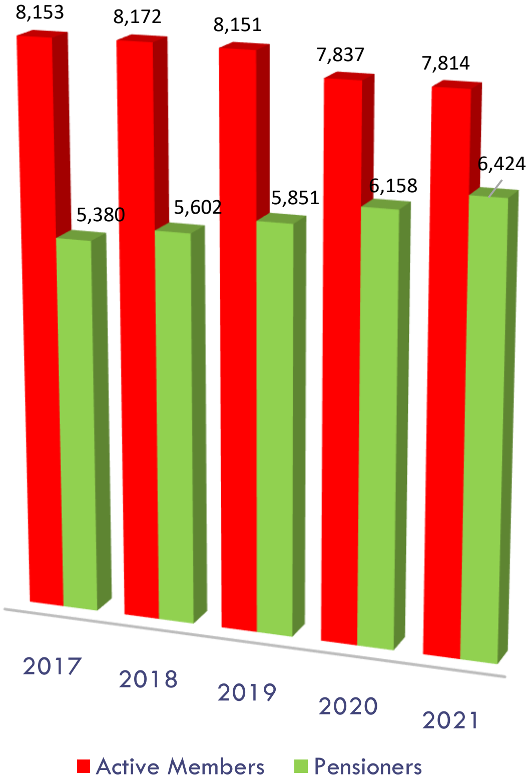
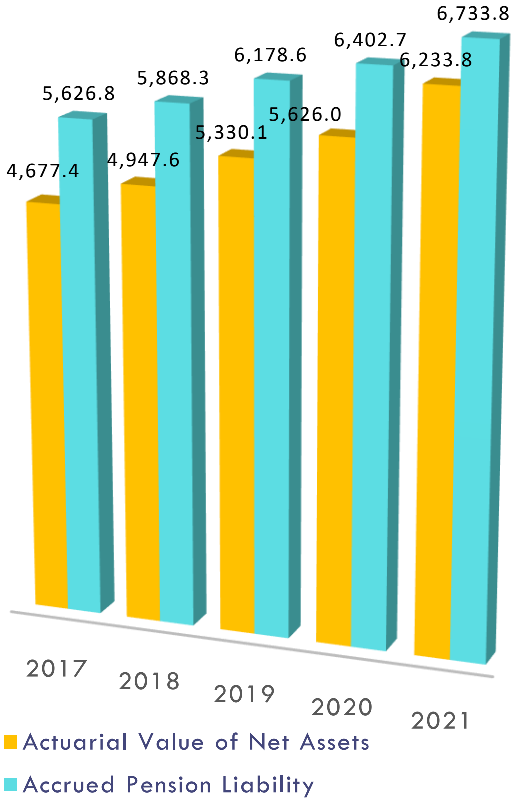
Communiqué Spring 2022

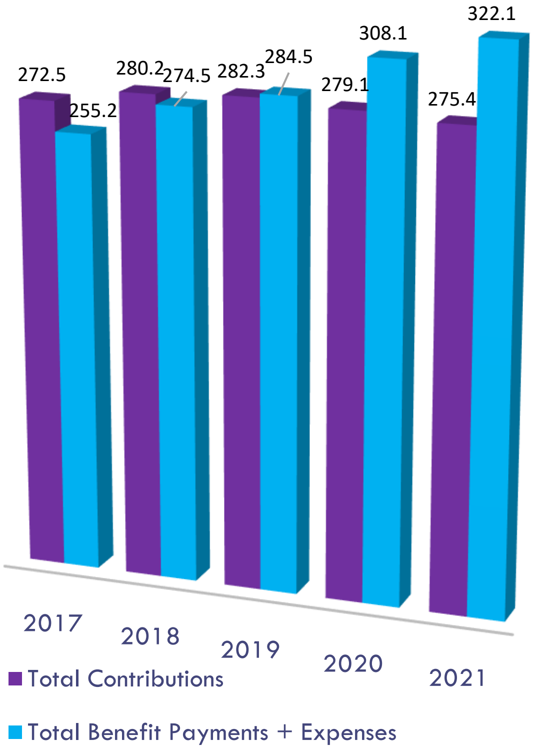
Highlights of the 2021 Annual Report

UNIVERSITIES ACADEMIC PENSION PLAN

The UAPP's 2021 Annual Report has been released and this issue of the Communiqué provides financial, statistical, and other summary highlights of the Report. The full Annual Report is available at uapp.ca/publications.







