Faculty Pension Plan

2006 annual report

THE UNIVERSITY OF BRITISH COLUMBIA

Contents

Administration

Executive Director, Investments: Ms. Diane Fulton

Executive Director, Operations, and Secretary: Ms. Cheryl Neighbour

Actuary: AON Consulting

Auditors: Deloitte & Touche LLP

Custodian & Performance Measurement Provider: RBC Dexia Investor Services Trust

Legal Counsel: Borden Ladner Gervais LLP

T H E U N I V E R S I T Y O F B R I T I S H C O L U M B I A

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LETTER FROM THE CHAIR

April 2007

Dear Members

We are pleased to present your 2006 Annual Report.

The Faculty Plan had a very successful year in 2006, with the Balanced Fund earning 14.0%, Canadian Equity Fund 19.0%, Foreign Equity Fund 20.2%, Bond Fund 3.5% and Short Term Investment Fund 4.0% (before fees). We are pleased to report that the Balanced Fund again improved its performance relative to other balanced pension funds of comparable size, with one-year returns ranking in the top third, while maintaining the risk of the Plan at a moderate level. Administrative costs and management fees for 2006 amounted to 0.38% (Balanced Fund), 0.48% (Canadian Equity Fund), 0.51% (Foreign Equity Fund), 0.21% (Bond Fund), and 0.18% (STIF).

2006 was a very good year for equity investors globally. The S&P/TSX composite index of Canadian equities returned 17.3% for the year – the fourth consecutive year of double-digit returns for the Canadian stock market. This was led by the Materials sector with an annual return of 39.8% and Information Technology sector at 27.3%. The Canadian bond market, as measured by the Scotia Capital Universe index returned 4.1% for the year. U.S. equities, as measured by the S&P 500 index, increased by 15.4% in Canadian dollar terms. Non-North America equities, as measured by the MSCI-EAFE index, rose 25.9% in Canadian dollar terms, led by strong markets in Germany, France and the U.K. Although the Canadian dollar was volatile during the year, it ended December at 85.86 cents, approximately the same level as at the start of the year.

There were no changes to investment managers during 2006, although the trustees began analyzing the Plan's fixed income allocation. As a result of the elimination of the Foreign Property Rule in the Income Tax Act in 2005, the Plan is no longer restricted to holding only Canadian bonds. It has long been difficult for active Canadian fixed income managers to add value over the Scotia Capital Universe index. The trustees have researched managers that incorporate global bonds in their portfolios and have decided to change fixed income managers in early 2007.

The Canadian Equity Fund and Foreign Equity Fund were established at the start of 2006, and as of year-end, had a combined total of almost $110 million invested.

The allocation to real return bonds (bonds with inflation protection, issued by Federal and provincial governments) was increased during the year, in both the Balanced Fund and the Bond Fund.

We had a number of changes to the Board over the past year. Dr. Ann Hilton retired from UBC and Dr. Joyce Boon was appointed by the UBC Board of Governors to replace Dr. Hilton. Both Dr. David Breen and Dr. Harold Fearing retired in 2006 and Dr. Joy Begley and Dr. Patrick Walden were elected to the Board for a two-year term, effective January 1, 2007.

Through UBC's Campus-Wide Login (CWL), the Plan was able to offer *myPension,* which significantly enhanced the Plan's web site. Active members have the ability to access their personal and account information, which then allows them to project their pension contributions and estimate retirement benefits at a specific age.

Regular workshops have been developed for new and current members and also one for members who are thinking of retiring. They have been well attended and the feedback has been very positive.

In closing, I would like to thank the trustees for their support and guidance during the past year. With their help, plus the support of the Plan's staff, your Plan continues to run smoothly.

