# PENSION FUND OF THE RETIREMENT PLAN OF THE UNIVERSITY OF GUELPH

For the Year Ended September 30, 2016

Building a better working world

# Independent auditors' report

To the Pension Committee of the
**Pension Fund of the Retirement Plan of the University of Guelph**

We have audited the accompanying financial statements of the **Pension Fund of the Retirement Plan of the University of Guelph** [Ontario Registration Number 0324624], which comprise the statement of net assets available for benefits as at September 30, 2016, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on the financial reporting provisions of Regulation 909, Section 76 of the *Pension Benefits Act* (Ontario).

**Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Regulation 909, Section 76 of the *Pension Benefits Act* (Ontario), 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 auditors consider 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 is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the **Pension Fund of the Retirement Plan of the University of Guelph** as at September 30, 2016, and the changes in its net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Regulation 909, Section 76 of the *Pension Benefits Act* (Ontario).

**Basis of accounting and restriction on use**

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Pension Committee to meet the requirements of the Financial Services Commission of Ontario. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Pension Committee and the Financial Services Commission of Ontario and should not be used by parties other than the Pension Committee or the Financial Services Commission of Ontario.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Kitchener, Canada
March 31, 2017

## Pension Fund of the Retirement Plan of the University of Guelph
### Statement of Net Assets Available for Benefits
### As at September 30th
(in thousands of dollars)

| | 2016 | 2015 |
|---|---|---|
| **ASSETS** | | |
| Investment in Master Trust, at fair value (Note 6) | 379,903 | 354,349 |
| Employer contributions receivable | 151 | 101 |
| Member contributions receivable | 138 | 91 |
| | 380,192 | 354,541 |
| **LIABILITIES** | | |
| Accrued liabilities (Note 7) | 952 | 723 |
| Accrued interplan transfers | 3,627 | 588 |
| | 4,579 | 1,311 |
| **NET ASSETS AVAILABLE FOR BENEFITS** | 375,613 | 353,230 |

## Pension Fund of the Retirement Plan of the University of Guelph
### Statement of Changes in Net Assets Available for Benefits
### For the year ended September 30th
(in thousands of dollars)

| | 2016 | 2015 |
|---|---|---|
| **Increase in net assets available for benefits** | | |
| Increase in fair value of investment in Master Trust (Note 6(b)) | 33,629 | 6,429 |
| Employer contributions (Note 8) | 11,004 | 11,222 |
| Member contributions (Note 8) | 5,818 | 5,743 |
| Transfers in | 102 | - |
| **Total increase** | 50,553 | 23,394 |
| **Decrease in net assets available for benefits** | | |
| Benefit payments | 13,771 | 12,818 |
| Refunds and transfers out | 11,745 | 7,669 |
| Investment fees (Note 9) | 2,182 | 1,435 |
| Administrative expenses and professional fees (Note 9) | 472 | 464 |
| **Total decrease** | 28,170 | 22,386 |
| **Net increase for the year** | 22,383 | 1,008 |
| **Net assets available for benefits, beginning of year** | 353,230 | 352,222 |
| **Net assets available for benefits, end of year** | 375,613 | 353,230 |

*(See accompanying notes)*

On behalf of the Pensions Committee:

## 1. Description of Plan

The following description of the Retirement Plan of the University of Guelph (the "Plan") is a summary only. For more complete information, reference should be made to the Plan Text.

### General

The Plan is a contributory defined benefit pension plan and is registered with Canada Revenue Agency and the Financial Services Commission of Ontario ("FSCO") (registration #0324624). The Plan holds units in the Master Trust of the University of Guelph Pension Plans. The Plan is integrated with the Canada Pension Plan ("CPP").

### Plan Eligibility

The Plan covers all regular full-time, temporary full-time and certain part-time employees other than faculty and professional staff. Effective October 1, 1997 newly hired regular full-time employees other than faculty and professional staff must become members of the Plan. Temporary full-time and certain part-time employees, other than faculty and professional staff, may be eligible to join the Plan after 24 continuous months of employment with the University of Guelph.