Financial Position of the Plan

The Plan's Assets

The UAPP Fund's assets had a market value of $6,655.1 million at the end of 2021, representing an increase of $876.8 million from the prior year end. This one-year growth is the largest in the Fund's history and comes from investment income net of investment management costs of $923.4 million. The Plan is in a position of negative cash flow (excluding investment income) as Plan benefit payments and administrative expenses exceeded total contributions by $46.5 million during the year. Strong returns during 2021 and most recent years have led the Plan to its highest Funded Ratio (92.6 per cent) since 2000 (94.3 per cent).

	December 31, 2021			December 31, 2020		
	Pre-1992	Post-1991	Total	Pre-1992	Post-1991	Total
Fair Value of Net Assets	597.6	6,057.5	6,655.1	596.5	5,181.8	5,778.3
Actuarial Adjustment	(43.2)	(378.1)	(421.3)	(22.3)	(130.0)	(152.3)
Actuarial Value of Net Assets	554.4	5,679.4	6,233.8	574.2	5,051.8	5,626.0
Accrued Pension Liability	1,389.1	5,344.7	6,733.8	1,415.3	4,987.4	6,402.7
Actuarial Surplus (Deficiency)	(834.7)	334.7	(500.0)	(841.1)	64.4	(776.7)
Funded Ratio	39.9%	106.3%	92.6%	40.6%	101.3%	87.9%

(all figures in $millions)

Not only was the Fund's growth during the past year of historic proportions, the three years with the largest dollar value growth in assets occurred within the past five years (2021, 2019, and 2017). Investment income net of costs has always been the primary driver of changes in the value of the Fund's assets. This income remains vital to the Fund's health given the re-emergence of negative cash flow. For each of the past three years, benefit payments have exceeded contributions. Nevertheless, the Fund has managed to grow in twelve of the last thirteen years. In the years after the Global Financial Crisis of 2008, the annualized rate of return is 9.7 per cent and net investment income has accounted for $4,642.3 million of the $4,668.5 million overall increase in the Fund.

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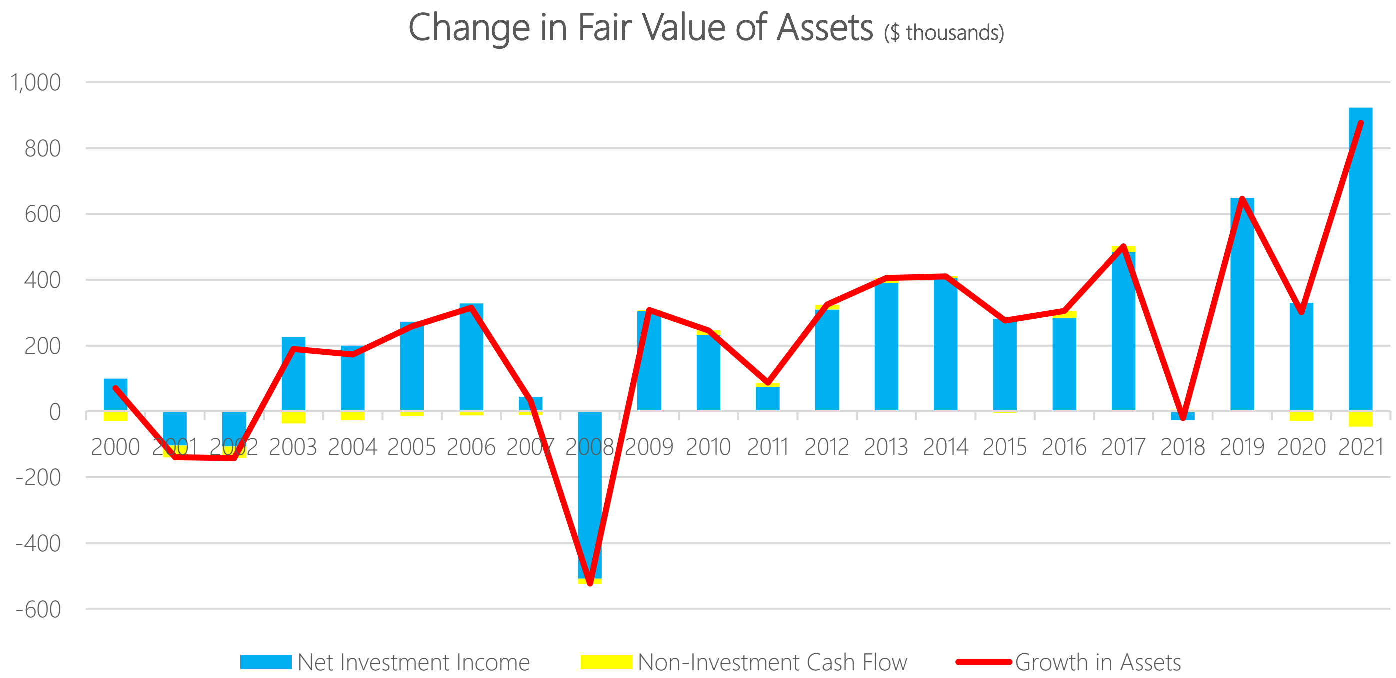
One of the great challenges confronting all pension fund managers is in managing the timing, magnitude, and direction of the inevitable market fluctuations as they occur. To handle the ebbs and flows of market returns, actuarial practice permits the use of asset smoothing when measuring the financial position of a plan. Note 14 of the Financial Statements contains a reference to the details of the smoothing methodology used by UAPP, as does the most recent actuarial valuation report, posted on the Plan's website (www.uapp.ca). As at December 31, 2021, the smoothing reserve is $421.3 million, compared to a reserve of $152.3 million for 2020. The actuarial value of assets increased by $607.8 million, from $5,626.0 million at the beginning of the year to $6,233.8 million at the end.



