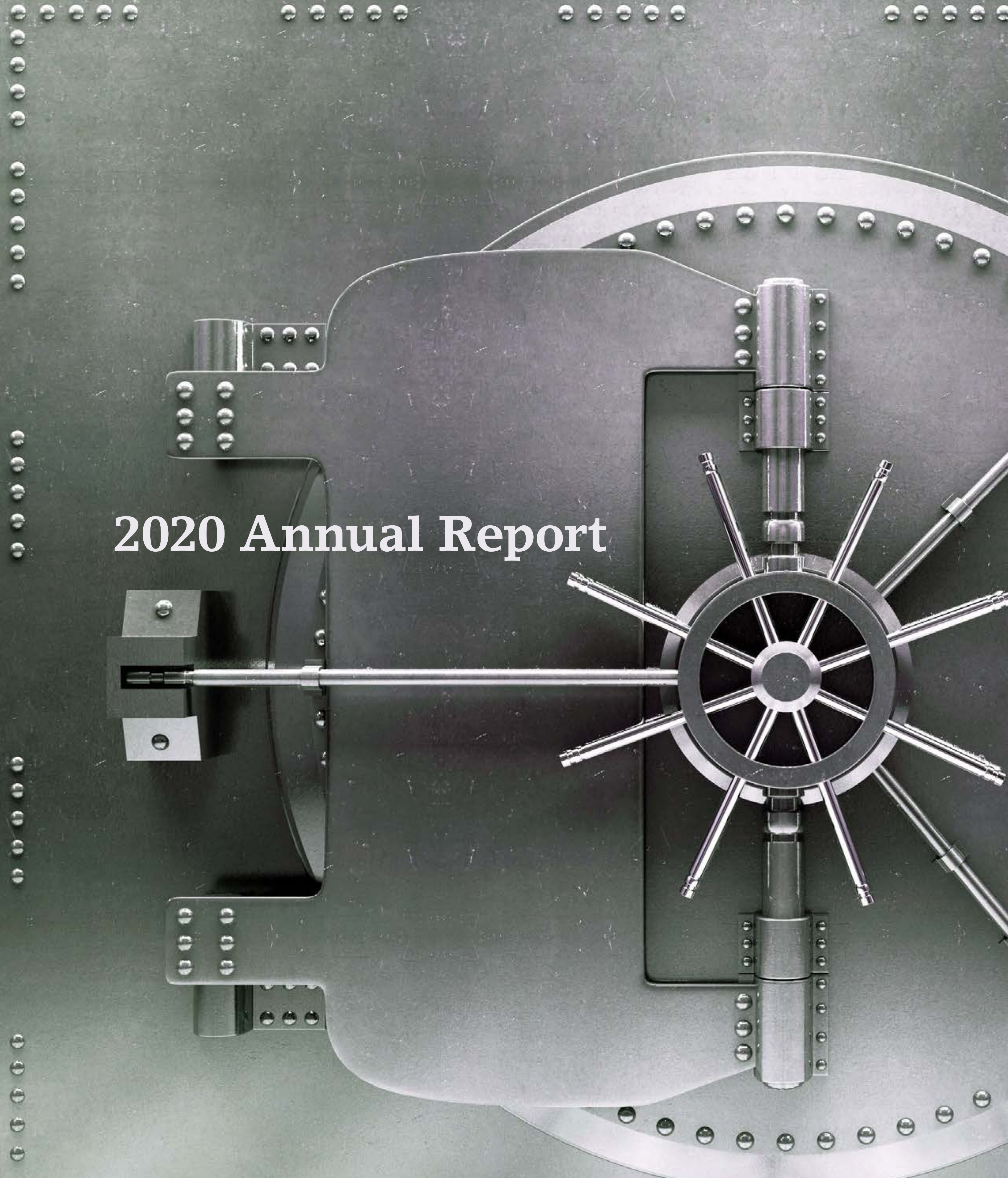


2020 Annual Report

Member pensions are safe and secure

College Pension Plan™

Contents

Investment highlights:

The plan's investment assets increased from

$5.3 billion

August 31, 2019, to

$5.7 billion

August 31, 2020

Member pensions are safe and secure

Trustees' message

College Pension Plan members have no doubt been concerned about their health and the health of loved ones during the pandemic. They're also concerned about the health of their pension and their ability to retire.

Good news: members can be assured that their defined benefit pension benefit is safe, secure and financially well positioned to withstand market downturns. Their pension is based on a formula that includes service and salary and will not change with fluctuations in investment returns.

Despite the pandemic the plan had an annual return of 8 per cent up to August 31, 2020, and a 10-year return of 8.8 per cent. Both exceed the investment return goal (or actuarial return objective) of 6.25 per cent.

The final piece of good news is that the most recent valuation (a triennial independent review of the plan's financial health) showed a strong surplus as at August 31, 2018. This surplus allowed us to improve the plan's long-term sustainability. You can read about some of the improvements later in this report.

The plan's next valuation is as at August 31, 2021. Results will be announced in 2022.

Thank-you to our members

We extend our thanks to all College Pension Plan members during these difficult times. Not only do they work hard on behalf of the people of British Columbia—including post-secondary students—but they are doing so while they and our employer partners make drastic workplace changes to adhere to public health guidelines.

As the College Pension Board of Trustees, we will continue to work to protect member pensions and, in doing so, provide some peace of mind.

Good news:

The plan's annual return of

8.0%

and 10-year return of

8.8%

exceeded the investment return goal (or actuarial return objective) of 6.25%

Investments

Report on fiscal year 2019/20 investment results

British Columbia Investment Management Corporation (BCI), the plan's investment agent, began preparing for a market downturn more than two years ago. As a result, when the COVID-19 market crisis hit in early 2020, the College Pension Plan was in a strong financial position with ample liquidity, which meant we were not forced to sell assets. The plan ended the year in a stronger position with $5.7 billion invested, up from $5.3 billion the year before.

The plan's actuarial return objective, meaning the investment return the plan must earn in order to pay out current and future retirement benefits, is 6.25 per cent. The plan has consistently met this objective over the long term, with a 5- and 10-year return of 7.6 per cent and 8.8 per cent respectively.[1] When the plan meets its objective, it reduces the likelihood that the plan will need to increase contributions in order to be secure.

Strong long-term returns reflect the resiliency of the plan's portfolio. BCI's long-term strategy includes internalizing asset management and increasing investments to private market assets, such as real estate, privately held businesses and utilities. Since 2010, the plan's investment in private market assets has increased from 21.7 per cent of total assets to 36.9 per cent. In addition, the proportion of overall client funds internally managed by BCI has grown to 86.7 per cent. By internalizing asset management and investing in private market assets, BCI is able to exercise a greater degree of control, ensuring that decisions are made in the best long-term interest of the plan.

Highlights from the plan's investment portfolio as of August 31, 2020 include:

- **Public equity**, where BCI invests in publicly traded companies. The five-year return is 9.0 per cent.
- **Private equity**, where BCI invests in privately held companies. The five-year return is 13.8 per cent.
- **Infrastructure**, including stable, regulated utilities. The five-year return is 7.1 per cent.
- **Real estate**, where BCI invests in real properties around the world. The five-year return is 5.8 per cent.

The plan's track record of strong returns continued over the year with a one-year return of 8.0 per cent as of August 31, 2020. This is well above the actuarial target. Strong returns were primarily driven by the plan's public equity portfolio, which returned 12.8 per cent over the year, rebounding from the early 2020 market crisis. Looking forward, the board continues to have confidence in the quality of the plan's portfolio and the security of the plan's long-term value.

Portfolio highlights:

Five-year returns as of August 31, 2020

Public equity	9.0%
Private equity	13.8%
Infrastructure	7.1%
Real estate	5.8%

1 Returns presented are annualized returns. For example, a five-year return of 7.6 per cent would mean that the fund earned on average 7.6 per cent each year over five years or, otherwise stated, a cumulative return of 44.2 per cent over five years.

Market outlook for 2020/21

The economic impact of COVID-19 has been severe, in large part due to social distancing and government-mandated lockdowns. While the initial recovery was sharp and the unprecedented response from policymakers has helped support capital markets, further recovery is expected to occur at a slower pace.

The world's progress in controlling the virus will likely influence the direction of markets. As daily infection counts continue to climb, a heightened level of uncertainty is expected, and the economy may need further government stimulus to ensure a sustained recovery. The board and BCI will continue to make careful investment decisions that take advantage of market opportunities, while protecting the value of the plan's portfolio.

Member
Jessie Drew

The world's progress in controlling the virus will likely influence the direction of markets

Risk management

The board and BCI have the important responsibility of managing investment risk, since for every pension dollar a member receives, about 75 cents comes from investment income.

BCI's investment approach includes anticipating risk and taking the right steps to ensure the plan's balance of risk and return is appropriate for meeting its investment objectives. While there was no way to anticipate the COVID-19 pandemic, BCI was preparing for a correction in the rising financial markets. As a result, the plan's investments were adjusted to reduce risk, an action that later helped to protect the plan's assets against the associated market downturn.

The board takes a long-term approach to investing as the plan's commitment to its members is long term in nature. To achieve the plan's long-term investment goals, the board and BCI have built a diversified investment portfolio that is invested in multiple asset types (e.g., bonds, mortgages, equities, real estate, infrastructure, private equity), industry sectors and global markets. Maintaining a well-diversified portfolio is a critical aspect of risk management, as it limits the impact on the whole portfolio when there are losses in any particular asset type.

The plan's overall framework for managing assets is governed by the plan's Statement of Investment Policies and Procedures (SIPP), which is established and updated by the board. BCI is responsible for implementing the investment strategy and working toward the financial goals as outlined in the SIPP. The board oversees and monitors the performance of BCI in carrying out this responsibility.

Responsible investing

Responsible investing is an integral part of the plan's investment approach. The board and BCI share the belief that integrating long-term environmental, social and governance (ESG) matters into investment decisions is one of the fundamental principles that underlie the duty to grow and protect the value of the plan's fund.

These shared ESG investment beliefs provide a clear and transparent structure for how BCI works to achieve the plan's investment goals. BCI believes ESG matters make a difference because:

- Taking ESG matters into account allows investors to 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 are similar companies with less favourable practices

The board recognizes effective research, analysis and evaluation of ESG issues are fundamental to assessing the value and performance of an investment. BCI's corporate-wide ESG strategy reflects the input and views of the board, and lays out a unified approach that clearly and consistently integrates ESG at every stage of the investment process.

As an active asset owner, BCI applies its influence on behalf of the plan through voting rights, engagement activities, collaborative efforts and/or board seats to encourage companies to be transparent about their ESG risks and to adopt good corporate governance and operational practices.

…integrating long-term environmental, social and governance matters into investment decisions is one of the fundamental principles that underlie the duty to grow and protect the value of the plan's fund

Member
E.W. (Wim) Kok

BCI is a founding signatory of the Principles for Responsible Investment (PRI). PRI provides a set of principles for its global network of institutional investors. Each year, PRI signatories participate in an annual assessment of progress, which is a valuable tool that allows for benchmarking of practices. BCI is also a member of the steering committee for the 30% Club Canada, which advocates for companies to enhance gender diversity, and the Sustainability Accounting Standards Board (SASB), whose mandate is to promote standards of sustainability reporting.

