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INDEPENDENT AUDITORS' REPORT

To the Administrator

We have audited the calculation of the annual pension increase, effective January 1, 2018, for The Contributory Pension Plan for Hourly-Rated Employees of McMaster University, including McMaster Divinity College. The financial information has been prepared by management in accordance with the approved amendments to Sections 2.16 and 6.06 of The Plan text dated November 20, 2002.

Management's Responsibility for the Financial Information

Management is responsible for the preparation of the financial information in accordance with the approved amendments to Sections 2.16 and 6.06 of The Plan text dated November 20, 2002, and for such internal control as management determines is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial information based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial information is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial information. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial information whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial information.



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

Opinion

In our opinion, the annual pension increase, effective January 1, 2018, of 1.46% for The Contributory Pension Plan for Hourly-Rated Employees of McMaster University, including McMaster Divinity College, is prepared, in all material respects, in accordance with the approved amendments to Sections 2.16 and 6.06 of The Plan text dated November 20, 2002.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

November 6, 2017

Hamilton, Canada

**McMASTER UNIVERSITY
CONTRIBUTORY PENSION PLAN
FOR HOURLY RATE EMPLOYEES
YEAR ENDING JUNE 30, 2017 ANNUAL PENSION INCREASE**

Income (1)

Net realized gain on sales of investments	2,563,598
Investment income	1,262,942
Change in net unrealized gain in investments	<u>1,185,433</u>

5,011,973

Expenses (1)

Investment manager	222,163	
Professional	130,846	
Trustee and custodial	12,750	
Audit	9,238	
Pension filing	<u>3,559</u>	<u>378,556</u>

Net Income 4,633,417

Net Assets Market Value - June 30, 2016	52,909,768
Net Assets Market Value - June 30, 2017	56,169,708

Rate of Return (2) = $\frac{4,633,417}{\frac{1}{2} (52,909,768 + 56,169,708 - 4,633,417)}$

= 8.87 % 52,223,029.50

Calculation of Five Year Average

	<u>%</u>
2017 Rate of Return	8.87
2016 Rate of Return	2.45
2015 Rate of Return	8.56
2014 Rate of Return	16.79
2013 Rate of Return	12.93
Total Return for Last Five Years	<u><u>49.60</u></u>

Five-Year Annual Average Return $(\text{Total Return} / 5)$ = 9.92 %

Rate of Return in excess of 6.0% $(9.92\% - 6.00\%)$ = 3.92 %

Average CPI to June 30/17 (3) = 1.46 %

Pensioners Increase = 1.46 %

(1) Amounts as Reported on June 30, 2017 Audited Financial Statements

(2) Formula as Established

(3) The Average CPI is calculated as the percentage change in average monthly CPI for 12 months ended June 2017, relative to the average monthly CPI for 12 months ended June 2016