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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 Salaried Employees of McMaster University, including McMaster Divinity College 2000. The financial information has been prepared by management in accordance with the approved amendments to Section 5.08(a) 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 Section 5.08(a) of The Plan text dated July 1, 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 Salaried Employees of McMaster University, including McMaster Divinity College 2000, is prepared, in all material respects, in accordance with the approved amendments to Section 5.08(a) of The Plan text dated July 1, 2002.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

November 20, 2017
Hamilton, Canada

McMASTER UNIVERSITY
CONTRIBUTORY PENSION PLAN FOR SALARIED EMPLOYEES
ANNUAL PENSION INCREASE FOR YEAR ENDING JUNE 30, 2017
(in thousands of dollars)

	<u>Plan 2000</u>	<u>Original Plan</u>	<u>Total</u>
	(2)	(2)	
<u>Income</u>			
Investment income	41,698	78	41,776
Net realized gain on sale of investments	45,409	85	45,494
Net realized gain(loss) on sale of units in the Master Trust Fund	13,140	3	13,143
Change in net unrealized gain/(loss) in investments	<u>96,826</u>	<u>203</u>	<u>97,029</u>
	<u>197,073</u>	<u>369</u>	<u>197,442</u>
<u>Expenses</u>			
Investment managers	4,949	10	4,959
Professional	595	4	599
Administrative	298	0	298
Trustee and custodial	258	3	261
Pension filing	47		47
Audit	18	8	26
	<u>6,165</u>	<u>25</u>	<u>6,190</u>
Net Income (Loss)	<u>190,908</u>	<u>344</u>	<u>191,252</u>
Net Assets Market Value June 30, 2016	1,708,925	3,132	1,712,057
Net Assets Market Value June 30, 2017	1,903,823	3,638	1,907,461

$$2017 \text{ Rate of Return (1)} = \frac{191,252}{\frac{1}{2} (1,907,461 + 1,712,057 - 191,252)}$$

$$= 11.16 \%$$

Calculation of Five Year Average

	<u>%</u>
2017 Rate of Return	11.16
2016 Rate of Return	1.71
2015 Rate of Return	8.31
2014 Rate of Return	18.40
2013 Rate of Return	<u>10.79</u>

Total Return for Last Five Years 50.37

Five Year Annual Average Return (Total Return / 5) = 10.07%

Rate of Return in Excess of 4.5% (10.07% - 4.5%) = 5.57% 5.57%

Average CPI to June 30, 2017 (3) = 1.464%

Increase to Pensions = 1.46%

(1) Formula as established

(2) Amounts as reported on June 30, 2017 Audited Statements

(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