University of Guelph Pension Plans

Annual Report on the Audited Financial Statements

Prepared for the Pensions Committee – February 25, 2016

Contents

A: Introduction

This report summarizes the total net assets at September 30, 2015 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).

Audited Statements of the Plans: The data in this report is a summary of the results of the three audited statements prepared by University management and audited by the Plans' auditors, Ernst & Young LLP.

These statements are not intended to provide a comprehensive financial view of these Plans and have been prepared to meet the requirements of the Financial Services Commission of Ontario ("FSCO") and the Ontario Pension Benefits Act ("PBA").

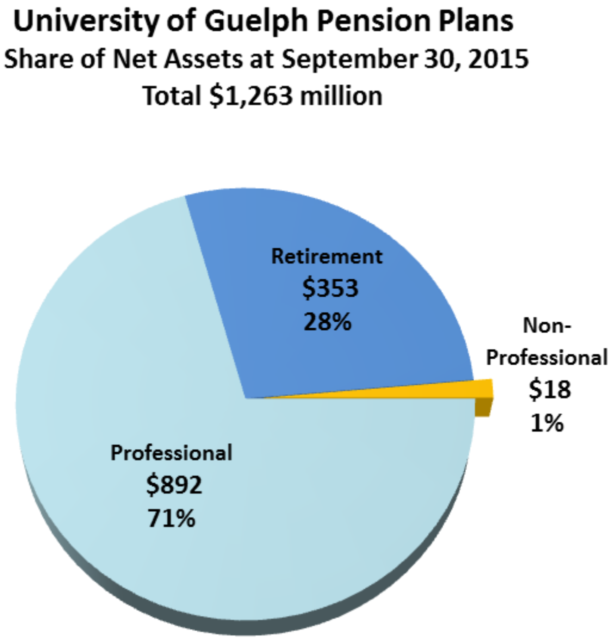
While these statements do not meet strict accounting standards for pension plans in section 4600, Pension Plans, in Part IV of the Chartered Professional Accountants of Canada ("CPA Canada") Handbook they conform to reporting requirements of Ontario pension legislation (section 76, regulation 909 of PBA). 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 filing pension statements and reduces the expense of preparing these statements in meeting legislative reporting purposes.

B: Plans' Net Assets Available for Benefits at September 30, 2015

Assets are held and administered in a Master Trust: The net assets (totaling $1.263 billion at September 30, 2015), for all three Plans are invested in the Master Trust of University of Guelph Pension Plans. All Plans' assets are legally separate and do not form any part of University assets. Pension assets are held for the sole purpose of meeting the benefit obligations of the Plans and assets 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.

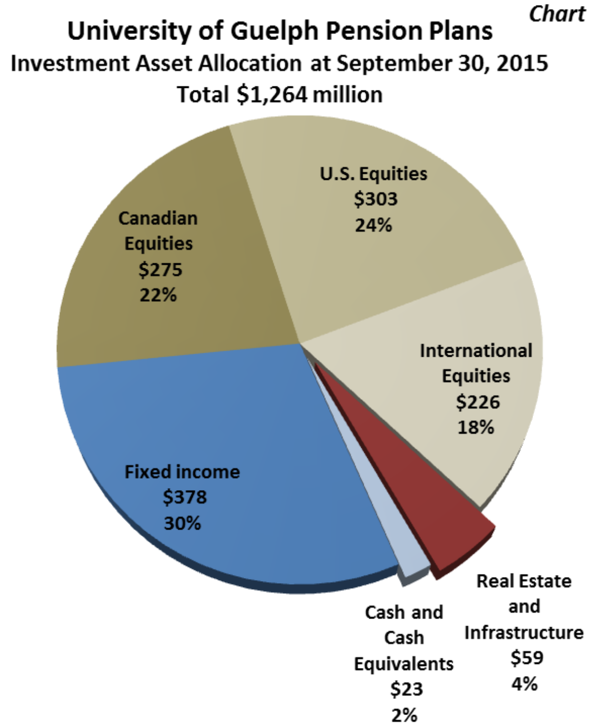
Chart A



The SIPP: The investment framework for managing the pension plans' assets including associated policies and objectives, responsibilities and procedures is captured in a document referred to as the "Statement of Investment Policies and Procedures" or SIPP.

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.

Chart B



The SIPP sets out a target weight (expressed as a percentage of the total fund) for each of the different asset classes in which the funds may be invested. In addition, there are ranges around this target mix of assets, in which actual allocations are permitted. Chart B displays the investment asset allocation by asset category at September 30, 2015. All allocations are within the asset allocation ranges permitted under our SIPP. 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.

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 $18.8 million to $1.26 billion during the year ended September 30, 2015 (refer to Table A).

This reflected contributions and modest net investment returns of 2.1% offsetting disbursements and transfers. Investment return during the year were mixed with significant increases in the first two quarters offset to a large extent by flat third quarter and a loss in the fourth quarter.