Yours truly,

Joost Blom

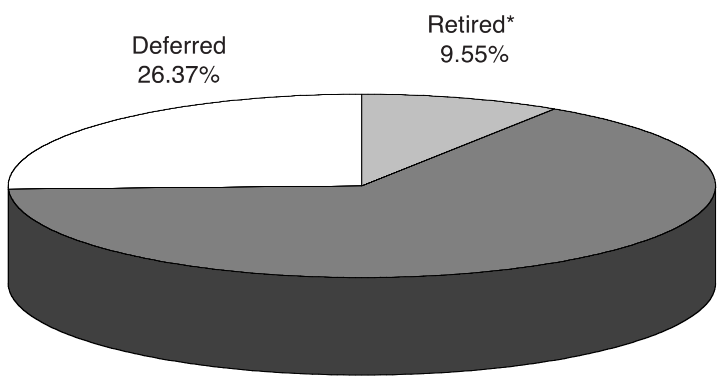
Joost Blom,
Chair

Facts at a Glance

	2006	2005	2004
Active and Deferred Members	4,363	4,252	3,979
Retired Members Receiving Benefits	461	423	355
Market Value of Funds	$1,254,846,244	$1,115,391,698	$1,018,036,124
Total Contributions (Member + University)	$42,711,008	$38,698,666	$34,179,188
Retirement Benefits Paid			
Minimum Retirement Benefit (MRB) + Variable Payment Life Annuity (VPLA)	$7,888,207	$7,314,424	$6,701,286
RRIF-Type Payments	$2,907,886	$736,010	$15,052
LIF-Type Payments	$709,803	$283,989	$24,587
Value of Members' Accounts Transferred out of Plan	$38,975,611	$48,820,698	$53,985,797
VPLA - 4% Unit Value[1]	$19.89	$18.64	$17.96
VPLA - 7% Unit Value[1]	$14.53	$14.01	$13.89

[1] Refer to page 6 for 2007 unit values.

Plan Membership



* Retired members include all members receiving MRB, VPLA, RRIF-Type or LIF-Type Payments.

Membership

Active members are those who are currently employed at UBC and are eligible to make contributions to the Plan.

Deferred members are those who have resigned but have left all or a portion of their account balances in the Plan.

Retired members are those who are receiving VPLA, MRB, RRIF-type or LIF-type payments from the Plan.

Terminated members are those who have withdrawn their funds from the Plan. They are not included in the membership.

Summary of Active and Deferred Members

	2006	2005	2004
Beginning of period	4,252	3,979	3,863
Add: new members	249	466	299
Sub-total	4,501	4,445	4,162
Less: terminated and retired	138	193	183
Total Active/ Deferred Members	**4,363**	**4,252**	**3,979**

Of the total members, 3,091 are active members and 1,272 are deferred members.

Summary of Retired Members

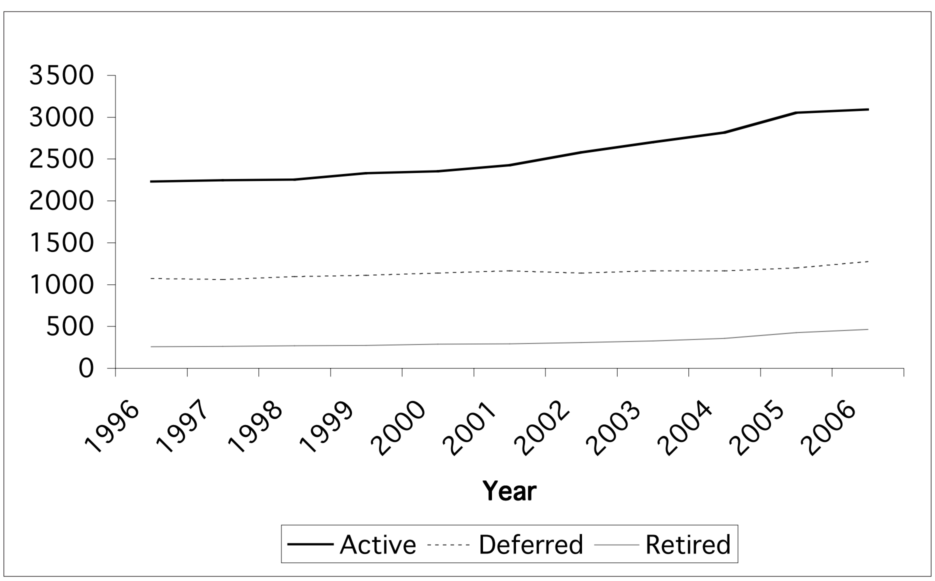
	2006	2005	2004
Beginning of period	423	355	324
Additional Retirees VPLA + RRIF + LIF	49	78	36
Less: Deceased Members	11	10	5
Total Retired Members	**461**	**423**	**355**

