

Fund Financial Statements of

**REVISED PENSION PLAN OF
QUEEN'S UNIVERSITY**

And Independent Auditor's Report thereon

Year ended August 31, 2019

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Fund Financial Statements

Year ended August 31, 2019

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INDEPENDENT AUDITORS' REPORT

To the Pension Committee of the Board of Trustees of Queen's University

Opinion

We have audited the fund financial statements of Revised Pension Plan of Queen's University (the "Plan"), which comprise:

- the statement of net assets available for benefits as at August 31, 2019
- the statement of changes in net assets available for the year then ended
- and notes to the fund financial statements, including a summary of significant accounting policies

(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, 2019, and its changes in net assets available for benefits for the year then ended in accordance with Section 76 of Regulation 909 of the Pension Benefits Act (Ontario).

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.

Emphasis of Matter – Financial Reporting Framework

We draw attention to Note 2(a) in the financial statements, which describes the applicable financial reporting framework and the purpose of the financial statements. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter.



Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Section 76 of Regulation 909 of the Pension Benefits Act (Ontario), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

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.

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's 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
- 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, Licensed Public Accountants

Kingston, Canada

February 3, 2020

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Statement of Net Assets Available for Benefits

As at August 31, 2019

	2019	2018
Assets		
Cash	\$ 1,619,554	\$ 12,034,138
Accrued investment income	2,797,335	3,786,579
Settlements receivable	9,084,041	5,898,346
Accrued receivable	526,677	459,029
	<u>14,027,607</u>	<u>22,178,092</u>
Investments held by trustee (note 4):		
Short-term notes and treasury bills	6,679,903	7,030,627
Canadian bonds	214,879,987	222,216,979
Canadian equities	268,189,495	328,765,940
Global bonds	333,633	308,816
Global equities	—	98,265,817
Pooled fund structures	1,246,599,130	1,066,942,639
Private investments	399,812,183	393,322,896
	<u>2,136,494,331</u>	<u>2,116,853,714</u>
Total assets	2,150,521,938	2,139,031,806
Liabilities		
Accounts payable and accrued liabilities	562,380	1,302,325
Derivative liabilities	199,430	71,772
Total liabilities	<u>761,810</u>	<u>1,374,097</u>
Net assets available for benefits	<u>\$ 2,149,760,128</u>	<u>\$ 2,137,657,709</u>

See accompanying notes to fund financial statements.

On behalf of the Trustees:

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Statement of Changes in Net Assets Available for Benefits

Year ended August 31, 2019

	2019	2018
Increase in net assets available for benefits:		
Employee contributions:		
Mandatory	\$ 26,160,122	\$ 24,733,273
Voluntary	2,777,181	2,656,927
Employer contributions (note 6):		
Current services	27,799,906	26,756,800
Special payments	20,235,518	11,439,301
Investment income (notes 9 and 12)	57,571,604	56,975,862
Change in net unrealized gains and losses	(36,610,876)	71,575,946
Net realized gain on sale of investments	35,795,693	45,340,073
	<u>133,729,148</u>	<u>239,478,182</u>
Decrease in net assets available for benefits:		
Pension benefits payments	(97,693,333)	(93,560,913)
Termination payments and death benefits	(16,456,978)	(13,712,314)
	<u>(114,150,311)</u>	<u>(107,273,227)</u>
Administrative expenses:		
Investment counsel (note 5)	5,365,413	654,157
Actuarial	916,367	741,624
Trust company fees	346,734	277,736
Queen's University at Kingston (note 11)	717,345	658,607
Audit	24,295	24,577
Other	106,264	83,284
	<u>7,476,418</u>	<u>2,439,985</u>
Increase in net assets available for benefits	12,102,419	129,764,970
Net assets available for benefits, beginning of year	2,137,657,709	2,007,892,739
Net assets available for benefits, end of year	<u>\$ 2,149,760,128</u>	<u>\$ 2,137,657,709</u>

See accompanying notes to fund financial statements.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements

Year ended August 31, 2019

1. Description of the plan:

The following description of the Revised Pension Plan of Queen's University (the "Plan") is a summary only. For more complete information reference should be made to the Plan text.