Climate change is one of the most significant social and economic risks the world faces today. It remains a concern for the board, plan members and global investors. BCI's Climate Action Plan outlines activities to appropriately manage climate change risk across all asset classes, integrate climate change–related information into investment decision making and capitalize on investment opportunities from the long-term transition to a lower-carbon economy.

BCI collaborates with a number of other organizations in its ESG-related activities, including the International Corporate Governance Network, CDP (formerly Carbon Disclosure Project) and Investor Network on Climate Risk. BCI is also part of the investor-organized Climate Action 100+ initiative, which seeks to encourage the world's largest corporate greenhouse gas emitters to take meaningful action to curb their emissions.

For more information on BCI's ESG engagement activities and their impact on plan investments, see the BCI ESG annual report at bci.ca.

For information on BCI's ESG engagement activities and their impact on plan investments, see the BCI ESG annual report at **bci.ca**

Managing investment costs

BCI operates on a cost-recovery, not-for-profit basis, meaning the plan pays fees only to cover the cost of managing the investments. Since BCI manages a large number of assets, it has access to significant economies of scale when investing on behalf of the plan. Managing investment costs is important to the board, and BCI's fees continue to be much lower than those charged by investment managers in the private sector.

Investment management fees are affected by the types of assets under management, the plan's asset mix and BCI's investment strategy. The overarching objective of the plan is to earn enough investment income to fulfil its pension promises. Due to the persistently low interest rates offered by traditional fixed income investments like bonds, the plan has had to improve its diversification and invest more in asset classes that provide higher returns, such as private equity and private debt, real estate, infrastructure and renewable resources. These assets are by nature more complex and expensive to manage than publicly traded stocks and bonds, so fees are affected.

Investment holdings

Collectively, all assets help contribute to the plan's long-term growth, investment returns and diversification in the portfolio. Here are some examples of the plan's holdings:

Cloverdale Mall

Cloverdale is a long-established mall in the central Etobicoke area of Toronto that is undergoing redevelopment to become a sustainable, mixed-use urban community. The project is re-envisioning the retail sector to meet the needs of modern shoppers, which includes densifying the property for residential housing and adding pedestrian-oriented community amenities. Community engagement is an ongoing element of the project to respect the importance of this destination's neighbours. This upgrade of an existing investment will provide long-term value and growth for the portfolio.

Czech Grid Holding (CGH)

CGH is a regulated gas utility in the Czech Republic. CGH owns GasNet, the largest gas distribution system in the Czech Republic, covering over 80 per cent of the country and supplying natural gas to more than 2.3 million connection points for home heating and industrial processes.

The Czech Republic's natural gas demand is expected to increase over the next decade as part of Europe's transition away from coal and nuclear energy sources. Natural gas is part of the solution to meet emission reduction targets set by the European Union.

Waterlogic Holdings

Waterlogic is a leading point-of-use (POU) cooler company that designs, assembles, distributes and services POU water systems. It serves a diverse range of customers including factories, hospitals and offices. Waterlogic is at the forefront of the POU market, providing a lower environmental impact and a more cost-effective alternative to bottled water. Headquartered in the U.K., Waterlogic is a quality company led by a strong management team with a proven track record of delivering on its business plan.

Governance

Meet the trustees (as at August 31, 2020)

The College Pension Plan is governed through the Joint Trust Agreement, an agreement between the four plan partners: BC Government and Service Employees' Union (BCGEU), Federation of Post-Secondary Educators of BC (FPSE), Post-Secondary Employers' Association (PSEA) 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.

Kerry Clarke, Chair

Appointed by: Province of British Columbia and Post-Secondary Employers' Association
Committees: Benefits, governance, interplan audit, interplan coordination, interplan executive forum
Board term: 2017–current

Kerry Clarke was appointed to the board in December 2017 by the provincial government and the PSEA.

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.

Michael Lancaster, Vice-chair

Appointed by: Province of British Columbia
Committees: Benefits (chair), communications, governance, interplan coordination, interplan executive forum
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.

Doug Birtwistle

Appointed by: Federation of Post-Secondary Educators of BC
Committees: Benefits, governance (chair), interplan audit, interplan investment
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.

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 with the board, Weldon also sits on 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.

Candace Fertile

Appointed by: Federation of Post-Secondary Educators of BC
Committees: Benefits, communications, governance, interplan trustee education
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.

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.

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

Geraldine Hutchings

Appointed by: Province of British Columbia
Committees: Benefits, governance
Board term: 2012–current

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

Geraldine has practised 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. In addition to her role with the board, Geraldine also sits on the Pension Corporation Board of Directors.

Karen Maynes

Appointed by: Province of British Columbia
Committees: Benefits, governance
Board term: 2005–current

Karen Maynes was nominated to the board by the Post-Secondary Employers' Association and appointed to the board in April 2005 by the provincial government. In addition to her role with the board, Karen was appointed to the BCI Board of Directors in September 2014 as the representative for the College Pension Board of Trustees.

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.

Cameron McRobb

Appointed by: British Columbia Government and Service Employees' Union
Committees: Benefits, governance, interplan investment
Board term: 2012–current

Cameron McRobb was appointed to the board in January 2012 by BCGEU. He has 13 years' experience as an Okanagan College bargaining unit chair and nine 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, and he has received his ICD.D designation.

Paul Ramsey

Appointed by: Federation of Post-Secondary Educators of BC and British Columbia Government and Service Employees' Union
Committees: Benefits, communications (chair), 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 work 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 trustees spend on board business. Guidelines and rates are set out in the board's remuneration policy, available on the plan's website.

Trustees receive remuneration directly if they are not paid for time spent on board duties from any other organization.

Under the policy, remuneration may be adjusted annually by an amount equal to the cost-of-living adjustment made to pension payments.

Trustee remuneration

year ended August 31, 2020

Trustee	Retainer	Per diem	Total remuneration	Paid to
Kerry Clarke (Chair)	$ 8,429.33	$ 6,936.00	$ 15,365.33	Selkirk College
Michael Lancaster (Vice-chair)	6,322.00	7,356.00	13,678.00	BC Public Service Agency
Cameron McRobb	4,214.67	5,464.00	9,678.67	BC Government & Service Employees' Union
Candace Fertile	4,214.67	7,556.00	11,770.67	Federation of Post-Secondary Educators of BC
Carl Fischer	4,214.67	5,032.00	9,246.67	Province of BC
Doug Birtwistle	4,214.66	7,168.00	11,382.66	Federation of Post-Secondary Educators of BC
Geraldine Hutchings	4,214.67	4,624.00	8,838.67	Minister of Finance
Karen Maynes	4,214.67	3,156.00	7,370.67	Board Member
Paul Ramsey	4,214.67	5,884.00	10,098.67	Board Member
Weldon Cowan	4,214.66	3,788.00	8,002.66	Federation of Post-Secondary Educators of BC
Total	**$48,468.67**	**$56,964.00**	**$105,432.67**	

Remuneration rates

Calendar year

	2019		2020	
	Per diem	Quarterly retainer	Per diem	Quarterly retainer
Chair	$416.00	$2,082.00	$424.00	$2,120.00
Vice-chair	416.00	1,561.50	424.00	1,590.00
Board member	416.00	1,041.00	424.00	1,060.00

Trustee activities

For the year ending August 31, 2020, the board met for four regularly scheduled two-day meetings. In addition, trustees conducted board business at both regularly scheduled and ad hoc meetings on 29 other days. Trustees attended a number of virtual events, webcasts and educational sessions.

Board committees

There are a number of standing committees of the board that meet regularly to deal with specific areas of pension plan administration. The board also strikes ad hoc committees as required.

Benefits

Members: Michael Lancaster (chair); all trustees (committee of the whole)

The benefits 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 and dental benefit plan design, coverage levels and cost.

Communications

Members: Paul Ramsey (chair), Weldon Cowan, Candace Fertile, Michael Lancaster

The communications committee supports the board in its commitment to provide excellent communications 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 the principles of plain language, plan identity and best practices.

Governance

Members: Doug Birtwistle (chair); all trustees (committee of the whole)

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

Interplan audit

Members: Doug Birtwistle, Kerry Clarke

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

- Monitors and reports to the boards about the compliance of financial statements to Canadian accounting standards for pension plans
- Recommends and monitors the performance of an independent auditor
- 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 coordination

Members: Kerry Clarke, Michael Lancaster

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 the Pension Board Secretariat.

Interplan executive forum

Members: Kerry Clarke, Michael Lancaster

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 investment

Members: Doug Birtwistle, Carl Fischer, 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

Members: Weldon Cowan (chair), Candace Fertile

This committee provides opportunities and advice to trustees on developing knowledge and skills. It also works on common educational issues for the College, Municipal, Public Service, and Teachers' pension plans.

Plan agents and service providers

British Columbia Investment Management Corporation (BCI) provides investment management services to the College Pension Plan as an agent of the board. BCI is one of Canada's largest investment managers, with a portfolio of $171.3 billion as at March 31, 2020. It offers investment options across a range of asset classes, including infrastructure, renewable resources and long-term strategic themes.

British Columbia Pension Corporation provides professional pension services to the plan. One of Canada's largest pension service providers, the corporation serves the largest public sector pension plans in British Columbia, representing more than 600,000 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.

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

Willis Towers Watson is the plan's benefits advisor.

Membership

Who's in the plan?

Membership in the plan is open to employees and senior administrators providing educational services to students at any of the plan's 23 employers.

Employers are either subject to BC's *College and Institute Act* or have been allowed to join the plan by the College Pension Board of Trustees.

As of August 31, 2020, the number of active plan members had an annual increase of 2 per cent, while the number of retired members increased by 6 per cent.

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 15,239 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 6,951 inactive plan members—22 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 a disability benefit from the plan are also counted in this group. There are 8,936 retired plan members—29 per cent of the membership.

Limited members are members' former spouses who applied to the plan following a separation or divorce and are entitled to a portion of a pension. These members are included in the active, inactive, and retired totals.


Member
Marcie Lundin


Member
Bruce Hamilton


Member
Carol Ponti


Retired member
Jonathan Baylis

Employers

Participating employers
as at August 31, 2020

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 and 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 25 cents of every dollar retired members receive comes from their contributions and their employers' contributions; the remaining 75 cents comes from investment returns.

As a retirement savings vehicle for more than 31,000 plan members, the plan holds over $5 billion in net assets available for benefits.

Benefits

Basic lifetime pension benefit

The plan's basic lifetime pension benefit is based on an accrual rate, the member's years of pensionable service in the plan and the average of the member's highest five years of salary (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.

Bridge benefit for service earned before January 1, 2016

If a member retires 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 the member's retirement date until age 65 (or death, whichever is earlier).

