Financial statements

University of Waterloo Pension Plan for Faculty and Staff

[Ontario Registration Number 0310565]

December 31, 2016

Building a better working world

Independent auditors' report

To the Pension and Benefits Committee of the
University of Waterloo Pension Plan for Faculty and Staff

We have audited the accompanying financial statements of the **University of Waterloo Pension Plan for Faculty and Staff** [Ontario Registration Number 0310565], which comprise the statement of net assets available for benefits as at December 31, 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 **University of Waterloo Pension Plan for Faculty and Staff** as at December 31, 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 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Pension and Benefits 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 and Benefits Committee and the Financial Services Commission of Ontario and should not be used by parties other than the Pension and Benefits Committee or the Financial Services Commission of Ontario.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Kitchener, Canada
May 19, 2017

University of Waterloo Pension Plan for Faculty and Staff

[Ontario Registration Number 0310565]

Statement of net assets avaliable for benefits

As at December 31

	2016	2015
	$	$
Assets		
Investment income receivable	**3,721,545**	3,537,078
HST receivable	**203,255**	—
Unrealized gain on forward foreign exchange contracts *[note 4[e]]*	**7,480,041**	—
Investments, at fair value *[note 4[a]]*	**1,510,870,144**	1,413,563,784
Total assets	**1,522,274,985**	1,417,100,862
Liabilities		
Benefits payable		
Retirement	**1,311**	1,562
Termination	**436,561**	775,154
Management and administrative fees payable *[note 7[b]]*	**1,262,708**	1,144,243
Unrealized loss on forward foreign exchange contracts *[note 4[e]]*	**3,078,328**	14,207,303
Total liabilities	**4,778,908**	16,128,262
Net assets available for benefits	**1,517,496,077**	1,400,972,600

See accompanying notes

University of Waterloo Pension Plan for Faculty and Staff

Statement of changes in net assets avaliable for benefits

Year ended December 31

	2016	**2015**
	$	$
Increase in net assets		
Employee contributions		
Required	**29,217,369**	27,586,988
Employer contributions		
Current service	**30,590,585**	28,750,520
Special	**17,088,541**	16,252,454
Transfers from other plans *[note 8]*	**2,077,536**	1,797,795
Interest income *[note 4[d]]*	**19,748,325**	20,269,232
Dividend income *[note 4[d]]*	**19,510,788**	15,565,859
Realized and unrealized gains on investments	**80,171,061**	—
Unrealized foreign exchange gains	**—**	39,896,690
Total increase in net assets	**198,404,205**	150,119,538
Decrease in net assets		
Benefit expenses		
Retirement benefits	**53,807,115**	50,241,992
Terminations benefits	**5,879,154**	6,819,291
Death benefits	**968,475**	795,581
Realized and unrealized losses on investments	**—**	2,334,082
Unrealized foreign exchange losses	**16,645,204**	—
Management and administrative expenses *[note 7[a]]*	**4,580,780**	4,289,794
Total decrease in net assets	**81,880,728**	64,480,740
Net increase in net assets for the year	**116,523,477**	85,638,798
Net assets available for benefits, beginning of year	**1,400,972,600**	1,315,333,802
Net assets available for benefits, end of year	**1,517,496,077**	1,400,972,600

See accompanying notes

Notes to financial statements

December 31, 2016

1. Basis of presentation

These financial statements of the University of Waterloo Pension Plan [the "Plan"] have been prepared on a going concern basis and in accordance with the significant accounting policies set out below that comply with the financial reporting provisions prescribed by the Financial Services Commission of Ontario for financial statements under Regulation 909, Section 76 of the *Pension Benefits Act* (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 *CPA Canada Handbook* in part 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. Description of the plan

The Plan is a contributory defined benefit pension plan covering employees of the University of Waterloo [the "University" or the "Sponsor"]. The Board of Governors of the University is the administrator of the Plan [the "Administrator"]. The University's Pension and Benefits Committee has been appointed by the Board of Governors to administer the Plan. CIBC Mellon Trust Company is the custodian and trustee of the Plan. The assets of the Plan are held "in trust" within CIBC Mellon Trust Company. Aon Hewitt has served as the actuary of the Plan during 2016. The Plan is registered under the *Pension Benefits Act* (Ontario) under Registration Number 0310565.