(a) General:

The Revised Pension Plan of Queen's University was established by Queen's University at Kingston (the "University" and "Sponsor") effective January 1, 1949. The Plan was revised to its current form in 1969. Membership in the Plan is compulsory for all continuing employees. Other types of employees may become members under certain conditions.

The Plan is a hybrid plan, a Money Purchase Plan with a defined benefit minimum guarantee.

The Plan is administered by Queen's University at Kingston. The Plan's registration number is 0344929.

(b) Funding:

Each active member contributes 7.0% of pay up to the year's maximum pensionable earnings of the Canada Pension Plan and 9.0% of pay above such amount to the member's Money Purchase Component. Any required contributions to the Minimum Guarantee Pension are made by the University. Total contribution to the Money Purchase Component cannot exceed the dollar limits under the Income Tax Act (Canada). For each active member, the University contributes 6.0% of pay up to the year's maximum pensionable earnings and 7.5% of pay above that amount.

The most recent actuarial valuation of the Plan as at August 31, 2017 determined that the Plan had an unfunded liability. The next valuation for funding purposes is required to be effective no later than August 31, 2020.

(c) Retirement benefits:

The balance in a member's Money Purchase Component Account varies from year to year according to the investment performance of the fund and contributions made during the year. At retirement a member receives a pension provided by his or her Money Purchase Component Account or a Minimum Guarantee Pension, which ever is greater.

The Minimum Guarantee Pension is calculated as 1.35% of Highest Average Earnings for service to August 31, 1997 and 1.40% for service from September 1, 1997 up to the average year's maximum pensionable earnings under the Canada Pension Plan and 1.80% of Highest Average Earnings in excess of this amount, multiplied by years of credited service.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

2. Basis of preparation:

(a) Basis of presentation:

As permitted under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario), the Plan has prepared these fund financial statements in accordance with Canadian accounting standards for pension plans excluding pension obligations and any resulting surplus or deficit. Accordingly, these fund financial statements are not general purpose financial statements.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, the Plan has chosen to comply on a consistent basis with Canadian accounting standards for private enterprises ("ASPE") in Part II of the CPA Handbook – Accounting.

These fund financial statements have been prepared to assist the Pension Committee of the Board of Trustees of Queen's University to comply with the requirements of the Financial Services Commission of Ontario ("FSCO") under Section 76 of Regulation 909 of the Pension Benefits Act (Ontario). As a result, these fund financial statements may not be suitable for another purpose. Effective June 8, 2019, all regulatory functions of FSCO were assumed by the Financial Services Regulatory Authority ("FSRA"). FSRA has indicated that until such time as new regulatory guidelines are issued, all existing regulatory directions remain in effect.

These fund financial statements of the Plan do not purport to show the adequacy of the Plan's assets to meet its pension obligation. Such an assessment requires additional information, such as the Plan's actuarial reports and information about the University's financial health.

(b) Functional and presentation currency:

These fund financial statements are presented in Canadian dollars, which is the Plan's functional and presentation currency.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

3. Significant accounting policies:

(a) Financial assets and financial liabilities:

Financial assets and financial liabilities are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument.

Investment assets and liabilities are measured at fair value. In determining fair values, adjustments have not been made for transaction costs as they are not considered to be significant. The change in the difference between the fair value and cost of investments at the beginning and end of each year is reflected in the statement of changes in net assets available for benefits as the change in net unrealized gains and losses.

All non-investment financial assets and liabilities are subsequently measured at cost or amortized cost.

(b) Investments:

Investment assets are classified and disclosed in one of the following categories reflecting the significance of inputs used in making the fair value measurement:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the assets or liabilities that are not based on observable market data (unobservable inputs).