Access to post-retirement group benefits

Retired plan members have access to voluntary unsubsidized extended health care and dental coverage.

Temporary annuities

Members can buy an optional temporary annuity (additional monthly payment) to increase their monthly income until age 65 or death, whichever comes first. If a member does buy a temporary annuity, their basic lifetime pension income after age 65 will be lower than it would be if they did not buy the annuity. Members who retire at an earlier age will pay a higher amount for the temporary annuity.

Termination and refund benefits

Depending on their age, members who leave the plan may choose one of the following:

- Defer their pension and apply for it at a later date
- Transfer the commuted value of their pension to a locked-in retirement vehicle
- Apply for a monthly pension (if they have reached earliest retirement age)
- Transfer their service to another pension plan

Service transfers

When moving to an employer with a different pension plan, members may be able to transfer their service if a transfer agreement is in place between the College Pension Plan and the other plan.

Service purchases

Members may be able to increase their future pension by buying service—paying for periods of employment not already counted as service with the plan. Examples include:

- Leaves of absence (such as family responsibility, compassionate care and general leaves)
- Arrears contributions (occurring if a member was not enrolled properly or if their contributions were not deducted and remitted)
- Buying service for periods of reduced pay

Depending on the type of service they choose to buy, members may be responsible for paying both the employee and employer portions, or just the employee portion.

Services and communications

Plan website and My Account

The plan website provides the resources and tools that members need to better understand their plan and make informed decisions regarding their pension.

Member
Art Williams

Members can opt in to receiving communications through digital channels—doing so allows members to receive information quickly and with less use of paper

The most important part of a member's online experience is My Account: a secure online portal where members can review and update their personal pension information. My Account offers members personalized pension and purchase cost estimators to help with their planning, service and salary summaries, the ability to update their beneficiary information and the ability to apply for their pension online once they are ready to retire.

Recent digital initiatives include:

- Digital opt-in: members can opt in to receiving communications through digital channels—doing so allows members to receive information quickly and with less use of paper
- Improved security: password security has been enhanced to better protect online interactions and member information
- Online member education: the plan launched *Making the Most of Your Pension* and *Approaching Retirement*—two instructor-led online courses designed to help members find answers to their pension questions
- Enhanced workshop registration: the new registration system enables members and employers to sign up for webinars, and provides auto alerts about changes in venue, workshop times and wait lists
- Pension payment options: retired members can sign up for direct deposit of pension payments; international pension payments can now be sent electronically
- Purchase of service: members can use online banking to pay for purchases of service

Pension communications

In addition to communications through the website and My Account, active and retired members can choose to receive newsletters, reports and statements digitally or in print. Special ad hoc bulletins are distributed to active members through their employer.

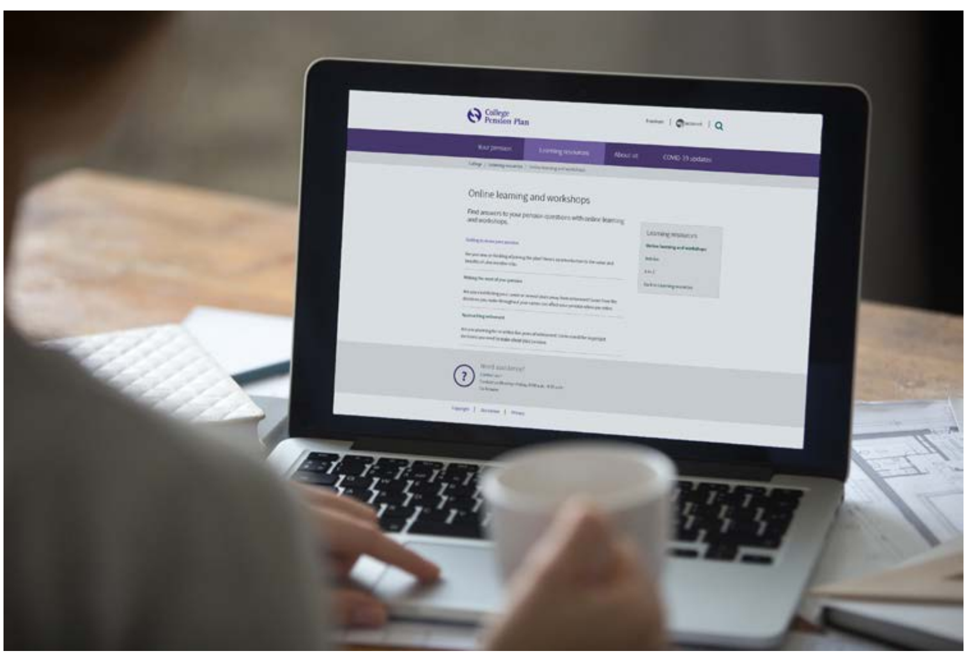
Member services

In cases where members need more personalized support, the plan has skilled staff available by phone and email to assist with issues like marital breakdowns, the death of a spouse, retirement planning questions and employment transfers and more.

Member workshops

Due to the COVID-19 pandemic, in-person workshops were suspended and new online offerings were started.

Online educational resources for plan members include the introductory course *Getting to Know Your Pension* and two workshops: *Making the Most of Your Pension* and *Approaching Retirement*. Designed to help educate members at all career stages, these online workshops make important information available to members at their convenience.



Online workshops make important information available to members at their convenience

Plan rule updates

The following plan rule updates were effective in 2019 or 2020.

Positive valuation leads to positive changes

The plan's valuation as at August 31, 2018, shows the plan has actuarial assets of $5.2 billion and actuarial liabilities of $4.9 billion. The plan is in a surplus situation. As a result, contribution increases tied to contractual raises and the cap on annual cost-of-living adjustments were both eliminated, and a rate stabilization account was established to help offset potential contribution rate increases in the case of future negative valuations. All changes were effective December 1, 2020.

New option for buying service

Effective May 1, 2020, the plan rules have been amended to allow members to make pension contributions during an approved leave of absence under the *Employment Standards Act* (ESA). Members can now either make pension contributions during their ESA leave or buy back service after the leave.

New leave types add coverage for COVID-19

Effective March 23, 2020, the ESA was amended to allow leaves for personal illness or injury and for COVID-19-related considerations (quarantine, a COVID-19 diagnosis or child care in the case of a closed school, for example). If members have to take leave for any of these reasons, they can now buy the service for that time.

Administrative amendments

Language was updated to clarify that a member's temporary annuity is based only on the maximum benefit payable under the *Old Age Security Act*.

The plan rules were amended to clarify that post-retirement group benefits administration costs are paid from the inflation adjustment account.

Other housekeeping amendments were made to maintain consistency with other plan rules and remove unnecessary terms and provisions.

Graphs, tables and charts

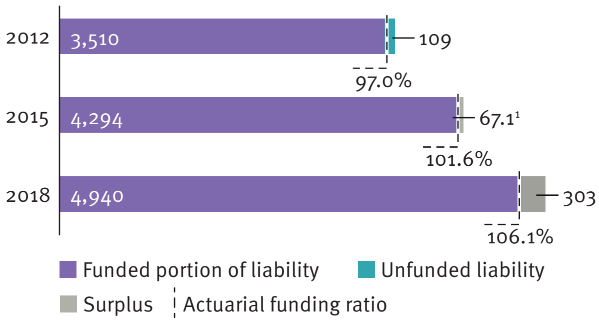
Financial summary

Five-year financial summary (2016–2020)
($ millions) year ended August 31

	2020	2019	2018	2017	2016
Increase in assets					
Investment income	**$ 438.0**	$ 303.9	$ 486.8	$ 322.9	$ 272.0
Contributions					
Employers	**96.0**	90.0	84.6	78.3	75.0
Members	**95.3**	89.3	83.8	78.1	74.4
Transfers from other plans	**9.4**	4.3	4.9	6.6	5.5
Total increase in assets	**638.7**	487.5	660.1	485.9	426.9
Decrease in assets					
Pension benefits	**217.5**	200.1	190.2	173.9	163.8
Transfers to other plans	**2.4**	1.3	1.1	2.2	1.7
Investment and administration costs[1]	**15.3**	13.5	15.5	12.4	12.8
Total decrease in assets	**235.2**	214.9	206.8	188.5	178.3
Increase in net assets	**403.5**	272.6	453.3	297.4	248.6
Net assets available for benefits at beginning of year	**5,343.6**	5,071.0	4,617.7	4,320.3	4,071.7
Net assets available for benefits at end of year	**$5,747.1**	$5,343.6	$5,071.0	$4,617.7	$4,320.3
Investment and administration costs[1] as a percentage of net assets					
Investment management	**0.38%**	0.32%	0.33%	0.27%	0.25%
Benefits administration	**0.08%**	0.09%	0.09%	0.09%	0.10%

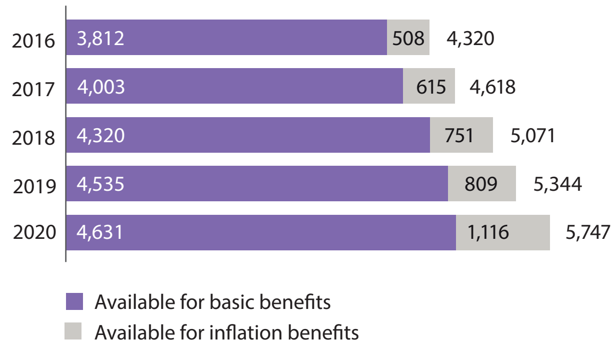
1 Unallocated & external investment management costs of $10.1 million (2019 —$7.7 million; 2018 — $4.7 million; 2017 — $4.0 million; 2016 — $2.1 million) reduce investment income and are not included in investment and administration costs. They are included in investment management costs as a percentage of net assets.