Members may elect one or a combination of the retirement options available. The breakdown of the options elected by retired members is as follows:

Minimum Retirement Benefits (MRB)	41
Variable Payment Life Annuities (VPLA)	341
RRIF-Type Payments	95
LIF-Type Payments	71

For more information on the available retirement options see www.pensions.ubc.ca/faculty and select 'Thinking of Retiring'.

Plan membership over time



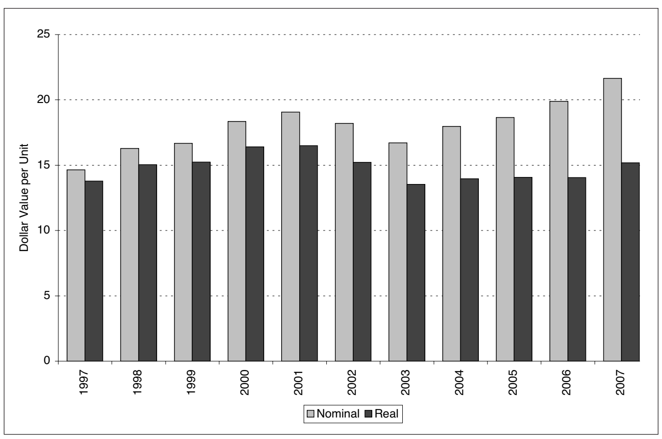
Variable Payment Life Annuity (VPLA) Unit Values[1]

Variable Payment Life Annuities are available from the Plan with two earning assumptions: 4% or 7%. Units are purchased at retirement using all or a portion of the member's account balance.

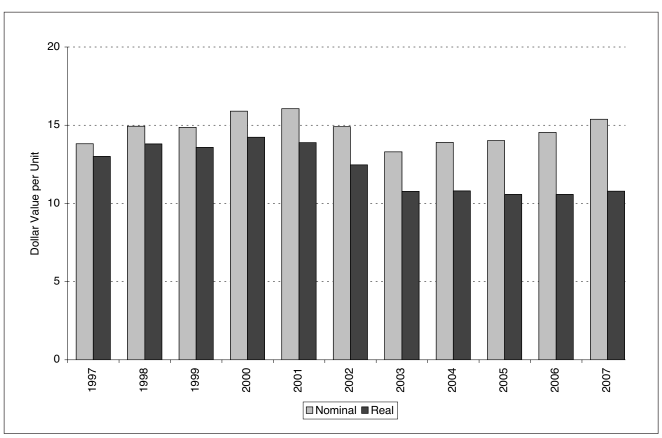
An annual valuation is completed to determine the VPLA unit value effective January 1. The unit value calculation is a result of the investment performance of the Balanced Fund and the mortality experience of the VPLA group for the previous calendar year.

The following chart illustrates the annual change to the VPLA unit value. (The real values have been adjusted for inflation using 1992 dollars to show purchasing power.)

4% VPLA Unit Values



7% VPLA Unit Values



The following tables show a history of the unit values for 4% and 7% assumptions.The annual unit value will be adjusted on the annuitant's April 1 payment.