Fair values of investments are determined as follows:

- i. Short-term notes and treasury bills maturing within one year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.
- ii. Bonds and equities are valued at year-end quoted market prices using closing prices. Where quoted prices are not available, estimated fair values are calculated using comparable securities.
- iii. Pooled fund structures, such as trusts and limited partnerships (excluding those in private investment interests), are valued at the fair values supplied by the pooled fund administrator, which are determined using quoted market prices or alternative valuation methods where quoted market prices are not available.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

3. Significant accounting policies (continued):

(b) Investments (continued):

- iv. Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year-end quoted market prices where available. If quoted market prices are not available values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions.
- v. Private investments are valued at fair values using values supplied by the fund managers who are directly investing the funds in the underlying operating units. The fund managers use a valuation methodology that is based upon the best available information that may incorporate management assumptions and best estimates after considering a variety of internal and external factors.

(c) Contributions:

Contributions for current service are recorded in the year in which the related payroll costs are incurred. Contributions for past service are recorded in the year received.

(d) Benefits:

Benefits include payments to retired members made during the year and accrual, if any, for unpaid but earned benefits as at year end. Refunds and transfers to other pension plans are recorded in the period in which the member has elected for payment. Accrued benefits for active members of the Plan are excluded from these fund financial statements.

(e) Net realized gain or loss on sale of investments:

The net realized gain or loss on sale of investments is the difference between the proceeds received and the average cost of the investments sold.

(f) Investment income:

Investment income, which is reported on an accrual basis, includes interest income, dividends and distributions from pooled fund structures. Distributions from pooled fund structures include the Plan's proportionate share of interest, dividends and realized gains.

(g) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits as a change in net unrealized gains or losses.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

3. Significant accounting policies (continued):

(h) Transaction costs:

Transaction costs are incremental costs directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. Transaction costs are expensed as incurred.

(i) Income taxes:

The Plan is a registered pension plan, as defined by the Income Tax Act (Canada) and, accordingly, is not subject to income taxes.

(j) Use of estimates and judgements:

The preparation of the fund financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the statement of net assets available for benefits and the reported amounts of changes in net assets available for benefits during the year. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

4. Investments:

(a) Whereas the investments held by the trustee are stated at fair value in the statement of net assets available for benefits, the cost of these investments as at August 31 is as follows:

	2019	2018
Investments held by trustee, at cost:		
Short-term notes and treasury bills	\$ 6,704,541	\$ 7,028,460
Canadian bonds	206,708,782	226,423,886
Canadian equities	248,873,847	262,501,342
Global bonds	304,874	304,874
Global equities	–	80,952,258
Pooled fund structures	1,080,633,817	900,576,596
Private investments	327,007,220	336,335,623
	<u>\$ 1,870,233,081</u>	<u>\$ 1,814,123,039</u>

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

4. Investments (continued):

(b) The following table illustrates the classification, as described in note 3(b), of the Plan's investments recognized at fair value as at August 31:

2019	Level 1	Level 2	Level 3	Total
Short-term notes and treasury bills	\$ 6,679,903	\$ –	\$ –	\$ 6,679,903
Canadian bonds	–	214,879,987	–	214,879,987
Canadian equities	268,189,495	–	–	268,189,495
Global bonds	–	333,633	–	333,633
Pooled fund structures	–	1,246,599,130	–	1,246,599,130
Private investments	–	–	399,812,183	399,812,183
	\$ 274,869,398	\$ 1,461,812,750	\$ 399,812,183	\$ 2,136,494,331

2018	Level 1	Level 2	Level 3	Total
Short-term notes and treasury bills	\$ 7,030,627	\$ –	\$ –	\$ 7,030,627
Canadian bonds	–	222,216,979	–	222,216,979
Canadian equities	328,765,940	–	–	328,765,940
Global bonds	–	308,816	–	308,816
Global equities	98,265,817	–	–	98,265,817
Pooled fund structures	–	1,066,942,639	–	1,066,942,639
Private investments	–	–	393,322,896	393,322,896
	\$ 434,062,384	\$ 1,289,468,434	\$ 393,322,896	\$ 2,116,853,714

During the year ended August 31, 2019 the Level 3 fair value measurements increased by \$6,489,287 (2018 – decreased by \$6,531,405). The following table presents the reconciliation of Level 3 fair value measurements as at August 31:

	2019	2018
Opening balance	\$ 393,322,896	\$ 399,854,301
Distributions	17,021,645	19,238,533
Fair value changes	15,817,689	8,738,323
Transfers out	(26,350,047)	(34,508,261)
Ending balance	\$ 399,812,183	\$ 393,322,896

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

5. Investment counsel:

Fees charged by some investment managers are performance-based, therefore investment counsel fees may fluctuate significantly from year to year.