### Service Pensions

A service pension is available based on the number of years of service, to a maximum of 35 years, times the sum of 1.5% (1.6% for USW Local 4120 members, Exempt Group members, OSSTF members and CUPE 1334 members) of the best average earnings up to the average CPP year's maximum pensionable earnings ("YMPE") and 2.0% of the difference between the average CPP YMPE and best average earnings. Best average earnings are based on the employee's best 36 consecutive months of earnings. The normal retirement age is 65.

### Survivor Pensions

A survivor pension is paid to a spouse, a dependent child, or a named dependent of a plan member if so elected by the plan member.

### Refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of contributions plus interest. Similarly, a death refund is payable to the named beneficiary of the estate of a plan member where no survivor pension is paid.

A withdrawal refund is payable when the University of Guelph receives an application, subject to lock-in provisions, from a plan member who ceases to be employed by the University of Guelph. The amount of the payment is determined in accordance with actuarial calculations.

### Vesting

Pension benefits vest in the plan member immediately upon joining the Plan.

### Income Taxes

The Plan is a Registered Pension Plan as defined in the Income Tax Act (Canada) and, as such, is exempt from income taxes.

## 1. Description of Plan (continued)

### Funding Policy

In accordance with the Plan Text, plan members are required to contribute to the Plan. Changes to contribution rates occurred in accordance with negotiated agreements as of the effective dates of change reflected below:

| Employee Group | % Premium on Earnings Below YMPE | | % Premium on Earnings Above YMPE | | Effective Date of Change |
|---|---|---|---|---|---|
| | Rate at Beginning of Year | Rate after Change | Rate at Beginning of Year | Rate after Change | |
| UNIFOR | 6.55 | 7.50 | 8.25 | 9.20 | 1-May-16 |
| CUPE 1334 | 8.10 | | 10.40 | | 1-May-15 |
| CUPE 1334 Unit 1 | 7.05 | | 8.75 | | 1-May-15 |
| CUPE 3913 Unit 2 | 7.05 | | 8.75 | | 1-Sep-15 |
| Exempt | 7.41 | 8.16 | 8.75 | 9.50 | 1-May-16 |
| No Employee Group | 6.55 | | 8.25 | | 1-Jul-14 |
| OSSTF | 6.91 | 7.36 | 8.25 | 8.70 | 1-May-16 |
| Post Doc Fellows | 6.55 | | 8.25 | | 1-Jul-14 |
| UGFSEA Unit 1 | 6.55 | 6.94 | 8.25 | 8.64 | 1-May-16 |
| UGFSEA Unit 2 | 6.55 | 6.91 | 8.25 | 8.61 | 1-May-16 |
| OPSEU | 6.55 | | 8.25 | | 1-Jan-14 |
| USW 4120 | 7.25 | | 8.75 | | 1-May-15 |

The University of Guelph is required to provide any additional funding, based on actuarial valuations (the most recent actuarial valuation filed with FSCO was prepared as of August 1, 2013 by Willis Towers Watson), necessary to ensure that defined benefits will be fully provided for at retirement. There were no required contributions past due at September 30, 2016. The effective date of the next required actuarial valuation is August 1, 2016.

## 2. Significant Accounting Policies

### Basis of accounting

The financial statements have been prepared in accordance with the significant accounting policies set out below that comply with the financial reporting provisions prescribed by FSCO for financial statements under Regulation 909, Section 76 of the Pension Benefits Act of the Province of Ontario. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for pension plans in Section 4600, Pension Plans, in Part IV of the Chartered Professional Accountants of Canada (“CPA Canada”) Handbook because it excludes the Plan’s pension obligations and related disclosures. Consequently, these pension fund financial statements do not purport to show the adequacy of the Plan’s assets to meet its pension obligations. These financial statements present the information of the Plan as a separate reporting entity independent of the Sponsor and Plan participants.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CPA Canada Handbook have been adopted for policies that do not relate to the Plan’s investment portfolio to the extent that those standards do not conflict with the requirements of Section 4600.

