College
Pension Plan

IN GOOD HANDS SINCE 1968

50

2018 Annual Report — 50 YEARS AND COUNTING

Table of contents

IN GOOD HANDS
SINCE 1968
50

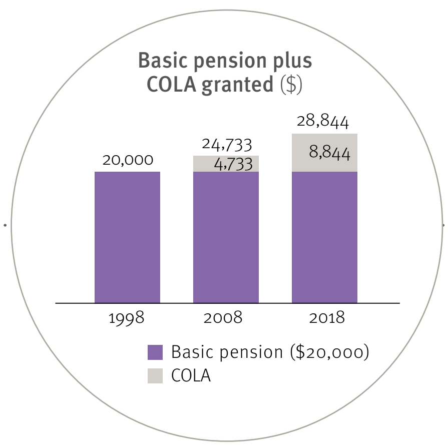
In good hands since 1968

On September 1, 2018, we were immensely proud to celebrate the College Pension Plan's 50th anniversary. Starting with just 302 members from six participating employers in 1968, the plan continues to grow and prosper. For half a century, the plan has been providing reliable retirement income to its members, and as the plan's administrators we are honoured to continue to work not only with members, but also employers, partners and service providers. This milestone provides an opportunity to celebrate the plan's beginnings, its decades of solid growth and our commitment to the future of the plan.

KEEPING THE PLAN STRONG AND SUSTAINABLE

As the economy changes, as demographics shift and as the way businesses interact with clients becomes increasingly more digital, we look for ways to ensure the plan stays ahead of the curve. In the last few years we've introduced several initiatives:

- In 2011, the plan brought in measures to make cost-of-living adjustments (COLAs) sustainable for retired members. Having a sustainable COLA strategy in place allows the plan to better ensure COLAs will be there for future generations. As the graph below shows, the value of COLAs compounded over time is truly powerful. A member retiring in 1998 has seen their pension increase more than 40 per cent, helping them keep up with the demands of inflation.
- In 2016, we introduced changes that modernized and simplified the plan. The changes included creating a single accrual rate of two per cent and delinking the pension formula from Canada Pension Plan.
- In 2017, we launched the new plan website. A huge leap forward for the plan and its members, it provides the ability for members to retire online, task-based design and improved search functionality.



WHERE WE'RE GOING

The plan continues to be fully funded and sustainable. As at August 31, 2018, the plan reached a major milestone with over $5 billion in net assets—an increase from $4.6 billion in 2017. Our emphasis on the financial future, together with a diversified portfolio of investments, helps to ensure prudent management of risk and produce good long-term investment returns.

Today, the focus remains on members, and we retain that focus now and into the future. Our strategy for investment has helped grow the pension plan to where it is today: a valuable and sustainable benefit for 28,582 members from 23 employers—and counting. For retired members of today, tomorrow and the future, we are honoured to have the ongoing responsibility of administering one of the largest financial assets you will have in your lifetime–your pension–and we are committed to ensuring the plan remains strong and relevant for the next 50 years and beyond.

Plan financials

REPORT ON FISCAL YEAR 2017/18 INVESTMENT RESULTS

College Pension Plan (plan) investments had a strong 2017/18 fiscal year. Investments earned 10.3 per cent net of fees, outperforming the plan's benchmark of 9.4 per cent. This solid performance from the plan's public equities—particularly global equities—and private market assets, such as private equities, contributed to the outperformance. The plan ended its fiscal year on August 31, 2018, reaching a milestone $5.1 billion portfolio value (compared to $4.6 billion at the end of previous fiscal year). Over a 10-year period, the investment portfolio earned 7.5 per cent on an annualized basis, exceeding both its benchmark of 6.8 per cent and its long-term actuarial return objective of 6.25 per cent.

During the year, capital markets were volatile due to changing sentiment about the outlook for global economic growth, and geopolitical issues such as trade-war tensions and Brexit. Developed equity markets continued their upward climb on the back of strong corporate earnings and elevated consumer confidence, making this one of the longest bull markets in history.

Interest rates remained low, but central banks began to reduce incentives in the face of strengthening economic growth and limited inflation.

$5.1 billion

Investment portfolio increased $0.5 billion from previous year

10.3%

Investments outperformed 9.4 per cent benchmark

12.3%

Combined public equities return achieved

7.5%

Investment portfolio earnings 2008–2018

Over a 10-year period, the investment portfolio earned 7.5% on an annualized basis, exceeding both its benchmark of 6.8% and its long-term actuarial return objective of 6.25%

INVESTMENT HIGHLIGHTS

- The plan's investments earned 10.3 per cent net of fees for the 2017/18 fiscal year, exceeding the benchmark of 9.4 per cent and the actuarial return objective of 6.25 per cent
- The plan's investment assets increased from $4.6 billion as at August 31, 2017, to $5.1 billion as at August 31, 2018
- The plan's combined public equities portfolio returned 12.3 per cent, while Canadian and global equities earned 10.4 and 18.4 per cent, respectively
- The combined fixed income portfolio generated a return of 1.7 per cent, while Canadian real estate returned 5.8 per cent

2008

$2.4 billion

Investment portfolio at 40 years

10 years of consistent investment growth

2018

$5.1 billion

Investment portfolio at 50 years

MARKET OUTLOOK FOR 2018/19

The plan continues to hold a long-term investment outlook. The College Pension Board of Trustees (board) and the plan's investment management agent, British Columbia Investment Management Corporation (BCI), have built a diverse portfolio that follows a disciplined, long-term approach to the plan's investments.

Global economic growth is beginning to fray, and emerging markets are challenged by increasing U.S. interest rates and persistent global trade tensions. With the U.S. economy likely in the latter stages of its economic cycle and with further interest rate increases possibly on the horizon, the equity markets may become less predictable than investors have become accustomed to in recent years.

To help the plan meet its return objectives and provide long-term stability for plan members, BCI will continue to emphasize managing risk, expanding investment strategies and increasing efficiencies through initiatives that include managing more assets in-house.

RISK MANAGEMENT

The board takes a long-term approach to investment as the plan's obligations are long-term in nature. To achieve the plan's long-term investment goal, the board and BCI have built a diversified investment portfolio. Diversification is a key principle in managing risk. The portfolio is diversified across asset types (e.g., bonds, mortgages, equities, real estate, infrastructure and private equity), industry sectors and global markets.

The plan's overall framework for managing the assets is governed by the plan's Statement of Investment Policies and Procedures (SIPP). BCI is responsible for implementation of the investment strategy and achievement of goals, as outlined in the SIPP. The board oversees and monitors the performance of BCI.

Risk management is a fiduciary responsibility of the board and BCI. BCI's business plan and risk-management activities include anticipating risk and taking appropriate steps to limit exposure to risk while capitalizing on investment opportunities.

RESPONSIBLE INVESTING

Responsible investing is an integral part of the plan's investment approach. The board and BCI share the same fundamental beliefs: assessing and managing risk over the long term is a cornerstone of responsible investing and central growing and protecting the value of the plan's fund.

Taking environmental, social and governance (ESG) matters into account lets investors better understand, manage and mitigate risks associated with long-term investments. Companies that have robust ESG practices are better positioned to generate long-term value for investors than similar companies with less favourable practices.

As an active owner, BCI monitors ESG factors and engages with companies to raise awareness that good corporate governance is the overarching framework for effective risk management. The investment agent integrates ESG considerations into its investment analysis, decisions and processes, and uses its influence as a shareholder to encourage companies to manage and report on ESG risks.

BCI is a signatory to the Principles for Responsible Investment (PRI), an international network of investors, coordinated by the United Nations, that share the goal of incorporating ESG elements into the processes and activities of institutional investors. PRI provides a set of principles for institutional investors to consider as they integrate ESG factors into their investment processes and analyses, ownership activities, and interactions with long-term investors.

Climate change continues to be a growing concern for the board, plan members and global investors. To mitigate some of the potential challenges to investing, BCI introduced a four-part climate action plan to address investment issues related to climate change. The climate action plan integrates climate considerations into investments, seeks low-carbon investment opportunities, and engages with and advocates to portfolio companies as part of the overall investment strategy. By measuring the exposure to climate-related risks, assessing market trends and managing investments, BCI is able to limit its climate change risk.

BCI collaborates with a number of other organizations in its responsible investing activities, including the International Corporate Governance Network, CDP (formerly Carbon Disclosure Project) and Investor Network on Climate Risk. BCI is also a member of the steering committee for the 30% Club, which advocates for companies to enhance gender diversity, and the Sustainability Accounting Standards Board, which has a mandate to promote standards of sustainability reporting.

For more information about responsible investment activities, such as social considerations, occupational health and safety, and stakeholder relations, see BCI's Responsible Investing Newsletter at BCI.ca.

IN GOOD HANDS
SINCE 1968

INVESTMENT DIVERSIFICATION

Recognizing the importance of taking a long-term investment perspective, the board approves the plan's strategic asset allocation policy. The plan's long-term asset mix policy reflects an increased focus on real assets, such as land, buildings, infrastructure, regulated utilities and renewable resources, and private market assets, such as private equity. These assets typically provide capital appreciation, income, and inflation protection; they are ideally suited for the long-term financial objectives of the plan.

MANAGING INVESTMENT COSTS

BCI operates on a cost-recovery, not-for-profit basis. Its large asset size provides access to substantial economies of scale. Managing investment costs is important to the board, and BCI's fees continue to be much lower than those available in the private sector. The board focuses on overall net returns, as these returns contribute to the plan's long-term sustainability.

INVESTMENT HOLDINGS

Real estate investment continues to be an integral part of the plan's portfolio. Since 1991, BCI's real estate program has included ownership, operation and development of real estate assets, such as land and buildings. Similarly, infrastructure investments (part of the portfolio since 2005) operate in business sectors with high start-up costs and an established regulatory framework, such as regulated utility companies.

Another type of investment is private equity, which typically involves acquiring ownership in private equity companies. Direct investment in companies provides BCI with board seats, which are a critical component in the development of the strategic direction of a company, as well as an ability to influence best governance practices.

Collectively, all of these assets help contribute to long-term growth and diversification in the portfolio. Here are some examples:

Endeavour Energy—New South Wales, Australia

Endeavour Energy owns, maintains and operates the electrical distribution network for Western Sydney and the Illawarra Region of New South Wales, Australia, and provides electricity to about 970,000 residential and commercial customers. The utility company employs about 1,900 staff based in 16 field offices across the region as well as its head office. In 2017, BCI participated in a consortium to acquire a majority stake of the company, with the New South Wales government holding the balance. This investment includes a seat on the eight-member board and is held within BCI's infrastructure program.

Hayfin Capital Management—Europe

In 2017, BCI acquired a majority equity stake in Hayfin Capital Management, one of Europe's largest independent credit asset managers. The investment comes with two board seats and two non-executive director appointments on its six-member board.

IndiGO at Bloomington Central Station —Bloomington, Minnesota

BCI partnered with a leading U.S. developer to complete construction of IndiGO, a residential apartment building located in Bloomington, Minnesota. The 395-unit, six-storey property includes amenities such as a pool, spa, sky room and clubroom. The development is within walking distance of public transportation and near shopping malls, coffee shops, fitness centres and multiple dining options. IndiGO is also within five minutes of the Minneapolis–Saint Paul International Airport and less than 20 minutes to downtown. Construction of the mid-rise development was finalized in 2016.

Lumin Forest Products LLC —Uruguay

Lumin Forest Products LLC (Lumin) is a forestry business that owns and manages productive timberland and processing assets. Through sustainable forest management, Lumin provides products that meet a wide variety of human needs while preserving a healthy environment. When Uruguay developed its first national forestry standards, it used the Lumin forestlands as the model.

With 130,000 gross hectares of pine and eucalyptus, Lumin is the fourth-largest timberland owner in Uruguay. The company's integrated assets include the only large-scale plywood mill in the country, a seedling nursery and an 11-megawatt power facility that produces power for the mill. BCI participated in a consortium to acquire Lumin in September 2017. This investment is held within the renewable resources program.

IndiGO, Minnesota
Source: Lennar Multifamily Communities

Lumin Forest Products LLC, Uruguay
Source: Lumin Forest Products LLC

PROFILE OF INTERNATIONAL INVESTMENT

Real assets (including real estate and infrastructure) and private equity are investments typically transacted in private markets; they are an important and growing part of pension plan portfolios. These tangible assets provide consistent cash flows, protect against inflation and appreciate in value over the long term, making them ideal holdings for any pension plan that has future pension obligations and a long-term investment horizon.

How the plan is governed

MEET THE TRUSTEES

The College Pension Plan is governed through the Joint Trust Agreement, an agreement among the four plan partners: BC Government and Service Employees' Union (BCGEU), Federation of Post-Secondary Educators of BC (FPSE), Post-Secondary Employers' Association and the provincial government. Each partner appoints trustees to the College Pension Board of Trustees. The board ensures the plan is sustainable and well governed. The agreement outlines the responsibilities and duties of the board, and provides the framework for managing the plan and the pension fund.

Cameron McRobb, chair

Appointed by: British Columbia Government and Service Employees' Union

Committees: Benefits, governance, interplan investment, interplan executive, interplan executive forum, interplan website review

Board term: 2012–current

Cameron McRobb was appointed to the board in January 2012 by BCGEU. He has 10 years' experience as an Okanagan College bargaining unit chair and six years as chair of the BCGEU provincial instructors bargaining council.

Cameron is an instructor in the Motor Vehicle Trades Program at Okanagan College in Kelowna and an ASE-certified master automotive technician. He has also completed the Foundations of Trust Management Standards and Advanced Trust Management Standards programs.

Candace Fertile, vice-chair

Appointed by: Federation of Post-Secondary Educators of BC

Committees: Benefits (chair), communications, governance, interplan website review, interplan executive, interplan executive forum

Board term: 2014–current

Candace Fertile was appointed to the board in September 2014 by FPSE.