6. Actuarial valuation:

The most recent actuarial valuation of the Plan was prepared by Mercer (Canada) Limited as at August 31, 2017 and a copy of this valuation was filed with the Financial Services Regulatory Authority. This valuation disclosed a going concern funding shortfall of \$31,583,000 and a solvency shortfall of \$313,391,000 as at August 31, 2017.

In accordance with the Pension Benefits Act (Ontario), the going concern shortfall must be funded over a period not exceeding 15 years. As such, the University is making monthly special payments to fund the going concern shortfall. Accordingly, the minimum monthly going-concern payments for year ended August 31, 2019 were \$283,167 (2018 - \$283,167).

The Regulations to the Pensions Benefits Act (Ontario) ("Regulations") were amended, with the most recent amendment in October 2016, to provide temporary solvency funding relief measures for certain pension plans in the broader public sector. As such, the Plan applied and qualified for Stage 2 relief, as described in the Regulations. In accordance with the funding rules contained in Regulation 178/11 applicable for the First Subsequent Report following Stage 2, monthly solvency special payments are required commencing 12 months after the valuation date. However, the total special payments in the first year following the valuation report must at least be equal to the interest on the solvency deficit. The August 31, 2017 actuarial valuation is the First Subsequent Report following Stage 2. Accordingly, the solvency special payments for the year ended August 31, 2019 were \$1,297,386 (2018 - \$446,870) per month.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

7. Financial risk management:

The Plan is exposed to a variety of financial risks as a result of its investment activities, and has formal policies and procedures that govern the management of market, credit and liquidity risk.

(a) Market risk:

Market risk is the risk that the fair value or future cash flows 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 comprises three types of risk: (i) foreign currency risk, (ii) interest rate risk, and (iii) other price risk, which are discussed below.

The investment policy of the Plan takes into consideration that there will be short-term volatility of returns and addresses market risks through the following strategies:

- Asset allocation among various asset classes;
- Diversification across many securities within each asset class;
- Diversification of styles through the use of passive index and active pooled funds or of active management styles for a particular asset class;
- Hedging of foreign currency investments; and,
- Use of multiple managers and/or indexed management.

(i) Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in foreign exchange rates. Foreign currency exposure arises from the fund holding investments denominated in currencies other than the Canadian dollar.

Investments denominated in currencies other than the Canadian dollar expose the Plan to fluctuations in foreign exchange rates. The net exposure to foreign currencies represents 21.5% (2018 – 22.2%) of investment assets as at August 31, 2019.

At August 31, 2019, if the Canadian dollar had strengthened or weakened by 5% in relationship to all foreign currencies, with all other variables held constant, the Plan's net assets available for benefits would have decreased or increased, respectively, by approximately \$23.1 million (2018 - \$23.7 million), approximately 1.1% (2018 - 1.1%) of total net assets available for benefits.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

7. Financial risk management (continued):

(a) Market risk (continued):

(ii) *Interest rate risk:*

Interest rate risk refers to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The following table summarizes the Plan's debt investments, their weighted average term to maturity and average yield to maturity:

	2019		2018	
	Fair value	Average yield to maturity	Fair value	Average yield to maturity
Government, Supranational, Provincial, Municipal issuers and their agencies:	\$ 377,181,055	1.59%	\$ 340,841,807	3.82%
Corporate issuers:	465,405,492	3.49%	390,384,421	3.72%
	\$ 842,586,547	2.64%	\$ 731,226,228	3.30%

The table below summarizes the Plan's exposure to interest rate risks by remaining term to maturity as at August 31, 2019.

