

Lakehead University  
Pension Investment Fund  
Financial Statements  
For the year ended December 31, 2019

Contents

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## Independent Auditor's Report

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To the Administrator of Lakehead University Pension Investment Fund

### Opinion

We have audited the fund financial statements of Lakehead University Pension Investment Fund (the fund financial statements) which comprise of the statement of net assets available for benefits as at December 31, 2019 and the statement of changes in net assets available for benefits for the year then ended and notes to the fund financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying fund financial statements present fairly, in all material respects, the net assets available for benefits of Lakehead University Pension Investment Fund as at December 31, 2019, and its changes in net assets available for benefits for the year then ended in accordance with the financial reporting provisions of Section 76 of Regulation 909 of the Pension Benefits Act of 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 Auditor's Responsibilities for the Audit of the Fund Financial Statements section of our report. We are independent of Lakehead University Pension Investment Fund in accordance with the ethical requirements that are relevant to our audit of the fund 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 - Basis of Accounting and Restriction on Use

We draw attention to Note 2 to the fund financial statements, which describes the basis of accounting. The fund financial statements are prepared to assist the Administrator of the Fund to meet the requirements of the Financial Services Regulatory Authority. As a result, the fund financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our report is intended solely for the Administrator of the Fund and the Financial Services Regulatory Authority and should not be used by parties other than the Administrator of the Fund or the Financial Services Regulatory Authority.

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

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

In preparing the fund financial statements, management is responsible for assessing Lakehead University Pension Investment Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate Lakehead University Pension Investment Fund or to cease operations, or has no realistic alternatives but to do so.

Those charged with governance are responsible for overseeing Lakehead University Pension Investment Fund's financial reporting process.

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## Independent Auditor's Report

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### Auditor's Responsibilities for the Audit of the Fund Financial Statements

Our objectives are to obtain reasonable assurance about whether the fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 these fund financial statements.

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

- Identify and assess the risks of material misstatement of the fund 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 omission, 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 Lakehead University Pension Investment Fund'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 Lakehead University Pension Investment Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause Lakehead University Pension Investment Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the fund financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We 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.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants

Thunder Bay, Ontario  
June 5, 2020

## Lakehead University Pension Investment Fund Statement of Net Assets Available for Benefit

December 31 (in thousands of dollars)	2019			2018		
	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 1,004	\$ 163	\$ 1,167	\$ 2,459	\$ 446	\$ 2,905
Investments, at market value (Note 3, Schedules 1 and 2) (cost 2019 - \$188,546; cost 2018 - \$189,197)	192,677	30,593	223,270	174,489	30,790	205,279
HST receivable	10	2	12	11	2	13
Sponsor's contributions receivable	466	78	544	406	81	487
Employees' contributions receivable	384	81	465	356	85	441
	<u>194,541</u>	<u>30,917</u>	<u>225,458</u>	<u>177,721</u>	<u>31,404</u>	<u>209,125</u>
<b>Liabilities</b>						
Accounts payable (Note 4)	259	42	301	260	47	307
<b>Net assets available for benefits</b>	<u>\$ 194,282</u>	<u>\$ 30,875</u>	<u>\$ 225,157</u>	<u>\$ 177,461</u>	<u>\$ 31,357</u>	<u>\$ 208,818</u>

On behalf of the Administrator

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

## Lakehead University Pension Investment Fund Statement of Changes in Net Assets Available for Benefits

For the year ended December 31 (in thousands of dollars)

