PENSION FUND OF THE PENSION PLAN FOR PROFESSIONAL STAFF OF THE UNIVERSITY OF GUELPH

For the Year Ended September 30, 2013

March 5, 2014

Independent Auditor's Report

To the Board of Governors of the University of Guelph

We have audited the accompanying financial statements of the Pension Fund of the Pension Plan for Professional Staff of the University of Guelph (the Plan), which comprise the statement of net assets available for benefits as at September 30, 2013 and the statement of changes in net assets available for benefits for the year then ended, and the related notes, which comprise 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 Section 76 of Regulation 909 to the Pension Benefits Act of the Province of 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 Section 76 of Regulation 909 to the Pension Benefits Act of the Province of 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.

Auditor's 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 auditor's 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.

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

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Opinion
In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at September 30, 2013 and the changes in its net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 to the Pension Benefits Act of the Province of 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 Plan 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 University of Guelph and the Financial Services Commission of Ontario and should not be used by parties other than the University of Guelph or the Financial Services Commission of Ontario.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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

	2013	2012
ASSETS		
Interest in pooled fund of University of Guelph pension plans (Note 6)	762,689	678,021
Employer contributions receivable	643	75
Member contributions receivable	724	44
Accrued interplan transfers	2,842	169
	766,898	678,309
LIABILITIES		
Interest in pooled fund of University of Guelph pension plans (Note 6)	-	756
Accrued liabilities (Note 7)	983	1,142
	983	1,898
NET ASSETS AVAILABLE FOR BENEFITS	765,915	676,411

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

	2013	2012
Increase in net assets available for benefits		
Net realized gain	26,357	11,077
Net change in unrealized gains (losses)	57,136	49,443
Net change in fair values of investment assets and liabilities	83,493	60,520
Investment income (Note 6)	24,462	22,345
Employer contributions (Note 8)	22,637	25,221
Member contributions (Note 8)	11,076	9,090
Transfers in	3,250	188
Total increase	144,918	117,364
Decrease in net assets available for benefits		
Benefit payments	38,125	36,638
Refunds and transfers out	12,437	7,393
Investment fees (Note 9)	3,765	3,074
Administrative expenses and professional fees (Note 9)	1,087	1,004
Total decrease	55,414	48,109
Net increase for the year	89,504	69,255
Net assets available for benefits, beginning of year	676,411	607,156
Net assets available for benefits, end of year	765,915	676,411

1. Description of Plan

The following description of the Pension Plan for Professional Staff 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 (registration #0324616). The Plan holds units in the Pooled Fund 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 and certain part-time faculty and professional staff. Effective October 1, 1997 newly hired regular full-time faculty and professional staff must become members of this pension plan. Temporary full-time and certain part-time faculty and professional staff may be eligible to join this 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% of the best average earnings up to the average CPP yearly maximum pensionable earnings and 2.0% of the difference between average CPP yearly maximum pensionable earnings 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 the actuarial calculation.

Vesting

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

1. Description of Plan (continued)

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.

Funding Policy

In accordance with the Plan Text, plan members are required to contribute to the pension plan. During the fiscal year, changes to contribution rates occurred in accordance with negotiated agreements as 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	
CARG	6.80		8.50		1-Apr-12
Executive & Excluded Faculty	4.80	6.05	6.50	7.75	1-Jul-13
UGFA	5.80	7.30	7.50	9.00	1-Jul-13
ONA	5.80	6.80	7.50	9.00	1-Aug-13
PSA	6.05	7.30	7.50	9.00	1-Jul-13

The University of Guelph is required to provide any additional funding, based on actuarial valuations (the most recent actuarial valuation filed with the Financial Services Commission of Ontario was prepared as of August 1, 2010), necessary to ensure that defined benefits will be fully provided for at retirement.

2. Significant Accounting Policies

Basis of accounting

The Financial Services Commission of Ontario (FSCO) allows the preparation of financial statements in accordance with Canadian generally accepted accounting principles, excluding recognition and disclosure of pension obligations to comply with the filing requirements of Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. Canadian accounting standards for pension plans require the Plan, in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, to comply on a consistent basis with either International Financial Reporting Standards (IFRS) in Part I of the Canadian Institute of Chartered Accountants (CICA) Handbook or Canadian Accounting Standards for Private Enterprises (ASPE) in Part II of the CICA Handbook. The Plan has chosen to comply with ASPE.