Unit Values

Year	4%	Annual unit value change (%)
1997	$14.63	13.68
1998	$16.27	11.21
1999	$16.66	2.40
2000	$18.33	10.02
2001	$19.05	3.93
2002	$18.20	-4.46
2003	$16.70	-8.24
2004	$17.96	7.54
2005	$18.64	3.79
2006	$19.89	6.71
2007	$21.65	8.84

Year	7%	Annual unit value change (%)
1997	$13.81	10.48
1998	$14.93	8.11
1999	$14.86	-0.47
2000	$15.89	6.93
2001	$16.05	1.01
2002	$14.90	-7.17
2003	$13.29	-10.81
2004	$13.89	4.51
2005	$14.01	0.86
2006	$14.53	3.71
2007	$15.37	5.78

[1] The VPLA was previously reported as the Money Purchase Account (MPA) Pension – Retirement Annuity. For more information on the VPLA, see www.pensions.ubc.ca/faculty and follow the link under Library, to Variable Annuity (VPLA) Guide.

Market Value of Funds and Rates of Return for 2006

	Balanced Fund	Canadian Equity Fund	Foreign Equity Fund	Bond Fund	Short Term Investment Fund
Market Value as at December 31, 2006	$1,090,989,579	$71,762,435	$37,446,229	$21,076,010	$33,571,991
Gross Rate of Return[1]	13.96%	19.01%	20.22%	3.44%	4.03%
Operating Expenses	0.09%	0.09%	0.09%	0.09%	0.09%
Investment Expenses[1]	0.29%	0.39%	0.42%	0.12%	0.09%
Net Rate of Return	13.58%	18.53%	19.71%	3.23%	3.85%

Historical Rates of Return

RBC Dexia Investor Services measures the performance of our investment funds. They report on absolute returns and, where available, relative rankings. The absolute returns are compared with returns of respective composite indices which reflect the asset allocation of each fund. Relative ranking indicates the investment fund's percentile standing within a universe of comparable funds.

The following table gives performance information for periods ending December 31, 2006.

	1 year %	3 years %	5 years %	10 years %	Relative Ranking 1 year	Relative Ranking 4 years
Balanced Fund - gross	13.96	11.57	8.82	8.32	31st	85th
Balanced Fund - net	13.58	11.13	8.37	7.90		
Composite Index 1[2]	12.22	10.91	8.30	n/a		
Canadian Equity Fund - gross	19.01	18.98	14.58	11.29	31st	50th
Canadian Equity Fund - net	18.53	n/a	n/a	n/a		
Composite Index 2[3]	17.75	18.17	13.22	n/a		
Foreign Equity Fund - gross	20.22	11.44	4.95	6.05	72nd	62nd
Foreign Equity Fund - net	19.71	n/a	n/a	n/a		
Composite Index 3[4]	19.84	11.02	5.25	n/a		
Bond Fund - gross	3.44	5.34	6.14	6.68	76th	99th
Bond Fund - net	3.23	5.11	5.89	6.43		
Composite Index 4[5]	3.24	5.60	6.44	n/a		
Short Term Investment Fund - gross	4.03	3.05	2.88	4.57	39th	63rd
Short Term Investment Fund - net	3.85	2.84	2.67	4.26		
Scotia Capital 91-day T-Bill Index	3.99	2.96	2.86	3.71		

[1] The Gross Rate of Return represents income from investments, including accrued interest. It also reflects changes in market values during the year. Several of our funds (bcIMC Active EAFE fund, bcIMC Realpool, CUE Real Property (2), GPM Real Property (7) and Westpen Properties) deduct their expenses from their fund returns, so the returns included in the "Gross Rate of Return" and "Investment Expenses" for these funds are understated.

[2] Composite Index 1: 33% SCU, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60, 15% S&P 500, 15% MSCI-EAFE, 2% SC 91-Day TB, 10% IPDCPI, 5% SC Real Return Bonds

[3] Composite Index 2: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX 60

[4] Composite Index 3: 48% MSCI-EAFE, 48% S&P 500, 4% SC 91-Day TB

[5] Composite Index 4: 86.8% SCU, 13.2% SC Real Return Bonds

Index Rates of Return for 2006

During 2006 the capital markets produced the following rates of return by asset class. Our managers' performance is measured against these indices.