2019

2018

	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total	Professional and Administrative Staff Plan (Ontario Registration Number 246058)	Employee Pension Plan (Ontario Registration Number 526921)	Total
Increase in assets						
Investment income	\$ 4,617	\$ 750	\$ 5,367	\$ 4,366	\$ 792	\$ 5,158
Net realized gains on investments	2,357	383	2,740	6,819	1,237	8,056
Net unrealized change in market value of investments	15,868	2,773	18,641	(15,884)	(4,375)	(20,259)
Other cash receipts - pension transfers (Note 6)	20	14	34	-	16	16
Contributions (Note 7) - employees	3,157	709	3,866	2,954	760	3,714
- sponsor	3,986	661	4,647	4,468	713	5,181
	<u>30,005</u>	<u>5,290</u>	<u>35,295</u>	<u>2,723</u>	<u>(857)</u>	<u>1,866</u>
Decrease in assets						
Administration and professional fees (Note 8)	876	138	1,014	859	155	1,014
Pension benefits and refunds (Note 9)	14,702	3,240	17,942	18,247	3,006	21,253
	<u>15,578</u>	<u>3,378</u>	<u>18,956</u>	<u>19,106</u>	<u>3,161</u>	<u>22,267</u>
Increase (decrease) in net assets available for benefits	14,427	1,912	16,339	(16,383)	(4,018)	(20,401)
Net assets available for benefits, beginning of year	177,461	31,357	208,818	193,557	35,662	229,219
Interfund Pension Transfers (Note 6)	2,394	(2,394)	0	287	(287)	0
Net assets available for benefits, end of year	<u>\$ 194,282</u>	<u>\$ 30,875</u>	<u>\$ 225,157</u>	<u>\$ 177,461</u>	<u>\$ 31,357</u>	<u>\$ 208,818</u>

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

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# Lakehead University Pension Investment Fund

## Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 1. Description of Plans

The Lakehead University Pension Investment Fund ("the Fund") consists of two plans. The following description of the Professional and Administrative Staff Plan ("PP") and the Lakehead University Employee Pension Plan ("LUEPP") is a summary only. For more complete information, reference should be made to the Plan Agreements.

The Fund consists of 100% ownership of a Master Trust and a segregated short term account, the assets of which are held by Northern Trust. Addenda Capital, Fiera Capital Corporation, Dimensional Fund Advisors Canada ULC, Jarislowsky Fraser Limited, Letko Brosseau & Associates Inc., and State Street Global Advisors act as managers for the Fund and have discretionary investment authority. As of December 31, 2019, the LUEPP held 416,764.11 units or 14.24%, and the Professional Plan held 2,509,561.30 units or 85.76%, of a total of 2,926,326.41 units of the Master Trust. After adjusting for the segregated short term account as at December 31, 2019, the Professional Plan held 86.30% of total assets, and the LUEPP held 13.70% of total assets

The Fund is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

#### Professional and Administrative Staff Plan

The Plan is a contributory defined contribution pension plan. The Plan also provides for a defined benefit guarantee for service prior to January 1, 1997. Under the Plan, contributions of 6.5% (2018 - 6.5%) of earnings were made by faculty and librarians and 8.05% (2018 - 8.05%) by the Plan sponsor. For other members, contributions of 8.05% (2018 - 8.05%) of earnings were made by employees and 8.05% (2018 - 8.05%) by the Plan sponsor.

#### Lakehead University Employee Pension Plan

The Plan is a contributory defined contribution pension plan. Under the Plan, employees contribute 7.9% (2018 - 7.9%) of their earnings except for contracted employees who contribute 7.15% (2018 - 7.15%) of their earnings. The Plan sponsor matches employee contributions. For contract lecturers, contributions of 6.5% (2018 - 6.5%) of earnings were made by employees and 7.9% (2018 - 7.9%) by the Plan sponsor.

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### 2. Significant Accounting Policies

#### Basis of Presentation

These financial statements have been prepared in accordance with the significant accounting policies set out below to comply with the accounting requirements prescribed by the Financial Services Regulatory Authority ("FSRA") for financial statements under Section 76 of Regulation 909 of the Pension Benefits Act of the Province of Ontario. These regulations require pension plans to adhere to the provisions of Section 4600 - Pension Plans in Part IV - Accounting Standards for Pension Plans of the CPA Canada Handbook although they permit the exclusion of the actuarial liabilities of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations.

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 2. Significant Accounting Policies (cont'd)

These financial statements have been prepared to assist in meeting the requirements of FSRA. For accounting policies that do not relate to the Fund's investment portfolio, the Fund has elected to apply Canadian accounting standards for private enterprises.

These Significant Accounting Policies are intended solely for the Administrator of the Fund and FSRA and should not be used by parties other than the Administrator of the Fund or FSRA.