Before her appointment to the board, Candace served on the FPSE Pension Advisory Committee and as chair of the FPSE Status of Women Committee. She has also completed the Shareholder Association for Research and Education Pension Boot Camp, and the Foundations of Trust Management Standards and Advanced Trust Management Standards programs.

Candace has been an English instructor at Camosun College for over 20 years. She holds her bachelor's degree, master's degree and PhD in English from the University of Alberta.

For more information about plan governance and the governance policy, visit the plan website

Doug Birtwistle

Appointed by: Federation of Post-Secondary Educators of BC

Committees: Benefits, governance, interplan trustee education, interplan audit

Board term: 2014–current

Doug Birtwistle was appointed to the board in December 2014 by FPSE. A college instructor for 30 years, he is currently an instructor in the Department of Mathematics and Statistics at Okanagan College and treasurer of the Okanagan College Faculty Association.

Before his appointment to the board, Doug served on the FPSE Pension Advisory Committee for four years and was the Okanagan College pension advisory representative for six years. Doug has also completed the Shareholder Association for Research and Education Pension Boot Camp and the Foundations of Trust Management Standards program.

Kerry Clarke

Appointed by: Province of British Columbia

Committees: Benefits, governance, interplan audit

Board term: 2017–current

Kerry Clarke was appointed to the board in December 2017 by the provincial government and Post-Secondary Employers' Association.

Kerry is Selkirk College's vice-president of college services and chief financial officer. Before his current role at Selkirk, Kerry was director of facilities and ancillary services at Northwest Community College. He has a master of business administration from Heriot-Watt University and has worked as a police officer, business owner and coroner over the course of his career.

Weldon Cowan

Appointed by: Federation of Post-Secondary Educators of BC

Committees: Benefits, communications, governance, interplan trustee education (chair)

Board term: 2005–current

Weldon Cowan was appointed to the board in September 2005 by FPSE. He has completed the Advanced Trust Management Standards program and also holds the ICD.D designation from the Institute of Corporate Directors. In addition to his role on the board, Weldon is chair of the Pension Corporation Board of Directors.

Weldon holds a bachelor of science degree with a specialization in chemistry from Concordia University and a diploma in education from McGill. He taught French immersion science for over 15 years at the secondary level before joining FPSE.

Carl Fischer

Appointed by: Province of British Columbia

Committees: Benefits, governance, interplan investment

Board term: 2007–current

Carl Fischer was appointed to the board in October 2007 by the provincial government. In addition to his role on the board, Carl also sits on the Pension Corporation's board of directors and its audit committee.

A chartered professional accountant, Carl is the acting comptroller general for the Province of British Columbia.

Geraldine Hutchings

Appointed by: Province of British Columbia

Committees: Benefits, governance, interplan investment

Board term: 2012–current

Geraldine Hutchings was appointed to the board in March 2012 by the provincial government.

Geraldine has practiced law since 1988 and is currently legal counsel for the Aboriginal Law and Litigation Group within the Ministry of the Attorney General. Before her appointment to the board, she was an executive of the Law Society of Yukon, and a member and chair of both the Yukon Human Rights Commission and the Yukon Mental Health Review Board. She also worked as an adjudicator under the Canada Labour Code. Geraldine has completed the Advanced Trust Management Standards program.

Michael Lancaster

Appointed by: Province of British Columbia

Committees: Benefits, communications (chair), governance

Board term: 2007–current

Michael Lancaster was appointed to the board in August 2007 by the provincial government.

Michael is a certified employee benefits specialist and a manager of employee relations with the BC Public Service Agency. He holds a master's degree in political science from the University of Victoria.

Karen Maynes

Appointed by: Province of British Columbia

Committees: Benefits, governance

Board term: 2005–current

Karen Maynes was nominated to the board by PSEA and appointed to the board in April 2005 by the provincial government. In addition to her role on the board, Karen was appointed to the BCI Board of Directors in September 2014 as the board's representative.

Karen is past chair of the provincial Senior Finance and Administration Officers Committee. She also sat as a post-secondary sector representative on the Institute of Chartered Accountants of BC's Government Organizations' Accounting and Auditing Forum, and served on numerous Douglas College and provincial committees.

Karen received her chartered accountant designation in 1987 and, before retiring, was vice-president of finance and administration at Douglas College.

Paul Ramsey

Appointed by: Federation of Post-Secondary Educators of BC and British Columbia Government and Service Employees' Union

Committees: Benefits, communications, governance

Board term: 2016–current

Paul Ramsey was appointed to the board in September 2016, by FPSE and BCGEU. Previously, he served on the FPSE Pension Advisory Committee and as a liaison to the Association of British Columbia College Pension Plan Retirees.

Elected a member of the Legislative Assembly of British Columbia in 1991, Paul represented the Prince George North riding until 2001. During this time, he served as Minister of Health and Minister Responsible for Seniors, Minister of Education, and Minister of Finance and Corporate Relations.

Paul has a master's degree in English from Western Illinois University and did PhD coursework at the University of British Columbia. He taught for over 30 years at universities and colleges in the United States and Canada. Paul retired in 2005 from the political science program at the University of Northern British Columbia, where he was a visiting professor and scholar in residence.

TRUSTEE REMUNERATION

The plan compensates trustees or their employers for time spent on board business. Guidelines and rates are set out in the board's remuneration policy. Under the policy, remuneration may be adjusted annually by an amount equal to the COLA made to pension payments.

Trustee remuneration

year ended August 31, 2018

Trustee	Retainer	Per diem	Total remuneration	Paid to
Cameron McRobb (chair)	$ 8,112.00	$ 9,729.00	$ 17,841.00	BC Government and Service Employees' Union
Candace Fertile (vice-chair)	6,084.00	10,551.00	16,635.00	Federation of Post-Secondary Educators of BC
Doug Birtwistle	4,056.00	6,912.00	10,968.00	Federation of Post-Secondary Educators of BC
Kerry Clarke	2,717.33	4,284.00	7,001.33	Selkirk College
Weldon Cowan	4,056.00	6,084.00	10,140.00	Federation of Post-Secondary Educators of BC
Roy Daykin[1]	1,338.67	1,005.00	2,343.67	Roy Daykin
Carl Fischer	4,041.00	5,289.00	9,330.00	Province of BC
Geraldine Hutchings	4,056.00	4,662.00	8,718.00	Province of BC
Michael Lancaster	4,056.00	3,639.00	7,695.00	Province of BC
Karen Maynes	4,056.00	4,056.00	8,112.00	Karen Maynes
Paul Ramsey	4,056.00	5,274.00	9,330.00	Paul Ramsey
Total	**$46,629.00**	**$61,485.00**	**$108,114.00**	

1 Term ended December 18, 2017

Remuneration rates

Calendar year

	2017		2018	
	Per diem	Quarterly retainer	Per diem	Quarterly retainer
Chair	402.00	2,008.00	408.00	2,038.00
Vice-chair	402.00	1,506.00	408.00	1,528.50
Board member	$ 402.00	$ 1,004.00	$ 408.00	$ 1,019.00

Trustee activities

For the year ending August 31, 2018, the board met five times over nine days. Trustees also participated in standing and ad hoc committees, and attended a number of conferences, including the annual BC Public Sector Pension Conference. In addition to scheduled training sessions, individual trustees participated in educational opportunities to increase their effectiveness on the board.

BOARD COMMITTEES

Benefits committee

Chair: **Candace Fertile**
Members: **All trustees** (committee of the whole)

This committee reviews and makes recommendations to the board on amendments to the pension plan rules that affect benefit entitlements and administration. The committee also reports to the board on group extended health care and dental coverage plan design, coverage levels and cost.

Communications committee

Chair: **Michael Lancaster**
Members: **Weldon Cowan, Candace Fertile, Paul Ramsey**

The communications committee supports the board in its commitment to provide excellent communication to plan members, employers and stakeholders. The committee provides input on strategic messaging, reviews plan communications materials and (with delegated authority from the board) approves some communications materials. Finally, the committee monitors communications materials for plan identity, best practices and principles of plain language.

Governance committee

Chair: **Doug Birtwistle**
Members: **All trustees** (committee of the whole)

The governance committee helps the board fulfil its governance responsibilities by formalizing regular consideration of issues, such as development and review of board policies, risk management processes, and board self-assessment tools.

Interplan executive forum

Members: **Candace Fertile, Cameron McRobb**

The executive forum discusses areas of common interest among the College, Municipal, Public Service and Teachers' pension plans, and provides an opportunity for board chairs, vice-chairs and senior administrators from their secretariats to keep up with the activities of the boards.

Interplan audit committee

Members: **Doug Birtwistle, Kerry Clarke**

This committee, which includes representatives from the College, Municipal, Public Service and Teachers' pension boards of trustees,

- monitors and reports to the boards on the compliance of financial statements with generally accepted accounting principles,
- recommends and monitors the performance of an independent auditor, and
- identifies, monitors and reports to the pension plan boards on the management of the principal risks that could affect the financial reporting of the pension plans.

Interplan executive committee

Members: **Candace Fertile, Cameron McRobb**

This committee facilitates communication to ensure that the College, Public Service and Teachers' pension boards of trustees meet their common governance and operational requirements. Additionally, it oversees the operation of Pension Board Secretariat.

Interplan website review committee

Members: **Candace Fertile, Cameron McRobb**

This committee provides a forum for considering investment issues common to the College, Public Service and Teachers' pension boards of trustees.

Interplan trustee education committee

Chair: **Weldon Cowan**
Members: **Doug Birtwistle**

This committee provides advice to trustees on developing knowledge and skills, as well as opportunities to do so. It also works on common educational issues.

PLAN AGENTS AND SERVICE PROVIDERS

British Columbia Investment Management Corporation provides investment management services to the College Pension Plan.

As a global investor supported by industry-leading investment expertise and one of Canada's largest investment managers, BCI offers fund-management services for all major asset classes, including real estate and infrastructure investments. It manages more than $135 billion in net assets on behalf of public sector pension plans, the Province of British Columbia, publicly administered trust funds and public bodies.

British Columbia Pension Corporation provides professional pension services to the plan.

One of Canada's largest pension service providers, British Columbia Pension Corporation serves the largest public sector pension plans in British Columbia, representing more than 589,800 members and their employers. Services include providing plan information to members and employers, managing contributions and member records, paying pensions and providing policy, financial and communication services to the board.

Eckler Ltd. serves as the plan's independent actuary. Eckler conducts an actuarial valuation on the plan's funding every three years and supports the board in its decision making as appropriate. The next valuation will be as at August 31, 2018, and published in 2019.

Green Shield Canada provides retired plan members access to voluntary group extended health care and dental coverage.

Lawson Lundell LLP is the plan's legal counsel.

KPMG LLP provides external audit services to the plan.

PENSION BOARD SECRETARIAT

Pension board secretariat provides day-to-day professional and operational support to help the board meet its governance and fiduciary obligations.

PLAN PARTNERS

The plan partners negotiate the Joint Trust Agreement, which sets out how the plan is to be managed. Joint trusteeship is shared pension plan management by appointees of the plan partners:

- BC Government and Service Employees' Union
- Federation of Post-Secondary Educators of BC
- Government of British Columbia
- Post-Secondary Employers' Association

Membership

The plan's members are employees and senior administrators providing educational services to students at any of the plan's 23 employers.

TYPES OF MEMBERS

Active members are those currently contributing to the plan, on an approved leave of absence or receiving benefits from an approved long-term disability plan. There are 14,081 active plan members—49 per cent of the membership.

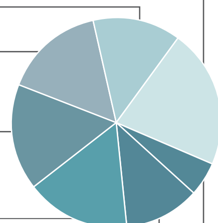
Inactive members have ended their employment and kept their benefit in the plan. They are entitled to a pension from the plan but are not currently receiving one. There are 6,536 inactive plan members—23 per cent of the membership.

Retired members are those who receive a pension, including a survivor pension. For the purposes of this report, members receiving disability pensions are also counted in this group. There are 7,965 retired plan members—28 per cent of the membership.

Limited members are members ex-spouses who applied to the plan following a separation or divorce and are entitled to a portion of a pension.

Active members, by age
as at August 31, 2018

‹ 40 years	2,968	21%
40 ‹ 45 years	1,921	14%
45 ‹ 50 years	2,208	16%
50 ‹ 55 years	2,331	16%
55 ‹ 60 years	2,288	16%
60 ‹ 65 years	1,647	12%
≥ 65 years	718	5%



Contribution rates as a percentage of salaries (%)

Effective date	Member	Employer
April 1, 2018	10.15	10.25
April 1, 2017	10.05	10.15

79%

of active members are age 40 or older

Participating employers
as at August 31, 2018

Employer	Location	Effective date	Website
British Columbia Institute of Technology	Burnaby	January 12, 1978	bcit.ca
Camosun College	Victoria	June 1, 1971	camosun.ca
Capilano University	North Vancouver	September 1, 1968	capilanou.ca
Coast Mountain College[1]	Dawson Creek	September 1, 1975	coastmountaincollege.ca
College of New Caledonia	Prince George	September 1, 1968	cnc.bc.ca
College of the Rockies	Cranbrook	May 8, 1975	cotr.bc.ca
Douglas College	New Westminster	April 1, 1970	douglascollege.ca
Emily Carr University of Art + Design	Vancouver	January 19, 1978	ecuad.ca
Justice Institute of British Columbia	New Westminster	April 27, 1978	jibc.ca
Knowledge Network Corporation	Burnaby	June 1, 1976	knowledge.ca
Kwantlen Polytechnic University	Surrey	July 1, 1981	kpu.ca
Langara College	Vancouver	April 1, 1994	langara.ca
Lester B. Pearson College of the Pacific	Victoria	January 31, 1974	pearsoncollege.ca
Nicola Valley Institute of Technology	Merritt	September 1, 1995	nvit.ca
North Island College	Courtenay	August 1, 1975	nic.bc.ca
Northwest Community College	Terrace	September 1, 1975	nwcc.bc.ca
Okanagan College[2]	Kelowna	September 1, 1968	okanagan.bc.ca
Royal Roads University	Victoria	January 1, 1998	royalroads.ca
Selkirk College	Castlegar	September 1, 1968	selkirk.ca
Thompson Rivers University	Kamloops	November 1, 1974	tru.ca
University of the Fraser Valley	Abbotsford	November 1, 1974	ufv.ca
Vancouver Community College	Vancouver	September 1, 1968	vcc.ca
Vancouver Island University[3]	Nanaimo	September 1, 1968	viu.ca

1 Formerly Northwest Community College

2 Formerly a part of Okanagan University College

3 Formerly Malaspina University College and Malaspina Regional College

CONTRIBUTIONS

Plan members and employers pay contributions to fund future pensions; plan members contribute through automatic deductions from their employment earnings.