Asset Class Index	Rate of Return (%)
Canadian equities	
S&P/TSX Composite Index	17.26
S&P/TSX Capped Composite Index	17.26
Canadian large cap equities	
S&P/TSX 60 Index	19.16
Canadian bonds	
Scotia Capital Universe Bond Index	4.06
U.S. equities	
S&P 500 Index (Canadian $)	15.35
Non-North American equities	
MSCI-EAFE Index (Canadian $)	25.86
Real estate	
IPD Canadian Property Index	12.74
Real return bonds	
Scotia Capital Real Return Bond Index	-2.89
Short term and absolute return hedge fund	
Scotia Capital 91-Day Treasury Bill Index	3.99

Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2006. The trustees monitor the performance of each of the managers and meet with them regularly to review their performance. Measured against comparable managers, each manager's performance is expected to rank in the top third. The managers are also expected to achieve returns greater than their benchmark over a four year period.

Asset Class Manager	**Gross Rates of Return**[1] For periods ending December 31, 2006			
	1 yr	**2 yr**	**3 yr**	**4 yr**
Canadian equity				
Connor, Clark & Lunn Q-Growth	15.47	23.49	23.00	23.91
Guardian Capital LP	22.09	20.93	17.84	21.81
Leith Wheeler Investment Counsel	18.24	n/a	n/a	n/a
PCJ Investment Counsel	20.20	22.40	19.73	22.11
US equity				
Barclays Global Investors - Pension US Alpha Tilts Fund	15.63	10.81	n/a	n/a
Non-N.A. equity				
bcIMC - Active EAFE Fund[2]	25.02	17.12	n/a	n/a
Hedge Fund				
Barclays Global Investors - Global Markets Selection Fund	15.05	19.62	n/a	n/a
Bonds				
Legg Mason Canada	4.20	5.22	5.51	5.70
CIBC Global Asset Management[3]	4.37	5.26	5.70	5.88
Barclays Global Investors - Real Return Bond Fund	-3.42	n/a	n/a	n/a
Real estate[2]				
bcIMC - Realpool	25.97	21.87	n/a	n/a
CUE Real Property (2)	20.32	26.81	22.01	18.87
GPM Real Property (7)	17.45	20.70	17.08	14.19
Westpen Properties Ltd.	29.16	25.85	21.07	17.14

1 The gross returns reported are time weighted annualized returns. It is not possible to simply sum the returns for individual managers to obtain a fund return.

2 Fees for these funds are directly charged to the fund; therefore, the manager's reported rate of return is a net rate of return.

3 Formely TAL Global Asset Management.

Balanced Fund

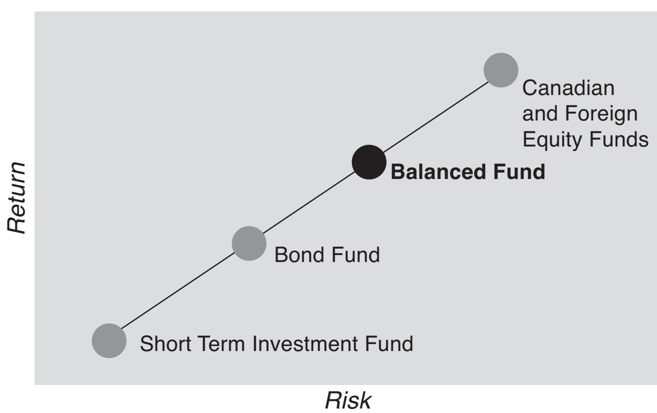
Objective

The Balanced Fund's objective is to earn an acceptable long-term average rate of return commensurate with a moderate level of risk by investing in a portfolio of stocks, bonds and real estate in a well-diversified global portfolio.

Risk/Return

A balanced portfolio is a composite of different asset classes, the combination of which reduces the risk of the portfolio while maintaining good return potential. The Balanced Fund asset mix is designed to maximize long-term returns while maintaining risk at comparable or lower risk exposure than the median balanced fund for similar pension plans. The returns of the assets held in the Balanced Fund fluctuate with economic conditions in Canada and globally, individual company and industry performance, political and world events, changes in interest rates and other factors.