These financial statements differ materially from financial statements prepared in accordance with Canadian accounting standards for pension plans as they exclude the recognition and disclosure of the pension obligation of the Plan and do not purport to show the adequacy of the Plan's assets to meet its pension obligations. These financial statements have been prepared to assist in meeting the requirements of FSCO.

2. Significant Accounting Policies (continued)

Pooled Fund

The assets of the University of Guelph pension plans are administered as a single Pooled Fund. The value of the Pooled Fund is determined based on the fair value of the underlying investment assets and liabilities in accordance with IFRS 13, Fair Value Measurement. Each of the University of Guelph Pension Plans interest in the Pooled Fund is calculated based on the units held by each Plan in the Pooled Fund.

Investment Income

Investment income consists of interest income, recognized as it accrues, plus dividend income, recognized as of the ex-dividend date. The Plan's pro-rata share of investment income is calculated based on the units held by each plan in the Pooled Fund.

Net change in fair values of investment assets and liabilities

Net realized gain on sale and settlement of investment assets and liabilities during the year represents the difference between sale or settlement proceeds and book value. Net change in unrealized gains (losses) on investment assets and liabilities represents the change in the difference between fair and book values of investment assets and liabilities at the beginning and ending of the year. All realized and net changes in unrealized gains and losses on investment assets and liabilities are recorded in the Statement of changes in net assets available for benefits in the year in which they occur. The Plan's pro-rata share of net realized gain (loss) and net change in unrealized gains (losses), is calculated based on the units held by each plan in the Pooled Fund.

Contributions, Benefit Payments and Refunds

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

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 members' pension benefit obligations. The Plan's investment policy is established by the Board of Governors and is set out in the statement of investment policies and procedures (the SIPP).

The Plan invests in pooled funds that are in turn invested in government and government guaranteed bonds, corporate bonds, debentures, and equity securities. The investment managers of the funds must adhere to the investment policies established by the Board of Governors governing these funds which are monitored by the Investment Subcommittee. The Plan's investing activities expose it to a variety of direct and indirect financial risks including market risk, credit risk and liquidity risk.

3. Investment Risk Management (continued)

The allocation of assets among the various types of investments and the performance of investments held by the Plan are monitored by the Plan's 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 the Plan's 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

The Plan's investments are susceptible to market risk, which is defined as the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Plan'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 analysis provided below discloses the effect on net assets available for benefits as at September 30, 2013, assuming that a reasonably possible change in the relevant risk variable has occurred at September 30, 2013 and has been applied to the risk exposures in existence at that date to show the effects of the reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities where available or on historical data.

The sensitivity analysis provided is 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 Plan.

i. Interest rate risk

Interest rate risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Plan 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.

As at September 30, 2013, had the market interest rates increased or decreased by 1% with all other variables held constant, the fair value of the fixed income holdings in the Plan and net assets available for benefits would have decreased or increased respectively, by approximately $13.9 million. As at September 30, 2013, duration and yield to maturity are 7.2 and 2.9%, respectively, for the overall fixed income portfolio.

3. Investment Risk Management (continued)

The terms to contractual maturity of interest bearing financial instruments as at September 30th are as follows:

[in thousands of dollars]					**2013**
	Terms to contractual maturity				
Interest bearing instrument	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total
Canada*	179	42,678	18,139	14,727	75,723
Provincial	-	10,675	19,419	27,476	57,570
Municipal	-	1,620	568	724	2,912
Corporates	-	33,155	12,702	13,187	59,044
Total	179	88,128	50,828	56,114	195,249

** includes cash*

ii. Currency risk

The Plan holds assets denominated in currencies other than the Canadian dollar, the Plan'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.

As at September 30, 2013, had the foreign exchange rates increased or decreased by 10% with all other market variables held constant, the fair value of the foreign currency assets and net assets available for benefits of the Plan would have increased or decreased respectively as outlined in the following table:

[in thousands of dollars]	Currency Exposure	Currency Hedge*	Net Exposure	Estimated Impact
United States Dollar	189,679	97,040	92,639	9,264
Euro	51,489	25,692	25,798	2,580
Japanese Yen	29,869	14,832	15,037	1,504
British Pound	28,363	14,433	13,930	1,393
Other Europe	24,971	12,531	12,440	1,244
Other Pacific	17,955	6,968	10,986	1,099
Other global	803	384	419	42
	343,129	171,880	171,249	17,126

** Notional Value of Future Foreign Exchange Contracts*

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.