When members retire, their pension is funded by these contributions and investment returns. Approximately 30 cents of every dollar retired members receive comes from their contributions and their employers' contributions; the remaining 70 cents comes from investment returns.

As a retirement savings vehicle for more than 28,000 plan members, the plan holds over $5 billion in net assets available for benefits.

63%

Increase in total contributions from 2017

Benefits

BASIC LIFETIME PENSION BENEFIT

The plan's basic lifetime pension benefit is based on an accrual rate, the years of pensionable service members accrued in the plan and members' highest average salary (highest five years, not necessarily the last five years). Plan members are immediately vested, meaning they are entitled to a pension benefit as soon as they make their first contribution to the plan. The plan also provides survivor and disability benefits.

COST-OF-LIVING ADJUSTMENTS (NOT GUARANTEED)

Over and above lifetime pensions, the plan may also grant COLAs. Future increases are not guaranteed; however, once granted, COLAs become part of members' lifetime pensions.

BRIDGE BENEFIT FOR SERVICE EARNED BEFORE JANUARY 1, 2016

If members retire before age 65, their pension may include a temporary payment called the bridge benefit. Based on any service earned before January 1, 2016, this benefit is paid from members' retirement dates until age 65 (or death, whichever is earlier).

ACCESS TO POST-RETIREMENT GROUP BENEFITS

Retired plan members also have access to voluntary unsubsidized EHC and dental coverage.

For details about plan benefits, visit college.pensionsbc.ca

Plan rule updates

CONTRIBUTION RATE INCREASE TO THE INFLATION ADJUSTMENT ACCOUNT

[Effective April 1, 2018]

To strengthen the inflation adjustment account, member and employer contribution rates each increased one dollar for every $1,000 of salary earned, effective April 1, 2018. These contributions, along with investment income, fund the IAA, from which COLAs are paid to retired members.

Yearly contribution increases to the IAA will continue until the plan actuary's long-term inflation assumption for a sustainable level of indexing is achieved. COLAs remain a non-guaranteed benefit. However, the board is committed to ensuring COLAs are sustainable and available well into the future. For more information about COLAs, visit the plan website.

EMPLOYMENT STANDARDS ACT CHANGES

[Effective December 13, 2017]

The plan rules were amended to reflect the addition of two new leave categories under the *Employment Standards Act*: leave respecting the disappearance of a child and leave respecting the death of a child. The changes were approved in December 2018, but are retroactive to May 2018.

Plan rule changes on this page are effective 2017 or 2018

Graphs, tables & charts

FINANCIAL SUMMARY

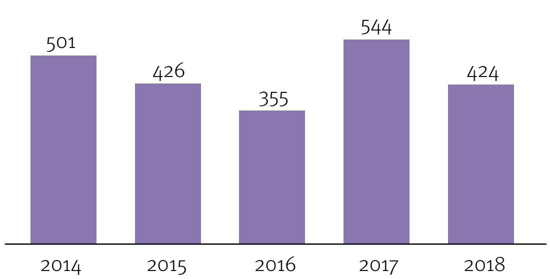
Five-year financial summary ($ millions)
year ended August 31

	2018	2017	2016	2015	2014
Increase in assets					
Investment income	$ 486.8	$ 322.9	$ 272.0	$ 286.6	$ 572.6
Contributions					
Employers	84.6	78.3	75.0	72.1	72.1
Members	83.8	78.1	74.4	71.6	71.7
Transfers from other plans	4.9	6.6	5.5	5.3	5.5
Total increase in assets	**660.1**	485.9	426.9	435.6	721.9
Decrease in assets					
Pension benefits	190.2	173.9	163.8	153.8	135.8
Transfers to other plans	1.1	2.2	1.7	2.3	1.8
Investment and administration costs[1]	15.5	12.4	12.8	11.3	9.8
Total decrease in assets	**206.8**	188.5	178.3	167.4	147.4
Increase in net assets	453.3	297.4	248.6	268.2	574.5
Net assets available for benefits at beginning of year	4,617.7	4,320.3	4,071.7	3,803.5	3,229.0
Net assets available for benefits at end of year	**$5,071.0**	$4,617.7	$4,320.3	$4,071.7	$3,803.5
Investment and administration costs, as a percentage of net assets (%)					
Investment management[1,2]	**0.33**	0.27	0.25	0.23	0.21
Benefits administration	**0.09**	0.09	0.10	0.09	0.10

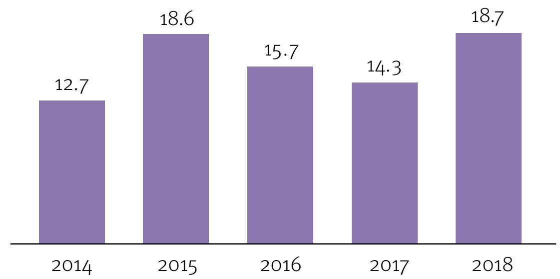
1 External investment management costs of $4.7 million (2017—$4.0 million; 2016—$2.1 million 2015—$1.8 million; 2014—$1.8 million) are netted against investment income and are not included in investment and administration costs; they are included in investment management costs as a percentage of net assets

2 Investment costs as a percentage of net assets exclude external indirect investment management costs netted against investment income on the statement of changes in net assets available for benefits, which is consistent with current industry practice—including these costs using the budgeted amount would have increased investment management costs as a percentage of net assets by an estimated 28 basis points; external indirect investment management costs include limited partnership management fees and other fees principally incurred within investments held in the private equity, infrastructure and global real estate asset classes

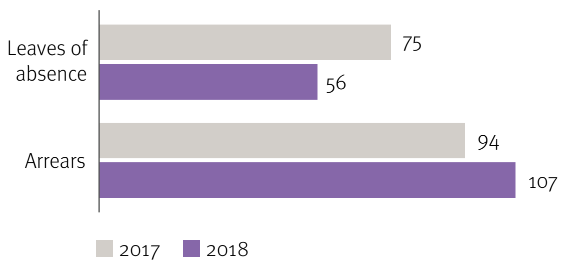
Number of termination and refund benefits paid
year ended August 31



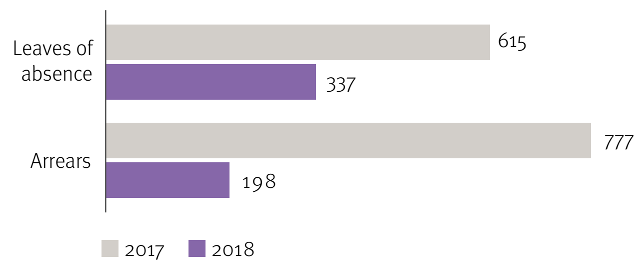
Value of termination and refund benefits paid ($ millions)
year ended August 31



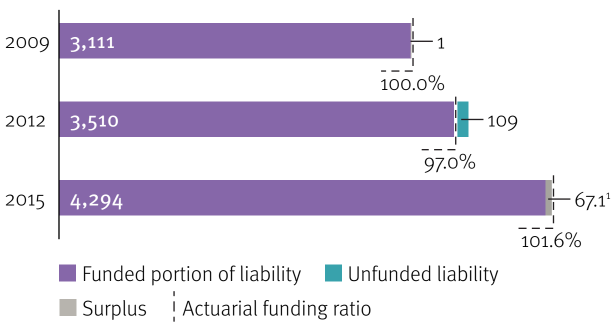
Number of purchases
year ended August 31



Value of purchases ($ thousands)
year ended August 31

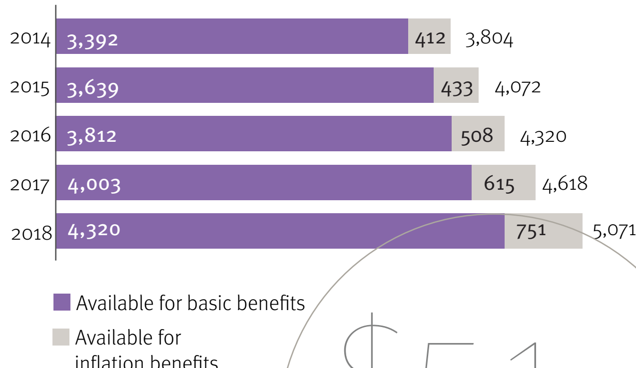


Funding for total basic actuarial liability ($ millions)
as at August 31



1 Actuarial surplus is $154.3 million (103.6%) with previously scheduled amortization

Net assets available for benefits ($ millions)
as at August 31



$5.1 BILLION
net assets available

INVESTMENT SUMMARY

Asset mix and performance (%)

as at August 31, 2018

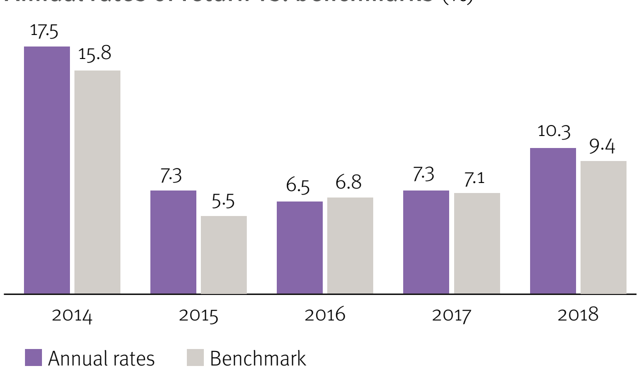
Asset	Approved ranges	Target asset mix market value	Actual asset mix market value	One-year rate of return	Performance benchmark
Fixed income	10–35	20	20.6	1.7	1.4
Short-term	0–10	2	2.3	1.3	1.1
Mortgages	0–10	5	2.4	4.6	1.9
Bonds	8–25	13	15.9	1.4	1.3
Public equity	32–57	42	47.0	12.3	12.9
Canadian equities	5–17	10	9.4	10.4	10.1
Global equities	17–35	22	27.8	18.4	17.9
Emerging markets	5–15	10	9.8	(0.4)	3.3
Real estate[1]	8–21	16	14.8	—	—
Realpool domestic	—	—	10.0	5.8	6.8
International real estate[1]	—	—	4.8	10.7	7.0
Private equity and IRR[2,3]	10–30	22	17.6	—	—
Private equity[2]	3–15	10	7.8	19.6	17.8
IRR[2,3]	7–17	12	9.8	9.2	7.0
Other	0–5	0	0.0	0.0	0.0
Total portfolio		**100**	**100.0**	**10.3**	**9.4**

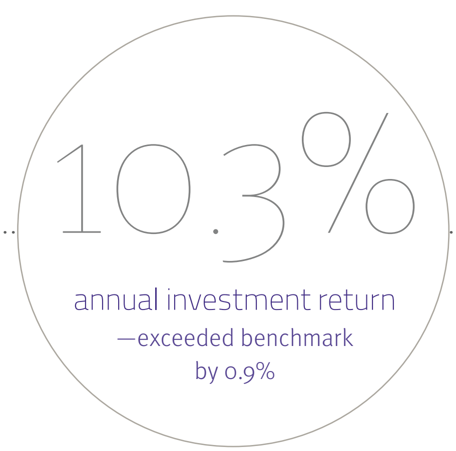
1 Real estate returns are for Canada only; real estate composite returns are not available

2 The illiquid assets are only valued once a year as of December 31; the rates of return for international real estate, private equity, and infrastructure and renewable resources reflect the December 31, 2017, internal rates of return

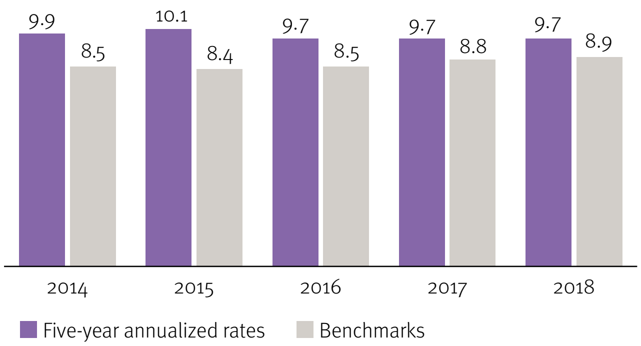
3 Infrastructure and renewable resources

Annual rates of return vs. benchmarks (%)

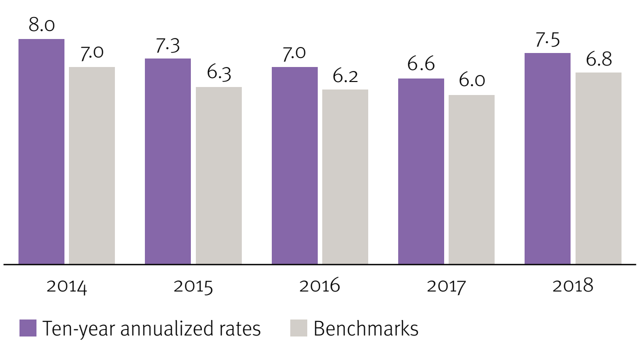




Five-year annualized rates of return vs. benchmarks (%)