#### Cash and Cash Equivalents

Cash and cash equivalents consist of cash on deposit and term deposits with maturity dates of less than 90 days from the date that they were acquired.

#### Investments

Investments are stated at fair value, which is based on closing quoted market prices. Investments are recorded on a trade date basis. The fair value of units in the Master Trust represents the fair value of the underlying assets. Investments in pooled funds are valued using unit prices provided by the pooled fund administrator, which represent the plan's proportionate share of underlying net assets at fair values determined using closing market prices.

The investment income recognized is the increase or decrease in the value of the pooled funds. Dividends and interest are reinvested within the pooled funds. Distributions from pooled funds are recorded when declared by the pooled fund managers.

The realized gain (loss) on investments is determined by the excess (shortfall) of proceeds over average cost of investments sold.

The fair value adjustments represent the unrealized appreciation (depreciation) in fair value of investments held at the year-end less the related unrealized appreciation (depreciation) as at the previous year-end.

#### Use of Estimates

The preparation of financial statements in accordance with the accounting principles described in the significant accounting policies requires the Fund Administrator to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the Fund Administrator's best estimates as additional information becomes available in the future.

#### Foreign Currency Translation

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the resulting foreign exchange gains and losses are included in income in the current period.

## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

### 2. Significant Accounting Policies (cont'd)

#### Pension Benefits

The Plans provide pension payments on death and/or retirement to eligible members and their spouses based on contributions and gains accrued during their employment at Lakehead University. Pension benefits are shown as expenditures in the year of payment.

#### Contributions

Employee and employer contributions due to Plans as at the end of the year are recorded on an accrual basis. The Plans further allow Additional Voluntary Contributions (AVC), subject to the Money Purchase Limit imposed by Canada Revenue Agency. AVC's are recorded as employee contributions.

### 3. Investments

	2019		2018	
	Market Value	Cost	Market Value	Cost
Canadian equities	\$ 29,214	\$ 25,810	\$ 25,499	\$ 25,733
Canadian unit trust equities	55,099	50,255	50,165	50,348
US unit trust equities	55,622	29,267	46,894	28,606
Canadian unit trust bonds	78,977	78,856	77,948	79,737
Accrued income	77	77	82	82
Short-term investments	4,281	4,281	4,691	4,691
	<u>\$ 223,270</u>	<u>\$ 188,546</u>	<u>\$ 205,279</u>	<u>\$ 189,197</u>

Broken down by Plan:

Professional and Administrative Staff Plan	\$ 192,677	\$ 162,804	\$ 174,489	\$ 160,875
Employee Pension Plan	30,593	25,742	30,790	28,322
	<u>\$ 223,270</u>	<u>\$ 188,546</u>	<u>\$ 205,279</u>	<u>\$ 189,197</u>

The Professional and Administrative Staff Plan held 86.30% and the Employee Pension Plan held 13.70% of total assets.



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## Lakehead University Pension Investment Fund Notes to Financial Statements

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December 31, 2019 (in thousands of dollars)

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### 3. Investments (cont'd)

#### Individually significant investments

The cost or market value of the following investments exceeds 1% of the cost or market value of total pension fund investments at December 31, 2019:

	2019 Market Value	2019 Cost
Canadian Equity Fund		
Jarislowky Fraser Investments - Equity Fund (1)	\$ 27,867	\$ 26,016
Letko Brosseau - RSP Equity Fund (2)	27,232	24,239
Bond Fund		
Addenda Capital - Bond Fund(3)	35,141	34,915
Addenda Capital - Commercial Mortgage Fund (3)	23,024	22,964
Jarislowky Fraser Investments - Bond Fund (1)	20,812	20,977
Foreign Equity Fund		
State Street Global Advisors - Global Equity Unit Trust (4)	36,360	12,245
Dimensional Fund Advisors - International Small Cap (5)	19,262	17,022
Miscellaneous - Other		
Jarislowky Fraser Investments - Short Term Investments (1)	4,281	4,281
Fiera Capital Corporation - Canadian common stocks (6)	\$ 29,291	\$ 25,887

