Financial statements of

McGill University Pension Plan for the Members of the Service Employees' Union

December 31, 2023

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Independent Auditor's Report

To the Pension Committee of
McGill University Pension Plan for
the Members of the Service Employees' Union

Opinion

We have audited the financial statements of McGill University Pension Plan for the Members of the Service Employees' Union (the "Plan"), which comprise the statement of financial position as at December 31, 2023, and the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements, including a summary of significant accounting policies (collectively 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 December 31, 2023, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans ("ASPP").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with ASPP, 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.

Those charged with governance are responsible for overseeing the Plan's financial reporting process.

Auditor's 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 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 GAAS 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 financial statements.

As part of an audit in accordance with Canadian GAAS, 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 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 the Plan 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.

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.

Deloitte LLP[1]

April 16, 2024

[1] CPA auditor, public accountancy permit No. A130874

McGill University Pension Plan for the Members of the Service Employees' Union

Statement of financial position

As at December 31, 2023

	2023	2022
	$	$
Assets		
Investments		
Sun Life Assurance Company of Canada 5-Year Guaranteed Fund	**4,406,258**	4,404,806
Sun Life Financial Trust Inc. 5-Year Guaranteed Fund	**311,733**	294,859
Investment in Sun Life Guaranteed Daily Interest Account	**412,163**	564,483
Equity funds	**3,938,644**	3,104,078
Fixed income funds	**544,767**	456,565
Balanced funds	**12,961,237**	11,778,707
Net assets available for benefits	**22,574,802**	20,603,498
Pension obligation	**22,574,802**	20,603,498
Surplus	**—**	—

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

McGill University Pension Plan for the Members of the Service Employees' Union
Statement of changes in net assets available for benefits
Year ended December 31, 2023

	Notes	2023	2022
		$	$
Net assets available for benefits, beginning of year		**20,603,498**	23,056,081
Investment operations			
Interest revenue		**112,955**	85,719
Fund distribution revenue		**2,038,299**	514,159
Changes in fair value of investments			
Net realized gain on sale of investments		**17,159**	43,401
Net unrealized loss on investments		**(38,415)**	(2,678,416)
		2,129,998	(2,035,137)
Member service operations			
Employer current service contributions		**1,031,641**	928,770
Employee voluntary contributions		**71,847**	69,279
Benefits paid			
Retirements		**(799,167)**	(1,174,708)
Death benefits		**—**	(47,627)
Terminations		**(369,901)**	(91,965)
Administrative expenses	4	**(93,114)**	(101,195)
		(158,694)	(417,446)
Net increase (decrease) in net assets available for benefits		**1,971,304**	(2,452,583)
Net assets available for benefits, end of year		**22,574,802**	20,603,498

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

1. Summary description of the Plan

General

The McGill University Pension Plan for the Members of the Service Employees' Union (the "Plan") is a non-contributory defined contribution plan. The Plan provides retirement benefits for eligible McGill University (the "University") employees who are members of Local 800 of the Service Employees' Union. Assets are, by definition, equal to liabilities, and there can be no surplus or deficit in the fund.

Funding policy

The University is required to make regular monthly contributions equal to 7.74% of the member's basic earnings, exclusive of any overtime payments or other payments excluded under the terms of the collective agreement. A member may elect to make voluntary contributions by means of regular payroll deductions. Such voluntary contributions are limited to the maximum permitted under the *Income Tax Act*.

Retirement benefits

The retirement benefit for each member is determined in accordance with the accumulated value of a member's account at retirement.

Death benefits

In the event of death before retirement, a lump-sum death benefit equal to the total value of the member's account is paid to the member's beneficiary or beneficiaries entitled thereto.

In the event of death after retirement, the death benefit, if any, is determined in accordance with the settlement option chosen at retirement.

Termination benefits

If a member leaves the University before retirement, the termination benefit is the total value of the member's account at the date of termination.