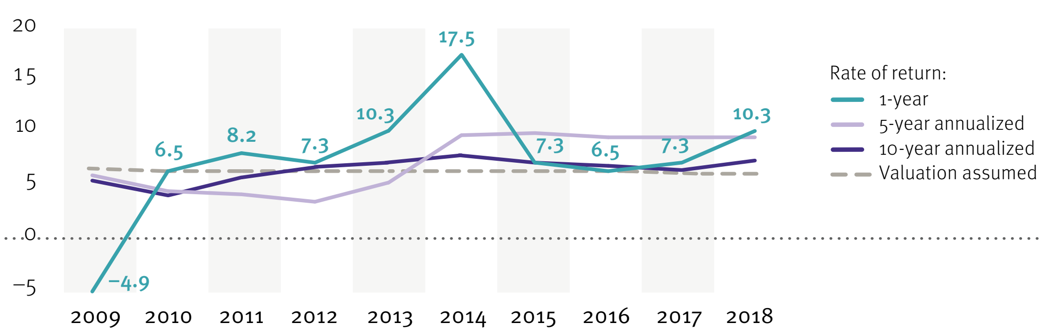


Ten-year annualized rates of return vs. benchmarks (%)



Investment returns (%)

Ten-year history



INVESTMENT PORTFOLIO

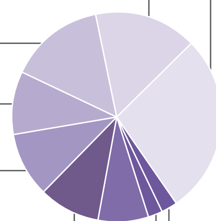
Top 25 company holdings
as at August 31, 2018

Company	Total public equity exposure—worldwide		
	% of portfolio	% of public equity	Total exposure ($ thousands)
Chinese state controlled companies[1]	0.7	1.5	$ 35,539
Toronto-Dominion Bank	0.6	1.3	31,528
Royal Bank of Canada	0.6	1.3	31,346
Apple Inc.	0.6	1.2	28,520
Microsoft Corp.	0.6	1.2	28,472
Alphabet Inc.	0.5	1.1	25,216
Amazon.com Inc.	0.5	1.0	23,222
Tencent Holdings Ltd.	0.4	0.9	21,998
Taiwan Semiconductor Manufacturing	0.4	0.9	20,586
Alibaba Group Holding Ltd.	0.4	0.9	20,338
Samsung Electronics Co. Ltd.	0.4	0.8	19,918
Suncor Energy Inc.	0.4	0.8	19,800
Canadian National Railway Co.	0.3	0.7	17,346
Bank of Nova Scotia	0.3	0.7	16,465
Enbridge Inc.	0.3	0.6	15,084
Brookfield Asset Management Inc.	0.2	0.5	12,514
Facebook Inc.	0.2	0.5	12,386
Johnson & Johnson	0.2	0.5	11,889
Exxon Mobil Corp.	0.2	0.5	11,113
Housing Development Finance Corp. Ltd.	0.2	0.5	11,056
Canadian Natural Resources Ltd.	0.2	0.4	10,694
Royal Dutch Shell Plc	0.2	0.4	10,488
UnitedHealth Group Inc.	0.2	0.4	9,986
MasterCard Inc.	0.2	0.4	9,899
Bank of Montreal	0.2	0.4	9,785
Total top 25	**8.5**	**18.0**	**$ 465,188**
Total public equity			**$ 2,381,539**
Total portfolio			**$ 5,067,793**

1 Company exposures are based on the ultimate parent company exposure regardless of where the security is listed or traded. As a result, the above exposure report shows Chinese state controlled companies as one of the top exposures because the ultimate parent company for many companies in China is the Chinese government.

Investment holdings[1] ($ millions) (market value)
as at August 31, 2018

Global equities	$1,408.3	28%
Bonds	$805.4	16%
Real estate	$748.8	15%
IRR[2]	$498.2	10%
Emerging markets equities	$495.3	10%
Canadian equities	$478.0	9%
Private equity	$395.0	8%
Mortgages	$123.8	2%
Short-term	$115.0	2%
Other	$15.0	0%

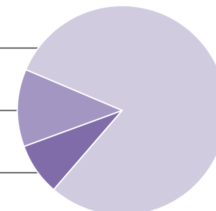


1 Asset classifications vary from the financial statements for performance reporting

2 Infrastructure and renewable resources

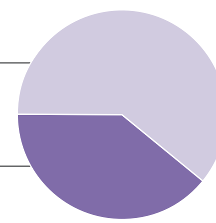
Infrastructure and renewable resources (%)
as at August 31, 2018

Infrastructure	80
Timber	12
Agriculture	8



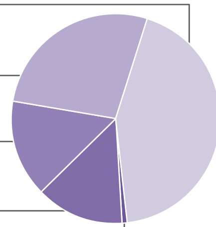
Foreign content (% market value)
as at August 31, 2018

Foreign	61
Canadian	39



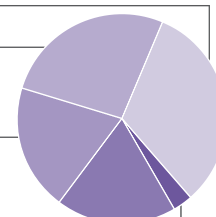
Domestic real estate, by type (%)
as at August 31, 2018

Office	43.4
Residential	27.3
Retail	14.9
Industrial	13.8
Hospitality	0.6



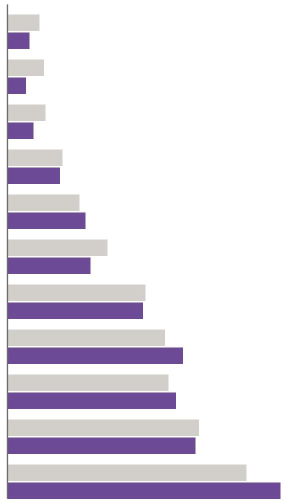
Real estate, by location (%)
as at August 31, 2018

Global	32.3
Ontario	26.8
British Columbia	19.4
Prairies	18.5
Quebec and Maritimes	3.0



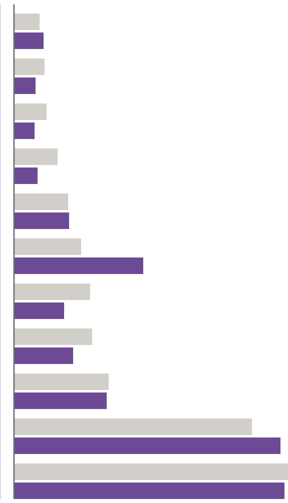
Global equities, by sector (%)
as at August 31, 2018

Sector	Indexed	Actively managed
Telecom[1] services	2.6	1.8
Utilities	3.0	1.5
Real estate	3.1	2.1
Materials	4.5	4.3
Energy	5.9	6.4
Consumer staples	8.2	6.8
Industrials	11.3	11.1
Consumer discretionary	12.9	14.4
Health care	13.2	13.8
Financials	15.7	15.4
IT[2]	19.6	22.4



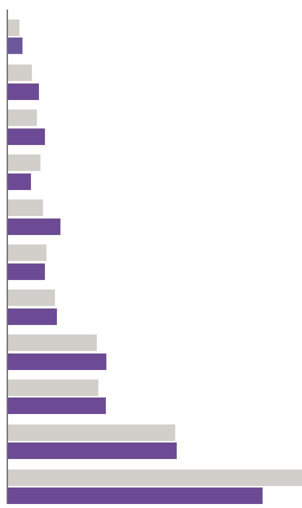
Emerging markets equities, by sector (%)
as at August 31, 2018

Sector	Indexed	Actively managed
Utilities	2.5	2.9
Real estate	3.0	2.1
Health care	3.2	2.0
Telecom[1] services	4.3	2.3
Industrials	5.3	5.4
Consumer staples	6.6	12.7
Energy	7.5	4.9
Materials	7.7	5.8
Consumer discretionary	9.3	9.1
Financials	23.4	26.2
IT[2]	27.2	26.6



Canadian equities, by sector (%)
as at August 31, 2018

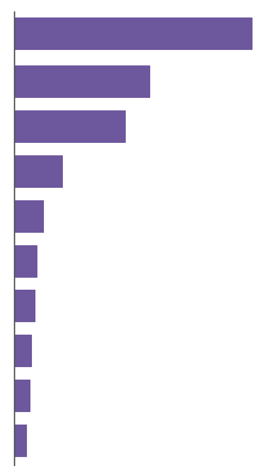
Sector	Indexed	Actively managed
Health care	1.4	1.7
Real estate	2.8	3.6
Consumer staples	3.4	4.3
Utilities	3.8	2.7
IT[2]	4.1	6.1
Telecom[1] services	4.5	4.3
Consumer discretionary	5.5	5.7
Materials	10.3	11.4
Industrials	10.5	11.3
Energy	19.3	19.5
Financials	34.4	29.4



Indexed
Actively managed

Public equities, by country (%)
as at August 31, 2018

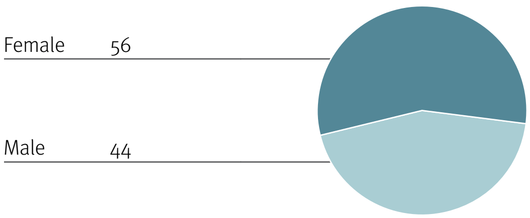
Country	%
United States	36.6
Canada	20.8
Other countries[3]	17.1
China	7.4
Japan	4.5
United Kingdom	3.5
India	3.2
Korea	2.6
France	2.4
Germany	1.9
	100.0



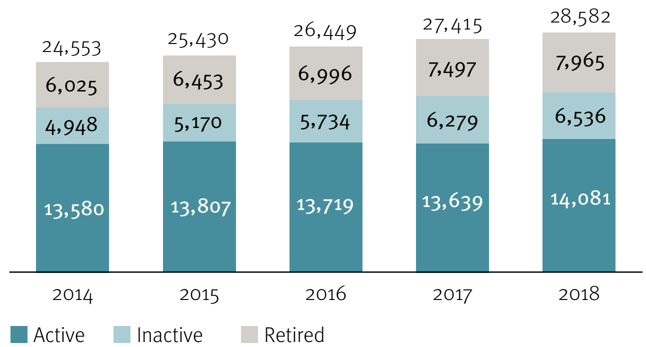
1 Telecommunication
2 Information technology
3 Other countries are less than one per cent individually

MEMBERSHIP*

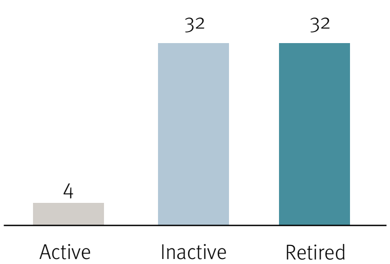
Active members, by sex (%)
as at August 31, 2018



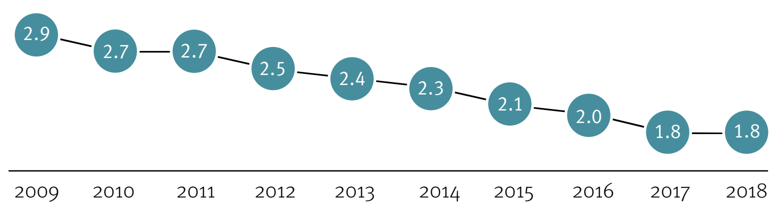
Number of members
as at August 31



Change in membership (%)
years ended August 31, 2014 to 2018



Ratio of active to retired members
as at August 31



Profile of pensions
year ended August 31

				$ millions		
	New pensions	Pensions ended during year	Pensions in pay	Pensions paid	Inflation adjustments paid	Total pensions paid
2018	**560**	**92**	**7,965**	**$ 150.5**	**$ 21.0**	**$ 171.5**
2017	575	74	7,497	140.2	19.3	159.5
2016	630	87	6,996	130.3	17.8	148.1
2015	486	58	6,453	118.9	16.3	135.2
2014	529	75	6,025	108.2	14.9	123.1

* About membership categories:

Active—currently contributing, on an approved leave of absence or receiving benefits from an approved long-term disability plan

Inactive—have terminated employment with a plan employer but left their benefits in the plan

Retired—receiving a pension, including a survivor or disability pension; limited members are included within the retired member category when they receive their share of an active or inactive member's pension benefit

New pensions, by type

year ended August 31

	Regular	Limited member	Survivor	LTD[1] to pension and disability	Deferred	Total
2018	**381**	**7**	**11**	**19**	**142**	**560**
2017	372	4	6	30	163	575
2016	429	19	5	27	150	630
2015	354	11	7	18	96	486
2014	355	23	9	26	116	529

1 Long-term disability

New pension profile

year ended August 31, 2018

Years of service	Number of new pensions					Average annual salary base	Average annual pension[1,2]	Median annual pension[1,3]	Average lifetime annual pension[2,4]	Median lifetime annual pension[3,4]
	Age at retirement									
	< 55[5]	55 < 60	60 < 65	≥ 65	Total					
< 10	2	40	99	89	**230**	$ 77,841	$ 5,859	$ 3,472	$ 4,868	$ 3,102
10 < 15	2	17	42	29	**90**	85,500	19,410	19,153	17,229	17,249
15 < 20		13	22	29	**64**	88,851	28,647	28,331	26,328	26,106
20 < 25	1	9	31	30	**71**	93,199	36,968	37,718	34,017	34,373
25 < 30		16	27	22	**65**	92,688	45,426	45,627	41,919	42,125
30 < 35		4	10	9	**23**	91,676	48,618	49,076	44,894	46,912
≥ 35		1	4	12	**17**	113,727	66,054	61,407	64,495	61,407
Total	**5**	**100**	**235**	**220**	**560**					
Average						**$ 85,337**	**$ 22,762**	**$ 19,263**	**$ 20,757**	**$ 17,321**
	Average years of service									
Male	10	13	13	15	14					
Female	13	15	15	14	14					
Average	**10**	**14**	**14**	**14**	**14**					
Average age at retirement					**63**					

1 Includes bridge benefits and temporary annuities

2 Total new pensions divided by total new pension recipients

3 Half of the new pensions are less than this amount and half of the new pensions are greater than this amount

4 The lifetime pension does not include bridge benefits or temporary annuities that end at age 65

5 Relates to limited member and survivor pensions

Financial statements

BC PENSION
CORPORATION

February 14, 2019

Re: **College Pension Plan**
Administrative agent's responsibility for financial reporting

The financial statements of the College Pension Plan (Plan) were prepared by British Columbia Pension Corporation (Pension Corporation), the administrative agent for the Public Service Pension Board of Trustees (Board). The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles for pension plans. Pension Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles for pension plans in Canada. Other financial information contained in the *College Pension Plan Annual Report* is consistent with these financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, Pension Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The Board appointed Eckler Ltd. as the independent consulting actuary to the Plan. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice. The results of the valuation are included in the financial statements.