- (1) Jarislowky Fraser investments are pooled funds administered by Jarislowky Fraser Limited.  
(2) Letko Brosseau investments are pooled funds administered by Letko, Brosseau & Associates Inc.  
(3) Addenda Capital investments are a pooled fund administered by Addenda Capital.  
(4) State Street Global Advisors investments are a pooled fund administered by State Street Global Advisors, Ltd.  
(5) Dimensional Fund investments are pooled funds administered by Dimensional Fund Advisors Canada ULC  
(6) Fiera Capital Corporation are segregated funds administered by Fiera Capital Corporation (formerly CGOV Asset Management)

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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#### 4. Accounts Payable

	2019	2018
Investment Management		
Addenda Capital	\$ 42	\$ 40
Fiera Capital Corporation	31	29
Letko-Brosseau	21	-
Jarislowsky Fraser Limited	32	32
State Street Global Advisors, Ltd.	10	9
Other		
BDO Canada LLP - Audit	10	10
Eckler Ltd. - Actuarial	39	71
Proteus - Investment Advisors	29	28
Northern Trust - Custodial Services	13	13
Minister of Finance	-	11
Lakehead University	74	64
	\$ 301	\$ 307

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#### 5. Actuarial Valuation

In the event that an actuarial valuation discloses a going concern unfunded liability or a solvency deficiency as defined by the Pension Benefits Act (1987), the University will be obligated to make additional contributions as required by the Act. The most recent actuarial valuation of the Plan at December 31, 2017, reported that based on then current provisions, the Plan had both a going concern unfunded liability and a solvency deficiency, and that additional University contributions would be required upon filing. The University made special payments of \$444,400 in 2019, and is scheduled to make special payments of \$444,400 until the next scheduled actuarial valuation.

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#### 6. Pension Transfers

Pension transfers into the Lakehead University Plans were \$34 (2018 - \$16).

Transfers between the Lakehead University Employee Pension Plan and the Professional and Administrative Staff Plan were \$2,394 (2018 - \$287). Funds are transferred for members of the Lakehead University Employee Pension Plan that transfer to the Professional and Administrative Staff Plan when changing benefit classification effective January 1, 2020.

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Lakehead University Pension Investment Fund  
Notes to Financial Statements

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December 31, 2019 (in thousands of dollars)

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7. Contributions

	Professional Plan 2019	LUEPP 2019	Total 2019	Professional Plan 2018	LUEPP 2018	Total 2018
Employee						
Current Service Contributions	\$ 3,157	\$ 709	\$ 3,866	\$ 2,954	\$ 760	\$ 3,714
Sponsor						
Current Service Contributions	3,542	661	4,203	3,728	713	4,441
Going Concern and Solvency Special Payments	444	-	444	740	-	740
	<u>3,986</u>	<u>661</u>	<u>4,647</u>	<u>4,468</u>	<u>713</u>	<u>5,181</u>
	<u>\$ 7,143</u>	<u>\$ 1,370</u>	<u>\$ 8,513</u>	<u>\$ 7,422</u>	<u>\$ 1,473</u>	<u>\$ 8,895</u>

As of December 31, 2019 no required contributions were past due.

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 8. Administrative Expenses and Professional Fees

	2019	2018
Investment management fees	\$ 552	\$ 554
Actuarial fees	170	186
Investment counselling	115	114
Audit fees	11	10
Custodial service fees	49	52
Other - Pension Commission	15	11
Administration	114	100
Goods and services tax rebate	(12)	(13)
	\$ 1,014	\$ 1,014

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### 9. Pension Benefits and Refunds

	2019	2018
Pension benefits	\$ 7,070	\$ 7,086
Refunds (deaths, terminations, resignations and retirements)	10,872	14,167
	\$ 17,942	\$ 21,253

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### 10. Related Party Transactions

The Pension Fund does not hold any securities of the employer sponsor or its related parties.

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### 11. Income Taxes

The Fund is not subject to income tax since it is a Registered Pension Trust as defined by the Income Tax Act (Canada).