Risk vs. Return



Suitability

The trustees introduced the Balanced Fund to provide a choice for members who do not want to make their own asset allocation decisions and are seeking satisfactory long-term growth with moderate volatility, through diversification across different asset classes.

Assets

Total assets in the Balanced Fund as at December 31, 2006, were $1,091.0 million.

Performance

Several investment managers invest the Balanced Fund's assets, as shown under "**Structure**". The investment managers are expected to earn a rate of return in excess of their benchmark index return. They are also expected to rank in the top third of a universe of similar managers.

Rates of return for the Balanced Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. Two managers for the Balanced Fund are paid a base fee plus an additional fee if returns exceed their benchmarks. During the year ended December 31, 2006, the base fee for investment expenses was approximately 0.41%[1]. The additional fee paid for superior performance during that year was 0.09%. Annual operating fees were approximately 0.09%.

Structure

The target asset allocation of the Balanced Fund, as set by the trustees, is shown in the pie chart following. The trustees regularly rebalance the portfolio to maintain this target asset mix.

The Canadian equity component is comprised of four portfolios, each selected to provide the Fund with a diversified style of investment management.

The US equity component is invested in an "enhanced index fund," which is designed to outperform the S&P 500 index while controlling risk. The non-North American component includes international equities in the developed markets of Europe, Australia, and the Far East (EAFE). The EAFE portfolio is managed by British Columbia Investment Management Corporation (bcIMC) and is invested with five diversified investment managers. The hedge fund is a quantitative global investment strategy that provides diversification with the Fund's conventional asset classes.

[1] This includes the investment fees deducted directly from the following funds: bcIMC Active EAFE Fund, bcIMC Realpool, CUE Real Property(2), GPM Real Property(7) and Westpen Properties, plus custodial fees deducted from all of the pooled funds held by the Fund.

The fixed income allocation includes traditional Government of Canada issues as well as provincial, municipal, corporate and inflation-linked Canadian bonds and is managed by three investment managers.

The real estate investments are holdings in diversified portfolios of properties situated in the main urban areas of Canada.

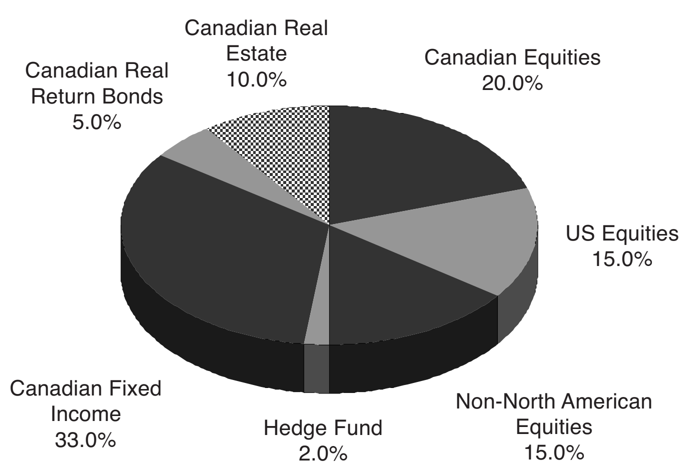
Asset Class	Target Allocation %	Benchmark	Manager (Style or Fund)
Equities	**50.00**		
Canada	5.00	S&P/TSX Composite	Connor, Clark & Lunn (Q Growth Fund)
	5.00	S&P/TSX Capped Composite	Guardian Capital LP (Core)
	5.00	S&P/TSX Capped Composite	Leith Wheeler Investment Counsel (Value)
	5.00	S&P/TSX 60	PCJ Investment Counsel (Growth/Sector Rotator)
United States	15.00	S&P 500	Barclays Global Investors (Pension U.S. Alpha Tilts Fund)
Non-North American	15.00	MSCI-EAFE	bcIMC (Active EAFE Fund) [1]
Hedge Fund	**2.00**	Scotia Capital 91 day T-Bills	Barclays Global Investors (Global Markets Selection Fund)
Fixed Income	**38.00**		
Canada	22.00	Scotia Capital Universe	CIBC Global Asset Management[2] (Core)
	11.00	Scotia Capital Universe	Legg Mason Canada (Active Duration)
Real Return Bonds	5.00	Scotia Capital Real Return Bond	Barclays Global Investors (Real Return Bond Index Fund)
Real Estate [3]	**10.00**		
Canada	0.80	IPD Canadian Property	CUE Real Property (2) Ltd.
	2.00	IPD Canadian Property	GPM Real Property (7) Ltd.
	4.70	IPD Canadian Property	Westpen Properties Ltd.
	2.50	IPD Canadian Property	bcIMC Realpool
Total	**100.0**		