The Board appointed KPMG LLP as the independent auditor to the Plan. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the independent auditors' report attached to these financial statements.

Trevor Fedyna, CPA, CGA, C. Dir.	**Kevin Craig, CPA, CA**
Vice-president, Corporate Services and Chief Financial Officer British Columbia Pension Corporation	Director, Financial Services British Columbia Pension Corporation

Executive Offices
Mail: PO Box 9460
Victoria, BC V8W 9V8
Phone: 250 387-8201
Fax: 250 953-0429
bcpensioncorp.ca

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Members of the College Pension Plan

We have audited the accompanying financial statements of College Pension Plan, which comprise the statement of financial position as at August 31, 2018, the statements of changes in net assets available for benefits and changes in accrued pension benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, 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 our 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, we 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

College Pension Plan
Page 2

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of College Pension Plan as at August 31, 2018, and the changes in its net assets available for benefits and the changes in its accrued pension benefits for the year then ended in accordance with Canadian accounting standards for pension plans**.**

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 14, 2019

College Pension Plan

COLLEGE PENSION PLAN
STATEMENT OF FINANCIAL POSITION
($ millions)

As at August 31	Note	2018	2017
Assets			
Investments	3a	$ 5,067.8	$ 4,614.1
Directly held derivatives	3b	5.2	10.1
Receivables			
Due from sale of investments		4.0	0.9
Employers' contributions		3.6	2.4
Members' contributions		3.5	2.3
		11.1	5.6
Cash		-	0.7
Prepaid expenses		0.3	0.2
Total assets		5,084.4	4,630.7
Liabilities			
Payable for purchase of investments		5.8	9.1
Directly held derivatives	3b	3.1	0.6
Accounts payable and accrued expenses		2.5	1.5
Taxes payable		2.0	1.8
Total liabilities		13.4	13.0
Net assets available for benefits		**$ 5,071.0**	**$ 4,617.7**
Accrued pension benefits			
Accrued pension benefits – basic	4a	$ 3,764.7	$ 3,563.0
Accrued pension benefits – non-guaranteed	4b	751.1	614.7
Accrued pension benefits		4,515.8	4,177.7
Surplus			
Funding surplus	5a	232.3	129.5
Measurement differences between funding and accounting positions	5a	322.9	310.5
Surplus		555.2	440.0
Accrued pension benefits and surplus		**$ 5,071.0**	**$ 4,617.7**

All accompanying notes are an integral part of the financial statements including:
Commitments (note 14)

Approved by the College Pension Board of Trustees:

Candace Fertile

Candace Fertile, Chair
College Pension Board of Trustees

Doug Birtwistle

Doug Birtwistle, Trustee
College Pension Board of Trustees

College Pension Plan

COLLEGE PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
($ millions)

For the year ended August 31	Note	Basic account	Inflation adjustment account	Supplemental benefits account	Totals 2018	Totals 2017
Increase in assets						
Investment income	8	$ 414.5	$ 72.3	$ -	$ 486.8	$ 322.9
Contributions						
Member	9	69.7	14.1	-	83.8	78.1
Employer	9	69.8	14.1	0.7	84.6	78.3
		139.5	28.2	0.7	168.4	156.4
Transfers from other plans		4.3	0.6	-	4.9	6.6
Total increase in assets		558.3	101.1	0.7	660.1	485.9
Decrease in assets						
Benefits	10	187.2	2.3	0.7	190.2	173.9
Transfers to other plans		0.9	0.2	-	1.1	2.2
Investment and administration costs	12	14.0	1.5	-	15.5	12.4
Total decrease in assets		202.1	4.0	0.7	206.8	188.5
Increase in net assets before transfers		356.2	97.1	-	453.3	297.4
Account transfers	13	(39.3)	39.3	-	-	-
Increase in net assets		**316.9**	**136.4**	**-**	**453.3**	**297.4**
Net assets available for benefits at beginning of year		4,003.0	614.7	-	4,617.7	4,320.3
Net assets available for benefits at end of year		**$ 4,319.9**	**$ 751.1**	**$ -**	**$ 5,071.0**	**$ 4,617.7**

The accompanying notes are an integral part of the financial statements.

College Pension Plan

COLLEGE PENSION PLAN
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS
($ millions)

For the year ended August 31	Note	2018	2017
Increase in accrued pension benefits			
Interest on accrued pension benefits		$ 222.3	$ 210.3
Benefits accrued		145.7	138.5
Account transfers		26.8	23.9
Total increase in accrued pension benefits		394.8	372.7
Decrease in accrued pension benefits			
Benefits paid		193.1	178.2
Total decrease in accrued pension benefits		193.1	178.2
Net increase in accrued pension benefits		**201.7**	**194.5**
Accrued basic pension benefits at beginning of year		3,563.0	3,368.5
Accrued basic pension benefits at end of year	4a	3,764.7	3,563.0
Increase in accrued non-guaranteed pension benefits	4b	136.4	106.8
Accrued non-guaranteed pension benefits at beginning of year		614.7	507.9
Accrued non-guaranteed pension benefits at end of year	4b	751.1	614.7
Total accrued pension benefits at end of year		**$ 4,515.8**	**$ 4,177.7**

The accompanying notes are an integral part of the financial statements.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

1. DESCRIPTION OF THE COLLEGE PENSION PLAN

The following description of the College Pension Plan (Plan) is a summary provided for general information only. For more information, please refer to the Joint Trust Agreement (Agreement) and the College Pension Plan Rules (pension plan rules).

a) General

The Plan is a jointly trusteed pension plan continued under a joint trust agreement authorized by the *Public Sector Pension Plans Act*, SBC 1999, c. 44 (Act). The Act enabled the establishment of the Agreement. Joint trusteeship was established effective April 1, 2000. The partners to the Agreement are the Province of British Columbia, the Post-Secondary Employers' Association, the Federation of Post-Secondary Educators of BC and the British Columbia Government and Service Employees' Union (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the College Pension Board of Trustees (Board) and provides the authority for the Board to make the pension plan rules.

The Plan is registered with the Superintendent of Pensions, who administers and enforces the *Pension Benefits Standards Act* (PBSA). The PBSA governs employment pension plans registered in British Columbia that have active, inactive and retired members.

The Plan is for senior administrative employees and faculty members of specified British Columbia colleges, universities and institutes. For employees hired on or after September 1, 1999, all full-time and some part-time senior administrative employees and faculty are required to participate; certain part-time staff may do so voluntarily.

b) Roles and responsibilities

<u>Partners</u>

The Partners representing the Plan members and employers are responsible for appointing 10 trustees to the Board. The Partners have responsibility for resolving trustee disputes and, if certain conditions are met, may direct amendments to the pension plan rules.

<u>Board</u>

The Board is responsible for the management of the Plan, including the investment of assets and administration of the Plan. The Board may amend the pension plan rules as long as changes can be funded by the Plan's surpluses or are cost-neutral to the Plan. Unless required to ensure compliance with regulatory enactments applicable to the Plan, only the Partners can initiate pension plan rule changes that result in contribution rate increases. The Agreement allows the Board to either appoint a chair from among the 10 trustees or appoint a person not appointed by the Partners. The vice-chair is appointed by the other trustees, from among the 10 trustees.

<u>British Columbia Pension Corporation (Pension Corporation)</u>

Pension Corporation provides benefit administration services as an agent of the Board. The Board appoints two members to the eight-member board of directors of Pension Corporation.

<u>British Columbia Investment Management Corporation (BCI)</u>

BCI provides investment management services as an agent of the Board. The Board appoints one member to the seven-member board of directors of BCI.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

1. DESCRIPTION OF THE COLLEGE PENSION PLAN (continued)

c) Funding

Contributions and investment earnings fund plan benefits. Contributions are made by active members and employers of the Plan. The determination of the value of the benefits and required contributions is based on periodic actuarial valuations for funding purposes.

The Board's funding policy is intended to secure the pension benefit obligation and achieve long-term stability in contribution rates for both employers and members.

d) Contributions

<u>Basic Account</u>

Members contributed 8.39% of salaries and employers contributed 8.49% of salaries, less amounts allocated to the Supplemental Benefits Account.

<u>Inflation Adjustment Account and Supplemental Benefits Account</u>

Effective April 1, 2018, members and employers each contributed 1.76% (1.66% effective April 1, 2017; 1.57% effective April 1, 2016) of salaries to the Inflation Adjustment Account (IAA), less amounts allocated to the Supplemental Benefits Account.

e) Pension benefits

All members are eligible for a pension benefit.

Members are eligible for unreduced pension benefits

- at age 65;
- at age 55 or older, with at least 35 years of contributory service.

Other retiring members have a reduction formula applied to their pensions.

For service after December 31, 2015, the Plan provides a defined basic plan benefit of 2% of pensionable earnings for each year of pensionable service. Pensionable earnings are based on the member's highest five-year average annual salary (HAS). The early retirement reduction applicable for service accrued after this date will be 3% for each year a member is below age 65 and applies to all members, except those who have reached age 55 and completed at least 35 years of contributory service.

For service up to December 31, 2015, the defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.7% of pensionable earnings up to the year's maximum pensionable earnings (YMPE) and 2% of pensionable earnings over the YMPE, for each year of pensionable service.

Also for service up to December 31, 2015, the Plan provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.3% of the lesser of YMPE or the HAS for each year of pensionable service.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

1. DESCRIPTION OF THE COLLEGE PENSION PLAN (continued)

e) Pension benefits (continued)

Increases to pension payments related to cost-of-living adjustments are not guaranteed but may be provided each January 1 in accordance with the cost-of-living adjustment provisions of the Plan. These cost-of-living adjustments cannot exceed the lesser of the maximum sustainable indexing rate, as recommended by the actuary in the most recent actuarial valuation (2.07%) (2012: 1.83%), and the increase in the average in the Canada consumer price index (CPI) for the 12-months ending the previous October 31 over the highest average CPI for any previous 12-month period ending October 31. They are subject to availability of funds in the IAA.

The Board annually considers all relevant factors and its IAA funding policy to determine if cost-of-living adjustments will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any.

f) Termination and portability benefits

A terminating member who is eligible for a pension but has not yet reached the earliest retirement age may choose:

- a deferred pension, or
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in retirement vehicle or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future re-employment with a plan employer.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability pension is available to a member under age 65 who terminated employment, becomes totally and permanently disabled as defined by the Plan, has at least two years of contributory service, is not eligible to receive benefits from an approved long-term group disability plan and meets other eligibility requirements.

The pension is calculated using a member's years of pensionable service to the date of the disability and HAS. Disability pensions continue for the member's lifetime unless the member is no longer totally and permanently disabled before age 65 or returns to work.

A death benefit may be available to a surviving spouse or designated beneficiary upon the death of an active member. Depending on eligibility requirements, the benefit may be paid in the form of a survivor pension or lump-sum payment.

Supplemental benefits are funded from the Supplemental Benefits Account.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

1. DESCRIPTION OF THE COLLEGE PENSION PLAN (continued)

h) Tax registration

The Plan is a registered pension plan (RPP) as defined in the *Income Tax Act* (Canada) (Tax Act) (registration number 0361899), except for any supplemental benefits, which are funded in addition to the RPP. The Plan is not subject to income tax but is subject to indirect taxes, including British Columbia provincial sales tax (PST) and Canadian federal goods and services tax (GST). The Plan receives a 33% rebate of the GST paid.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian generally accepted accounting principles (GAAP) for pension plans, Part IV of the *Chartered Professional Accountants of Canada (CPA Canada) Handbook*, and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans.

Accounting standards for private enterprises in Part II of the CPA Canada handbook have been chosen for accounting policies that do not relate to the Plan's investment portfolio or accrued pension benefits.

b) Investments

Investments are stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension benefits

Accrued pension benefits are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The valuation of accrued pension benefits is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method prorated on service that incorporates the independent actuary's estimate of various economic and non-economic assumptions. These assumptions are the same as those used in the determination of the actuarial position of the Plan for funding purposes.

d) Investment income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder and income from directly held investments. The current period change in fair value includes realized and unrealized gains and losses that are included in investment income.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Investment income (continued)

Within the pools, dividends are accrued on the ex-dividend date and interest is recognized on an accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

e) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the prevailing exchange rates on the year-end date. Income and expenses are translated into Canadian dollars at the prevailing exchange rates on the dates of the transactions. The realized and unrealized gains and losses arising from these translations are included within the current period change in fair value in investment income.

f) Use of estimates

The preparation of financial statements, in conformity with Canadian GAAP for pension plans, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of increases and decreases in assets and liabilities during the period. Significant areas requiring the use of management estimates relate to the valuation of investments based on unobservable inputs, as further described in note 7, and the calculation of the accrued pension benefit for the Basic Account for accounting and funding purposes, as further described in notes 4 and 5. Actual results could differ materially from these estimates.

3. INVESTMENTS

a) Investments

Fair value of investment holdings			**2018**			**2017**
	Basic account	**Inflation adjustment account**	**Total**	**Basic account**	**Inflation adjustment account**	**Total**
Short-term	$ 98.5	$ 16.5	$ 115.0	$ 48.8	$ 7.3	$ 56.1
Bonds	689.6	115.8	805.4	608.1	91.0	699.1
Canadian equities	409.3	68.7	478.0	521.4	78.1	599.5
U.S. equities	57.6	9.7	67.3	316.4	47.4	363.8
International equities	1,572.4	263.9	1,836.3	1,251.0	187.3	1,438.3
Mortgages	106.0	17.8	123.8	82.9	12.4	95.3
Real estate	641.2	107.6	748.8	554.9	83.1	638.0
Private equity	338.2	56.8	395.0	229.4	34.4	263.8
IRR*	426.6	71.6	498.2	400.2	60.0	460.2
	$ 4,339.4	**$ 728.4**	**$ 5,067.8**	**$ 4,013.1**	**$ 601.0**	**$ 4,614.1**

* Infrastructure and renewable resources

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

3. INVESTMENTS (continued)

a) Investments (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios. Each unit gives its holder a proportionate share in the value of the net assets of the pooled investment fund. The Basic and IAA accounts are combined for investment management purposes.