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 12. Financial Instruments

The objective of the Fund is to maximize the long-term return for its defined contribution members, balanced with the relative preservation of capital, followed by capital growth in its Retirement Account. The Fund's investment policy is established by the Board of Governors and is set out in the statement of investment policies and procedures ("SIPP"). The SIPP was last amended June 7, 2019 with primarily administrative updates, and one addition to satisfy a new regulatory requirement. The addition was Appendix A, the purpose of which is to identify the asset classes required for the Actuary to calculate the Provision for Adverse Deviation used in the Funding Valuation.

The SIPP permits cash and cash equivalents, and fixed income investments in: bonds, debentures, coupons and residuals, mortgage and mortgage backed securities, asset-backed securities and preferred shares. It additionally permits equity investments in: publicly traded common stocks; rights, warrants, installment receipts, convertible debentures and other instruments convertible into common stocks; income trust units issued and/or registered in jurisdictions where appropriate legislation is in place to limit the liability of unitholders; American Depositary Receipts; and Global Depositary Receipts. Investments in alternative strategies that are permitted include: private equity, real estate, and hedge funds. The SIPP outlines an asset allocation target of:

Asset Class	Permissible Range
Canadian Money Market	0-20%
Canadian Fixed Income	30-50%
Canadian Equities	20-40%
Global Equities	20-40%
Alternative Assets	0-10%

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 12. Financial Instruments (cont'd)

The Fund is in compliance with the SIPP's allowable asset allocation, as at December 31, 2019.

The Plan's investment performance is expected to:

- a) exceed the investment performance of the benchmark index over rolling 4-year periods; or
- b) rank in the top 50% of comparable portfolios over a rolling 4-year period in terms of return.

The performance of the investment manager(s) relative to an appropriate benchmark and/or peer group over 4-year periods will be evaluated quarterly. The performance of individual asset classes is expected to:

- a) exceed the return of their corresponding benchmark indices by an average of 0.5%; or
- b) rank in the top 50% of the appropriate investment manager performance measurement universes over rolling 4-year periods in terms of return.

In 2019, the Fund had a one year rate of return of 13.3% and a four year return of 7.0%, measured against a one year benchmark of 15.5% and a four year benchmark of 7.2%.

The carrying value of cash and cash equivalents, sponsor's and employees' contributions receivable, and accounts payable approximates their fair value because of their short-term nature.

Risks arising from financial instruments:

#### Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Fund's financial position and revenue. This risk arises from the Fund's investments whose returns are linked to interest rates. The Plan invests in pooled funds that may hold debt instruments linked to interest rates.

#### Foreign Currency Risk

Foreign currency exposure arises from the Fund's holdings of foreign equity or debt instruments. The Fund invests in pooled funds that may hold debt or equity instruments denominated in a foreign currency and as such would be exposed to fluctuations in currency risks. All of the Fund's investments are denominated in Canadian or US Dollars. US Dollar investments are translated into Canadian Dollars at the market rate at the end of the fiscal period. Investments denominated in foreign currencies are noted on the Schedule of Cost and Market Value of Investments by type (Schedule 1). An increase or decrease of 5% in the US exchange rate would result in an increase or decrease of net assets available for benefits of \$2,781.

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## Lakehead University Pension Investment Fund Notes to Financial Statements

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December 31, 2019 (in thousands of dollars)

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### 12. Financial Instruments (cont'd)

#### Market Risk

Concentrations of market risk exist when a significant portion of the portfolio is invested in securities with similar characteristics and/or similar economic, political or other conditions that may prevail. The Fund Administrator believes that the investments in which the Fund invests spreads the market risk over different market sectors. The Fund Administrator uses a variety of investment management companies to ensure the portfolio is balanced to help mitigate market risk. An increase or decrease of 10% of the Fund's investment portfolio would result in an increase or decrease of net assets available for benefits of \$22,327.

An increase or decrease of 10% in the portion of the portfolio invested in Canadian Equities would result in an increase or decrease of net assets available for benefits of \$8,439.

An increase or decrease of 10% in the portion of the portfolio invested in Foreign Equities would result in an increase or decrease of net assets available for benefits of \$5,562.

#### Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty (borrower) to fully honour its financial obligations with the owner (lender), including its inability or unwillingness to pay borrowed principal, interest or rent when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligation.