[1] *The bcIMC Active EAFE fund is invested with the following investment managers: Alliance Capital (enhanced index), JPM Fleming (market oriented), Wellington (market oriented), Pyrford (value, top down), and Clay Finlay (growth at a reasonable price).*

[2] *Formerly TAL Global Asset Management.*

[3] *The Plan invests in real estate pooled funds.*

Target Asset Allocation



Canadian Equity Fund

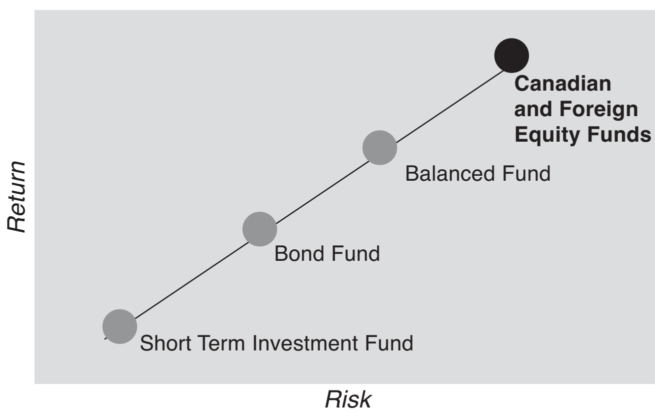
Objective

The Canadian Equity Fund's objective is to earn an above average long-term rate of return by investing in a diversified portfolio of Canadian equities.

Risk/Return

Equities are expected to earn the highest long-term average rates of return of the major asset classes, but also to have the highest level of risk or volatility. The returns of the stocks held in the Canadian Equity Fund fluctuate with individual company and industry performance, the Canadian economy, political and world events and other factors. Excess volatility is reduced in the Canadian Equity Fund by diversifying across different investment styles and different investment managers.

Risk vs. Return



Suitability

The trustees introduced the Canadian Equity Fund to provide a choice to members who have long-term investment horizons and who are tolerant of a higher level of volatility in their portfolio in exchange for a higher long-term expected return. The Canadian Equity Fund was introduced in January 2006 to allow members to choose their specific allocation to Canadian equity.

Assets

Total assets in the Canadian Equity Fund as at December 31, 2006, were $71.8 million.

Performance

Four investment managers invest the Canadian Equity Fund's assets, as shown under "**Structure**". The investment managers are expected to earn a rate of return in excess of their benchmark. Managers are also expected to rank in the top third of a sample of managers with similar objectives.

Rates of return for the Canadian Equity Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. During the year ended December 31, 2006, the approximate annual investment expenses were 0.41%.[1] Annual operating fees were approximately 0.09%.

Structure

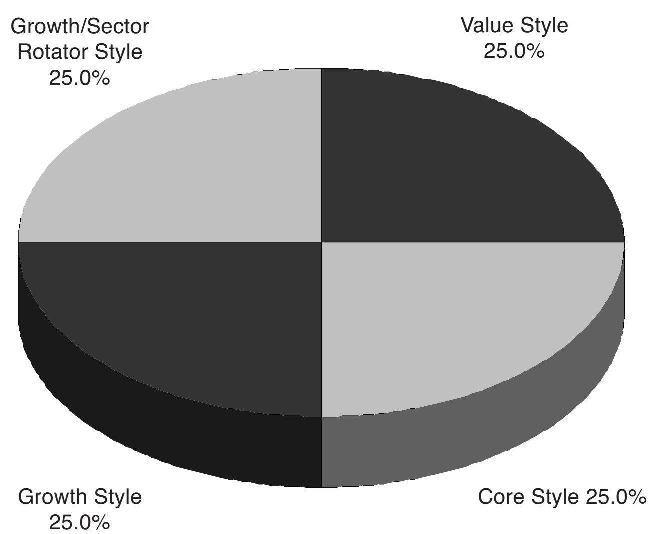
The Canadian Equity Fund is comprised of four portfolios each selected to provide the Fund with a diversified style of investment management, as shown in the pie chart following.