One or more pooled investment portfolios exist for different types of investments, such as short-term investments; bonds; Canadian, U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. While the purpose of each fund is to invest in a particular type of investment, at any time, given the timing of trading activities, the fund may hold a certain amount of cash, short-term investments, accrued interest income and net accounts receivable or payable from outstanding sales and purchases of investments.

Short-term investments consist of Canadian and U.S. money market securities such as treasury bills, with maturities of 15 months or less, and short-term bonds with one to five-year terms. Short-term investments are valued using current market yields. Bonds consist of government bonds, investment grade and non-investment grade corporate bonds, and debentures. Bonds are valued based on current market yields and, in some cases, quoted market prices. Equities consist primarily of publicly traded shares and, are valued based on quoted market prices on the primary exchanges on which they are traded.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. The mortgages are secured by real estate and valued using current market yields. Real estate investments consist mainly of diversified Canadian and U.S. income-producing properties. Real estate investments are valued quarterly by external investment managers and, at least once every 10 to 18 months, by accredited independent appraisers to establish current market values.

Private equity consists mainly of long-term debt or equity investments made outside the structure of public markets. Private equity is valued annually based on audited financial statements from external investment managers. Interim valuations for private equity investments are based on the annual valuations and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

Infrastructure and renewable resources consist of privately owned and managed infrastructure assets, as well as timber, agriculture and other renewable assets. Infrastructure and renewable resources investments are valued annually using the market approach or net asset value method, and adjusted for subsequent cash flows and changes in foreign exchange rates for investments outside Canada.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

3. INVESTMENTS (continued)

b) Derivatives

Derivatives contracts are directly and indirectly held by the Plan. The details of these contracts are as follows:

Fair value of derivative contracts	**2018**		**2017**	
	Positive fair value	**Negative fair value**	**Positive fair value**	**Negative fair value**
Directly held				
Foreign currency forwards	$ 5.2	$ (3.1)	$ 10.1	$ (0.6)
	$ 5.2	**$ (3.1)**	**$ 10.1**	**$ (0.6)**
Indirectly held in pooled investment portfolios				
Foreign currency forwards	0.1	(0.6)	0.1	(0.3)
Options	-	-	-	-
Futures	0.1	-	-	-
Interest rate swaps	0.1	-	-	-
Total return swaps	5.3	(1.4)	0.7	(1.0)
	$ 5.6	**$ (2.0)**	**$ 0.8**	**$ (1.3)**
	$ 10.8	**$ (5.1)**	**$ 10.9**	**$ (1.9)**
Derivatives by investment asset classification				
Bonds	$ 0.1	$ (0.5)	$ 0.1	$ (0.3)
Canadian equities	0.3	(0.2)	0.1	-
U.S. equities	0.3	-	-	-
International equities	4.9	(1.3)	0.6	(1.0)
Mortgages	0.2	(0.1)	-	-
Real estate	2.1	(1.0)	3.7	(0.1)
IRR*	2.9	(2.0)	6.4	(0.5)
	$ 10.8	**$ (5.1)**	**$ 10.9**	**$ (1.9)**

*Infrastructure and renewable resources

Derivative contracts consist of foreign currency forward contracts, options, futures, interest rate swaps and total return swaps held directly by the Plan or indirectly through various pooled investment portfolios. Directly held and indirectly held derivative contracts are reflected at fair value based on expected settlement amounts at the date of the Statement of Financial Position. Directly held derivatives are disclosed on the face of the Statement of Financial Position while indirectly held derivatives are included in investments.

A foreign currency forward contract is a privately negotiated contractual obligation to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign currency forward contracts are directly held by the plan to manage exposure to foreign currency risk.

Options are contracts that gives the buyer the right, but not the obligation, to buy or sell a certain security or index at an agreed-upon price on or before a specified date. Futures contracts are exchange-traded contractual obligations to take or make delivery of an asset at a predefined price and date in the future. Options and futures are held for synthetic indexing, a modern technique used to replicate the performance of a security or index without directly purchasing or selling the underlying assets.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

3. INVESTMENTS (continued)

b) Derivatives (continued)

An interest rate swap is an agreement between two counterparties in which one stream of future interest payments is exchanged for another based on a specified principal amount. Interest rate swaps usually involve the exchange of a fixed interest rate for a floating rate, or vice versa, to reduce or increase exposure to fluctuations in interest rates or to obtain a marginally better interest rate than would have been possible without the swap.

A total return swap is a swap agreement in which one party makes payments based on a set rate, either fixed or variable, while the other party makes payments based on the return of an underlying asset, including both the income it generates and any capital gains. In total return swaps, the underlying asset (referred to as the reference asset) is usually an equity index or basket of equity securities. Interest rate swaps and total return swaps are held indirectly through various pooled investment portfolios for synthetic indexing purposes.

Derivative transactions are supported with collateral to mitigate counterparty credit risk. A single net fair value amount is used to determine the value of collateral with each counterparty. Collateral approximately equal to the positive fair value of each derivative contract has been provided by counterparties, and collateral approximately equal to the negative fair value of each derivative contract has been delivered to counterparties. Acceptable forms of collateral are Canadian federal or provincial bonds, and US federal government treasury bills and bonds.

The notional value of derivatives is the total value of a position, how much value a position controls, or an agreed upon amount in a contract.

Notional value of derivatives			**2018**	**2017**
Term to maturity	**Within 1 year**	**1 to 5 years**	**Total**	**Total**
Derivatives by type of contract				
Foreign currency forwards	$ 575.3	$ -	$ 575.3	$ 343.8
Options	11.8	-	11.8	-
Futures	(1.2)	-	(1.2)	5.3
Interest rate swaps	1.5	39.1	40.6	-
Total return swaps	432.0	0.7	432.7	143.9
	$ 1,019.4	**$ 39.8**	**$ 1,059.2**	**$ 493.0**
Derivatives by investment asset classification				
Bonds	$ 76.9	$ -	$ 76.9	$ 30.0
Canadian equities	27.2	1.3	28.5	23.4
U.S. equities	20.3	4.0	24.3	2.1
International equities	403.7	34.5	438.2	120.5
Mortgages	29.1	-	29.1	-
Real estate	236.9	-	236.9	147.0
Private equity	-	-	-	0.1
IRR*	225.3	-	225.3	169.9
	$ 1,019.4	**$ 39.8**	**$ 1,059.2**	**$ 493.0**

* Infrastructure and renewable resources

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

a) Basic Account

In accordance with the Agreement and PBSA, an actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in note 5a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in note 5a. Also, for accounting purposes, the full impact of investment fair value changes is reflected in the financial statements as at the financial statement date compared with the deferral and amortization of fair value gains or losses in the valuation for funding purposes. The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service.

The latest full actuarial valuation was prepared as at August 31, 2015, by Eckler Ltd. This valuation calculated the liability for accrued basic benefits to be $3,186.1 (2012: $2,571.2). This accrued liability is used for accounting purposes.

Between valuations, an estimate of the actuarial position is required. This estimate, called an extrapolation, has been made to August 31, 2018, using the following long-term actuarial assumptions:

- Annual investment return 6.25%
- Annual salary escalation rate 3.50%

The extrapolation calculated the liability for accrued basic benefits to be $3,764.7 (2017: $3,563.0).

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals and changes in other factors may vary significantly from the long-term assumptions used in the extrapolation. In the event of a major change to the Plan, a new valuation or review of assumptions may be required.

The next full actuarial valuation will be carried out as at August 31, 2018, and the results will be included in the August 31, 2019, financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at August 31, 2015, a reduction in the investment return assumption from 6.25% to 6.00% would have increased the August 31, 2018, liability for accrued basic benefits of $3,764.7 by $108.2 or 2.9%. Changes to assumptions included in the actuarial valuation are interrelated and the cumulative impact of changed assumptions may be offsetting.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

4. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

b) Inflation Adjustment Account (IAA), non-guaranteed pension benefits

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. There is no minimum level of inflation adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level of future potential inflation adjustments (note 5b). The accrued non-guaranteed pension benefits obligation is therefore equal to the net assets available for benefits in the IAA, 2018: $751.1 (2017: $614.7). The net increase of $136.4 (2017: $106.8) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account (see note 13 for details on amounts transferred).

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

The Basic Account is the account from which the defined basic benefits of the Plan are paid. In accordance with the Agreement and PBSA, an actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued pension benefits to the financial statement date, and contributions and benefits for future service. The contribution requirements are calculated by the actuary using the entry-age normal cost method (entry-age method). This method produces the long-term rate of member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan. This rate may be adjusted for the amortization of any actuarial funding surplus, and this rate will be adjusted for the amortization of any unfunded actuarial liability.

The Basic Account is also the account from which any cost-of-living adjustments that have been granted to retired members are paid. Future cost-of-living adjustments are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits (note 5b). As cost-of-living adjustments are granted, the Basic Account receives from the IAA the present value funding necessary for the cost-of-living adjustment granted. Therefore, accrued basic pension benefits for valuation purposes include the liability for all cost-of-living adjustments granted to the date of the valuation, but not for as-yet-unknown future cost-of-living adjustments.

Actuarial valuation

The latest full actuarial valuation for funding purposes was prepared as at August 31, 2015, by the independent actuary based on the entry-age method; the valuation indicated an actuarial surplus of $67.1 or $154.3 with previously scheduled amortization (2012: $105.4 unfunded actuarial liability).

The Agreement specifies that, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial valuation (continued)

An estimate of the actuarial position of the plan for funding purposes has been made to August 31, 2018, using the following long-term actuarial assumptions:

- Annual investment return 6.25%
- Annual salary escalation rate 3.50%

This estimate, called an extrapolation, produced an estimated funding surplus of $232.3 at August 31, 2018 (2017: $129.5), as follows:

Funding extrapolation	**2018**	**2017**
Net assets available for basic pension benefits	$ 4,319.9	$ 4,003.0
Actuarial asset value adjustment	(221.7)	(211.9)
Smoothed assets for basic pension benefits	4,098.2	3,791.1
Present value of future contributions (entry-age method)	1,160.7	1,081.7
Net actuarial assets for basic pension benefits	5,258.9	4,872.8
Actuarial liability for accrued and future basic pension benefits	(5,026.6)	(4,743.3)
Entry-age method actuarial surplus	**$ 232.3**	**$ 129.5**

Changes in the extrapolated entry-age method funded status	**2018**	**2017**
Extrapolated entry-age method actuarial surplus, beginning of year	$ 129.5	$ 76.4
Extrapolated change in actuarial assets for basic pension benefits	386.1	297.6
Extrapolated change in actuarial liability for accrued and future basic pension benefits	(283.3)	(244.5)
Extrapolated entry-age method actuarial surplus, end of year	**$ 232.3**	**$ 129.5**

Extrapolations may not be reliable indicators of the next valuation results, nor do they necessarily reflect the overall trend of results. Between valuations, various factors, including actual wage increases, investment earnings and the incidence of retirements and withdrawals, may vary significantly from the long-term assumptions used in the extrapolation.

Measurement difference between funding and accounting positions

The primary components of the measurement differences between the extrapolated entry-age method funding surplus and the financial statement surplus are as follows:

Measurement difference between funding and accounting positions	**2018**	**2017**
Entry-age method actuarial surplus	$ 232.3	$ 129.5
Actuarial asset value adjustment	221.7	211.9
Difference in actuarial methods – present value of future contributions	(1,160.7)	(1,081.7)
Difference in actuarial methods – present value of future liabilities	1,261.9	1,180.3
Measurement differences between funding and accounting positions	322.9	310.5
Surplus for financial statement purposes	**$ 555.2**	**$ 440.0**

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

5. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES (continued)

a) Basic Account (continued)

Actuarial asset value adjustment

For the purposes of determining the entry-age method surplus for funding purposes, the actuarial value of net assets available for benefits is determined on an adjusted value basis that smooths the difference between the actual investment return and the expected return based on a long-term real return rate over a five-year period.

The funding policy requires that the value of the assets be smoothed within a certain corridor. In the 2015 valuation, the corridor required that the smoothed value be no more than 108% and no less than 92% of the market value of the assets. The smoothed value of the assets at August 31, 2018, was 94.9% of the market value of the assets (2017: 94.7%).

The following schedule indicates the year the components of the actuarial asset value adjustment will be recognized in the entry-age method actuarial surplus. The amounts are based on that proportion of the total fund related to the Basic Account assets.

Actuarial asset value adjustment	2018	2017
2018	$ -	$ 114.8
2019	78.7	48.0
2020	62.2	31.2
2021	49.2	17.9
2022	31.6	-
Total adjustment	**$ 221.7**	**$ 211.9**

Difference in actuarial methods

While the accrued pension benefit liability for financial statement purposes uses the projected benefit method prorated on service, the pension liability for funding purposes uses an entry-age funding method, where the present value of future normal cost contributions, basic pension benefits for future service and future amortization amounts are included in the determination of the funded status of the Plan.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA since the obligation for future cost-of-living adjustments is limited to the amount of the available assets in the account. As cost-of-living adjustments are granted to retired members, funding for the granted cost-of-living adjustments on a net present value basis is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of cost-of-living adjustment required to be paid under the pension plan rules, nor is there any plan provision to fund the IAA to any minimum level of future potential cost-of-living adjustments.

The Board established a cap for cost-of-living adjustments for retired members effective January 1, 2011. As a result of the 2015 actuarial valuation, the cap for January 1, 2017; January 1, 2018; and January 1, 2019, has been set at 2.07%. The cap for sustainable cost-of-living adjustments will be reviewed following each subsequent triennial actuarial valuation.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT

The Board approves the long-term asset mix policy for investment assets through its Statement of Investment Policies and Procedures (SIPP) and oversees the management of these assets through the Board's investment management agent, BCI. The SIPP requires diversification of investments among asset classes, sets guidelines on investment categories, and limits the exposure to individual investments and counterparties.