	Less than 1 year	1-5 years	5-10 years	Over 10 years	Total
Government, Supranational, Provincial, Municipal issuers and their agencies:	\$ 30,411,454	\$ 115,474,920	\$ 63,537,771	\$ 167,756,910	\$ 377,181,055
Corporate issuers:	22,695,840	238,646,057	95,234,764	108,828,831	465,405,492
	\$ 53,107,294	\$ 354,120,977	\$ 158,772,535	\$ 276,585,741	\$ 842,586,547

The value of the Plan's assets is affected by short-term changes in nominal and real interest rates. As at August 31, 2019, had prevailing interest rates increased or decreased by 1%, assuming a parallel shift in the yield curve, with all other variables held constant, the Plan's investments in fixed income securities would have decreased or increased by approximately \$65.2 million (2018 - \$47.6 million), approximately 3.0% (2018 - 2.2%) of total net assets available for benefits.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

7. Financial risk management (continued):

(a) Market risk (continued):

(iii) Other price risk:

Other price risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency risk and interest rate risk), whether those changes are caused by factors specific to an individual investment or its issuer or factors affecting all similar securities traded in the market. All investments present a risk of loss of capital. The maximum risk resulting from investments is equivalent to their fair value. As all of the Plan's investments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets available for benefits.

The most significant exposure to market price risk for the Plan arises from investments in equity securities. If equity prices on the respective stock exchanges for these securities had increased or decreased by 10% as at August 31, 2019, with all other variables held constant, the net assets available for benefits of the Plan would have increased or decreased, respectively, by approximately \$106.5 million (2018 - \$116.9 million), approximately 5.0% (2018 - 5.5%) of net assets available for benefits.

The long-term asset mix for investment of Plan assets, diversifying its other price risk, is as follows as at August 31:

Asset class	Target 2019	Actual 2019	Target 2018	Actual 2018
Canadian equities	16.0%	16.0%	20.0%	19.5%
Global equities	37.0%	33.5%	33.0%	35.2%
Conventional bonds	29.0%	30.9%	27.0%	25.6%
Private debt	8.0%	7.9%	10.0%	8.0%
Cash and other	0.0%	1.0%	0.0%	1.3%
Real estate	5.0%	5.8%	5.0%	5.6%
Infrastructure	5.0%	4.9%	5.0%	4.8%
	100.0%	100.0%	100.0%	100.0%

Target ranges for each individual asset class are defined as the Policy Asset Mix weight plus-or-minus 5%, as described in the Statement of Investment Policies and Procedures (the "SIP&P").

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

7. Financial risk management (continued):

(b) Credit risk:

The Plan is exposed to the risk that a counterparty defaults or becomes insolvent (credit risk). The maximum credit risk to which the Plan is exposed as at August 31, 2019 represents the total carrying amount of its investments and amounts receivable.

The Plan's Statement of Investment Policies and Procedures provides guidelines and restrictions for eligible investments taking into account credit ratings, maximum investment exposure and other controls in order to limit the impact of this risk. The Plan, through its external investment managers, minimizes the concentration of credit risk by trading with approved brokers and counterparties on recognized and reputable exchanges. The risk of default is considered minimal as all transactions are settled and paid for upon delivery using approved brokers.

The following table summarizes the Plan's interest-bearing investments and their exposure to credit risk:

Credit ratings	Fair value
A-1	\$ 3,419,288
AAA	195,567,147
AA	255,129,020
A	147,787,463
BBB	201,977,663
BB	24,530,907
B	12,833,019
Below B	358,633
Not rated	983,407
	<hr/>
	\$ 842,586,547

(c) Liquidity risk:

Liquidity risk is the risk that the Plan will not be able to meet its financial obligations as they fall due. The Plan's approach to managing liquidity is to evaluate current and expected liquidity requirements to ensure that it maintains sufficient cash and cash equivalents to meet its liquidity requirements in the short and longer term. The University is required to make contributions to the Plan in accordance with actuarial valuations that are performed as required by the Regulations. The Plan's liabilities reflected in these financial statements have contractual maturities of less than 30 days and are subject to normal trade terms.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

8. Statutory disclosure:

The following information is provided in respect of individual investments with a cost or fair value in excess of 1% of the cost or fair value of the investments held, as required by the Regulations.