The Administrator has put in place a Statement of Investment Policies and Procedures that contains a set of guidelines for the fixed income portfolio to limit single issuer exposure.

The Fund's most significant credit risk exposure arises from its investments in interest bearing investments. While the Fund may have credit risk exposure to bonds, it manages this risk by holding such investments in pooled bond funds, as described in Note 3. The pooled bond funds represent 35% (2018 - 38%) of the total investments.

#### Liquidity Risk

Liquidity risk is the risk of not being able to meet the Fund's cash requirements in a timely and cost effective manner. Liquidity requirements are managed through income generated from investments, monthly contributions made by employers, and by investing in publicly traded liquid assets that are easily sold and converted to cash. The Fund invests only in liquid investments that are traded in an active market.

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## Lakehead University Pension Investment Fund Notes to Financial Statements

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December 31, 2019 (in thousands of dollars)

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### 12. Financial Instruments (cont'd)

#### Financial Instruments Fair Value Hierarchy

Disclosure of a three-level hierarchy for fair value measurements is based upon transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

#### Level 1:

For securities valued based on unadjusted quoted prices in active markets for identical assets.

#### Level 2:

For securities valued based on inputs, other than quoted prices included in Level 1, that are observable for the asset, either directly or indirectly.

#### Level 3:

For securities valued based on inputs that are based on unobservable market data.

The following tables present the Fund's financial investments evaluated at fair value as at December 31<sup>st</sup>, classified according to the fair value hierarchy described above:

	Level 1	Level 2	Level 3	2019 Total
Canadian				
Cash and cash equivalents	\$ 1,167	\$ 4,281	-	\$ 5,448
Equities - Common Stock	29,291	-	-	29,291
Unit Trusts - Bonds and debentures	-	78,977	-	78,977
Unit Trusts - Equities Foreign	-	55,099	-	55,099
Unit Trusts - Equities	-	55,622	-	55,622
	<u>\$ 30,458</u>	<u>\$ 193,979</u>	<u>-</u>	<u>\$ 224,437</u>

	Level 1	Level 2	Level 3	2018 Total
Canadian				
Cash and cash equivalents	\$ 2,905	\$ 4,691	-	\$ 7,596
Equities - Common Stock	25,581	-	-	25,581
Unit Trusts - Bonds and debentures	-	77,948	-	77,948
Unit Trusts - Equities Foreign	-	50,165	-	50,165
Unit Trusts - Equities	-	46,894	-	46,894
	<u>\$ 28,486</u>	<u>\$ 179,698</u>	<u>-</u>	<u>\$ 208,184</u>



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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 12. Financial Instruments (cont'd)

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

#### Level 1

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable quote is observable. US partnerships are classified as Level 1 when they are held in a pooled fund and a reliable quote is observable. Cash, short-term notes and treasury bills are classified as Level 1. These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates market value.

#### Level 2

These instruments mature within one year and are stated at cost, which, when combined with accrued interest income, approximates market value. The Fund classified unit trusts as Level 2.

#### Level 3

The Fund has no investments classified as Level 3.

As at December 31, 2019 and 2018, the Fund's investments are Level 1 and 2 within the fair value hierarchy. There were no transfers between levels during the year.

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### 13. Capital Management

The Administrator defines the Fund's capital as its net assets available for benefits. The Fund's objective when managing its capital is to safeguard its ability to provide benefits to members, as further described in Note 12. The Fund's assets are invested in accordance with its Statement of Investment Policies and Procedures, which includes the asset mix recommended by the Fund's investment consultant, and which is projected to enable the Fund to meet or exceed its ongoing and long-term funding requirements within an acceptable level of risk. There has not been any change in what the Fund considers to be capital and there have been no significant changes to the Fund's capital management objectives, policies and processes in the year.

The investment managers appointed by the Fund are directed to achieve a long-term rate of return through a diversified portfolio, consistent with acceptable risks and prudent management. The long-term objective of the Fund is to achieve a total return such that the Fund can continue to provide the ongoing and projected benefits to its members.