Significant risks are regularly monitored and managed by BCI, and actions are taken when appropriate, according to the Plan's SIPP. In addition, these risks are reviewed periodically with the Board. Such risks include liquidity risk as well as other financial risks, which comprise currency risk, interest rate risk, other price risk and credit risk.

Financial risks are disclosed on a unit-of-account basis (note 6b), which represents the legal ownership of securities held, and at the underlying securities level (note 6c), which provides additional insight to other risks that may impact the financial instruments of the Plan. Both forms of disclosure provide valuable perspectives into the financial risks that may directly or indirectly impact the financial statements and the funded status of the Plan. These two forms of risk disclosure are not additive to each other.

a) Liquidity risk

Liquidity risk is the risk of not being able to meet the Plan's cash requirements in a timely and cost-effective manner. Expenditures relate primarily to pensions, termination and refund benefits, and investment and administration costs. The Plan's approach to mitigating liquidity risk is to forecast its cash requirements over the near and long term to determine whether sufficient funds are available. The Plan's primary source of liquidity is income generated from the Plan's investments, and employer and employee contributions. Investments are primarily held in pooled funds and the securities held are traded in active markets where they can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $4.5 (2017: $3.3) and payable for purchase of investments of $5.8 (2017: $9.1) are generally due within one month. Derivatives payable of $3.1 (2017: $0.6) are due within the next fiscal year.

b) Financial risks on a unit-of-account basis

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by BCI. Each unit gives its holder a proportionate interest in the value of the net assets of the respective pooled investment fund. The unit-of-account for the majority of the Plan's investments is the units of the pooled investment funds.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT (continued)

b) Financial risks on a unit-of-account basis (continued)

Investments by unit-of-account		2018	%		2017	%
Pooled investment fund units	$	4,994.7	98.6	$	4,535.4	98.3
Directly held equity		59.2	1.2		44.1	1.0
Directly held bonds and debt investments		13.9	0.3		34.6	0.7
Investments	**$**	**5,067.8**	**100**	**$**	**4,614.1**	**100**
Derivatives	**$**	**2.1**		**$**	**9.5**	

Market risk is the risk that the fair values of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk consists of currency, interest rate and other price risks.

Currency risk

Currency risk is the risk that the value of financial instruments denominated in currencies other than the functional currency of the fund will fluctuate due to changes in foreign exchange rates. The Plan holds primarily Canadian dollar denominated investment pooled fund units and is exposed to currency risk through holdings of small amounts of foreign currency denominated private equity, agricultural, bond and debt investments. See note 6c for currency exposure related to underlying securities.

Foreign denominated investments held as a percentage of the fund

		2018	%		2017	%
United States	$	67.0	1.3	$	38.3	0.8
Australia		11.1	0.2		12.1	0.3
	$	**78.1**	**1.5**	**$**	**50.4**	**1.1**

As at August 31, 2018, if the Canadian dollar had strengthened or weakened by 10% in relation to all foreign currencies, with all other factors remaining constant, net assets available for benefits would have decreased or increased by approximately $7.8 (2017: $5.0).

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of plan investments will change as a result of future fluctuations in market interest rates. The majority of the Plan's investment assets are non-interest bearing and not subject to interest rate risk. See note 6c for interest rate risk related to underlying securities.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT (continued)

b) Financial risks on a unit-of-account basis (continued)

Other price risk

Other price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices (other than those arising from currency risk or interest rate risk), whether those changes are caused by factors specific to the individual financial instrument, its issuer, or factors affecting all similar financial instruments traded in the market. The Plan's investments are subject to other price risk through its public equity investments and private market investments, including equity in real estate companies, held directly and through pooled investment portfolios. This risk is managed by diversifying investments across asset classes based on criteria established in the SIPP.

As at August 31, 2018, if the pooled investment fund unit and directly held equity prices increased or decreased by 10%, with all other factors remaining constant, net assets available for benefits would have increased or decreased by approximately $505.4 (2017: $458.0).

Credit risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment it has entered into, resulting in a financial loss to the Plan. The majority of the Plan's investments are held in securities not subject to credit risk. See note 6c for credit risk related to underlying securities.

Credit exposure also exists for members' and employers' contributions receivable directly held by the Plan totalling $7.1 (2017: $4.7), for derivatives of $5.2 (2017: $10.1) and for the due from sale of investments of $4.0 (2017: $0.9).

c) Financial risks of underlying securities held through pooled investment funds

Pooled investment funds exist for different types of investments, such as short-term investments; bonds; Canadian; U.S. and international equities; mortgages; real estate; private equity; and infrastructure and renewable resources. Examining the risks of the underlying securities contained in pooled investment funds provides additional disclosure to assess the overall financial risks of the plan investments. Viewing the financial risks of underlying securities is an alternative way of disclosing financial risks from the unit-of-account basis in note 6b. These risks are not considered additive to the financial risks already disclosed in note 6b.

Market risks are reduced through asset class diversification, diversification within each asset class and credit quality requirements on investments.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT (continued)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Currency risk

Currency exposure also arises from foreign currency denominated investments held directly and also from underlying investments held indirectly in pooled investment funds. BCI has currency exposure management programs under which it enters into economic hedges of foreign currency exposure through the use of forward and future foreign currency contracts.

The Plan's total direct and indirect currency exposure, the impact of economic hedging and trading activities, and its net exposure as at August 31 are as follows:

Fair value of foreign denominated investment holdings

(Cdn dollar equivalent)	Total exposure	Economic hedging	Net exposure	% of total
		2018		
United States	$ 1,455.6	$ 427.7	$ 1,027.9	53%
Asia-Pacific, excluding Japan	355.6	54.5	301.1	16%
Euro countries	292.6	35.8	256.8	13%
Other	136.1	-	136.1	7%
Japan	106.6	1.8	104.8	5%
Other Europe	79.7	0.7	79.0	4%
United Kingdom	77.7	54.8	22.9	2%
	$ 2,503.9	**$ 575.3**	**$ 1,928.6**	**100%**
		2017		
United States	$ 1,329.9	$ 240.4	$ 1,089.5	54%
Asia-Pacific, excluding Japan	359.1	41.1	318.0	16%
Euro countries	258.1	25.5	232.6	12%
Other	152.8	-	152.8	8%
Other Europe	81.1	0.4	80.7	4%
Japan	86.4	6.9	79.5	4%
United Kingdom	74.0	29.5	44.5	2%
	$ 2,341.4	**$ 343.8**	**$ 1,997.6**	**100%**

The net foreign currency exposure of its underlying investment represents 38% (2017: 43%) of the Plan's total investments.

Interest rate risk

The Plan's pooled investment funds hold interest-bearing financial instruments in short-term investments, bonds and mortgages. The risk of adverse changes in interest rates is reduced within the underlying investment pools through management of duration in exposure to fixed income securities, the use of floating rate notes and general diversification by security type and geographic region.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT (continued)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Interest rate risk (continued)

The terms to contractual maturity of interest-bearing financial instruments held directly and through pooled investment portfolios as at August 31, are as follows:

Terms to maturity of interest-bearing financial instruments	Within 1 year	1 to 5 years	6 to 10 years	Over 10 years	Total	Effective yield to maturity
			2018			
Short-term	$ 110.7	$ 4.3	$ -	$ -	$ 115.0	1.88%
Bonds	8.0	295.6	268.6	230.4	802.6	3.04%
Real return bonds*	-	-	-	2.8	2.8	1.33%
Mortgages	39.5	64.5	19.8	-	123.8	3.34%
Debt	0.1	-	11.1	-	11.2	6.44%
	$ 158.3	**$ 364.4**	**$ 299.5**	**$ 233.2**	**$ 1,055.4**	
			2017			
Short-term	$ 49.4	$ 6.7	$ -	$ -	$ 56.1	0.98%
Bonds	16.6	271.8	195.6	192.6	676.6	2.38%
Real return bonds*	0.1	0.5	-	21.9	22.5	1.35%
Mortgages	25.0	65.7	4.6	-	95.3	2.88%
Debt	0.1	-	12.0	-	12.1	6.44%
	$ 91.2	**$ 344.7**	**$ 212.2**	**$ 214.5**	**$ 862.6**	

*Effective yield to maturity percentages are only the real return; inflation has not been considered.

As at August 31, 2018, if the prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve with all other variables remaining constant, the fair value of interest-bearing financial instruments and net assets available for benefits would have decreased or increased by approximately $65.2 (2017: $55.9).

Other price risk

Other price risk associated with the underlying investments held in pooled investment funds is consistent with that described earlier in note 6b, which describes financial risks on a unit-of-account basis.

Credit risk

The Plan's underlying investment assets held in pooled investment funds attract credit risk. This is the risk that a loss may occur from the failure of another party to perform according to the terms of a contract. It's also the risk of losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations. Credit risk is managed by establishing specific investment criteria, such as minimum credit ratings for investees and counterparties and maximum concentration limits with given counterparties.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

6. FINANCIAL RISK MANAGEMENT (continued)

c) Financial risks of underlying securities held through pooled investment funds (continued)

Credit risk (continued)

Credit risk ratings on financial instruments (short-term investments, bonds, mortgages and debt) held directly and through pooled investment portfolios are as follows:

Credit rating of financial instruments	2018		2017	
AAA/AA	$ 517.3	49%	$ 390.8	45%
A	260.6	25%	291.7	34%
BBB	95.1	9%	58.0	7%
Non-investment grade	44.9	4%	10.5	1%
	917.9	87%	751.0	87%
Unrated	137.5	13%	111.6	13%
	$ 1,055.4	**100%**	**$ 862.6**	**100%**

The ratings used are defined by Standard & Poor’s rating agency. Obligations rated AAA/AA have the highest rating assigned. The lender’s capacity to meet its financial commitment on the obligation is very strong. Bonds rated A, BBB or non-investment grade rating are weaker, with the BBB rating denoting an obligation with adequate protection parameters and a non-investment grade rating denoting major ongoing uncertainties or exposure to adverse business, financial or economic conditions that could lead to the debtor’s inadequate capacity to meet its financial commitment on the obligation. Unrated financial instruments consist mainly of mortgages secured by real estate, and debt and some corporate bonds.

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Fair value hierarchy

Fair value measurements of the investment assets and liabilities are based on inputs from one or more levels of a fair value hierarchy. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities. The three levels of the fair value hierarchy are as follows:

Level 1

Inputs are unadjusted quoted prices in active markets for identical assets or liabilities

Level 2

Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly

Level 3

Inputs that are not based on observable market data

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

a) Fair value hierarchy (continued)

Plan investments are carried at fair value in the financial statements. The following table details the classification of the Plan's investments based on the fair value hierarchy as at August 31:

Fair value hierarchy	Level 1	Level 2	Level 3	Total
		2018		
Pooled fund units	$ 111.2	$ 3,785.1	$ 1,098.4	$ 4,994.7
Direct equity	0.6	-	58.6	59.2
Direct bonds and debt	-	2.7	11.2	13.9
Investments	**$ 111.8**	**$ 3,787.8**	**$ 1,168.2**	**$ 5,067.8**
Derivatives	**$ -**	**$ 2.1**	**$ -**	**$ 2.1**
		2017		
Pooled fund units	$ 54.5	$ 3,626.9	$ 854.0	$ 4,535.4
Direct equity	-	-	44.1	44.1
Direct bonds and debt	-	22.5	12.1	34.6
Investments	**$ 54.5**	**$ 3,649.4**	**$ 910.2**	**$ 4,614.1**
Derivatives	**$ -**	**$ 9.5**	**$ -**	**$ 9.5**

During 2018 and 2017, there were no significant transfers of investments between levels.

The following table reconciles the Plan's Level 3 fair value measurements:

Level 3 fair value hierarchy	Pooled fund units	Direct equity	Direct debt	Total
		2018		
Balance, beginning of year	$ 854.0	$ 44.1	$ 12.1	$ 910.2
Net gains(losses) included in investment income	125.1	10.5	(0.6)	135.0
Purchases	282.6	5.3	0.4	288.3
Sales	(163.3)	(1.3)	(0.7)	(165.3)
Balance, end of year	**$ 1,098.4**	**$ 58.6**	**$ 11.2**	**$ 1,168.2**
Total unrealized (loss) gain included in investment income	$ 55.6	$ 9.7	$ (0.6)	$ 64.7
		2017		
Balance, beginning of year	$ 602.6	$ 40.7	$ 11.7	$ 655.0
Net gains included in investment income	2.4	2.5	0.1	5.0
Purchases	377.9	1.4	0.5	379.8
Sales	(128.9)	(0.5)	(0.2)	(129.6)
Balance, end of year	**$ 854.0**	**$ 44.1**	**$ 12.1**	**$ 910.2**
Total unrealized (loss) gain included in investment income	$ (40.8)	$ 1.5	$ 0.1	$ (39.2)

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

b) Valuation models

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

BCI uses widely recognized valuation methods for determining the fair value of common and less complex financial instruments such as investments in pooled funds, where fair value is based on the underlying net asset value of the respective pooled fund as determined by the underlying fund manager. Observable prices and model inputs are usually available in the market for listed equity and debt securities, simple derivatives such as forward or future currency contracts and pooled funds. The availability of observable market prices and model inputs reduces the need for management judgment and estimation, and reduces the uncertainty associated with the determination of fair values. The availability of observable market prices and inputs varies depending on the financial instrument and is subject to change based on specific events and general conditions in the financial markets.

For more complex financial instruments, such as direct private equity investments held by the Plan, BCI uses proprietary valuation models, which are usually developed from recognized valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates, or estimated based on assumptions. Valuation models that employ significant unobservable inputs require a higher degree of judgment and estimation in the determination of fair value. BCI's judgment and estimation are usually required for the selection of the appropriate valuation model to be used, determination of expected future cash flows of the financial instrument being valued, determination of the probability of counterparty default and prepayments, and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that BCI believes that a third-party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Plan and the counterparties where appropriate.

c) Valuation framework

BCI has an established framework with respect to the measurement of fair values of financial instruments. Where possible, for direct private equity investments held by the Plan, external, independent valuation specialists are engaged annually to assist in the determination of fair value. In those circumstances where BCI is reliant on the third-party manager for the determination of fair value, BCI reviews the appropriateness of such valuations using audited financial statements of the underlying investments, where available, and other information from the underlying third-party manager or other sources.