Funding policy

The Plan is open to all full-time and part-time salaried employees who meet certain eligibility requirements. Under the terms of the Plan, the employees are required to contribute 6.25% of base earnings up to the Canada Pension Plan's Yearly Maximum Pensionable Earnings ["YMPE"] limit, plus 8.95% of base earnings exceeding the YMPE and up to two times the YMPE, plus 9.95% of base earnings exceeding two times the YMPE. The University contributes the balance of the cost required to fund the Plan, as determined by an actuarial valuation of the Plan.

Funding valuation

The most recent actuarial valuation filed with the Financial Services Commission of Ontario was as at January 1, 2014 and was prepared by Aon Hewitt. The rate of compensation increase used was 5.00% per year for one year and 4.25% thereafter and the discount rate was 6.00%. The next required actuarial valuation is as at January 1, 2017.

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Benefits

On the normal retirement date, a member is entitled to an annual pension equal to 1.4% of his or her Final Average Earnings ["FAE"] up to the YMPE average, plus 2.0% of his or her FAE in excess of the YMPE average multiplied by his or her years of credited service. FAE is the member's average annual base earnings during the averaging period's continuous months of highest earnings during the member's last 10 years of employment at the University. Effective January 1, 2014, the averaging period for FAE will increase by one month each month until it is a 60-month averaging period. The YMPE average is determined by averaging the YMPE in the year of retirement plus the YMPE in the four preceding years.

Effective May 1, 2014, the Plan adjusted its guaranteed indexation related to post-retirement cost of living adjustments. Any pension benefits earned as at December 31, 2013 will be indexed at 100% of the Consumer Price Index ["CPI"] to a maximum of 5%, and any pension benefit earned as of an employee's date of retirement less the pension benefit earned as at December 31, 2013 will be indexed at 75% of CPI to a maximum of 5%.

Vested retirement benefits of the Plan are payable upon satisfaction of early retirement eligibility requirements [as early as age 55] and prior to the member's normal retirement date [age 65]. Vested retirement benefits are also payable in the case of termination of employment prior to retirement. A death benefit is payable to the beneficiary of a member as designated.

Income taxes

The Plan is a Registered Pension Trust as defined in the *Income Tax Act* (Canada) and, as such, is not subject to income taxes.

3. Summary of significant accounting policies

Recognition of contributions and benefits

All contributions from the Sponsor and the Plan participants are reflected in the year of the related participant's earnings.

Contributions and benefits payable are recognized on the accrual basis of accounting. Termination benefits payable consist of amounts owing but not yet paid to employees who were terminated from the Plan before the year end. Retirement benefits payable consist of amounts owing but not yet paid to employees who retired before the year-end.

Lump-sum payments or transfers out of the Plan are accounted for in the period in which the election to effect such payment or transfer is made.

Investments

Investments are recorded at fair market value on the statement of net assets available for benefits.

Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of investment assets is determined as follows:

[a] Cash and short-term deposits are valued at amortized cost which approximates fair value.

[b] Bonds, debentures, equities, preferred shares and derivative financial instruments are valued by reference to quoted market prices.

[c] Investments in pooled funds are valued based on fair value information provided by the fund managers.

Investment liabilities are stated at fair value and represent liabilities that are incurred by the Plan in investment-related activities. These may include, but are not limited to, derivatives in a liability position, repurchase agreements, financial instruments sold but not yet purchased, and cash collateral received from counterparties.

Net realized gains or losses on disposal and unrealized changes in fair value for the year are recognized in the statement of changes in net assets available for benefits. Interest earned on investments is recorded on an accrual basis. Dividend income is recorded on the ex-dividend date. Transaction costs are expensed as incurred.