## 2. Significant Accounting Policies (continued)

### University of Guelph Master Trust

### a. Investments

The assets of the Plan are administered in a Master Trust, which includes the assets of other University of Guelph pension plans. The unit value of the Master Trust is calculated based on the fair value of the underlying investments of the Master Trust. Each of the University of Guelph pension plans' interest in the Master Trust is calculated based on the units held by each of the plans. Investments and investment-related liabilities within the Master Trust are carried at fair value. Details of investments and investment-related liabilities are presented in Note 6. Purchases and sales of investments are recorded by the Master Trust on a trade date basis and transaction costs are expensed as incurred. Fair value is the price that would either be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In an active market, fair value is best evidenced by an independent quoted market price. In the absence of an active market, fair value is estimated based on market conditions at a specific point in time and may not be reflective of future fair values. Fair values of investments within the Master trust are determined as follows:

i. Cash, cash equivalents and short term investments are valued based on cost plus accrued interest, which approximates fair value.
ii. Bonds, equities and derivative financial instruments are valued based on quoted closing market prices. If quoted closing market prices are not available for bonds and equities, fair value is determined using observable market data.
iii. Investments in pooled fund real estate are valued at their reported net asset value per unit.
iv. The values of private investments are determined based on the latest valuation provided by the external investment managers of the fund, adjusted for subsequent cash receipts and distributions from the fund, and cash disbursements of the fund through September 30.

### b. Increase in fair value of investment in Master Trust

Investment income comprises of interest income, recognized as it accrues, plus dividend income, recognized as of the ex-dividend date. Net realized gain on sale and settlement of investment assets and liabilities during the year represents the difference between sale or settlement proceeds and cost. Net change in unrealized gains (losses) on investment assets and liabilities represents the change in the difference between the fair value and cost of investment assets and liabilities at the beginning and end of the year. All realized gains and losses and net changes in unrealized gains and losses on investment assets and liabilities are recorded in the year in which they occur. The Plan's increase in fair value of investment in Master Trust is calculated based on the units held by each plan in the Master Trust.

### c. Foreign currency translation

Investments denominated in foreign currencies are translated into Canadian dollars at the rate of exchange at the year end. Transactions denominated in foreign currencies are translated into Canadian dollars at the rate of exchange on the date of the related transactions.

### Contributions, benefit payments, refunds and transfers out

Contributions, benefit payments, refunds and transfers out are recorded on an accrual basis.

## 2. Significant Accounting Policies (continued)

### Use of estimates

The preparation of financial statements requires the Plan's administrator to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and the reported amounts of increases and decreases in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

## 3. Investment Risk Management

The objective of the Plan is to achieve medium to long-term growth of its investment portfolio to provide the Plan with assets sufficient to meet the Plan's pension benefit obligations. The Plan invests in the Master Trust. The investments of the Master Trust are primarily exposed to market risk (which includes interest rate risk, currency risk and other price risk), credit risk and liquidity risk. To manage these risks within reasonable risk tolerances, the Master Trust, through each plan, has an investment policy in place. The investment policy is established by the Board of Governors and set out in the Statement of Investment Policies and Procedures ("SIPP").

The allocation of assets among the various types of investments and the performance of investments are monitored by the investment managers on a monthly basis and are reviewed by the Investment Subcommittee on a quarterly basis.

The Pensions Committee oversees how management monitors compliance with risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the long-term objectives of the Plan.

### a. Market Risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Master Trust's exposure to market risk is affected by changes in the level or volatility of market rates or prices, such as interest rates, foreign exchange rates and equity prices. The sensitivity analyses provided below disclose the impact on the Plan's net assets available for benefits as at September 30, 2016. The sensitivity analyses provided are hypothetical and should be used with caution as the impacts provided are not necessarily indicative of the actual impacts that would be experienced as the Plan's actual exposure to market rates may change. Changes in fair values or cash flows based on a variation in a market variable cannot be extrapolated because the relationship between the change in a market variable and the change in fair value or cash flows may not be linear. In addition, the effect of a change in a particular market variable on fair values or cash flows is calculated without considering interrelationships between the various market rates or mitigating actions that would be taken by the Master Trust.

i. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Master Trust is subject to interest rate risk through its holdings of variable interest rate instruments. The SIPP contains guidelines related to investments in interest bearing instruments, which address credit concentration, duration and distribution. These guidelines are designed to mitigate the interest rate risk at a level deemed acceptable by the Pensions Committee.

