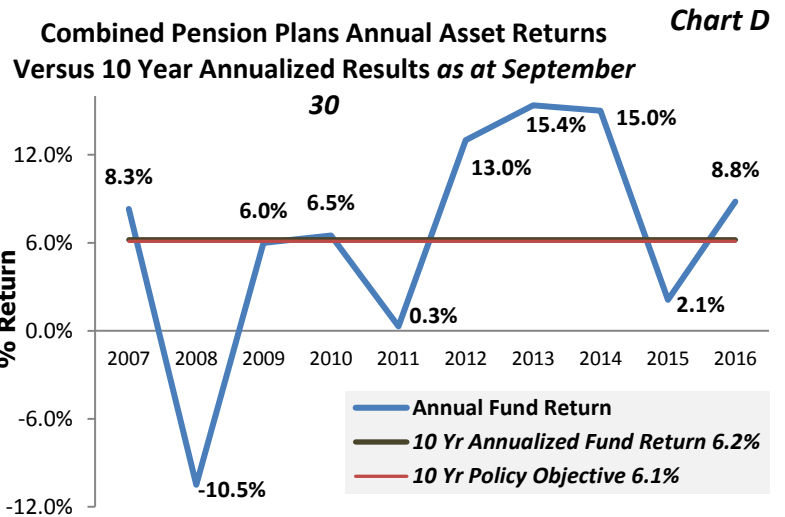
	2013	2014	2015	2016
Interest Income	10.5	11.9	13.6	13.8
Dividend Income				
Canadian	7.0	7.3	8.6	8.9
Foreign	16.7	16.8	15.2	17.4
Total Investment Income	34.2	36.0	37.4	40.1
Net Realized Gains	36.9	78.2	34.0	99.0
Net Change in Unrealized Gains(Losses)	80.0	53.9	(39.5)	(21.2)
Net Investment Gains (Losses)	116.9	132.1	(5.5)	77.8
Net Increase in Fair Value of Investments	151.1	168.1	31.9	117.9

D: Market Returns

Market Returns Over Time:

Chart D shows the Plans' annual returns versus the annualized return (6.2%) and annualized policy objective (6.1%) over the past ten years. (Note: the policy objective and investment benchmark are both set out in the SIPP).

While 10 year annualized results are positive relative to the Plans objectives, there has been significant volatility in annual market returns over that same period.