Foreign currency translation

Investments denominated in foreign currencies are translated into Canadian dollars at rates of exchange as at the year-end date. Transactions of investments denominated in foreign currencies are translated into Canadian dollars at rates of exchange applicable on the transaction dates.

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 as 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.

4. Investments

[a] Summary of investments

Investments are comprised of the following:

	2016		2015	
	Fair value	Cost	Fair value	Cost
	$	$	$	$
Equities				
Canadian companies	**206,556,173**	**147,049,180**	162,496,305	138,958,082
Foreign companies	**167,831,040**	**137,033,078**	159,855,811	126,639,800
Foreign equity pooled funds	**362,976,127**	**222,879,827**	321,328,557	189,075,679
	737,363,340	**506,962,085**	643,680,673	454,673,561
Bonds, cash and short-term deposits				
Canadian fixed-term bonds	**310,794,178**	**312,278,966**	219,367,043	219,899,397
Foreign fixed-term bonds	**—**	**—**	118,290,816	84,066,363
Bond pooled funds	**295,379,995**	**282,331,203**	262,164,126	241,299,796
Cash and short-term deposits	**167,332,631**	**167,278,792**	170,061,126	169,847,711
	773,506,804	**761,888,961**	769,883,111	715,113,267
	1,510,870,144	**1,268,851,046**	1,413,563,784	1,169,786,828

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[b] Investment managers

The investments are managed by the following investment managers:

	2016		2015	
	Fair value	Cost	Fair value	Cost
	$	$	$	$
TD Asset Management				
Bonds				
Canadian fixed-term bonds	**310,794,178**	**312,278,966**	219,367,043	219,899,397
Foreign fixed-term bonds	**—**	**—**	118,290,816	84,066,363
Bond pooled funds	**295,379,995**	**282,331,203**	262,164,126	241,299,796
Foreign equity pooled funds	**15,392,525**	**15,352,755**	—	—
Cash and short-term deposits	**2,433,839**	**2,433,839**	3,636,058	3,636,058
	624,000,537	**612,396,763**	603,458,043	548,901,614
University of Waterloo managed fund				
Equities				
Canadian equities [infrastructure and real estate]	**149,421,401**	**98,727,329**	114,806,083	90,738,081
Cash and short-term deposits	**137,756,995**	**137,756,995**	142,523,671	142,523,660
	287,178,396	**236,484,324**	257,329,754	233,261,741
Sionna				
Equities Canadian companies	**57,134,772**	**48,321,848**	45,455,055	45,678,036
Cash and short-term deposits	**1,885,598**	**1,885,598**	1,574,054	1,574,054
	59,020,370	**50,207,446**	47,029,109	47,252,090
Trilogy Global Advisors				
Equities				
Canadian companies	**—**	**—**	2,235,166	2,541,964
Foreign companies	**167,831,040**	**137,033,078**	159,855,762	126,639,757
Cash and short-term deposits	**5,875,787**	**5,821,951**	5,915,652	5,702,241
	173,706,827	**142,855,029**	168,006,580	134,883,962
Oldfield Partners				
Equities				
Foreign equity pooled funds	**136,777,517**	**75,418,555**	117,528,634	73,423,745
Walter Scott & Partners				
Equities				
Foreign equity pooled funds	**210,806,085**	**132,108,517**	203,799,923	115,651,935

	2016		2015	
	Fair value	**Cost**	**Fair value**	**Cost**
	$	$	$	$
Operating fund at CIBC Mellon Trust Company				
Cash and short-term deposits	**19,380,412**	**19,380,412**	16,411,741	16,411,741
Total investments	**1,510,870,144**	**1,268,851,046**	1,413,563,784	1,169,786,828

[c] Significant investments

The Plan contains the following individual investments, which exceed 1% of the cost or market value of the total investments as at December 31, 2016:

	Fair value	**Cost**
	$	$
Short-term deposits		
CIBC Mellon cash sweep 0.05%	**19,380,412**	**19,380,412**
TD BA 0.69% due January 9, 2017	**87,956,880**	**87,956,880**
Royal Bank BA 0.69% due January 9, 2017	**50,949,023**	**50,949,023**
Pooled funds		
TD Emerald Canadian Bond Index Fund	**295,379,995**	**282,331,203**
Overstone Global Equity Fund	**136,777,517**	**75,418,555**
Walter Scott & Partners Global Equity Fund	**210,806,085**	**132,108,517**
Canadian equities		
Brookfield Infrastructure Partners	**103,390,971**	**49,883,600**
ishares S&P/TSX Capped REIT	**46,030,368**	**48,843,691**

Notes to financial statements

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[d] Investment income by type

	2016	**2015**
	$	$
Dividend income		
Canadian equities	**9,453,928**	6,463,860
Foreign companies	**3,343,277**	3,708,681
Foreign pooled funds	**6,713,583**	5,393,318
	19,510,788	15,565,859
Interest income		
Bonds, cash and short-term deposits	**1,079,243**	1,035,725
Canadian fixed term bonds	**7,247,292**	6,780,180
Foreign fixed term bonds	**2,590,460**	3,508,359
Pooled funds	**8,831,330**	8,944,968
	19,748,325	20,269,232

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[e] Forward foreign exchange contracts

The following table summarizes the maturity date, notional amount and fair value related to the Plan's forward foreign exchange contracts as at December 31:

	2016			2015		
	Maturity	Notional amount $	Fair value $	Maturity	Notional amount $	Fair value $
Assets						
Japanese yen	**January 11, 2017**	**(55,222,606)**	**5,069,955**	—	—	—
Euro	**January 11, 2017**	**(40,034,173)**	**2,033,756**	—	—	—
British pound sterling	**January 11, 2017**	**(17,443,761)**	**376,330**	—	—	—
		(112,700,540)	**7,480,041**	—	—	—
Liabilities						
United States dollar	**January 11, 2017**	**(156,227,098)**	**(3,078,328)**	January 13, 2016	(166,063,234)	(9,731,264)
Japanese yen	**January 11, 2017**	**—**	**—**	January 13, 2016	(54,984,632)	(3,074,651)
Euro	**January 11, 2017**	**—**	**—**	January 13, 2016	(35,918,335)	(819,303)
British pound sterling	**January 11, 2017**	**—**	**—**	January 13, 2016	(20,219,307)	(582,085)
		(156,227,098)	**(3,078,328)**		(277,185,508)	(14,207,303)

5. Fair value measurements

Canadian accounting standards for pension plans require disclosure of a three-Level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability 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 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. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes 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 investments and securities that have liquidity restrictions.

There have been no material transfers between any Levels in 2016.

	2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Assets				
Cash and short-term deposits	**—**	**167,332,631**	**—**	**167,332,631**
Equities	**374,387,213**	**—**	**—**	**374,387,213**
Pooled funds	**—**	**658,356,121**	**—**	**658,356,121**
Bonds	**—**	**310,794,179**	**—**	**310,794,179**
Forward foreign exchange contracts	**—**	**7,480,041**	**—**	**7,480,041**
	374,387,213	**1,143,962,972**	**—**	**1,518,350,185**
Liabilities				
Forward foreign exchange contracts	**—**	**3,078,328**	**—**	**3,078,328**
	—	**3,078,328**	**—**	**3,078,328**

	2015			
	Level 1	**Level 2**	**Level 3**	**Total**
	$	$	$	$
Assets				
Cash and short-term deposits	690,736	169,370,390	—	170,061,126
Equities	322,352,116	—	—	322,352,116
Pooled funds	—	583,492,683	—	583,492,683
Treasury bills	—	118,290,816	—	118,290,816
Bonds	—	219,367,043	—	219,367,043
	323,042,852	1,090,520,932	—	1,413,563,784
Liabilities				
Forward foreign exchange contracts	—	14,207,303	—	14,207,303
	—	14,207,303	—	14,207,303

6. Financial risks and risk management

The Plan's investment performance is subject to financial risks as a result of its investing activities. These financial risks could impact net assets available for benefits. These financial risks include credit risk, liquidity risk, interest rate risk, other price risk and foreign exchange risk. The Administrator manages these risks in accordance with the Statement of Investment Policies and Procedures [the "SIPP"]. The SIPP includes aggregate investment limits by asset class in order to achieve the Plan's investment objectives at an acceptable level of risk. In addition, the SIPP outlines individual investment limits and diversification objectives within different asset classes and permitted investment categories within the asset classes. The Pension and Benefits Committee monitors adherence to the policy and the performance of investment managers relative to the applicable benchmarks and action is taken as deemed necessary.