3. Investment Risk Management (continued)

As at September 30, 2013, had the prices of equity securities increased or decreased by 10% with all other variables held constant, the value of equities and net assets available for benefits would have increased or decreased respectively, by approximately $50.8 million.

b. Credit risk

Credit risk is the risk one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Plan manages credit risk through the application and monitoring of its SIPP.

The Plan assesses all counterparties for credit risk before contracting with them. The Plan's maximum exposure to credit risk is detailed in the following table:

[in thousands of dollars]	**2013**	**2012**
Cash	32,712	28,505
Bonds and debentures	193,309	190,387
	226,021	218,892

The credit rating information of the fixed income portfolio as at September 30th is as follows:

[in thousands of dollars]	**2013**		**2012**	
Credit ratings	**$**	**%**	**$**	**%**
AAA	80,392	41.6%	83,024	43.7%
AA	52,580	27.2%	49,941	26.2%
A	50,260	26.0%	49,179	25.8%
BBB	9,859	5.1%	8,006	4.2%
Not Rated	218	0.1%	237	0.1%
	193,309	100.0%	190,387	100.0%

c. Liquidity risk

Liquidity risk is the risk 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 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.

4. Fair Value Measurement

The following is a summary of the methods used to determine the fair value of the Plan's financial instruments and an analysis of those investments using the hierarchy set forth in

IFRS 7, Financial Instruments – Disclosures. The hierarchy prioritizes the inputs to fair value measurement, placing the highest priority on unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to inputs not based on observable market data (Level 3).

The three levels of the fair value hierarchy are:

- Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – inputs that are observable for the assets or liabilities either directly or indirectly;
- Level 3 – inputs for assets or liabilities that are not based on observable market data.

The fair value hierarchy requires the use of observable data from active financial markets each time such data exists. Where a financial instrument contains inputs from multiple levels, it is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

The following tables present the Plan's financial assets evaluated at fair value as at September 30th, classified according to the fair value hierarchy described above:

[in thousands of dollars]	**Level 1**	**Level 2**	**Level 3**	**2013 Total**
Canadian				
Cash & cash equivalents		20,989		20,989
Bonds and debentures		193,091	218	193,309
Equities	178,411			178,411
Private equity funds		1,129		1,129
Pooled fund - real estate			21,981	21,981
Foreign				
Cash & cash equivalents		11,723		11,723
Equities	328,468			328,468
	506,879	226,932	22,199	756,010
Future foreign exchange contracts		2,765		2,765
	506,879	229,697	22,199	758,775

4. Fair Value Measurement (continued)

[in thousands of dollars]	Level 1	Level 2	Level 3	2012 Total
Canadian				
Cash & cash equivalents		19,280		19,280
Bonds and debentures		190,150	237	190,387
Equities	170,500			170,500
Private equity funds		1,196		1,196
Pooled fund - real estate			4,182	4,182
Foreign				
Cash & cash equivalents		9,225		9,225
Equities	279,487			279,487
	449,987	219,851	4,419	674,257
Future foreign exchange contracts		(756)		(756)
	449,987	219,095	4,419	673,501

The following is an analysis of the investments of the Plan using the hierarchy related to the inputs to fair value measurement.

Level 1

The Plan's equity positions are classified as Level 1 when the security is actively traded and a reliable quote is observable.

Level 2

Cash is classified as Level 2. Short-term notes and treasury bills are classified as Level 2. These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates market value. Bonds and other interest bearing securities are classified as Level 2 when they are actively traded. They are classified as Level 2 when they are valued using observable inputs, including interest rate curves, credit spreads and volatilities. Certain of the Plan's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and is classified as Level 2. Future foreign exchange contracts are classified as Level 2.

Level 3

Bonds for which significant unobservable data is required in determining fair value are classified as Level 3. Certain of the Plan's equities determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3.

4. Fair Value Measurement (continued)

During the year ended September 30, 2013 the Plan's Level 3 fair value measurements increased by $17.8 million (2012 - $2.5 million).

The following table presents the Plan's reconciliation of Level 3 fair value measurements as at September 30th:

[in thousands of dollars]	**2013**	**2012**
Opening Balance	4,419	1,872
Purchases	16,241	4,337
Transfers In	-	
Sales	-	(1,937)
Transfers Out	-	
Change in Market Value during period	1,539	147
Ending Balance at September 30	22,199	4,419

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 assets of the Plan to support the Plan's investment objectives. Investment performance and asset allocation is reviewed by the Investment Subcommittee of the Board of Governors and is reported to the Pensions Committee.