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

c) Valuation framework (continued)

In addition, BCI applies the following specific controls in relation to the determination of fair values:

- Verification of observable pricing inputs
- Appraisal of domestic real estate properties once every 10 to 18 months by accredited independent appraisers
- Analysis and investigation of significant valuation movements
- Review of unobservable inputs and valuation adjustments

When third-party information, such as broker quotes or pricing services, is used to measure fair value, BCI assesses and documents the evidence obtained from the third parties to support the conclusion that such valuations are appropriate. This includes:

- Verifying that the broker or pricing service is approved by BCI for use in pricing the relevant type of financial instrument
- Understanding how the fair value has been arrived at and the extent to which it represents actual market transactions
- Understanding how the fair value has been determined when a number of quotes for the similar financial instruments have been obtained
- Understanding how prices for similar financial instruments used to measure fair value have been adjusted to reflect the characteristics of the financial instrument subject to measurement

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value

The following table sets out information about significant unobservable inputs used at year-end in measuring financial instruments categorized as Level 3 in the fair value hierarchy.

Significant unobservable inputs used in measuring fair value

Description	Fair value	Valuation technique	Unobservable input	Amount / range	Sensitivity to change in significant unobservable input
			2018		
					The estimated fair value would increase if:
Pooled fund units	$ 1,098.4	Net asset value	Net asset value	$ 1,098.4	The net asset value increased
Direct private equity	$ 41.6	Market approach	Multiple of EBITDA*	$ 41.6	The multiple of EBITDA increased
Direct private agriculture investments	$ 17.0	Net asset value	Net asset value	$ 17.0	The net asset value increased
Direct debt	$ 11.2	Market approach	Multiple of EBITDA*	$ 11.2	The multiple of EBITDA increased
			2017		
					The estimated fair value would increase if:
Pooled fund units	$ 854.0	Net asset value	Net asset value	$ 854.0	The net asset value increased
Direct private equity	$ 30.6	Adjusted discounted cash flows	Discount rate	8.1% to 8.9%	The discount rate was lowered
Direct private agriculture investments	$ 13.5	Net asset value	Net asset value	$ 13.5	The net asset value increased
Direct debt	$ 12.1	Discounted cash flows	Discount rate	6.3% to 7.3%	The discount rate was lowered

* Earnings before interest, tax, depreciation and amortization

Net asset value

Net asset value is determined by BCI based on the fair value of assets less liabilities. Such investments are closed funds with significant restrictions on redemptions and accordingly, BCI is unable to dispose of the pooled fund investment until the maturity or wind-up and liquidation of the respective pooled fund. In such cases, it is the Plan's policy to categorize the pooled fund investment as Level 3 within the fair value hierarchy.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

d) Significant unobservable inputs used in measuring fair value (continued)

Multiple of EBITDA

Enterprise value (EV) represents amounts market participants would use when pricing direct equity investments and direct private debt. Earnings before interest, tax, depreciation and amortization (EBITDA) multiples are selected from comparable public companies based on geographic location, industry, size, target markets and other factors that BCI management considers reasonable. The traded multiples for the comparable companies are determined by dividing the EV of the company by its EBITDA and further discounted for considerations such as lack of marketability and other differences between a comparable peer group and specific company.

Discount rate

This represents the discount rate applied to the expected future cash flows of the direct private equity and direct debt investments. For the discount rates used, the underlying investment manager assesses both the risk premium and the appropriate risk-free rate based on the economic environment in which the investee entity operates. The discount rate is adjusted for such matters as liquidity differences, credit and market factors. The estimated future cash flows are then discounted using the discount rate determined. Cash flows used in the discounted cash flow model are based on projected cash flows or earnings of the respective investee entity.

e) Effects of unobservable input on fair value measurement

The use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used for a reasonable alternative assumption would have the following effects on net assets attributable to holders of redeemable units.

Effects of unobservable input on Level 3 fair value measurement

	2018		2017	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 109.8	$ (109.8)	$ 85.4	$ (85.4)
Direct private equity	2.5	(2.5)	2.7	(2.7)
Direct private agriculture investments	1.7	(1.7)	1.3	(1.3)
Direct debt	1.1	(1.1)	1.2	(1.2)
	$ 115.1	**$ (115.1)**	**$ 90.6**	**$ (90.6)**

The pooled fund units, direct private agriculture investments and direct debt investments were valued based on information received from BCI, the manager of the respective investments. The fair value of these investments fluctuates in response to changes to specific assumptions for these particular investments, as determined by BCI. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of pooled fund units, direct private agriculture investments and direct debt investments have been calculated by adjusting the respective underlying net asset value by 10%.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

e) Effects of unobservable input on fair value measurement (continued)

For direct private equity investments, BCI engages third-party independent valuators to estimate the fair market value. The valuators produce comprehensive reports for each applicable investment. The favourable and unfavourable effects of reasonable alternative assumptions for the valuation of direct investments have been calculated by recalibrating the model values using unobservable inputs based on the upper and lower threshold of the respective investment's range of possible estimates.

f) Financial instruments not measured at fair value

The carrying value of members' contributions receivable, employers' contributions receivable, due from sale of investments, prepaid expenses, accounts payable and accrued expenses, taxes payable and payable for purchase of investments approximate their fair value given their short-term nature. These financial instruments are classified as Level 2 in the fair value hierarchy because, while prices are available, there is no active market for these instruments.

8. INVESTMENT INCOME

			2018			2017
	Income allocation	**Change in fair value**	**Total**	**Income allocation**	**Change in fair value**	**Total**
Short-term	$ 1.3	$ (0.5)	$ 0.8	$ 1.0	$ 0.1	$ 1.1
Bonds	20.3	(7.3)	13.0	16.1	(28.9)	(12.8)
Canadian equities	14.6	40.0	54.6	17.5	28.6	46.1
U.S. equities	2.5	37.1	39.6	4.8	28.4	33.2
International equities	34.2	164.6	198.8	29.0	142.4	171.4
Mortgages	4.8	0.9	5.7	4.8	(2.4)	2.4
Real estate	27.4	24.3	51.7	49.0	(18.4)	30.6
Private equity	36.9	29.5	66.4	21.9	(3.9)	18.0
IRR*	22.6	42.0	64.6	38.5	(16.2)	22.3
	164.6	330.6	495.2	182.6	129.7	312.3
Directly held derivatives	-	(8.4)	(8.4)	-	10.6	10.6
	$ 164.6	**$ 322.2**	**$ 486.8**	**$ 182.6**	**$ 140.3**	**$ 322.9**

* Infrastructure and renewable resources

Investment income represents realized and unrealized pooled investment portfolio income attributable to the Plan, as a unitholder, and income from directly held investments. Income allocation is composed of interest, dividends and other investment payments. Change in fair value is composed of realized gains and losses on the disposal of investments and derivatives, and unrealized gains and losses on investments and derivatives held at year-end. All income earned within a pooled investment portfolio is reinvested within the portfolio.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2018		
Members' contributions				
Regular	$ 69.4	$ 14.1	$ -	$ 83.5
Past service purchases	0.3	-	-	0.3
	69.7	14.1	-	83.8
Employers' contributions				
Regular	69.6	14.1	0.7	84.4
Past service purchases	0.2	-	-	0.2
	69.8	14.1	0.7	84.6
	$ 139.5	**$ 28.2**	**$ 0.7**	**$ 168.4**
		2017		
Members' contributions				
Regular	$ 64.7	$ 12.4	$ -	$ 77.1
Past service purchases	0.9	0.1	-	1.0
	65.6	12.5	-	78.1
Employers' contributions				
Regular	64.8	12.4	0.8	78.0
Past service purchases	0.3	-	-	0.3
	65.1	12.4	0.8	78.3
	$ 130.7	**$ 24.9**	**$ 0.8**	**$ 156.4**

Member and employer contributions are as defined under the pension plan rules. Members' past service purchases are voluntary contributions.

10. BENEFITS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2018		
Regular pension benefits	$ 149.8	$ -	$ 0.7	$ 150.5
Indexing – regular pension benefits	21.0	-	-	21.0
Termination and refund benefits	11.3	1.9	-	13.2
Death benefit payments	5.1	0.4	-	5.5
	$ 187.2	**$ 2.3**	**$ 0.7**	**$ 190.2**
		2017		
Regular pension benefits	$ 139.7	$ -	$ 0.7	$ 140.4
Indexing – regular pension benefits	19.1	-	0.1	19.2
Termination and refund benefits	11.4	1.6	-	13.0
Death benefit payments	1.2	0.1	-	1.3
	$ 171.4	**$ 1.7**	**$ 0.8**	**$ 173.9**

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

11. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account funds certain supplemental benefits for example, pension benefits that exceed Tax Act limits for registered pension plans are paid through this account.

12. INVESTMENT AND ADMINISTRATION COSTS

	2018	2017
Investment management	$ 11.2	$ 8.2
Benefit administration	3.5	3.3
Board secretariat costs	0.3	0.3
Other professional services	0.2	0.3
Board remuneration and expenses	0.2	0.2
Audit and actuary expenses	0.1	0.1
	$ 15.5	**$ 12.4**

Investment and administration costs include audit fees of $42 thousand (2017: $40 thousand) and actuary fees of $5 thousand (2017: $43 thousand).

BCI and Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards. Investment management and benefit administration costs are approved by the Board.

Investment management costs represent amounts charged to recover internal and external management costs incurred by BCI, except those external management fees related to investments managed by an underlying external manager, where management fees are embedded in the net assets of the respective investment. Underlying external investment management fees of $4.7 (2017: $4.0) were netted against investment income.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by Pension Corporation. These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts directly incurred by the Board for costs associated with supporting the Board.

Other professional services costs include insurance and legal fees incurred directly by the Plan.

Board remuneration and expenses represent amounts for trustee compensation and direct expenses.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

13. ACCOUNT TRANSFERS

	2018		2017	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 25.3	$ (25.3)	$ 22.1	$ (22.1)
Indexing deferred pensions	1.4	(1.4)	1.8	(1.8)
Excess investment return	(66.0)	66.0	(61.7)	61.7
	$ (39.3)	**$ 39.3**	**$ (37.8)**	**$ 37.8**

The IAA is a separate account that is maintained for funding current and future cost-of-living adjustments. The IAA is funded through a portion of ongoing contributions from employers and members, investment income earned and excess investment return earned in the Basic Account.

Cost-of-living adjusted pension payments are made from the Basic Account. Each year, if members' pension payments are adjusted for the current cost-of-living adjustment, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current cost-of-living adjustment. The Board considers all relevant factors and its IAA funding policy to determine if a cost-of-living adjustment will be granted on pensions in pay and the amount of the cost-of-living adjustment, if any. As at January 2018, retired members received a cost-of-living adjustment of 1.5% (2017: 1.4%) and indexing supplements were transferred.

When a deferred pension is paid, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $17.0 (2017: $15.1) of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

When investment earnings in the Basic Account are in excess of the actuarial assumption regarding investment rates of return, the excess investment returns are transferred from the Basic Account to the IAA**.** Excess investment return is based on investment income earned on those assets in the Basic Account required for pensions currently being paid: approximately $1.9 billion of assets for 2018 (2017: $1.8 billion). The excess investment return rate is determined by taking the difference between the actual five-year annualized market rate of return (9.7%) and the rate of return used by the actuary (6.25%) in valuing the Plan's liabilities. The calculated excess investment return rate for 2018 was 3.45% (2017: 3.45%), resulting in an excess investment return amount of $66.0 transferred to the IAA (2017: $61.7 transferred to the IAA).

Should the excess investment return calculation ever result in negative amount, it will be carried forward cumulatively with interest and offset against future excess interest. The cumulative negative excess investment interest is an amount determined by applying the five-year annualized market rate of return to the fiscal year opening balance. This component of the calculation is the opportunity cost related to the opening cumulative return deficit.

COLLEGE PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

$ millions except as otherwise noted

14. COMMITMENTS

The Plan participates in private equity, international real estate, and infrastructure and renewable resource pools. As at August 31, 2018, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $648.9 (2017: $468.5).

15. CAPITAL DISCLOSURES

Capital is defined as the funded status (surplus or deficit) of the Plan as determined by the actuary. The Plan's objective for managing capital is to ensure that the assets of the Plan are invested prudently and effectively, and with contributions adequate to meet the obligations of the Plan. Management of the Plan's funded status is achieved by adjusting member and employer contribution rates; through implementation of the SIPP, which affects the earnings of the Plan, and, in the case of the IAA, by changing the benefits paid. The Board has a funding policy that outlines the principles that provide guidance in managing this process. The investment performance of the Plan's assets is reviewed by the Board on a regular basis and compared to relevant industry benchmarks. Benefit entitlement is based on the provisions of the Agreement and the pension plan rules. Funding deficits must be funded over a period not to exceed 15 years.

An actuarial valuation must be prepared at least once every three years. The latest actuarial valuation for funding purposes was prepared as at August 31, 2015, and has two components, the Basic Account non-indexed benefits and, by considering the valuation of the entire Plan, the non-guaranteed Inflation Adjustment Account benefits. The next full actuarial valuation will be carried out as at August 31, 2018.

The Act and the Board's funding policy require that contribution rates comply with the going-concern requirements of the PBSA.

16. PRIOR YEAR COMPARATIVES

The prior year comparatives have been reclassified to conform to the current year presentation.

College Pension Plan
SUSTAINABLE FUTURES

college.pensionsbc.ca

Toll-free: 1-888-440-0111 (Canada/U.S.)
Fax: 250-953-0412

1998-016 CPP ANNUAL REPORT 2019.04.10