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

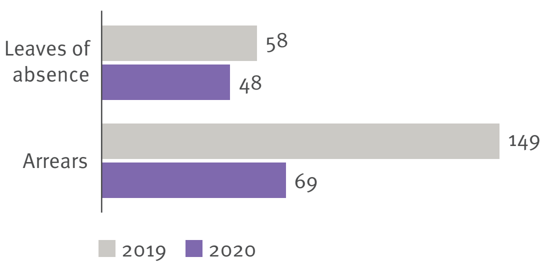


1 Actuarial surplus is $154.3 million (103.6%) with previously scheduled amortization

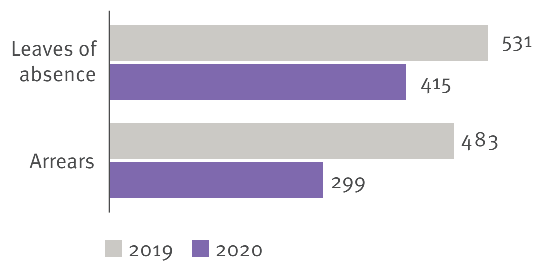
Net assets available for benefits ($ millions)
as at August 31



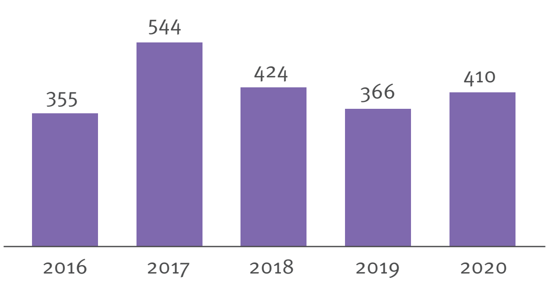
Number of purchases
year ended August 31



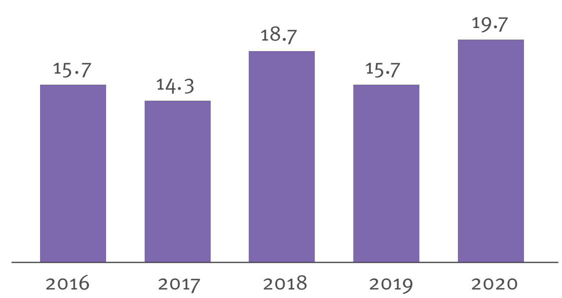
Value of purchases ($ thousands)
year ended August 31



Number of termination and refund benefits paid
year ended August 31



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

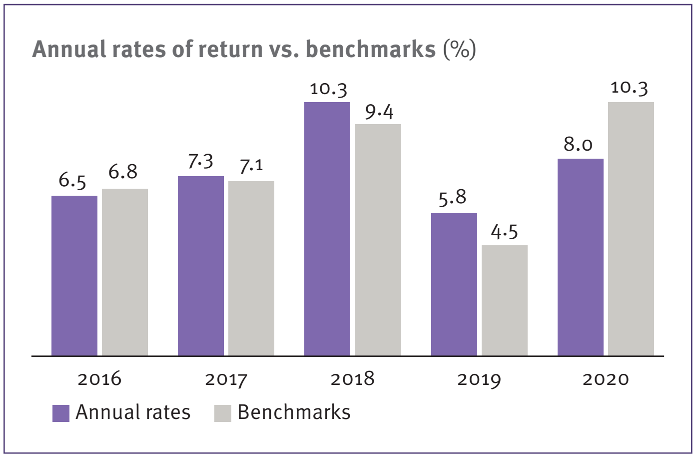


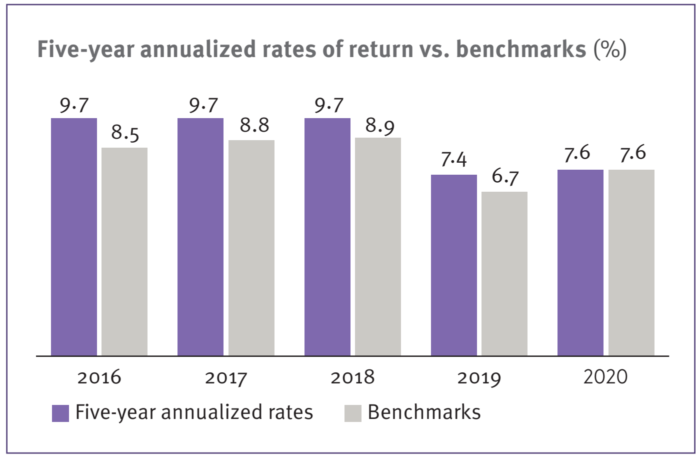
Investment summary

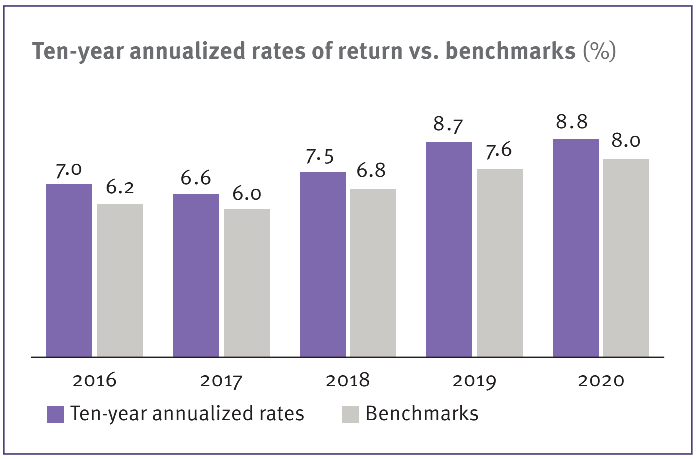
Asset mix and performance (%)
as at August 31, 2020

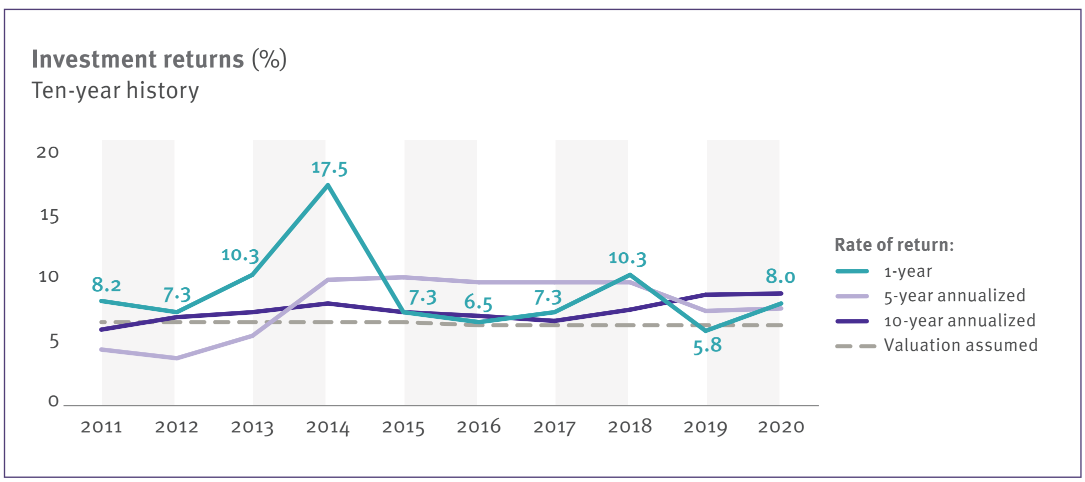
Asset	Approved ranges	Target asset mix market value	Actual asset mix market value	One-year rate of return	Performance benchmark[1]
Fixed income	**10–35**	**20**	**18.6**	**4.9**	**5.3**
Short-term	0-10	2	2.2	0.0	1.4
Mortgages	0-10	4	3.3	3.0	4.8
Bonds	8-25	14	13.1	6.4	5.8
Public equity	**32-57**	**44**	**43.5**	**12.8**	**12.5**
Canadian equities	5-17	10	10.2	4.0	3.8
Global equities	17-35	24	23.3	15.6	15.0
Emerging markets	5-15	10	10.0	15.0	12.3
Real estate	**8-21**	**15**	**14.9**	**0.6**	**4.1**
Realpool domestic	n/a	n/a	9.6	0.6	4.1
International real estate	n/a	n/a	5.3	0.3	4.1
Private placements and IRR[2]	**10–30**	**21**	**22.0**	**n/a**	**n/a**
Private equity	3-15	9	10.6	10.4	16.5
IRR[2]	7-17	12	11.4	5.1	7.0
Other	**0–5**	**0**	**1.0**	**2.7**	**n/a**
Total portfolio		**100**	**100.0**	**8.0**	**10.3**

1 Benchmarks are objective standards approved by the board to evaluate actual investment returns
2 Infrastructure and renewable resources


Annual rates of return vs. benchmarks (%)
6.5
6.8
7.3
7.1
10.3
9.4
5.8
4.5
8.0
10.3
2016
2017
2018
2019
2020
Annual rates
Benchmarks


Five-year annualized rates of return vs. benchmarks (%)
9.7
8.5
9.7
8.8
9.7
8.9
7.4
6.7
7.6
7.6
2016
2017
2018
2019
2020
Five-year annualized rates
Benchmarks


Ten-year annualized rates of return vs. benchmarks (%)
7.0
6.2
6.6
6.0
7.5
6.8
8.7
7.6
8.8
8.0
2016
2017
2018
2019
2020
Ten-year annualized rates
Benchmarks


Investment returns (%)
Ten-year history
20
15
10
5
0
8.2
7.3
10.3
17.5
7.3
6.5
7.3
10.3
5.8
8.0
2011
2012
2013
2014
2015
2016
2017
2018
2019
2020
Rate of return:
1-year
5-year annualized
10-year annualized
Valuation assumed

Investment portfolio

Top 25 company holdings[1]
as at August 31, 2020

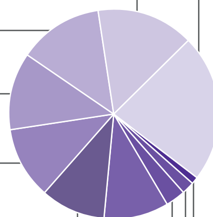
Total public equity exposure—worldwide

Company	% of portfolio	% of public equity	Total exposure (million)
Toronto-Dominion Bank	0.7	1.7	$ 39.2
Royal Bank of Canada	0.6	1.5	34.8
Shopify Inc	0.6	1.3	31.9
Brookfield Asset Management Inc	0.5	1.1	26.5
Alibaba Group Holding Ltd	0.4	1.0	24.6
Tencent Holdings Ltd	0.4	0.9	20.7
Taiwan Semiconductor Manufacturing Co Ltd	0.3	0.9	20.4
Canadian Pacific Railway Ltd	0.3	0.7	17.3
Canadian National Railway Co	0.3	0.7	16.5
TC Energy Corp	0.3	0.7	15.4
Barrick Gold Corp	0.2	0.6	14.8
Samsung Electronics Co Ltd	0.2	0.6	14.1
Constellation Software Inc	0.2	0.6	13.8
Franco-Nevada Corp	0.2	0.5	12.6
Microsoft Corp	0.2	0.5	11.8
Alimentation Couche-Tard Inc	0.2	0.5	11.7
Enbridge Inc	0.2	0.5	11.6
Bank of Nova Scotia	0.2	0.5	11.3
Sun Life Financial Inc	0.2	0.4	10.5
Apple Inc	0.2	0.4	10.2
Wheaton Precious Metals Corp	0.2	0.4	10.1
Amazon.com Inc	0.2	0.4	9.4
Mastercard Inc	0.2	0.4	9.4
Fraport AG Frankfurt Airport Services Worldwide	0.2	0.4	8.9
Suncor Energy Inc	0.1	0.4	8.8
Total top 25	**7.3**	**17.6**	**$ 416.4**
Total public equity			**$2,365.4**
Total portfolio			**$5,741.3**

1 Company regional exposures are based on pool fund asset class designations, per the Statement of Investment Policy and Procedures

Investment holdings[1] ($ millions) (market value)
as at August 31, 2020

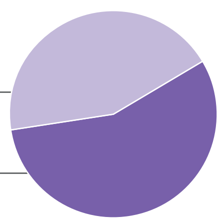
Global equities	$1,336.3	23%
Real estate	$845.3	15%
Bonds	$753.9	13%
Infrastructure and renewable resources	$655.1	12%
Private equity	$606.9	11%
Canadian equities	$583.3	10%
Emerging markets equities	$577.9	10%
Mortgages	$190.4	3%
Short-term	$126.1	2%
Other	$57.1	1%