## 3. Investment Risk Management (continued)

As at September 30, 2016, duration and yield to maturity were 7.70 years and 1.74% (2015 - 7.41 years and 2.10%), respectively for the Master Trust's fixed income portfolio.

As at September 30, 2016, had market interest rates increased or decreased by 1% with all other variables held constant, the impact on the Plan's net assets available for benefits would have been a decrease or increase of $8.6 million (2015 - $7.8 million), respectively.

ii. Currency risk

The Master Trust holds assets denominated in currencies other than the Canadian dollar, the Master Trust's functional currency. It is therefore exposed to currency risk as the value of the financial instruments denominated in other currencies will fluctuate due to the changes in exchange rates. The Plan administrator manages this risk through the use of foreign currency forward contracts, see Note 6(d).

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits as at September 30, assuming a 5% absolute change in foreign currency exchange rates, for each currency to which the Plan has a significant exposure:

| [in thousands of dollars] | **2016** | **2015** |
|---|---|---|
| United States Dollar | 2,328 | 2,084 |
| Euro | 545 | 510 |
| Great Britain Pound | 295 | 281 |
| Swiss Franc | 219 | 217 |
| Japanese Yen | 255 | 214 |
| Other currencies | 412 | 298 |
| | 4,054 | 3,604 |

iii. Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. These investments are in the form of equity securities directly held by the Master Trust. The SIPP established a range of 40% to 50% for total equities. The Plan administrator adjusts the investment mix in the portfolio in response to changes in market conditions.

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits as at September 30, assuming a 10% absolute change in equity prices for each stock market benchmark to which the Plan has a significant exposure:

| [in thousands of dollars] | Stock Market Benchmark | **2016** | **2015** |
|---|---|---|---|
| Canadian equities | S&P/TSX Composite | 8,527 | 7,697 |
| U.S. equities | S&P 500 ($Cdn) | 8,563 | 8,466 |
| International equities | MSCI EAFE Net ($Cdn) | 6,162 | 6,085 |
| | | 23,252 | 22,248 |

## 3. Investment Risk Management (continued)

### b. Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Master Trust manages credit risk through the application and monitoring of its SIPP. The Master Trust assesses all counterparties for credit risk before contracting with them.

The credit ratings of the fixed income portfolio in the Master Trust as at September 30 is as follows:

| [in thousands of dollars] | 2016 | | 2015 | |
|---|---|---|---|---|
| **Credit ratings** | **$** | **%** | **$** | **%** |
| AAA | 155,533 | 39.1% | 157,414 | 42.1% |
| AA | 108,249 | 27.2% | 89,806 | 24.0% |
| A | 93,182 | 23.4% | 90,313 | 24.1% |
| BBB | 40,751 | 10.2% | 36,286 | 9.7% |
| Not Rated | 350 | 0.1% | 350 | 0.1% |
| | 398,065 | 100.0% | 374,169 | 100.0% |
| Plan's share ($) | 111,284 | | 104,878 | |
| Plan's share (%) | 28.0% | | 28.0% | |

### c. Liquidity risk

Liquidity risk is the risk that the Plan may be unable to meet obligations in a timely manner. In addition to recurring expenses, the Plan is called upon to meet regular pension benefit payments as well as lump sum transfers and refunds that may occur upon retirement or termination of qualifying Plan members. The risk that the Plan would be unable to meet such obligations is managed through the Plan's ongoing monitoring of the individual investment managers and in their ability to liquidate investments in which the Plan has invested. The risk in this area is assessed by the Plan to be insignificant.