Fund Name/ Issuer	Fund Operator	Nature of Investments held	Fair Value	Cost
MSCI United States Index Fund	State Street Global Advisors	Global equities	\$ 334,290,331	\$ 192,600,447
Canadian Core Plus Bond	PIMCO	Canadian bonds	226,442,898	220,211,689
Canadian Core Plus Bond Pooled Fund Trust	TD Asset Management	Canadian bonds	222,767,459	216,669,681
Institutional Global Equity Fund	Orbis Investments	Global equities	218,276,116	196,628,068
MSCI EAFE Index	State Street Global Advisors	Global equities	174,631,379	184,936,311
Private Fixed Income Plus	Sun Life	Private debt	131,116,191	127,252,055
Oxford Properties	OMERS	Real estate	124,047,842	80,000,000
OMERS Infrastructure	OMERS	Infrastructure	106,105,188	80,000,000
Canadian Market Capped Pooled Fund Trust	TD Asset Management	Canadian equities	69,979,385	69,375,970
Integrated Private Debt Fund IV	Integrated Asset Management	Private debt	21,449,763	22,302,708

9. Investment income:

	2019	2018
Pooled fund distributions	\$ 21,562,734	\$ 17,657,096
Partnership income	16,509,876	19,309,809
Dividend income	12,469,746	12,415,961
Interest income	6,718,772	7,236,407
Security lending income	310,476	356,589
	\$ 57,571,604	\$ 56,975,862

10. Capital management:

The capital of the Plan is represented by the net assets available for benefits. The main objective of the Plan is to sustain a certain level of net assets available for benefits in order to meet the pension obligations of the University, which are not presented or discussed in these fund financial statements. The Plan fulfils its primary objective by adhering to specific investment policies outlined in its SIP&P, which is reviewed at least annually by the Pension Committee of the Board of Trustees of the University.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

10. Capital management (continued):

The SIP&P was last amended on May 10, 2019. The Plan manages net assets available for benefits by engaging knowledgeable investment managers who are charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIP&P. Increases in net assets available for benefits are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the University. A funding plan is required to be filed with the FSCO at least every three years. The Plan's Funding Policy is described in note 1(b).

11. Related party transactions:

The Sponsor, Queen's University at Kingston, provides certain administrative services to the Plan. The cost to the Plan for these services for the year ended August 31, 2019 amounted to \$717,345 (2018 - \$658,607) being the exchange amount agreed to by the parties.

12. Security lending agreement:

During the year, the Plan participated in a security lending program with CIBC Mellon Global Securities, whereby certain investments owned by the Plan were loaned to certain reputable brokers/dealers and financial institutions in return for a fee which was shared between the Plan 75% and CIBC Mellon Global Securities 25%. Security lending income is reported as part of investment income in the amount of \$310,476 (2018 - \$356,589). This program exposes the Plan to the risk that the borrower fails to return the borrowed security. To minimize this risk, the borrower is required to provide collateral, Canadian cash and securities, with an aggregate market value never less than the percentage of the aggregate market value of the loaned securities which is the highest of: (a) the minimum percentage required by any applicable pension legislation or regulatory authority or by the Income Tax Act (Canada), the regulations thereunder of Interpretation Bulletins issued by Canada Revenue Agency; (b) the minimum percentage required by any legislation applicable to or regulatory authority having jurisdiction over the securities dealers who borrowed the securities; or (c) 102%. As part of its service, the CIBC Mellon Global Security Services Company monitors and calculates the aggregate market value of the loaned securities and of the collateral on a daily basis and follows up with the borrowers for immediate replenishment of collateral securities when the value of the collateral falls below the value of the securities out on loan. Securities out on loan can be recalled at any time and the terms of the agreement with the custodian can be terminated upon one day's notice.

REVISED PENSION PLAN OF QUEEN'S UNIVERSITY

Notes to Fund Financial Statements (continued)

Year ended August 31, 2019

13. Comparative information:

Certain comparative information has been reclassified to conform with the current year's presentation.