Investments held

All investments are currently on deposit with Sun Life Financial Trust Inc. and Sun Life Assurance Company of Canada under Group Policy 44440-G. All instruments are in pooled funds.

2. Accounting policies

Basis of presentation

These financial statements are prepared in accordance with Canadian accounting standards for pension plans. These financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. These financial statements do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

Canadian accounting standards for private enterprises, as set out in Part II of the *CPA Canada Handbook*, were applied for accounting policies that do not relate to the Plan's investment portfolio or pension obligations, to the extent that those standards do not conflict with the requirements of *CPA Canada Handbook* Section 4600, *Pension Plans*.

2. Accounting policies (continued)

Valuation of investment assets

Investment assets are stated at their fair values in the statement of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Pooled funds do not have a quoted price in an active market. Fair value is based on net asset values, obtained from the managers of the funds, which are determined with reference to the fair value of the underlying listed investments of each fund.

Trade date accounting

Purchases and sales of financial instruments are recorded on their trade dates.

Investment income

Interest revenue is recorded using the accrual basis. Fund distribution revenue is recorded when declared. The realized and unrealized gains and losses are determined using the average cost basis.

Transaction costs

All transaction costs in respect of purchases and sales of investments are recorded as part of administrative expenses in the statement of changes in net assets available for benefits.

Contributions

Contributions due to the Plan are recorded on an accrual basis.

Benefits

Payments of pensions, refunds and transfers out of the Plan are recorded in the period in which they are due.

Income taxes

The Plan is exempt from Part 1 tax under paragraph 149(1)(o) of the *Income Tax Act* (Canada).

Use of estimates

Preparation of the financial statements requires management to make estimates and assumptions based on the information available as at the date of the financial statements, which affect the reported values of assets and liabilities, and related income and expenses. Significant estimates relate to the determination of the fair value of investments. Actual results could differ from those presented.

3. Financial instruments

Credit risk

Credit risk arises from the potential for a security issuer to default on its contractual obligations to the Plan. This risk is managed by choosing a financial institution with a high credit rating for the guaranteed fund investments (a two-tier structure offering Assuris and CDIC coverage), so that the risk rests with the financial institution, and by engaging professional money managers and offering diversified pooled funds to mitigate risk exposure for other investments. Individual members also manage this risk by selecting from the choice of investment vehicles available to meet their own risk tolerance.

3. Financial instruments (continued)

Interest rate risk

Interest rate risk refers to the impact of interest rate changes on the Plan's financial position. Interest rate changes directly impact the fair value of fixed income securities held by the Plan. Interest rate changes will also have an indirect impact on the remaining assets of the Plan. This risk is managed by investing in guaranteed funds and by offering diversified investment options to members.

Market risk

Market risk is the risk of loss that results from fluctuations in equity prices, interest and exchange rates. The Plan is exposed to market risk from its investing activities. The level of risk to which the Plan is exposed varies depending on market conditions and the composition of the asset mix. The Plan employs investment diversification to manage this risk and provides investment alternatives to Plan members to manage their own risk. The 5-Year Guaranteed Funds are invested in guaranteed investment certificates and, therefore, bear minimal market risk. Changes in interest rates will impact the future returns earned by the guaranteed funds.

Price risk

Price risk is the risk that the fair value of an investment will fluctuate as a result of changes in market price, other than interest and exchange rate risks. The Plan employs investment diversification to manage this risk and provides investment alternatives to Plan members to manage their own risk.

Liquidity risk

The Plan manages its cash flows in order to have sufficient funds available to pay its current liabilities. The investments are considered liquid enough for the Plan to meet their obligations as they become due.

Fair value hierarchy

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each evaluation. The fair value hierarchy is made up of the following levels:

Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of the hierarchy for which significant input has been considered in measuring fair value.

All investments are included in Level 2. There were no transfers made between levels during the year.

4. Administrative expenses

	2023	2022
	$	$
Trustee and custodial fees	**5,646**	9,640
Investment management fees	**86,505**	89,677
Other	**963**	1,878
	93,114	101,195