There have been no changes in what the Fund considers to be its capital and there have been no significant changes to the Fund's capital management objectives, policies and processes for the year.

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## Lakehead University Pension Investment Fund Notes to Financial Statements

December 31, 2019 (in thousands of dollars)

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### 14. Contingency

The Financial Services Regulatory Authority (FSRA) has raised an issue with the Plan amendments made to the Professional and Administrative Staff Plan in 2000. The amendment provided that pensioner increases would be granted only to the extent that the funds in the Retirement Account of the Plan are sufficient to support the increase. FSRA has indicated that the amendment may be considered void unless a court agrees the amendment is necessary to rectify the language of the Plan to reflect its original intent, or the Plan is further amended to comply with requirements of the Pension Benefits Act.

The University believes that the plan amendments have been properly applied and has retained legal counsel to assist with the matter. While the ultimate outcome of the matter is uncertain, it is possible that FSRA could consider some or all of the plan amendments void. In this case, the plan actuary has estimated the potential impact as of December 31, 2016 as follows:

	Liability for Pension Increases Since 2000	Increases in Future Obligations for Pension Increases After 2016
For all pensions commencing before February 25, 2000	\$8.5 million	\$5.4 million

On April 24, 2015 FSRA corresponded with the University. The correspondence was reviewed by the Actuary and by legal counsel; a response has been provided to FSRA. The University and FSRA continue to communicate; no course of action has been decided upon.

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### 15. COVID-19 ("Coronavirus")

Subsequent to year end, the impact of COVID-19 in Canada and on the global economy increased significantly, accentuating the credit, interest rate, liquidity, foreign exchange and other price risks described in Note 12. The Pension Fund's investments in equity instruments measured at fair value are reported in these financial statements at their values on December 31, 2019. The most recent value of the portfolio as at March 31, 2020 is estimated to be \$188,267.

For its part, Lakehead University has taken measures to help combat COVID-19 that could have an impact on its operating results. If the effects of COVID-19 continue, there could be further impact on Lakehead University and its major customers, suppliers and other third-party business associates that could impact the timing and amounts realized on Lakehead University's assets and future profitability.

The Pension Fund's assets are held separately and distinctly from Lakehead University's operations; therefore, the University's ongoing operations are not expected to have any impact on the Pension Fund itself. At this time, the full potential impact of COVID-19 on Lakehead University and on the Pension Fund is not known.

## Lakehead University Pension Investment Fund Schedule 1 - Market Value and Cost of Investments by Type

December 31 (in thousands of dollars)	2019		2018	
	Market value	Cost	Market value	Cost
Equities				
Common stock				
Canada - CAD	\$ 29,214	\$ 25,810	\$ 25,499	\$ 25,733
Unit trust equity				
Canada - CAD	55,099	50,255	50,165	50,348
Foreign - USD	55,622	29,267	46,894	28,606
Total unit trust equity	110,721	79,522	97,059	78,954
Total equities	139,935	105,332	122,558	104,687
Fixed Income				
Unit trust bonds				
Canada - CAD	78,977	78,856	77,948	79,737
	218,912	184,188	200,506	184,424
Short term investments	4,281	4,281	4,691	4,691
Accrued income	77	77	82	82
Total investments	\$ 223,270	\$ 188,546	\$ 205,279	\$ 189,197

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

Lakehead University Pension Investment Fund  
Schedule 2 - Market Value and Cost of Investments  
by Investment Manager

December 31 (in thousands of dollars)	2019		2018	
	Market Value	Cost	Market Value	Cost
Addenda Capital	\$ 58,165	\$ 57,879	\$ 58,605	\$ 59,543
Fiera Capital Corporation	29,291	25,887	25,581	25,815
Dimensional Fund Advisors Canada ULC	19,262	17,022	17,003	16,369
Jarislowky Fraser Limited	52,960	51,274	47,159	49,359
Letko, Brosseau & Associates Inc.	27,232	24,239	27,040	25,874
State Street Global Advisors	36,360	12,245	29,891	12,237
	<u>\$ 223,270</u>	<u>\$ 188,546</u>	<u>\$ 205,279</u>	<u>\$ 189,197</u>

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