1 Asset classifications vary from the financial statements for performance reporting

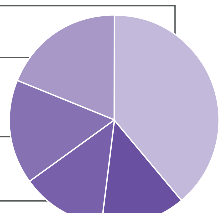
Foreign currency exposure (% market value)
as at August 31, 2020

Foreign	44
Canadian	56



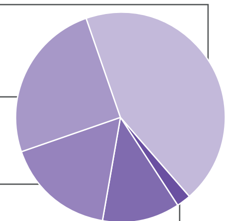
Infrastructure and renewable resources regional diversification (%)
as at August 31, 2020

United States	39
South America	19
Europe	16
Canada	13
Australia	13



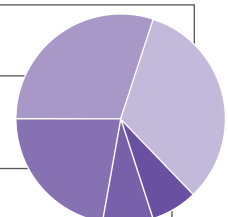
Real estate, by location (%)
as at August 31, 2020

Global	44.0
Ontario	25.0
British Columbia	17.0
Alberta	12.0
Rest of Canada	2.0



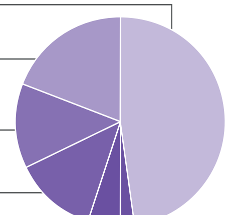
Domestic real estate, by type (%)
as at August 31, 2020

Office	33.0
Residential	30.0
Industrial	22.0
Retail	8.0
Other	7.0

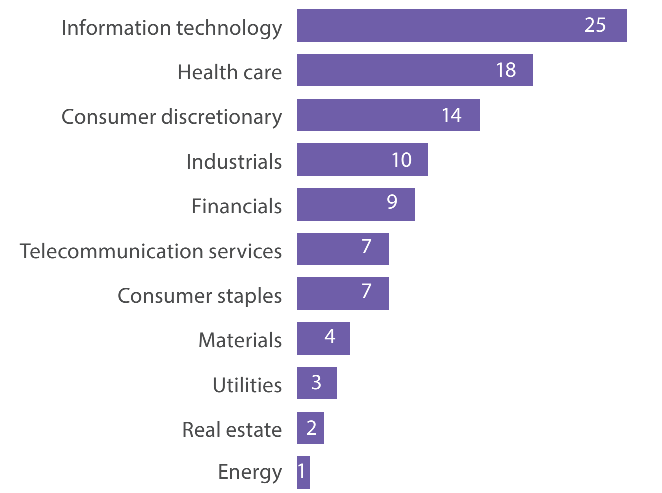


Private equity regional diversification (%)
as at August 31, 2020

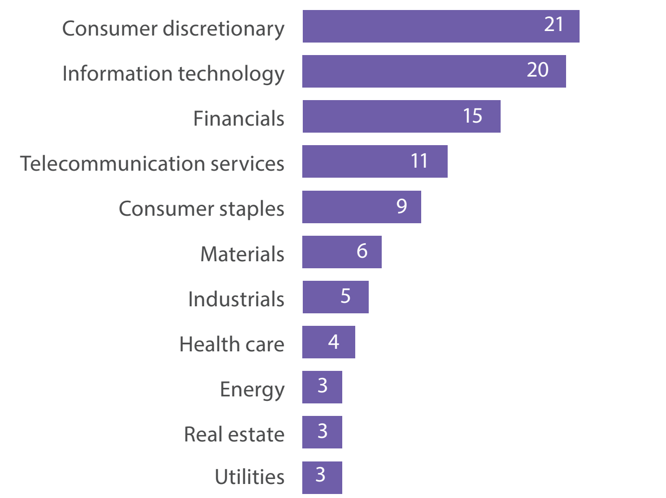
United States	48
Europe	19
Asia-Pacific	13
United Kingdom	13
Rest of the world	5
Canada	2



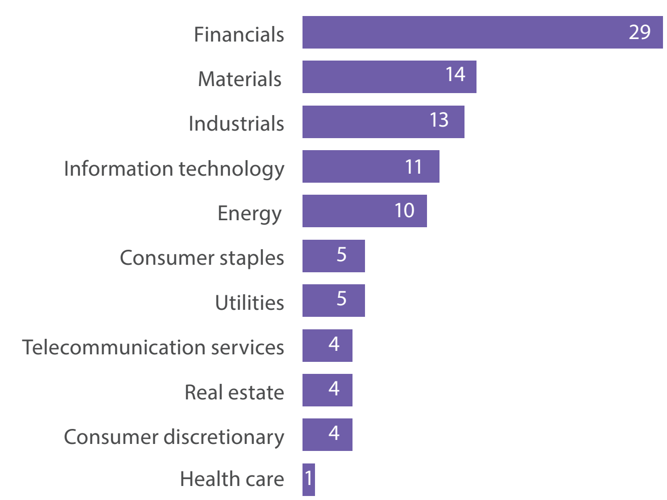
Global equities, by sector (%)
as at August 31, 2020



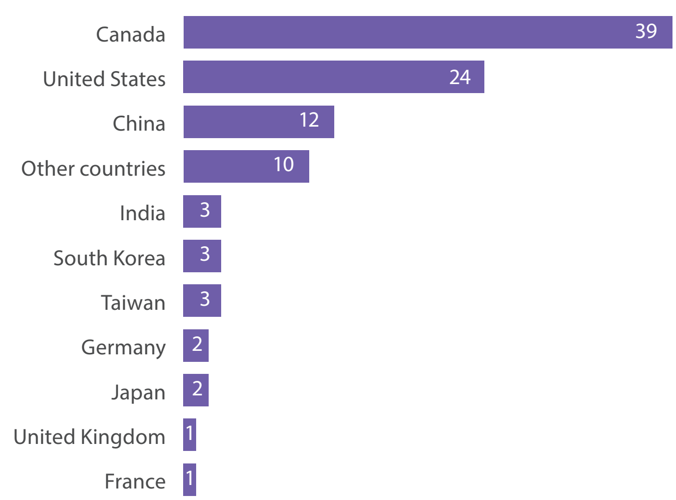
Emerging markets equities, by sector (%)
as at August 31, 2020



Canadian equities, by sector (%)
as at August 31, 2020

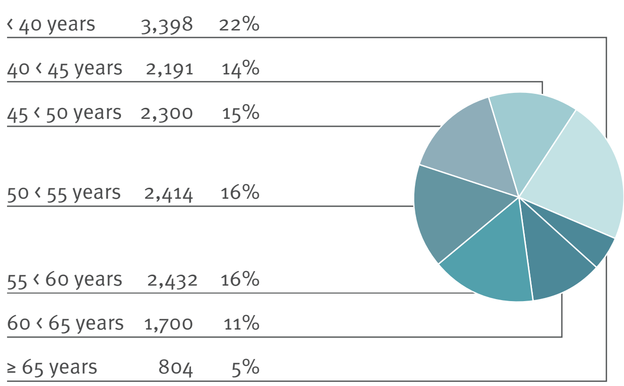


Public equities, by country (%)
as at August 31, 2020

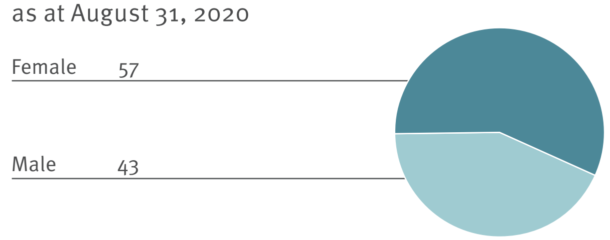


Membership summary

Active members, by age
as at August 31, 2020



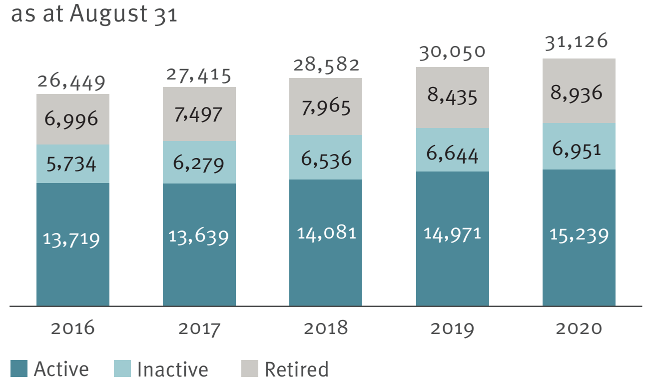
Active members, by sex (%)
as at August 31, 2020



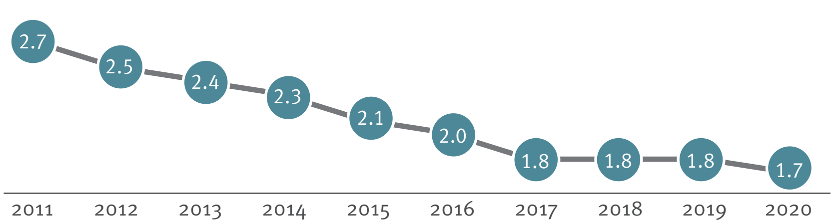
Contribution rates as a percentage of salaries (%)

Effective date	Member	Employer
August 31, 2020	10.24	10.34

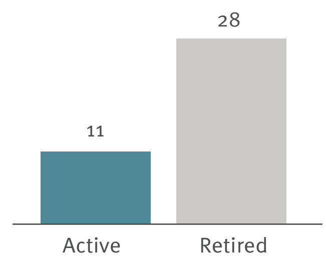
Number of members
as at August 31



Ratio of active to retired members
as at August 31



Growth in membership (%)
August 31, 2016 to August 31, 2020



Profile of pensions
year ended August 31

				$ millions		
Year	New pensions	Pensions ended during year	Pensions in pay	Pensions paid	Inflation adjustments paid	Total pensions paid
2020	**606**	**105**	**8,936**	**$ 171.0**	**$ 26.7**	**$ 197.7**
2019	556	86	8,435	150.5	21.0	171.5
2018	560	92	7,965	140.2	19.3	159.5
2017	675	74	7,497	130.3	17.8	148.1
2016	630	87	6,996	118.9	16.3	135.2

New pensions, by type
year ended August 31

Year	Regular	Limited member	Survivor	LTD[1] to pension and disability	Deferred	Total
2020	**366**	**9**	**5**	**28**	**198**	**606**
2019	384	7	10	23	132	560
2018	381	7	11	19	142	575
2017	372	4	6	30	163	630
2016	429	19	5	27	150	486

1 Long-term disability

New pension profile
year ended August 31, 2020

Years of service	Number of new pensions: Age at retirement < 55[1]	55 < 60	60 < 65	≥ 65	Total	Average annual salary base	Average annual pension[2,3]	Median annual pension[2,4]	Average lifetime annual pension[3,5]	Median lifetime annual pension[4,5]
< 10	0	54	86	144	**284**	$ 78,751	$ 4,806	$ 2,664	$ 4,255	$ 2,434
10 < 15	1	18	37	30	**86**	89,839	20,787	19,683	18,330	17,508
15 < 20	0	27	26	39	**92**	96,388	30,086	29,150	27,564	27,155
20 < 25	0	12	29	24	**65**	93,154	36,173	36,591	33,559	34,686
25 < 30	0	8	13	25	**46**	92,493	45,002	46,496	42,738	43,866
30 < 35	0	1	9	13	**23**	92,938	49,979	52,479	47,503	49,155
≥ 35	0	0	0	10	**10**	89,350	59,341	55,465	59,341	55,465
Total	**1**	**120**	**200**	**285**	**606**					
Average						**$86,303**	**$19,992**	**$17,249**	**$18,453**	**$15,553**

	Average years of service				
Male	0	10	13	12	12
Female	13	12	13	13	13
Average	**13**	**12**	**13**	**12**	**12**
Average age at retirement					**64**

1 Relates to limited member and survivor pensions
2 Includes bridge benefits and temporary annuities
3 Total new pensions divided by total new pension recipients
4 Half of the new pensions are less than this amount and half of the new pensions are greater than this amount
5 The lifetime pension does not include bridge benefits or temporary annuities that end at age 65

Financial statements

February 12, 2021

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 College Pension Board of Trustees (Board) in accordance with Canadian accounting standards for pension plans. The Board is responsible for approving the Plan's financial statements. The Board is assisted by the Interplan Audit Committee (Committee), which is made up of representatives from the Public Service, Municipal, Teachers' and College pension boards of trustees. As part of its responsibility, the Committee reviews the financial statements, and performs steps and procedures as necessary, prior to recommending them to the Board for approval.