6. Interest in Pooled Fund

The assets of the Plan are administered in a Pooled Fund, which includes the assets of other University of Guelph pension plans. The Plan holds units in the Pooled Fund and these units had a fair value of $762.7 million (2012 - $677.3 million) and a book value of $658.2 million (2012 - $629.9 million) at September 30, 2013. The unrealized gain at September 30, 2013 was $104.5 million (2012– $47.4 million). As at September 30, 2013 the Plan held 70.0% of the issued and outstanding units of the Pooled Fund (2012 – 70.4%).

6. Interest in Pooled Fund (continued)

(a) The fair values of investments in the Plan's interest in the Pooled Fund as at September 30th are as follows:

[in thousands of dollars]	2013	2012
Canadian		
Cash & cash equivalents	20,989	19,280
Bonds and debentures	193,309	190,387
Equities	178,411	170,500
Private equity funds	1,129	1,196
Pooled fund - real estate	21,981	4,182
	415,819	385,545
Foreign		
Cash & cash equivalents	11,723	9,225
Equities	328,468	279,487
	340,191	288,712
Future foreign exchange contracts	2,765	(756)
Accrued investment income	3,914	3,764
Market value of Pooled Fund	762,689	677,265
Market value of Pooled Fund assets	762,689	678,021
Market value of Pooled Fund liabilities	-	(756)
Market value of Pooled Fund	762,689	677,265

Fluctuations in the comparative figures noted above reflect changes in both asset mix and year end market values of securities held in the Pooled Fund.

(b) Investment Income for the year ended September 30th is summarized as follows:

[in thousands of dollars]	2013	2012
Interest income	7,543	7,469
Dividend income		
Canadian	4,977	4,429
Foreign	11,942	10,447
	24,462	22,345

6. Interest in Pooled Fund (continued)

(c) Included in total investments are the Plan's interests in the following individual investments, which have a fair value or book value as at September 30, 2013 equal to or greater than 1% of the fair value or book value of total Pooled Fund.

[in thousands of dollars]	Book	Market
Canadian Bonds & Debentures		
Canada Housing Trust	31,203	31,291
Government of Canada	41,831	41,953
Province of Ontario	16,682	17,031
Province of Quebec	10,579	10,673
	100,295	100,948
Canadian Equities		
Bank of Nova Scotia	6,383	8,414
Royal Bank of Canada	6,175	8,035
Toronto Dominion Bank	6,183	8,813
	18,741	25,262
Total	119,036	126,210

(d) The University 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:

	2013		**2012**	
[in thousands of dollars]	Notional value	Fair value	Notional value	Fair value
United States Dollar	97,040	2,393	83,342	230
Euro	25,692	225	23,204	(466)
Japanese Yen	14,832	431	12,391	(93)
British Pound	14,433	(290)	12,763	(200)
Other	19,883	6	16,795	(227)
	171,880	2,765	148,495	(756)

7. Accrued Liabilities

[in thousands of dollars]	**2013**	**2012**
Refunds and transfers out	-	273
Investment management fees	577	480
Custodial and performance management fees	41	50
Administration fees to the University of Guelph	246	251
Professional fees	97	68
Provincial regulatory fees	22	20
	983	1,142

8. Contributions

[in thousands of dollars]	2013	2012
Employer		
Current Service Contributions	12,778	15,362
Going Concern & Solvency Special Payments	9,859	9,859
	22,637	25,221
Member		
Current Service Contributions	11,076	9,090
	33,713	34,311

9. Fees and Expenses

[in thousands of dollars]	2013	2012
Investment Fees		
Investment Management Fees	3,453	2,793
Custodial and Performance Measurement Fees	312	281
	3,765	3,074
Administrative Expenses and Professional Fees		
University of Guelph Administrative Fee	383	388
Actuarial Fees	640	566
Legal, Accounting and Auditing Fees	19	17
Other Fees*	45	33
	1,087	1,004

**includes Provincial regulatory fees.*

10. Related Party Transactions [in thousands of dollars]

During the year ended September 30, 2013, the University of Guelph charged the Pooled Fund $535 (2012 - $537) for administrative services. Of these charges, $383 (2012 – $388) related to the professional plan.