A maturity analysis of the fixed income investments in the Master Trust as at September 30 is as follows:

| [in thousands of dollars] | | | | 2016 |
|---|---|---|---|---|
| Interest bearing instrument | 0 to 5 years | 6 to 10 years | Over 10 years | Total |
| Canada | 72,785 | 32,699 | 33,575 | 139,059 |
| Provincial | 32,038 | 39,365 | 68,439 | 139,842 |
| Municipal | 2,934 | 2,098 | 2,666 | 7,698 |
| Corporate | 57,670 | 25,164 | 28,632 | 111,466 |
| Total | 165,427 | 99,326 | 133,312 | 398,065 |
| Plan's share | 46,247 | 27,768 | 37,269 | 111,284 |

### 3. Investment Risk Management (continued)

| [in thousands of dollars] | | | | **2015** |
|---|---|---|---|---|
| Interest bearing instrument | 0 to 5 years | 6 to 10 years | Over 10 years | Total |
| Canada | 66,555 | 32,622 | 30,368 | 129,545 |
| Provincial | 29,673 | 35,376 | 59,797 | 124,846 |
| Municipal | 2,114 | 2,023 | 2,557 | 6,694 |
| Corporate | 61,475 | 26,035 | 25,574 | 113,084 |
| Total | 159,817 | 96,056 | 118,296 | 374,169 |
| Plan's share | 44,796 | 26,924 | 33,158 | 104,878 |

### 4. Fair Value Measurement

The Plan is required to disclose, for each class of financial instruments, the methods and, when a valuation technique is used, the assumptions applied in determining fair values, through a three-level hierarchy, as at the financial statement date. The three levels are defined as follows:

**Level 1 -** Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

**Level 2 -** Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

**Level 3 -** Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investment interests (which are comprised of private, externally managed pooled funds with underlying investments in equities, real estate, infrastructure and commodities) and securities that have liquidity restrictions.

| [in thousands of dollars] | **Level 1** | **Level 2** | **Level 3** | **2016 Total** |
|---|---|---|---|---|
| ***Canadian*** | | | | |
| Cash & cash equivalents | | 18,851 | | 18,851 |
| Bonds and debentures | | 397,715 | 350 | 398,065 |
| Equities | 305,003 | | | 305,003 |
| Pooled fund - real estate | | | 62,491 | 62,491 |
| ***Foreign*** | | | | |
| Cash & cash equivalents | | 21,358 | | 21,358 |
| Equities | 537,803 | | | 537,803 |
| Pooled fund - infrastructure | | | 12,664 | 12,664 |
| Future foreign exchange contracts liability | | (3,284) | | (3,284) |
| | 842,806 | 434,640 | 75,505 | 1,352,951 |
| Plan's share ($) | 235,616 | 121,508 | 21,108 | 378,232 |

## 4. Fair Value Measurement (continued)

| [in thousands of dollars] | Level 1 | Level 2 | Level 3 | 2015 Total |
|---|---|---|---|---|
| ***Canadian*** | | | | |
| Cash and cash equivalents | | 9,343 | | 9,343 |
| Bonds and debentures | | 373,819 | 350 | 374,169 |
| Equities | 274,620 | | | 274,620 |
| Pooled fund - real estate | | | 58,883 | 58,883 |
| ***Foreign*** | | | | |
| Cash and cash equivalents | | 18,406 | | 18,406 |
| Equities | 527,053 | | | 527,053 |
| Future foreign exchange contracts liability | | (4,428) | | (4,428) |
| | 801,673 | 397,140 | 59,233 | 1,258,046 |
| Plan's share ($) | 224,702 | 111,315 | 16,603 | 352,620 |

During the year ended September 30, 2016 the Master Trust's Level 3 fair value measurements increased by $16.3 million (2015 - $7.0 million). The following table presents the reconciliation of Level 3 fair value measurements of the Master Trust as at September 30:

| [in thousands of dollars] | 2016 | 2015 |
|---|---|---|
| ***Opening Balance*** | 59,233 | 52,216 |
| Purchases | 13,852 | 3,858 |
| Principal payments | (2,511) | - |
| Change in fair value during the year | 4,931 | 3,159 |
| ***Ending Balance*** | 75,505 | 59,233 |
| Plan's share ($) | 21,108 | 16,603 |

There have been no transfers in Level 3 assets in 2016 or 2015.