The exceptional return of 16.1 per cent earned during 2021 significantly influenced the smoothing reserve applied for the year as the Plan attained a new all-time high reserve point. The next highest reserve was $202.2 million in 2014 with the lowest point in the past ten years being a negative reserve of $116.7 million in 2018. The 10-year average smoothing reserve has jumped considerably, from $92.8 million to $138.1 million from 2020 to 2021.

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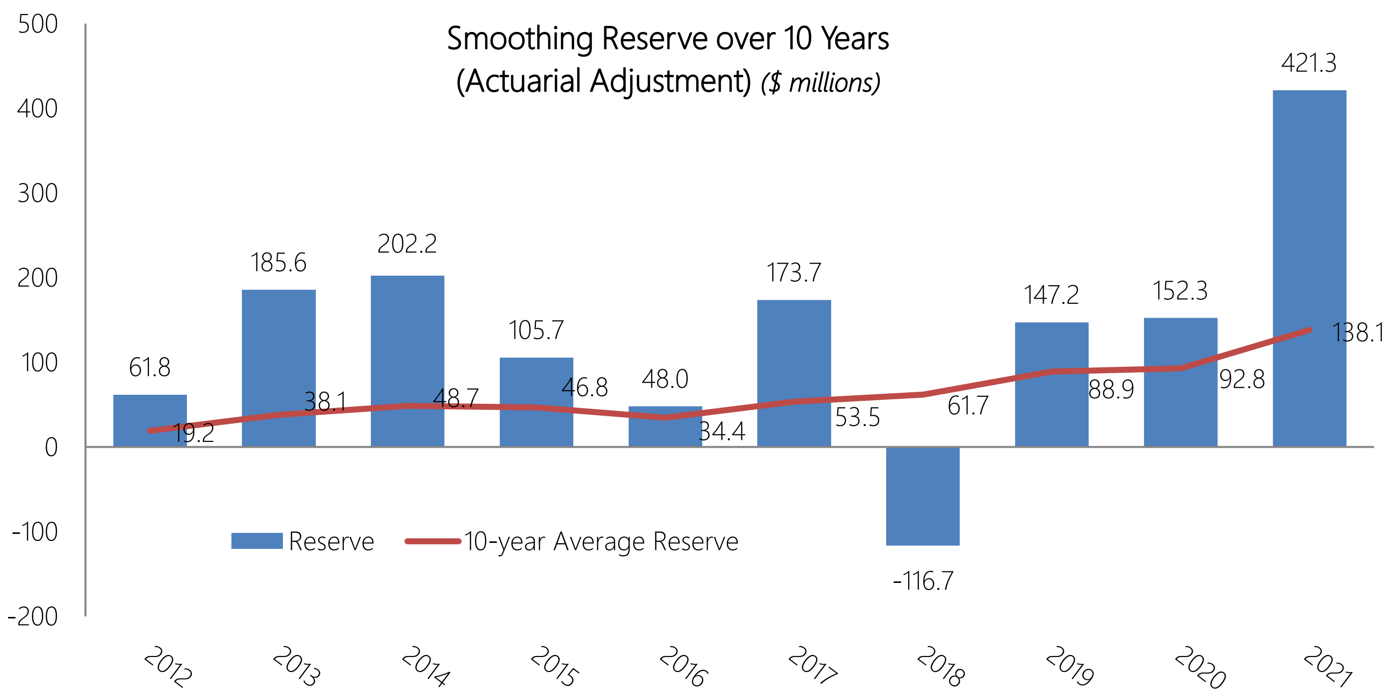