Pension Corporation prepares the financial statements 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 Canadian accounting standards for pension plans. In discharging its responsibility, Pension Corporation maintains a system of internal controls designed to provide reasonable assurance that transactions are properly authorized, reliable financial records are maintained and assets are adequately safeguarded, ensuring the fair presentation of the financial statements. Pension Corporation has assessed that the Plan will continue as a going concern and ensured that other financial information contained in the *College Pension Plan Annual Report* is consistent with these 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 auditor's report attached to these financial statements.

Trevor Fedyna, CPA, CGA, C. Dir.	**Allan Chen, CPA, CA**
Vice-president, Strategy, Insights and Chief Financial Officer	Controller, Financial Services
British Columbia Pension Corporation	British Columbia Pension Corporation

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INDEPENDENT AUDITORS' REPORT

To the Members of the College Pension Plan

Opinion

We have audited the financial statements of the College Pension Plan (the "Plan"), which comprise:

- the statement of financial position as at August 31, 2020
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in accrued pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at August 31, 2020, and the changes in its net assets available for benefits and the changes in its accrued pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian 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.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

College Pension Plan
Page 3

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

College Pension Plan
Page 4

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
February 12, 2021

COLLEGE PENSION PLAN

Statement of financial position

($ millions)

College Pension Plan

As at August 31	Note		2020		2019
Assets					
Investments	3a	$	**5,726.0**	$	5,337.2
Directly held derivatives	3b		**22.9**		7.1
Receivables					
Due from sale of investments			**-**		9.3
Employers' contributions			**4.0**		3.5
Members' contributions			**4.0**		3.5
Accrued interest			**0.7**		-
			8.7		16.3
Prepaid expenses			**0.6**		0.4
Total assets			**5,758.2**		5,361.0
Liabilities					
Directly held derivatives	3b		**7.9**		2.7
Taxes payable			**2.1**		2.1
Accounts payable and accrued expenses			**0.8**		2.4
Payable for purchase of investments			**0.3**		10.2
Total liabilities			**11.1**		17.4
Net assets available for benefits		**$**	**5,747.1**	**$**	**5,343.6**
Accrued pension obligations					
Accrued basic pension obligations	4a	$	**4,121.0**	$	3,896.9
Non-guaranteed pension obligations	4b		**1,115.9**		808.8
Accrued pension obligations			**5,236.9**		4,705.7
Surplus					
Funding surplus	5a		**23.6**		362.0
Measurement differences between funding and accounting positions	5a		**486.6**		275.9
Surplus			**510.2**		637.9
Accrued pension obligations and surplus		**$**	**5,747.1**	**$**	**5,343.6**

All accompanying notes are an integral part of the financial statements including:

Commitments (note 14)

Approved by the College Pension Board of Trustees:

Michael Lancaster, Chair
College Pension Board of Trustees

Doug Birtwistle, Trustee
College Pension Board of Trustees

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 2020	Totals 2019
Increase in assets						
Investment income	8	$ 374.9	$ 63.1	$ -	**$ 438.0**	$ 303.9
Contributions						
Member	9	78.0	17.2	0.1	**95.3**	89.3
Employer	9	78.0	17.2	0.8	**96.0**	90.0
		156.0	34.4	0.9	**191.3**	179.3
Transfers from other plans		8.2	1.2	-	**9.4**	4.3
Total increase in assets		539.1	98.7	0.9	**638.7**	487.5
Decrease in assets						
Benefits	10	214.3	2.3	0.9	**217.5**	200.1
Transfers to other plans		2.0	0.4	-	**2.4**	1.3
Investment and administration fees	12	13.8	1.5	-	**15.3**	13.5
Total decrease in assets		230.1	4.2	0.9	**235.2**	214.9
Increase in net assets before transfers		309.0	94.5	-	**403.5**	272.6
Account transfers	13	(212.6)	212.6	-	**-**	-
Increase in net assets		**96.4**	**307.1**	-	**403.5**	**272.6**
Net assets available for benefits at beginning of year		4,534.8	808.8	-	**5,343.6**	5,071.0
Net assets available for benefits at end of year		**$ 4,631.2**	**$ 1,115.9**	**$ -**	**$ 5,747.1**	**$ 5,343.6**

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

COLLEGE PENSION PLAN

Statement of changes in accrued pension obligations

($ millions)

College Pension Plan

For the year ended August 31	Note	2020	2019
Increase in accrued pension obligations			
Interest on accrued pension obligations		$ **243.4**	$ 230.0
Benefits accrued		**163.9**	150.4
Account transfers		**38.5**	39.0
Total increase in accrued pension obligations		**445.8**	419.4
Decrease in accrued pension obligations			
Benefits paid		**221.7**	203.7
Experience gains	4a	-	77.5
Changes in actuarial assumptions	4a	-	6.0
Total decrease in accrued pension obligations		**221.7**	287.2
Net increase in accrued pension obligations		**224.1**	132.2
Accrued basic pension obligations at beginning of year		**3,896.9**	3,764.7
Accrued basic pension obligations at end of year	4a	**4,121.0**	3,896.9
Increase in non-guaranteed pension obligations	4b	**307.1**	57.7
Non-guaranteed pension obligations at beginning of year		**808.8**	751.1
Non-guaranteed pension obligations at end of year	4b	**1,115.9**	808.8
Total accrued pension obligations		**$ 5,236.9**	**$ 4,705.7**

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, 2020

($ 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

Partners

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.

Board

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.

British Columbia Pension Corporation (Pension Corporation)

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.

British Columbia Investment Management Corporation (BCI)

BCI provides investment management services, including the valuation of investments, 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, 2020

($ 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 a triennial actuarial valuation 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

Basic Account

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

Inflation Adjustment Account and Supplemental Benefits Account

Effective April 1, 2019, members and employers each contributed 1.85% (1.76% effective April 1, 2018) of salaries to the Inflation Adjustment Account (IAA), less amounts allocated to the SBA.

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; this 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). The Plan provides a 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. The early retirement reduction applied, for members who are under age 60 with two or more years of contributory service, is either 3% or 5% for each year a member is below age 60, depending on certain criteria. For members with less than two years of contributory service, the reduction is 5% for each year a member is below age 65.

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 HAS for each year of pensionable service.

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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

1. DESCRIPTION OF THE COLLEGE PENSION PLAN (CONTINUED)

e) Pension benefits (continued)

Generally these cost-of-living adjustments cannot exceed the lesser of the maximum sustainable indexing rate, as recommended by the actuary, 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. However, the Board maintains discretion to grant costs-of-living adjustments over the maximum sustainable indexing rate but not exceeding the CPI as described above. They are subject to availability of funds in the IAA.

The Board annually considers all relevant factors and its IAA funding policy to determine the amount of the cost-of-living adjustment, if any.

f) Termination and portability benefit

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 their benefit 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 service to another pension plan.

g) Other benefits

Disability and survivor benefits are also available under the Plan. A disability benefit is available to a member under age 65 who has 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 disability benefit is calculated using a member's years of pensionable service to the date of termination of employment and HAS. Disability benefits 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 SBA.

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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of presentation

These financial statements are prepared on the going-concern basis in accordance with Canadian accounting standards for pension plans, Part IV of the *Chartered Professional Accountants of Canada Handbook* (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 obligations.

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 on which the substantial risks and rewards of ownership have been transferred).

c) Accrued pension obligations

Accrued pension obligations are determined based on an actuarial valuation prepared by an independent actuarial consulting firm. The Plan actuary is Eckler Ltd. The valuation of accrued pension obligations is based on data extrapolated to the financial statement date. The valuation uses the projected benefit method pro-rated on service that incorporates the independent actuary's estimate of various economic and demographic 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.

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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Use of estimates

The preparation of financial statements, in conformity with Canadian accounting standards 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 obligations 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	2020			2019		
	Basic account	Inflation adjustment account	Total	Basic account	Inflation adjustment account	Total
Short-term	$ 118.1	$ 20.1	$ 138.2	$ 92.8	$ 16.0	$ 108.8
Bonds	680.0	115.5	795.5	654.0	112.4	766.4
Canadian equities	499.1	84.8	583.9	436.1	75.0	511.1
Global equities	1,142.3	194.0	1,336.3	1,150.3	197.8	1,348.1
Emerging markets equities	494.0	83.9	577.9	432.5	74.3	506.8
Mortgages	160.9	27.3	188.2	157.0	27.0	184.0
Real estate	725.4	123.2	848.6	721.2	124.0	845.2
Private equity	518.8	88.1	606.9	417.1	71.7	488.8
IRR*	556.0	94.5	650.5	493.2	84.8	578.0
	$ 4,894.6	$ 831.4	$ 5,726.0	$ 4,554.2	$ 783.0	$ 5,337.2

* Infrastructure and renewable resources

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, global and emerging markets 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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

a) Investments (continued)

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 equity investments made outside the structure of public markets. Private equity is valued annually based on audited financial statements from external investment managers using a discounted cash flow or net asset value method.