## 5. Management of Capital

The capital of the Plan is represented by the net assets available for benefits. The University of Guelph's objective when managing the Plan's capital is to safeguard the Plan's ability to continue as a going concern and to maintain adequate assets to support the Plan's pension obligations. The SIPP states investment objectives, guidelines and benchmarks used in investing the capital of the Plan, permitted categories of investments, asset-mix diversification and rate of return expectations.

The SIPP outlines the Plan's long-term return objective at a total rate of return, after disbursement of investment management fees and transaction costs, equal to the going concern discount rate used in the Plan's actuarial valuation (6.0% in last valuation done in 2013). It is recognized that, in any one period, the total return may be significantly above or below the going concern discount rate.

## 5. Management of Capital (continued)

The SIPP last amended effective April 20, 2016, established asset allocations containing both new asset classes and a target weight of the SIPP differing from the previous asset policy mix. The asset mix ranges as prescribed by the SIPP are as follows:

| Component Asset Classes | Permitted Range | |
|---|---|---|
| Equities | 40% | 50% |
| Real Estate & Infrastructure | 15% | 25% |
| Mortgages & Fixed Income | 27.5% | 37.5% |
| Cash and cash equivalents | 0% | 5% |

The investments as at September 30, 2016 fell within the permitted ranges as specified by the SIPP with the exception of equities (62%) and real estate and infrastructure (6%) as a result of the change in the ranges due to the amendment of the SIPP April 20, 2016.

## 6. Investment in Master Trust

The Plan is invested in the Master Trust of the University of Guelph Pension Plans. Each of the University of Guelph's pension plans holds units of the Master Trust. As at September 30, 2016, the Plan's investment in the Master Trust consisted of 28.0% (2015 – 28.0%) of the total fair value of outstanding units of the Master Trust. The Plan's investment in the Master Trust had a fair value of $379.9 million (2015 - $354.3 million) and its share of the cost of Master Trust investments was $336.5 million (2015 - $304.9 million) at September 30, 2016. The Plan's share of the Master Trust's unrealized gain at September 30, 2016 was $43.4 million (2015 – $49.4 million).

(a) The fair value of investments in the Master Trust and the Plan's share as at September 30 are as follows:

| [in thousands of dollars] | **2016** | **2015** |
|---|---|---|
| ***Canadian*** | | |
| Cash & cash equivalents | 18,851 | 9,343 |
| Bonds and debentures | 398,065 | 374,169 |
| Equities | 305,003 | 274,620 |
| Pooled fund - real estate | 62,491 | 58,883 |
| ***Foreign*** | | |
| Cash & cash equivalents | 21,358 | 18,406 |
| Equities | 537,803 | 527,053 |
| Pooled fund - infrastructure | 12,664 | - |
| Accrued investment income | 5,950 | 6,170 |
| | 1,362,185 | 1,268,644 |
| Future foreign exchange contracts asset (liability) | (3,284) | (4,428) |
| **Market value of Master Trust** | 1,358,901 | 1,264,216 |
| Plan's share ($) | 379,903 | 354,349 |
| Plan's share (%) | 28.0% | 28.0% |

Fluctuations in the comparative figures noted above reflect changes in both asset mix and year end fair values of securities held in the Master Trust.