As noted in last year's annual report, UAPP carried out an asset/liability modeling study with the assistance of the Plan's asset consultant. The goal of the study was to review the existing asset mix of the Fund and adjust it as needed within the context of the Plan's liabilities. Over the long-term, the Fund must ensure the Plan is able to meet all its benefit obligations and the study provides an opportunity to closely evaluate the risk-return profile of the asset mix. The project involved significant consultation between the Investment Committee and the asset consultant, with the Committee ultimately providing its recommendations to the Board. The study resulted in three changes to the UAPP Statement of Investment Policies and Goals (SIP&G) effective January 1, 2022.

Firstly, as a risk mitigation measure, the allowed ranges for the asset mixes will be tightened on both the upper and lower bounds. The impressive market returns on equities caused the actual mix to shift considerably and the Investment Committee felt that tighter ranges would allow the Fund to better track towards its target allocations.

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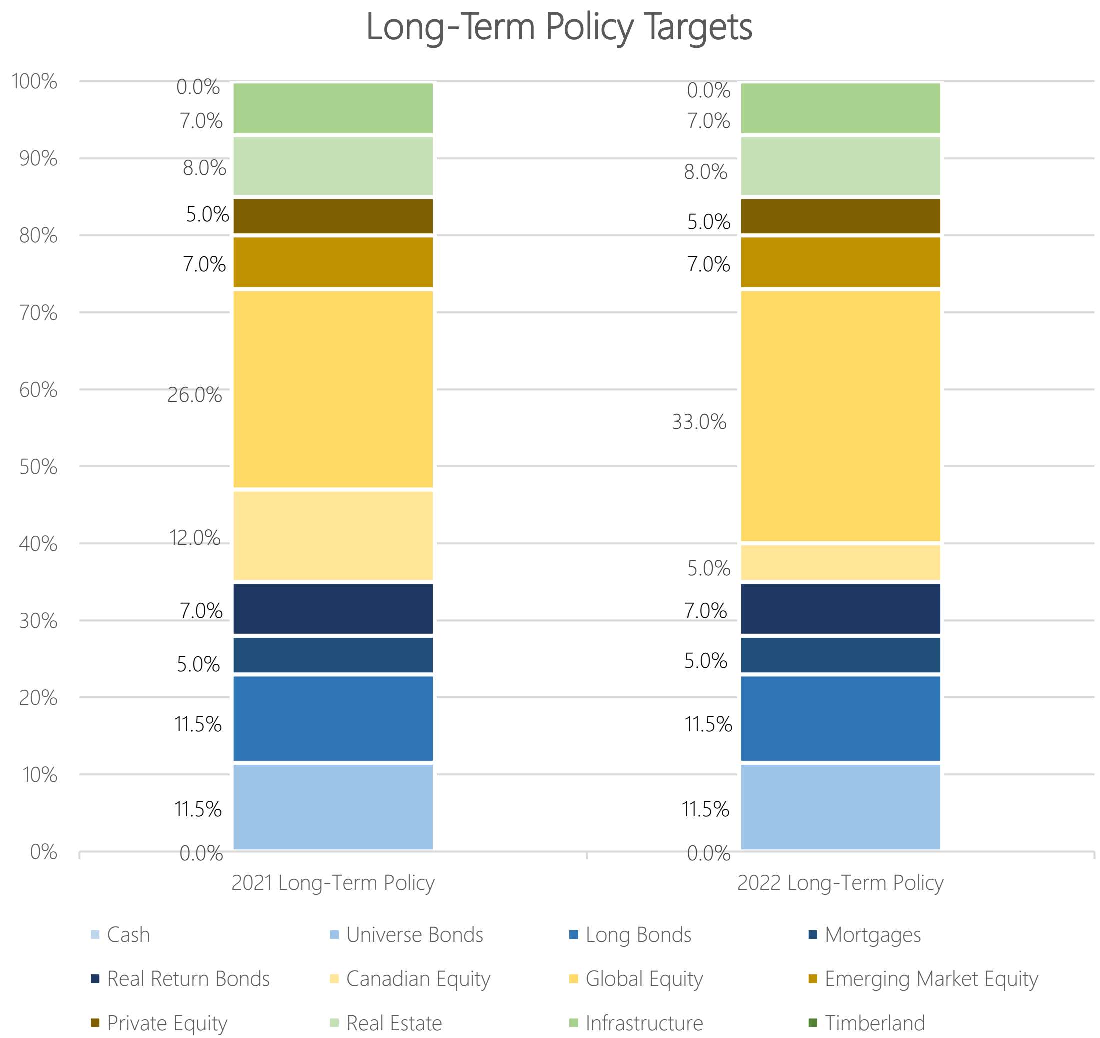
Secondly, since UAPP first invested in the private equity asset class in 2017, the allocation was included with the Alternatives class, alongside infrastructure, real estate, and timberlands. However, from a risk-return perspective, private equity behaves more like public equity investments. As a result, private equities were moved to the Equities class. As an additional risk mitigation measure, this change allows UAPP to consider private and public equities together when evaluating the need for rebalancing the Fund.