Combined Pension Plans: Changes in Plan Assets — **Table A**
In $ millions (For the Fiscal Years Ended September 30th)

	2012	2013	2014	2015
Pension Payments	48.1	50.1	51.7	53.4
Refunds and Transfers Out	9.2	15.4	11.7	13.5
Pension Expenses	5.7	6.8	8.0	8.6
Total Expenses and Payments	**63.0**	**72.3**	**71.4**	**75.5**
Employer Contributions	37.7	34.0	38.5	43.5
Employee Contributions & Transfers In	14.1	16.9	18.9	18.9
Increase in Fair Value of Investments	116.7	151.1	168.1	31.9
Total Income and Contributions	**168.5**	**202.0**	**225.5**	**94.3**
Increase (Decrease) in Net Assets	**105.5**	**129.7**	**154.1**	**18.8**
UofG Pension Net Assets	**960.2**	**1,089.9**	**1,244.0**	**1,262.8**

Pension payments increased by 3.3% reflecting a growing number of retirees. Employer (University) contributions increased 13% mainly as a result of increases in going concern deficit payments especially in the Professional Plan. The University is not required to make solvency deficits payments under provincial legislation, which is due to, expire in 2017.

Components of Increase in Fair Value of Investments in Master Trust:

Table B shows the breakdown of the "Increase in Fair Value" of the Plans' assets over the period. Realized investment income was relatively stable, with a major decline reflected in the unrealized market values relative to 2014. The major portion of this decline was recorded in the fourth quarter of the year.

While the long term of 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.

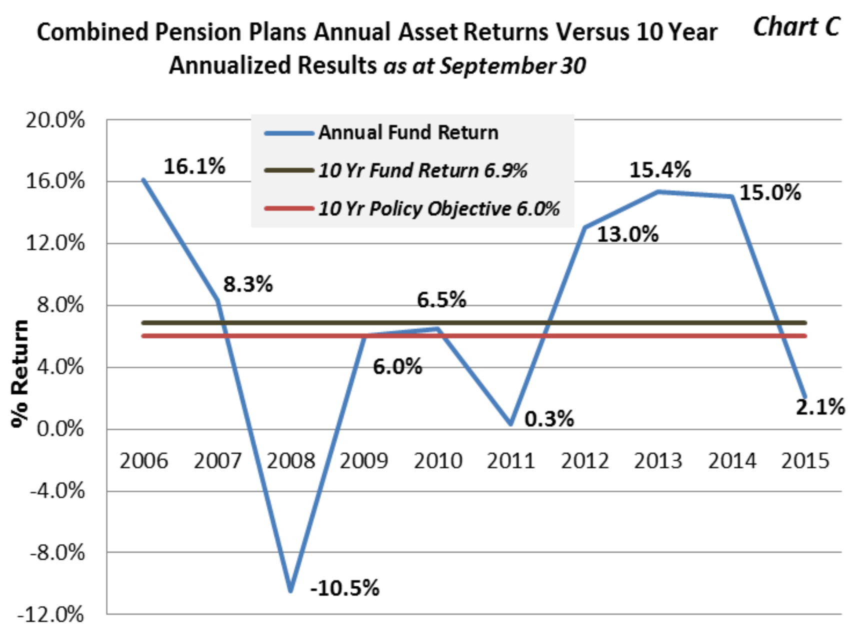
Combined Pension Plans: Increase in Fair Value of Investments — **Table B**
In $ thousands (For the Fiscal Years Ended September 30th)

	2012	2013	2014	2015
Interest income	10,517	10,560	11,846	13,618
Dividend income				
Canadian	6,236	6,967	7,340	8,578
Foreign	14,710	16,719	16,809	15,235
Total Investment Income	**31,463**	**34,246**	**35,995**	**37,431**
Net Realized Gain	**15,597**	**36,899**	**78,215**	**33,979**
Net Change in Unrealized Gains	**69,616**	**79,987**	**53,919**	**(39,455)**
Total Increase in Fair Value of Investments	**116,676**	**151,132**	**168,129**	**31,955**

D: Market Returns

Market Returns Over Time:

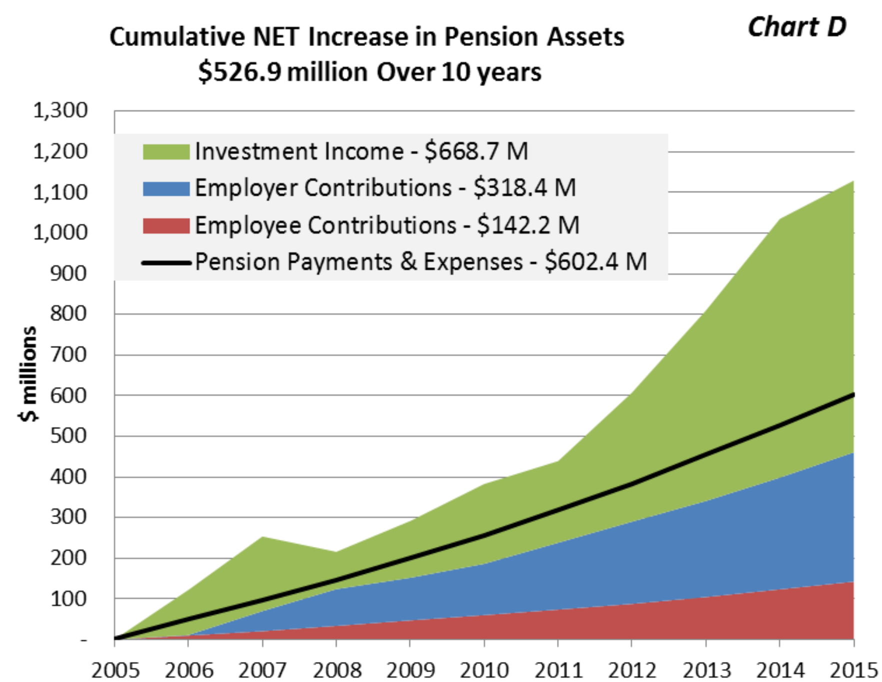
Chart C shows the Plans' annual returns versus the annualized return (6.9%) and annualized policy objective (6.0%) over the past ten years. (Note: the policy objective and investment benchmark are both set out in the SIPP). While 10 year annualized results are positive relative to the Plans objectives, 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 $526.9 million, comprised of total contributions and investment income of $1.13 billion offset by disbursements of $602.4 million. Chart D illustrates the major components of these cumulative changes. Investment income provided 59% of cumulative increases followed by employer contributions at 28% and employee contributions at 13%.

Of total payments and expenses of $602.4 million; 72% went to pensioners for benefit payments, 18% was for plan member refunds and transfers out and 10% was for expenses.



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 E below provides a summary of the major components of expenses over the past 10 years, expressed as a percentage of total Plans' assets. Investment fees as a percentage of total 2015 year-end Plans' assets show 0.03% increase. The increase is the result of the method in which fees are calculated and reported. During the year, fees were charged based on quarterly values that were significantly higher for the first three quarters when compared to the last during which markets had negative returns. The result was a higher rate when based on the year-end value. Overall, average asset-weighted fees charged to the Plans have not changed significantly year over year.

Chart E

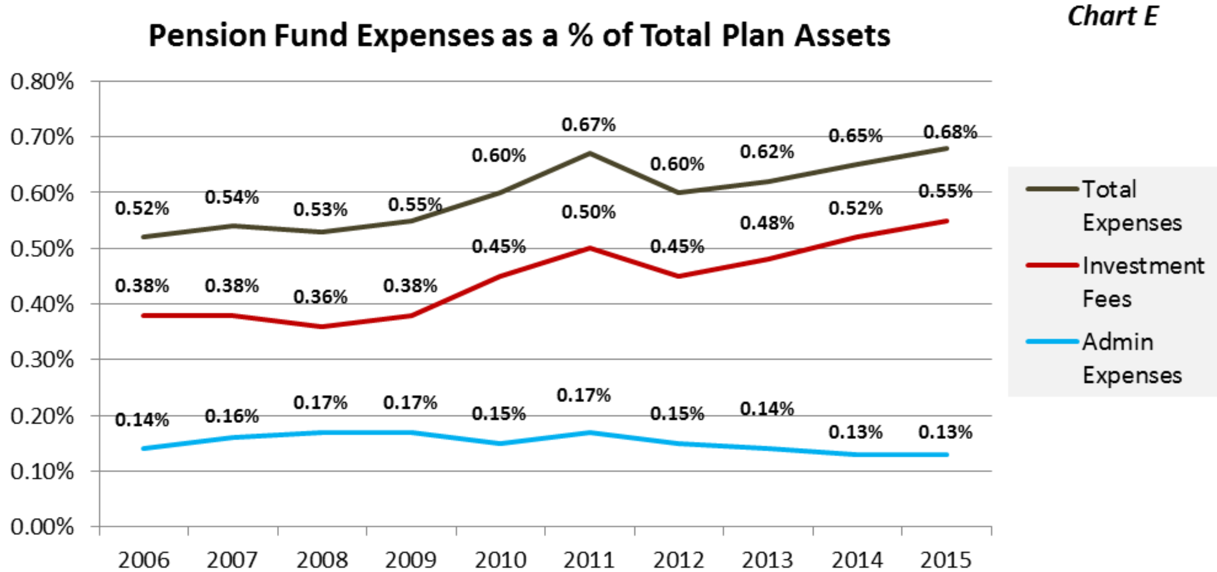


Chart F shows the distribution of fiscal 2015 expenses for all three plans by major expense category.

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

Chart F