Credit risk

Credit risk relates to the potential exposure that the other party to a financial instrument will fail to discharge an obligation and cause the Plan to incur a financial loss. Concentration of credit risk exists when a significant proportion of the portfolio is invested in securities with similar characteristics or subject to similar economic, political or other conditions.

The SIPP restrictions require Canadian bonds or debentures to be rated a minimum of BBB or equivalent, establishes a cap of U.S. denominated fixed income securities, and bans the purchase of foreign currency fixed income securities. In addition, the SIPP states that no single equity shall represent more than 10% of the total market value of any one of the Fund Manager's equity portfolios.

All of the Plan's fixed term investments are invested in Canadian short term bonds. The credit risk of the Canadian short-term bonds as at December 31, 2016 and as at December 31, 2015 are detailed in the following chart:

	AAA %	**AA** %	**A** %	**BBB** %	**Total** %
Credit ratings					
As at December 31, 2016	**.1**	**40.9**	**27.8**	**31.2**	**100**
As at December 31, 2015	1.5	38.6	28.5	31.4	100

Liquidity risk

Liquidity risk is the risk that the Plan may be unable to meet pension payment obligations as they come due. The SIPP requires that all investments should be reasonably liquid so that they can be converted into cash on short notice. As such, the Plan's exposure to liquidity risk is considered negligible.

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The following is a maturity analysis of the fixed-term bonds held by the Plan:

	2016	2015
	$	$
<1 year	**15,148,062**	12,480,092
1-5 years	**257,717,878**	179,879,849
5-10 years	**37,928,239**	27,007,102
>10 years	**—**	118,290,816
Total	**310,794,179**	337,657,859

Interest rate risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's net assets available for benefits and changes in net assets available for benefits. This risk arises as changes in market interest rates affect the fair market value of the Plan's assets as well as the returns that the plan can earn. The SIPP outlines a range of 30% – 70% for fixed income securities. The Administrator adjusts the investment mix in the portfolio in response to changes in market interest rates.

The following analysis summarizes the impact on the Plan's net assets available for benefits, following reasonably possible changes in interest rates to each bond category to which the Plan has a significant exposure.

			Impact of change in interest rates	
	Market value	Duration	-1%	+1%
Canadian fixed term bonds	**310,794,178**	**2.8**	**8,702,237**	**(8,702,237)**
Bond pooled funds	**295,379,995**	**7.33**	**21,651,354**	**(21,651,354)**
			30,353,591	**(30,353,591)**

Other price risk

Other price risk is the risk that the value of the investments will fluctuate as a result of changes in market prices. As the Plan records all investments at fair value, investment values reflected in the statement of net assets available for benefits represent the maximum exposure to market risk. The SIPP outlines a range of 30%-70% for equities. The Administrator adjusts the investment mix in the portfolio in response to changes in market conditions.

Foreign exchange risk

The Plan is exposed to foreign currency fluctuations to the extent that its foreign investments are denominated in foreign currencies. Fluctuations in the value of the Canadian dollar against foreign currencies can have an impact on the fair value of foreign investments. The SIPP allows for hedging of portfolio assets denominated in foreign currencies into Canadian dollars as a strategy to mitigate foreign exchange risk. The Plan targets hedging 67% of U.S. dollar exposure, 75% of euro exposure, 75% of yen exposure and 50% of British pound sterling exposure. The hedging strategy utilizes forward foreign exchange contracts that mature in 90 days. Upon maturity of these contracts, the Plan enters into new forward foreign exchange contracts with 90-day maturities.