The last change was to reduce the Fund's allocation to Canadian public equities from a 12 per cent target to 5 per cent, with an offsetting increase to global public equities, increasing from 26 to 33 per cent. This change increases diversification, reduces home country bias, and brings the Fund's allocation to Canada more in line with Canada's share of the world's capital markets.

Changes to the Fund to satisfy the criteria of the updated asset mix were completed in early 2022 with Canadian public equity funds reallocated to global equity funds and fixed income investments.



The Plan's Liabilities

The Plan's accrued liabilities as of December 31, 2021 are estimated at $6,733.8 million, an increase of 5.2 per cent over the December 31, 2020 liability of $6,402.7 million as reported in the 2020 financial statements. Of the $6,733.8 million liability, a total of $1,389.1 million relates to the pre-1992 service period and $5,344.7 million relates to the post-1991 service period.

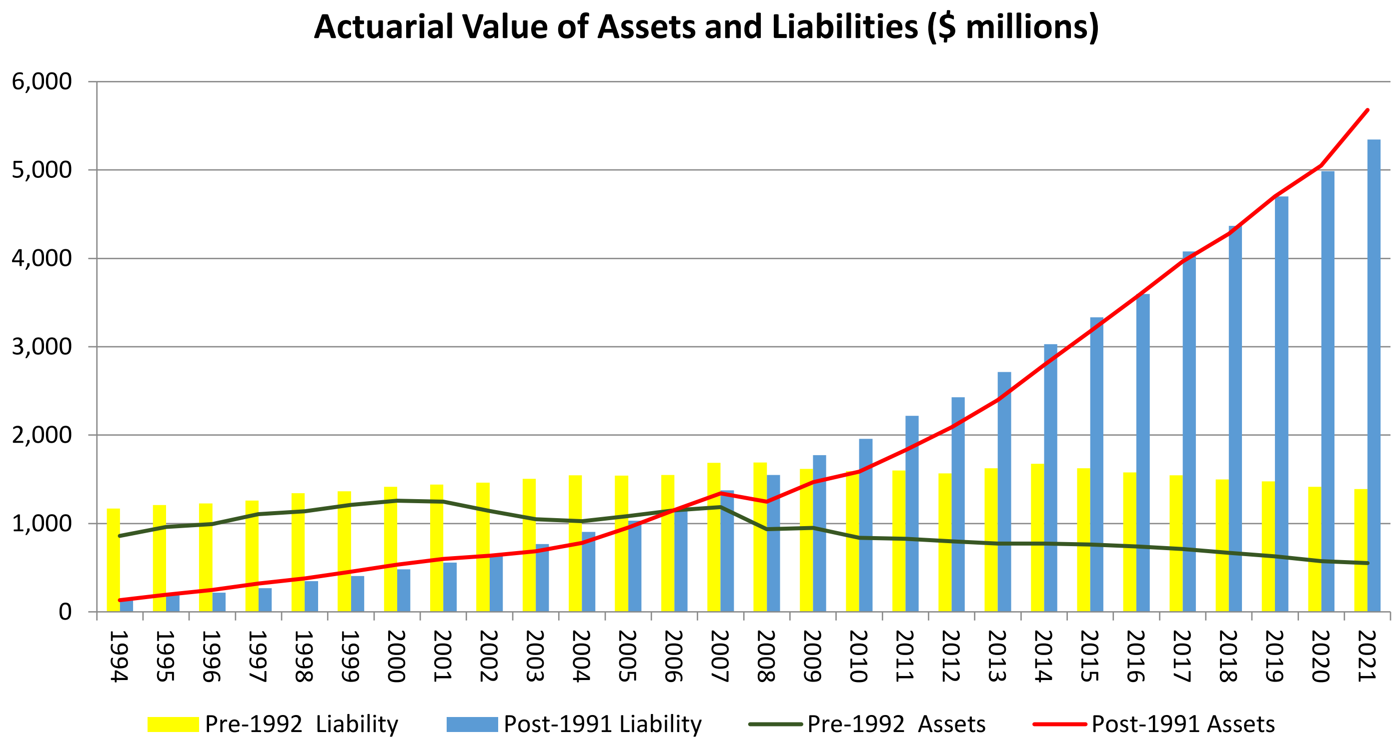
Just prior to the commencement of the asset/liability modelling study, the Plan's actuary performed both a study of the termination and retirement experience of the membership and an actuarial valuation as at December 31, 2020. The experience study enabled the Board to adopt updated demographic assumptions. As part of the actuarial valuation process, the Board reviews all assumptions and this year, they opted to reduce the discount rate, an assumption directly related to anticipated future investment returns. Asset values have grown with positive market experience, but such strong returns may be more difficult to attain in the future. As a result, the discount rate was changed from 5.46 per cent to 5.30 per cent. The valuation results revealed that the Plan is in a significantly improved financial position and the Board was able to reduce contribution rates, even while reducing the discount rate. Generally, a lower discount rate will increase the value of actuarial liabilities.