## 6. Investment in Master Trust (continued)

(b) Increase in fair value of investment in Master Trust for the year ended September 30 is summarized as follows:

| [in thousands of dollars] | **2016** | **2015** |
|---|---|---|
| Net realized gain | 98,997 | 33,979 |
| Net change in unrealized gains (losses) | (21,155) | (39,455) |
| Net change in fair value of investment assets and liabilities | 77,842 | (5,476) |
| Interest income | 13,760 | 13,618 |
| Dividend income | | |
| Canadian | 8,911 | 8,578 |
| Foreign | 17,408 | 15,235 |
| Total investment income | 40,079 | 37,431 |
| | 117,921 | 31,955 |
| Plan's share ($) | 33,629 | 6,429 |

(c) The following table lists all the investments which have a fair value or cost equal to or greater than 1% of the fair value or cost of the total Master Trust investments as at September 30, 2016:

| [in thousands of dollars] | Cost | Fair Value |
|---|---|---|
| Canadian bonds and debentures | | |
| Canada Housing Trust | 74,938 | 75,044 |
| Government of Canada | 58,852 | 59,224 |
| Province of Ontario | 51,645 | 52,173 |
| Province of Quebec | 29,677 | 29,986 |
| Canadian equities | | |
| Toronto Dominion Bank | 13,189 | 13,824 |
| Canadian pooled fund - real estate | | |
| Greystone Real Estate Fund | 61,715 | 62,491 |
| Total | 290,016 | 292,742 |
| Plan's share ($) | 81,077 | 81,840 |

## 6. Investment in Master Trust (continued)

(d) The Master Trust has entered into foreign currency forward contracts to minimize exchange rate fluctuations and the resulting volatility on future financial results. All outstanding contracts have a remaining term to maturity of less than one year. The notional and fair values of these financial instruments are as follows:

| | **2016** | | **2015** | |
|---|---|---|---|---|
| [in thousands of dollars] | Notional value | Fair value | Notional value | Fair value |
| United States Dollar | 171,458 | (1,587) | 171,119 | (3,036) |
| Euro | 41,678 | (711) | 43,826 | (501) |
| Japanese Yen | 17,141 | (659) | 20,723 | (398) |
| British Pound | 21,478 | 298 | 22,562 | (183) |
| Other | 30,635 | (625) | 32,445 | (310) |
| | 282,390 | (3,284) | 290,675 | (4,428) |
| Plan's share ($) | 78,945 | (918) | 81,474 | (1,241) |

(e) As at September 30, 2016, approximately 0.9% (2015 – nil) of the Master Trust's long-term investment portfolio is invested in Brookfield Infrastructure Fund III GP LLC. The legal terms and conditions of these investments require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at September 30, 2016, the Master Trust had uncalled commitments of $66,640 (2015 - nil) and the Plan's share is $18,630 (2015 – nil).

## 7. Accrued Liabilities

| [in thousands of dollars] | **2016** | **2015** |
|---|---|---|
| Refunds and transfers out | 381 | 352 |
| Investment management fees | 313 | 215 |
| Custodial and performance management fees | 23 | 22 |
| Administration fees to the University of Guelph | 119 | 102 |
| Professional fees | 95 | 13 |
| Provincial regulatory fees | 21 | 19 |
| | 952 | 723 |

## 8. Contributions

| [in thousands of dollars] | **2016** | **2015** |
|---|---|---|
| Employer | | |
| Required contributions | 6,448 | 6,666 |
| Going concern and solvency special payments | 4,556 | 4,556 |
| | 11,004 | 11,222 |
| Member | | |
| Required contributions | 5,818 | 5,743 |
| | 16,822 | 16,965 |

## 9. Fees and Expenses

| [in thousands of dollars] | 2016 | 2015 |
|---|---|---|
| ***Investment Fees*** | | |
| Investment management fees | 2,042 | 1,304 |
| Custodial and performance measurement fees | 140 | 131 |
| | 2,182 | 1,435 |
| ***Administrative Expenses and Professional Fees*** | | |
| University of Guelph administrative fee | 160 | 143 |
| Actuarial fees | 273 | 285 |
| Legal, accounting and auditing fees | 6 | 9 |
| Provincial regulatory fees | 23 | 17 |
| Other | 10 | 10 |
| | 472 | 464 |

## 10. Related Party Transactions [in thousands of dollars]

The University of Guelph provides certain administrative services to the Plan. The cost to the Plan for these services for the year ended September 30, 2016 was $160 (2015 - $143), being the exchange amount agreed to by the parties, and is included in administrative expenses and professional fees in the statement of changes in net assets available for benefits.