The following sensitivity analysis summarizes the impact on the Plan's net assets available for benefits, following reasonably possible changes in foreign currency exchange rates, for each currency to which the Plan has a significant exposure.

	Impact of change in exchange rates	
	+5%	-5%
Euro	2,865,625	(2,865,625)
United States dollar	11,744,873	(11,744,873)
British pound sterling	2,093,083	(2,093,083)
Japanese yen	3,571,128	(3,571,128)

Sensitivity analysis

The table below demonstrates the sensitivity of the fair value of the Plan's investments in equities to a possible change of 10% in the relevant equity indices. The beta of each equity mandate, a measure of volatility, has been applied in estimating this sensitivity.

	Fluctuation of	Impact of % change in fair value on net assets	Sensitivity
			$
Equities			
Canadian	Stock market indices	+10	19,704,459
		-10	(19,704,459)
Foreign	Stock market indices	+10	18,803,764
		-10	(18,803,764)
Pooled funds	Stock market indices	+10	33,014,492
		-10	(33,014,492)

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7. Management and administrative expenses

[a] Management and administrative expenses

Management and administrative expenses consist of the following:

	2016	2015
	$	$
Investment management	**2,799,146**	2,870,481
Custodial	**212,791**	215,638
Actuarial	**300,792**	261,610
Administration	**849,976**	433,192
Audit	**19,775**	18,483
Non-recoverable Harmonized Sales Tax	**398,300**	490,390
	4,580,780	4,289,794

[b] Management and administrative fees payable

Management and administrative fees payable consist of the following:

	2016	2015
	$	$
Investment management	**825,946**	814,445
Custodial	**20,039**	32,977
Actuarial	**57,015**	108,554
Administration	**338,577**	167,475
Audit	**21,131**	20,792
	1,262,708	1,144,243

[c] Contributions

There were no required contributions past due at December 31, 2016.

8. Transfers from other plans

Transfers from other plans represent transfers into the Plan from external pension plans of a previous employer.

9. Capital management

The capital of the Plan is represented by the net assets available for benefits. The Plan's objectives when managing its capital are to [i] safeguard its ability to continue as a going concern including compliance with regulatory requirements under the *Pension Benefits Act* (Ontario) and [ii] satisfy its obligations to pay benefits to the Plan participants. In meeting these objectives, the Sponsor periodically reviews the funding and investment policies of the Plan, the results of the actuarial funding valuation and the level of benefits provided to participants.

Notes to financial statements

December 31, 2016

The Administrator has adopted a SIPP which 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 was last amended in October 2015. The SIPP was amended to add a paragraph on the consideration of Environmental, Social and Governance factors and for other, less significant updates.

The goal of the Plan per the SIPP is that the annualized rate of return of the Plan must exceed the annualized rate of increase in the CPI by at least 400 basis points ["bps"], net of the associated investment management fees over any 10-year period. Reporting from the actuary of the Plan as at December 31, 2016 shows a return of 5.29% on the total pension fund, excluding the currency overlay, for the last 10-year period. The Bank of Canada reports total average annual CPI of 1.62% for the relevant 10-year period. The return on the total pension fund for the last 10-year period exceeds the average annual CPI for the same period by 367 bps and, as such, falls slightly short of the goal for the annualized rate of return of the Plan for this period.

The SIPP prescribes asset categories that the Plan can invest in along with a targeted asset allocation for each of these categories. The following table presents the asset categories, the permitted asset mix allocation, and the asset mix allocation as at December 31, 2016.

	Asset mix allocation %	**Asset mix allocation as at December 31, 2016** %
Asset categories		
Cash and short-term deposits	**0-15%**	**11%**
Fixed income	**30-70%**	**40%**
Equities	**30-70%**	**39%**
Alternatives [Infrastructure and Real Estate Equity]	**0-20%**	**10%**
		100%

The investments fell within the targeted asset mix ranges as specified in the SIPP at December 31, 2016.