For almost three decades, UAPP has reported liabilities for the pre-1992 period separate from those for the post-1991 period because the Government of Alberta contributes towards the funding of the unfunded liability first established at December 31, 1991 and amortized to 2043. The Plan's financial statements identify the assets (at both market value and actuarial value), actuarial liabilities, and the resulting surplus/deficit for the two periods.

The pre-1992 assets continue to decline due to the long amortization period. Meanwhile, the pre-1992 liability has not declined as quickly as initially expected due to increases in life expectancies and decreases in discount rates over the years.

The post-1991 liability has been impacted by the same factors but grows from the current service accrued by Plan members. The assets for this period have benefited from the shorter amortization timeline built into pension legislation. This portion of the Plan has been fully funded in the past and has recently reached full funding again after many years of deficits.

The liability calculations for December 31, 2021 are derived from the Plan actuary's extrapolation to that date from the December 31, 2020 actuarial valuation. The 2020 liability was determined from an extrapolation of the previous actuarial valuation as at December 31, 2018. The assumptions used in each extrapolation are reviewed as part of the year-end process and are summarized in Note 5 of the Financial Statements.



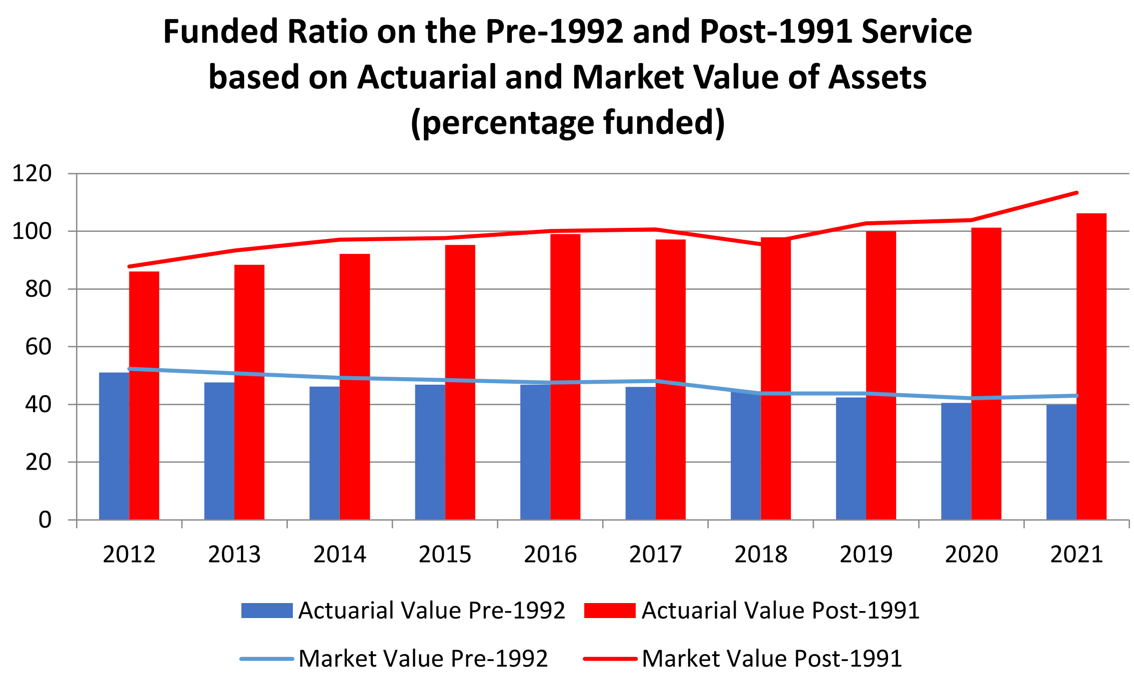
The Plan's Funded Ratio

UAPP tracks a number of funded ratios to monitor the fiscal health of the pension plan. The ratios are calculated for the pre-1992 period, post-1991 period, and the total combined, on both a market value and an actuarial value basis. The underlying result of these many ratios is that the pre-1992 period remains significantly under-funded, but this period is a shrinking portion of the total plan. The post-1991 period, on the other hand, has reached full funding, while the combined result shows that the Plan is at its healthiest point in over twenty years.

On a market value basis, the total Plan has a funded ratio of 98.8 per cent (2020: 90.2 per cent), split between the pre-1992 portion with a ratio of 43.0

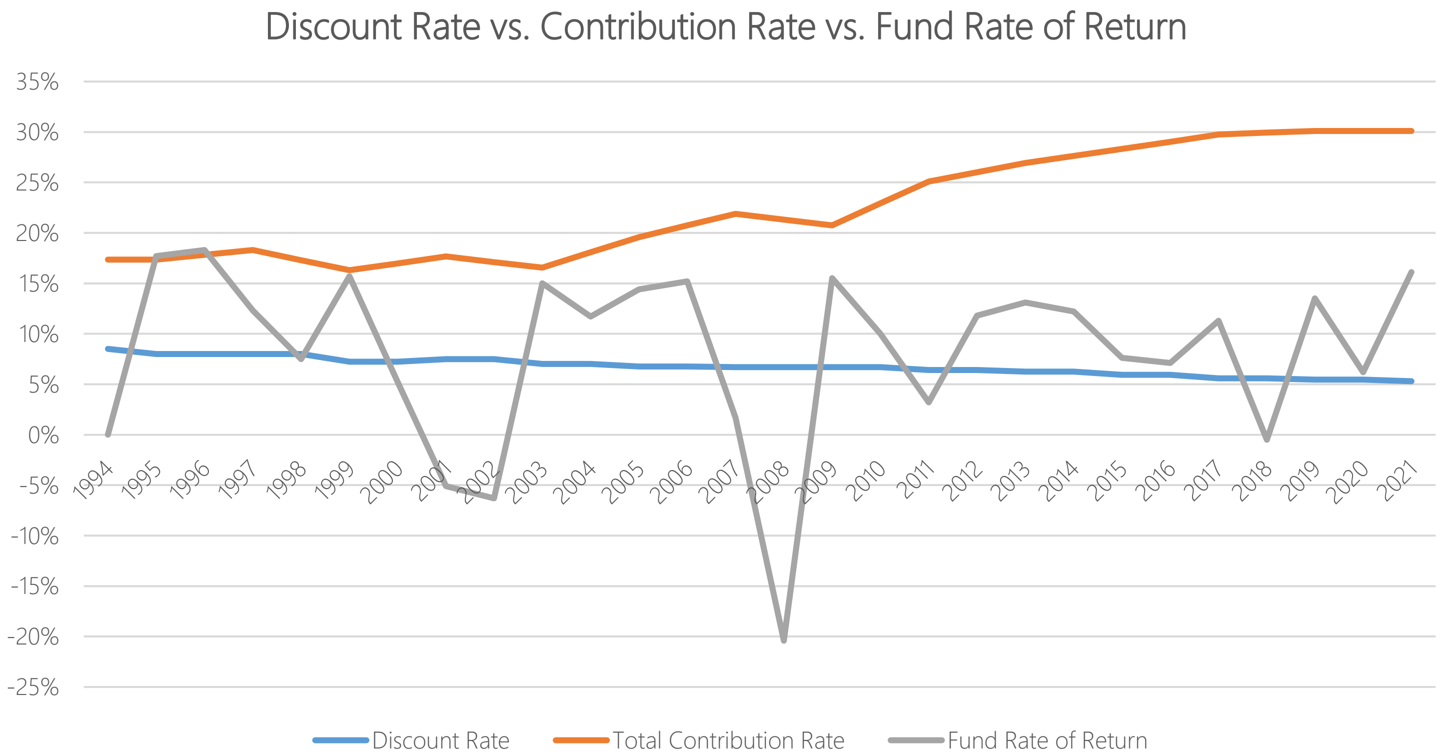
per cent (2020: 42.1 per cent) and the post-1991 portion at 113.3 per cent (2020: 103.9 per cent). The market value funded ratio is at an all-time high for the combined total Plan. Credit for the attainment of the high ratios is mainly due to strong investment returns over many years, especially since 2008.