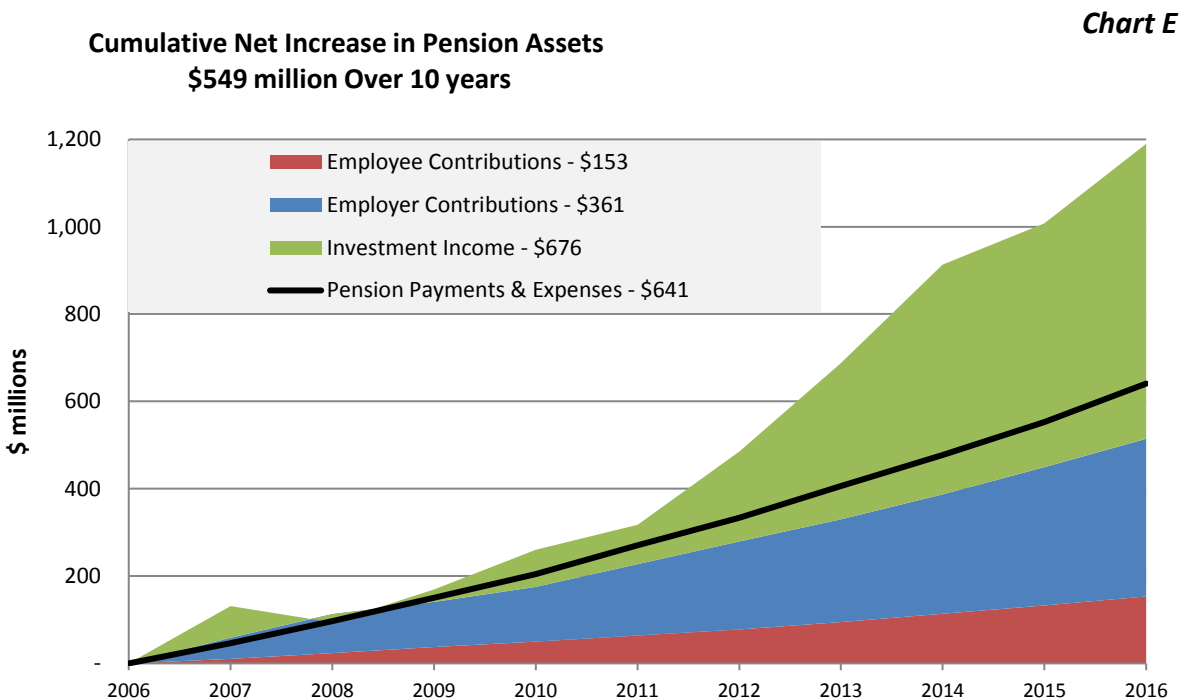


Changes in Net Assets Over Time:

Over the past ten years, net assets have increased by \$549 million, comprised of total contributions and investment income of \$1.2 billion offset by disbursements of \$641 million.

Chart E illustrates the major components of these cumulative changes. Investment income provided 57% of cumulative increases followed by employer contributions at 30% and employee contributions at 13%.

Of \$641 million in total payments and expenses, 71% went to pensioners for benefit payments, 19% was for plan member refunds and transfers out and 10% was for expenses.



University of Guelph Pension Plans
Annual Report on the Financial Statements
for Year Ended September 30, 2016

E: Expenses of the Plans

Expenses charged to the Plans include investment management fees and administrative costs ranging from communication and reporting, to ensuring pensioner payments are made appropriately. Chart F below provides a summary of the major components of expenses over the past 10 years, expressed as a percentage of total Plans' assets. Overall, average asset-weighted fees charged to the Plans did change significantly year over year.

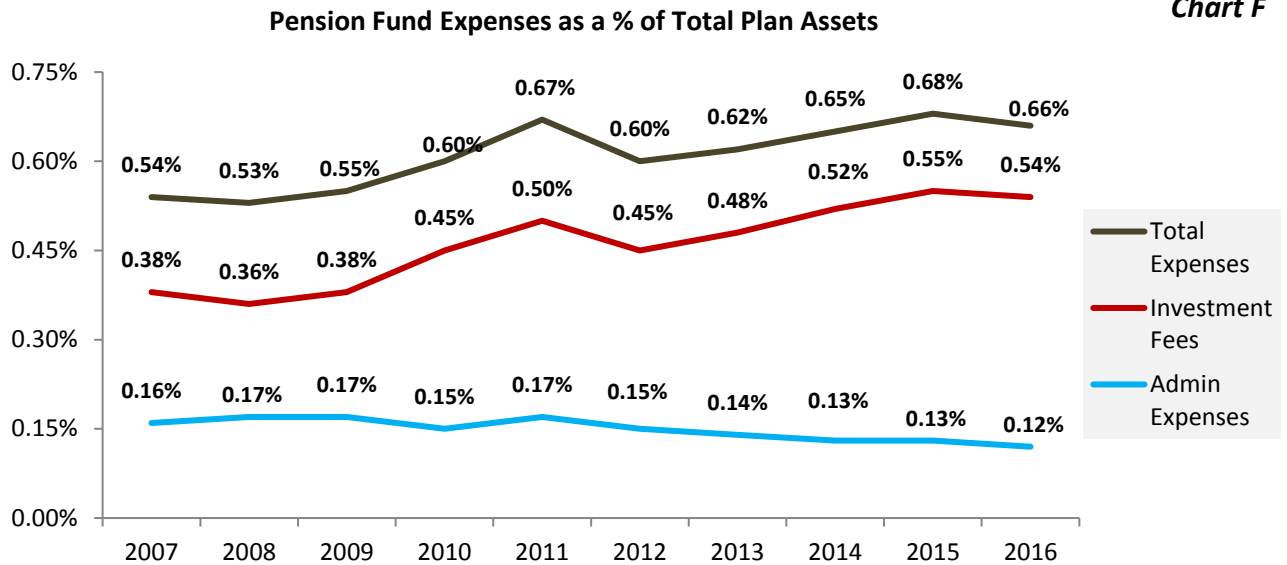


Chart G shows the distribution of fiscal 2016 expenses for all three plans by major expense category.

This is a typical distribution with investment management fees (paid to fund managers) being the largest single component of expenses.

Fiscal 2016 Pension Plan Expenses by Major Type **Chart G**
Total \$8,974 thousand