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 a market-based approach or net asset value method.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ 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	2020		2019	
	Positive fair value	Negative fair value	Positive fair value	Negative fair value
Directly held				
Foreign currency forwards	$ 22.9	$ (7.9)	$ 7.1	$ (2.7)
	22.9	(7.9)	7.1	(2.7)
Indirectly held in pooled investment portfolios				
Foreign currency forwards	1.4	(0.3)	0.5	(0.3)
Options	1.5	(1.4)	1.2	(1.1)
Futures	-	-	0.2	-
Interest rate swaps	-	(9.9)	-	(5.0)
Total return swaps	37.9	(5.3)	7.0	(13.5)
	40.8	(16.9)	8.9	(19.9)
Total derivatives	$ 63.7	$ (24.8)	$ 16.0	$ (22.6)
Derivatives by investment asset classification				
Bonds	$ 1.2	$ (0.4)	$ 0.6	$ (0.2)
Canadian equities	0.6	(0.8)	0.9	(1.2)
Global equities	31.5	(10.6)	6.8	(6.0)
Emerging markets equities	7.4	(5.1)	0.6	(12.4)
Mortgages	2.2	-	0.2	(0.3)
Real estate	8.1	(3.1)	2.7	(1.5)
IRR*	12.7	(4.8)	4.2	(1.0)
	$ 63.7	$ (24.8)	$ 16.0	$ (22.6)

*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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Options are contracts that give 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 and for risk control.

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 interest 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 U.S. 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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

3. INVESTMENTS (CONTINUED)

b) Derivatives (continued)

Notional value of derivatives			2020	2019
Term to maturity	**Within 1 year**	**1 to 5 years**	**Total**	**Total**
Derivatives by type of contract				
Foreign currency forwards	$ 872.2	$ 4.7	$ 876.9	$ 732.2
Options	14.4	-	14.4	92.5
Futures	-	-	-	5.5
Interest rate swaps	157.4	448.3	605.7	528.7
Total return swaps	1,398.9	15.0	1,413.9	1,010.2
	$ 2,442.9	$ 468.0	$ 2,910.9	$ 2,369.1
Derivatives by investment asset classification				
Bonds	$ 39.5	$ -	$ 39.5	$ 76.2
Canadian equities	75.2	10.5	85.7	265.3
Global equities	1,181.5	344.5	1,526.0	900.3
Emerging markets equities	325.3	113.0	438.3	466.8
Mortgages	93.2	-	93.2	67.3
Real estate	342.8	-	342.8	344.2
IRR*	385.4	-	385.4	249.0
	$ 2,442.9	$ 468.0	$ 2,910.9	$ 2,369.1

* Infrastructure and renewable resources

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 Plan 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 obligations at the valuation date is determined using the projected benefit method pro-rated on service.

The latest full actuarial valuation for accounting purposes was prepared as at August 31, 2018, by Eckler Ltd. This valuation calculated the liability for accrued basic pension obligations for financial statement purposes to be $3,681.2 (2015: $3,186.1).

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

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

a) Basic Account (continued)

Between valuations, an estimate of the actuarial position is required. This estimate, an extrapolation, has been made to August 31, 2020, 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 pension obligations to be $4,121.0 (2019: $3,896.9).

In 2019 the extrapolation reflected assumption changes made during the 2018 valuation that resulted in a decrease in the 2018 accrued basic pension obligations of $6.0, due to changes in retirement and termination assumptions. Further, the 2018 valuation accrued basic pension obligations were $77.5 lower than anticipated by the 2018 extrapolation as a result of experience gains, primarily salary increases being lower than the actuarial assumption.

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, 2021, and the results will be included in the August 31, 2022, financial statements.

Actuarial liabilities are also affected by changes in the assumed investment return. Based on the actuarial valuation completed as at August 31, 2018, a reduction in the investment return assumption from 6.25% to 6.00% would have increased the August 31, 2020, liability for accrued basic pension obligations of $4,121.0 by $117.5 or 2.9%. Changes to assumptions included in the actuarial valuation are interrelated, and the cumulative impact of changed assumptions may be offsetting.

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

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 non-guaranteed pension obligation is therefore equal to the net assets available for benefits in the IAA, 2020: $1,115.9 (2019: $808.8). The net increase of $307.1 (2019: $57.7) in the IAA balance consists of employee and employer contributions, investment income and net transfers reduced by payments out of the account. During the year, the Board approved the transfer of 64% of the August 31, 2018 valuation surplus, or $194.0 to the IAA (see note 13 for details on amounts transferred).

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

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 obligations 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. Future contribution rate determinations will exclude consideration of the assets in the newly set up notional account known as the Rate Stabilization Account (RSA); if contribution rate increases are considered, funds will be transferred from the RSA to keep the rate at its current level or to minimize the increase.

The Basic Account is also the account from which any cost-of-living adjustments 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 obligations 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, 2018, by the independent actuary based on the entry-age method; the valuation indicated an actuarial surplus of $303.2 (2015: $67.1 or $154.3 with previously scheduled amortization).

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.

On December 12, 2019, the Board approved transfers of 64% ($194.0 plus interest) of the August 31, 2018 valuation surplus to the IAA, and of the remaining 36% ($109.2 plus interest) to the RSA. Fiscal 2019 financial statement amounts have not been adjusted as this motion was passed and decision made in the current fiscal period.

An estimate of the actuarial position of the Plan for funding purposes has been made to August 31, 2020, using the following long-term actuarial assumptions:

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

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

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

a) Basic Account (continued)

This estimate, called an extrapolation, produced an estimated funding surplus of $23.6 at August 31, 2020 (2019: $362.0), as follows:

Funding extrapolation		2020		2019
Net assets available for basic pension benefits	$	4,631.2	$	4,534.8
Actuarial asset value adjustment		(238.6)		(157.3)
Smoothed assets for basic pension benefits		4,392.6		4,377.5
Rate stabilization account		(124.8)		-
Smoothed assets excluding rate stabilization account		4,267.8		-
Present value of future contributions (entry-age method)		1,280.5		1,206.5
Net actuarial assets for basic pension benefits		5,548.3		5,584.0
Actuarial liability for accrued and future basic pension benefits		(5,524.7)		(5,222.0)
Entry-age method actuarial surplus	$	**23.6**	$	**362.0**

Changes in the extrapolated entry-age method funded status		2020		2019
Extrapolated entry-age method actuarial surplus, beginning of year	$	362.0	$	232.3
Adjustment to reflect the 2018 valuation		-		70.9
Surplus plus interest transferred to IAA		(221.7)		-
Surplus plus interest transferred to rate stabilization account		(124.8)		-
Extrapolated change in actuarial assets for basic pension benefits		310.8		341.3
Extrapolated change in actuarial liability for accrued and future basic pension benefits		(302.7)		(282.5)
Entry-age method actuarial surplus, end of year	$	**23.6**	$	**362.0**

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 accounting surplus are as follows:

Measurement difference between funding and accounting positions		2020		2019
Entry-age method actuarial surplus	$	23.6	$	362.0
Actuarial asset value adjustment		238.6		157.3
Rate stabilization account		124.8		-
Difference in actuarial methods – present value of future contributions		(1,280.5)		(1,206.5)
Difference in actuarial methods – present value of future liabilities		1,403.7		1,325.1
Measurement differences between funding and accounting positions		486.6		275.9
Surplus for financial statement purposes	$	**510.2**	$	**637.9**

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ 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 2018 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, 2020, was 94.8% of the market value of the assets (2019: 96.5%).

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	2020	2019
2020	$ -	$ 65.7
2021	**88.0**	52.7
2022	**71.3**	35.2
2023	**41.4**	3.7
2024	**37.9**	-
Total adjustment	**$ 238.6**	**$ 157.3**

Rate Stabilization Account

The Agreement allows a contribution rate stabilization account to be established. If an actuarial funding valuation identifies a surplus, any amount up to the total surplus can be transferred to the RSA.

As a result of the August 31, 2018 actuarial funding valuation surplus, $109.2 of assets were transferred to the RSA that is held notionally within the Basic Account. Interest on the RSA is determined by applying the smoothed rate of return to the fiscal year-end balance. For 2020, $15.6 of interest was transferred from the Basic Account to the RSA based on an effective date of August 31, 2018.

Rate stabilization account	2020
Surplus transferred from basic Account (August 31, 2018)	$ 109.2
Interest transferred	15.6
Ending balance	**$ 124.8**

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

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

a) Basic Account (continued)

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, full funding for the granted cost-of-living adjustment, 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 for future potential cost-of-living adjustments.

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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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 and can be readily sold, and where the pooled fund units can thereby be redeemed to fund cash requirements. Accounts payable and taxes payable of $2.9 (2019: $4.5) and payable for purchase of investments of $0.3 (2019: $10.2) are generally due within one month. Derivatives payable of $7.9 (2019: $2.7) 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. 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.

Investments by unit-of-account		2020	%		2019	%
Pooled investment fund units	$	**5,638.6**	**98.5**	$	5,250.7	98.4
Directly held equity		**62.0**	**1.1**		75.7	1.4
Directly held debt		**25.4**	**0.4**		10.8	0.2
Investments	**$**	**5,726.0**	**100.0**	**$**	**5,337.2**	**100.0**

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

		2020	%		2019	%
United States	$	**86.4**	**1.5**	$	74.8	1.4
Australia		**11.5**	**0.2**		10.8	0.2
	$	**97.9**	**1.7**	**$**	**85.6**	**1.6**

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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

As at August 31, 2020, if the Canadian dollar 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 $9.8 (2019: $8.6).

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.

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, 2020, 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 $570.1 (2019: $532.6).

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation continues and remains dynamic with various cities and countries around the world responding in different ways to address the outbreak. As a result of the COVID-19 outbreak, global financial markets have experienced significant volatility. Given the extent of the crisis, it is difficult to estimate the ultimate impact or duration of the volatility on the Plan.

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 that are not subject to credit risk. See note 6c for credit risk related to underlying securities.

Credit exposure exists for members' and employers' contributions receivable directly held by the Plan totalling $8.0 (2019: $7.0), accrued interest $0.7 (2019: nil), for derivatives of $22.9 (2019: $7.1) and for the due from sale of investments of nil (2019: $9.3).

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

6. FINANCIAL RISK MANAGEMENT (CONTINUED)

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, global and emerging markets 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.

Currency risk

Currency exposure also arises from foreign currency denominated investments held directly and 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 foreign currency contracts.

The Plan's total currency exposure, the impact of economic hedging 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
		2020		
United States	$ 1,623.2	$ 680.7	$ 942.5	57%
Asia-Pacific, excluding Japan	336.8	58.8	278.0	17%
Euro countries	290.0	67.7	222.3	14%
Other	84.9	-	84.9	5%
Other Europe	61.9	-	61.9	4%
United Kingdom	95.3	63.6	31.7	2%
Japan	25.5	6.1	19.4	1%
	$ 2,517.6	$ 876.9	$ 1,640.7	100%
		2019		
United States	$ 1,900.5	$ 563.8	$ 1,336.7	58%
Asia-Pacific, excluding Japan	428.3	63.4	364.9	16%
Euro countries	297.5	46.8	250.7	11%
Other	148.8	-	148.8	6%
Japan	86.6	2.8	83.8	4%
Other Europe	68.0	-	68.0	3%
United Kingdom	107.0	55.4	51.6	2%
	$ 3,036.7	$ 732.2	$ 2,304.5	100%

The net foreign currency exposure of its underlying investment represents 29% (2019: 43%) of the Plan's total investments.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ 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

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 interest rate swaps, and general diversification by security type and geographic region.