In looking at the position of the Plan on an actuarial value basis, the funded ratios remain high but are tempered by the buffer added to asset values as a means of protecting the Fund from market fluctuations. The total Plan has a funded ratio of 92.6 per cent (2020: 87.9 per cent), comprised of the pre-1992 portion at 39.9 per cent (2020: 40.6 per cent) and the post-1991 portion at 106.3 per cent (2020: 101.3 per cent).



Looking to the Future

Effective July 1, 2022, UAPP contribution rates will reduce by 1.98 per cent, split evenly between employers and members. This reduction is the first since January 1, 2008. While strong recent investment performance has put the Plan in a healthy financial position and allowed the Board to lower contribution rates, it is important to understand why the Board also lowered the discount rate. After years of good returns, it is wise to build a margin for adverse experience, a traditional actuarial tool for guarding Plan assets, and lowering the discount rate is a common way to do that given its outsized influence on the value of the liabilities. The rate is derived from anticipated future investment returns based on the Plan's asset mix and most industry experts are projecting lower future investment performance for pension funds.



While healthy rates of return have led to a decrease in the contribution rate now, future returns will heavily influence the direction of contribution rates over the coming years. The Board will continue to proceed with caution when it comes to adopting actuarial valuation assumptions such that a healthy measure of conservatism is involved to avoid fluctuations in contribution rates, knowing that market returns will always behave erratically.

Early in 2021, the Board directed that all public equity investments be managed on a passive basis for the duration of the asset/liability modelling study. Now that this study is complete, the Board has some important steps to take on the investment side as it contemplates future management of the Fund. Plan members should be confident that the Board will carefully evaluate those next steps as it searches for how this sizable portion of the Fund will be managed going forward.

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Questions About Your Pension Or The Retirement Planner

Call the UAPP Administration Centre toll-free at 1.866.709.2092 if you have questions about your pension or if you need help accessing the Retirement Planner. The Retirement Planner can be accessed through the link on our website at www.uapp.ca. Your annual Member Statement can be accessed through the Retirement Planner.

For new members of the plan, please spend some time reviewing our website. You will find lots of information in the "Publications" section, including our Member Handbook and a "New Member Basics" Information Sheet. Questions about UAPP can also be directed to the UAPP Trustees' Office at board@uapp.ca.

Once you leave employment with a participating employer of the UAPP and leave your funds in the plan, it is very important that you keep your contact information up to date. Active members should notify their employer about any changes to their address. Pensioners and other terminated members must ensure UAPP has their current contact information in case the UAPP needs to contact them about their pension, including for the purposes of issuing your annual tax slip. Pensioners or their agents should contact CIBC Mellon directly by telephone toll-free at 1.800.565.0479 to update their information. Other terminated members should contact the UAPP Administration Centre at 1.866.709.2092.

If you leave employment and leave your funds with the UAPP, keep your Designation of Beneficiary and the addresses of your beneficiaries up-to-date with the UAPP. Doing so will help expedite payment to your beneficiaries. Make sure your family or your executor knows you are entitled to a benefit from the UAPP.

For members thinking about retirement, you can run an unlimited number of estimates on the Retirement Planner, adjusting for important details like retirement dates and future salary adjustments. Also, please read the Information Sheet "Preparing For Retirement", available at our website under "Publications".

If you recently used the services of any group (the UAPP Administration Centre, CIBC Mellon, the Human Resources Department at your institution, or the UAPP Trustees' Office) on a matter related to the UAPP and would like to comment on the service you received, please feel free to write to us at board@uapp.ca. Other contact information is available on our website at www.uapp.ca/contact-us/.

Administration Service Provider

UAPP Administration Centre (Buck)
Member Pension Inquiries:
201 City Centre Drive
Suite 1000
Mississauga, ON L5B 4E4
Phone: 1.866.709.2092
Email: uapp.pensions@buck.com

Pensioner Payroll Provider

CIBC Mellon
Pensioner Payroll Inquiries:
CIBC Mellon Pension Benefits Dept.
PO Box 5858, Station B
London, ON N6A 6H2
Phone: 1.800.565.0479
Website: www.CIBCMellon.com

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