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
2020						
Short-term	$ 136.4	$ 0.3	$ 1.5	$ -	$ 138.2	0.31%
Bonds	54.1	254.5	239.4	247.5	795.5	1.32%
Mortgages	98.3	71.1	18.8	-	188.2	3.12%
Debt	-	-	25.4	-	25.4	5.70%
	$ 288.8	$ 325.9	$ 285.1	$ 247.5	$ 1,147.3	
2019						
Short-term	$ 79.0	$ 27.6	$ 2.2	$ -	$ 108.8	1.92%
Bonds	1.1	214.3	308.2	242.8	766.4	2.94%
Mortgages	62.7	94.8	26.5	-	184.0	2.71%
Debt	-	0.2	10.6	-	10.8	6.33%
	$ 142.8	$ 336.9	$ 347.5	$ 242.8	$ 1,070.0	

As at August 31, 2020, 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 $66.6 (2019: $68.1).

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, 2020

($ 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		2020			2019	
AAA/AA	$	**467.2**	**41%**	$	434.9	41%
A		**267.4**	**23%**		314.5	29%
BBB		**102.7**	**9%**		88.2	8%
Non-investment grade		**34.0**	**3%**		37.6	4%
		871.3	**76%**		875.2	82%
Unrated		**276.0**	**24%**		194.8	18%
	$	**1,147.3**	**100%**	$	**1,070.0**	**100%**

Standard & Poor's

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 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, debt and 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, 2020

($ 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
		2020		
Pooled fund units	$ 138.2	$ 3,899.1	$ 1,601.3	$ 5,638.6
Direct equity	-	-	62.0	62.0
Direct debt	-	-	25.4	25.4
Investments	$ 138.2	$ 3,899.1	$ 1,688.7	$ 5,726.0
Derivatives	$ -	$ 15.0	$ -	$ 15.0
		2019		
Pooled fund units	$ 87.0	$ 3,847.2	$ 1,316.5	$ 5,250.7
Direct equity	-	-	75.7	75.7
Direct debt	-	-	10.8	10.8
Investments	$ 87.0	$ 3,847.2	$ 1,403.0	$ 5,337.2
Derivatives	$ -	$ 4.4	$ -	$ 4.4

During 2020 and 2019, 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
		2020		
Balance, beginning of year	$ 1,316.5	$ 75.7	$ 10.8	$ 1,403.0
Gains (losses) included in investment income	61.5	(1.7)	1.3	61.1
Purchases	321.3	23.9	13.3	358.5
Sales	(98.0)	(35.9)	-	(133.9)
Balance, end of year	$ 1,601.3	$ 62.0	$ 25.4	$ 1,688.7
Unrealized (loss) gain in investment income	$ (2.4)	$ (1.7)	$ 1.4	$ (2.7)
		2019		
Balance, beginning of year	$ 1,098.4	$ 58.6	$ 11.2	$ 1,168.2
Gains (losses) included in investment income	116.9	5.4	(0.6)	121.7
Purchases	348.1	14.1	0.7	362.9
Sales	(246.9)	(2.4)	(0.5)	(249.8)
Balance, end of year	$ 1,316.5	$ 75.7	$ 10.8	$ 1,403.0
Unrealized (loss) gain in investment income	$ 58.6	$ 4.4	$ (0.5)	$ 62.5

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 relies 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.

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

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

7. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

c) Valuation framework (continued)

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 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, 2020

($ 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
			2020		
					The estimated fair value would increase if:
Pooled fund units	**$ 1,601.3**	**Net asset value**	**Net asset value**	**$ 1,601.3**	**The net asset value increased**
Direct private equity	**$ 45.8**	**Discounted cash flow**	**Discounted rate**	**7.2%**	**The discount rate decreased**
Direct private agriculture investments	**$ 16.2**	**Net asset value**	**Net asset value**	**$ 16.2**	**The net asset value increased**
Direct debt	**$ 25.4**	**Discounted cash flow**	**Discount rate**	**4.8% - 17.0%**	**The discount rate decreased**
			2019		
					The estimated fair value would increase if:
Pooled fund units	$ 1,316.5	Net asset value	Net asset value	$ 1,316.5	The net asset value increased
Direct private equity	$ 58.5	Market approach	Multiple of EBITDA*	11.5X	The multiple of EBITDA increased
Direct private agriculture investments	$ 17.2	Net asset value	Net asset value	$ 17.2	The net asset value increased
Direct debt	$ 10.8	Discounted cash flow	Discount rate	12.0% - 17.5%	The discounted rate decreased

* 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, 2020

($ 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. 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 could have the following effects on net assets attributable to holders of redeemable units.

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%.

Effects of unobservable input on Level 3 fair value measurement

	2020		2019	
	Favourable	Unfavourable	Favourable	Unfavourable
Pooled fund units	$ 160.1	$ (160.1)	$ 131.7	$ (131.7)
Direct private equity	3.2	(3.2)	3.7	(3.7)
Direct private agriculture investments	1.6	(1.6)	1.7	(1.7)
Direct debt	2.5	(2.5)	1.1	(1.1)
	$ 167.4	$ (167.4)	$ 138.2	$ (138.2)

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ 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, accounts payable and accrued expenses, 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

	2020			2019		
	Income allocation	Change in fair value	Total	Income allocation	Change in fair value	Total
Short-term	$ 1.4	$ (2.2)	$ (0.8)	$ 2.1	$ 0.5	$ 2.6
Bonds	19.0	28.5	47.5	22.3	51.6	73.9
Canadian equities	12.8	11.9	24.7	19.2	(2.9)	16.3
Global equities	25.2	172.0	197.2	29.1	34.9	64.0
Emerging markets equities	11.8	67.4	79.2	12.0	(51.5)	(39.5)
Mortgages	6.6	(2.2)	4.4	3.6	7.4	11.0
Real estate	42.8	(35.5)	7.3	26.1	49.8	75.9
Private equity	34.5	14.3	48.8	32.9	20.3	53.2
IRR*	29.2	(1.1)	28.1	25.4	24.4	49.8
	183.3	253.1	436.4	172.7	134.5	307.2
Directly held derivatives	-	1.6	1.6	-	(3.3)	(3.3)
	$ 183.3	$ 254.7	$ 438.0	$ 172.7	$ 131.2	$ 303.9

* 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, 2020

($ millions except as otherwise noted)

9. CONTRIBUTIONS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Members' contributions				
Regular	$ 77.6	$ 17.1	$ 0.1	$ 94.8
Past service purchases	0.4	0.1	-	0.5
	78.0	17.2	0.1	95.3
Employers' contributions				
Regular	77.8	17.2	0.8	95.8
Past service purchases	0.2	-	-	0.2
	78.0	17.2	0.8	96.0
	$ 156.0	$ 34.4	$ 0.9	$ 191.3
		2019		
Members' contributions				
Regular	$ 73.0	$ 15.6	$ -	$ 88.6
Past service purchases	0.5	0.2	-	0.7
	73.5	15.8	-	89.3
Employers' contributions				
Regular	73.1	15.6	0.9	89.6
Past service purchases	0.4	-	-	0.4
	73.5	15.6	0.9	90.0
	$ 147.0	$ 31.4	$ 0.9	$ 179.3

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

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

10. BENEFITS

	Basic account	Inflation adjustment account	Supplemental benefits account	Total
		2020		
Regular pension benefits	$ 170.2	$ -	$ 0.8	$ 171.0
Indexing – regular pension benefits	26.6	-	0.1	26.7
Termination and refund benefits	14.6	2.2	-	16.8
Death benefit payments	2.9	0.1	-	3.0
	$ 214.3	$ 2.3	$ 0.9	$ 217.5
		2019		
Regular pension benefits	$ 160.0	$ -	$ 0.8	$ 160.8
Indexing – regular pension benefits	23.6	-	0.1	23.7
Termination and refund benefits	10.1	1.7	-	11.8
Death benefit payments	3.5	0.3	-	3.8
	$ 197.2	$ 2.0	$ 0.9	$ 200.1

11. SUPPLEMENTAL BENEFITS ACCOUNT

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

12. INVESTMENT AND ADMINISTRATION COSTS

	2020	2019
Investment management	$ 10.8	$ 8.8
Benefit administration	3.7	3.5
Board secretariat costs	0.3	0.4
Other professional services	0.2	0.3
Board remuneration and expenses	0.2	0.3
Audit and actuary expenses	0.1	0.2
	$ 15.3	$ 13.5

Investment and administration costs include audit fees of $43 thousand (2019: $49 thousand) and actuary fees of $57 thousand (2019: $137 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.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

12. INVESTMENT AND ADMINISTRATION COSTS (CONTINUED)

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 $10.1 (2019: $7.7) 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.

13. ACCOUNT TRANSFERS

	2020		2019	
	Basic account	Inflation adjustment account	Basic account	Inflation adjustment account
Indexing supplements	$ 36.7	$ (36.7)	$ 37.4	$ (37.4)
Indexing of deferred pensions	1.8	(1.8)	1.6	(1.6)
Excess investment return	(29.4)	29.4	(23.5)	23.5
August 31, 2018, valuation surplus transfer	(221.7)	221.7	-	-
	$ (212.6)	$ 212.6	$ 15.5	$ (15.5)

The IAA is a separate account 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 2020, retired members received a cost-of-living adjustment of 1.90% (2019: 2.07%) and indexing supplements were transferred.

When a deferred pension commences, the present value of the cost-of-living adjustments during the deferral period is transferred from the IAA to the Basic Account. Approximately $16.9 (2019: $14.5) of the current IAA balance is for cost-of-living adjustments already granted for deferred pensions but not yet transferred to the Basic Account.

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

13. ACCOUNT TRANSFERS (CONTINUED)

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 $2.2 billion of assets for 2020 (2019: $2.0 billion). The excess investment return rate is determined by taking the difference between the actual five-year annualized market rate of return (7.60%) and the rate of return used by the Plan actuary (6.25%) in valuing the Plan's liabilities. The calculated excess investment return rate for 2020 was 1.35% (2019: 1.15%), resulting in an excess investment return amount of $29.4 transferred to the IAA (2019: $23.5).

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.

As a result of the August 31, 2018 actuarial valuation surplus and as permitted by the Agreement, the Board transferred $194.0 plus interest of $27.7 effective from August 31, 2018, from the Basic Account to IAA. A smoothed investment return rate has been used to calculate interest.

14. COMMITMENTS

The Plan participates in private equity, international real estate, and infrastructure and renewable resource pools. As at August 31, 2020, the Plan's share of commitments for future investment contracts in these pools over the next several years is approximately $845.6 (2019: $735.1).

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, 2018, 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, 2021, with the results included in the August 31, 2022 financial statements.

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

COLLEGE PENSION PLAN

Notes to the financial statements for the year ended August 31, 2020

($ millions except as otherwise noted)

16. PRIOR YEAR COMPARATIVES

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

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1998-016 CPP AR 2021.04.22