The managers who invest the Canadian Equity Fund also invest the Canadian equity component of the Balanced Fund, using identical mandates.

[1] This includes custodial fees deducted directly from the Connor Clark & Lunn Q Growth Fund.

Manager (Style or Fund)	Target Allocation (%)	Benchmark
Connor, Clark & Lunn (Q Growth Fund)	25	S&P/TSX Composite
Guardian Capital LP (Core)	25	S&P/TSX Capped Composite
Leith Wheeler Investment Counsel (Value)	25	S&P/TSX Capped Composite
PCJ Investment Counsel (Growth/Sector Rotator)	25	S&P/TSX 60

Target Asset Allocation



Foreign Equity Fund

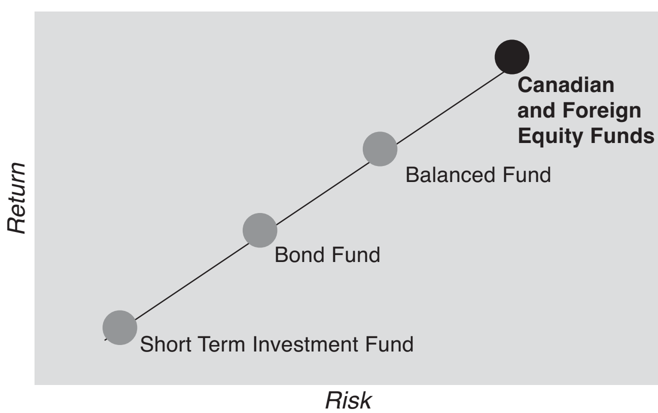
Objective

The Foreign Equity Fund's objective is to earn an above average long-term rate of return by investing in a diversified portfolio of U.S. and international equities.

Risk/Return

Equities are expected to earn the highest long-term average rates of return of the major asset classes, but also to have the highest level of risk or volatility. The returns of the stocks held in the Foreign Equity Fund will fluctuate based on individual company and industry performance, global economic conditions, political and world events and other factors. Changes in exchange rates will also affect returns. (A strong Canadian dollar will detract from returns.) Excess volatility is reduced in the Foreign Equity Fund by diversifying across different investment styles, different countries and different investment managers.

Risk vs. Return



Suitability

The trustees introduced the Foreign Equity Fund to provide a choice to members who have long-term investment horizons and who are tolerant of a higher level of volatility in their portfolio in exchange for a higher long-term expected return. The Foreign Equity Fund was introduced in January 2006 to allow members to choose their specific allocation to global (non-Canadian) equities.

Assets

Total assets in the Foreign Equity Fund as at December 31, 2006, were $37.4 million.

Performance

Two investment managers are used to invest the Foreign Equity Fund's assets, as shown under "**Structure**". The investment managers are expected to earn a rate of return in excess of their benchmark. Managers are also expected to rank in the top third of a sample of managers with similar objectives.

Rates of return for the Foreign Equity Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. Barclays Global Investors is paid a base fee plus an additional fee if returns exceed their benchmarks. During the year ended December 31, 2006, the base fee for investment expenses was approximately 0.38%[1]. The additional fee paid for superior performance during that year was 0.23%. Annual operating fees were approximately 0.09%.

Structure

The target asset allocation of the Foreign Equity Fund, as set by the trustees, is shown in the pie chart following.

The managers who invest the Foreign Equity Fund also invest the foreign equity component of the Balanced Fund, using identical mandates.

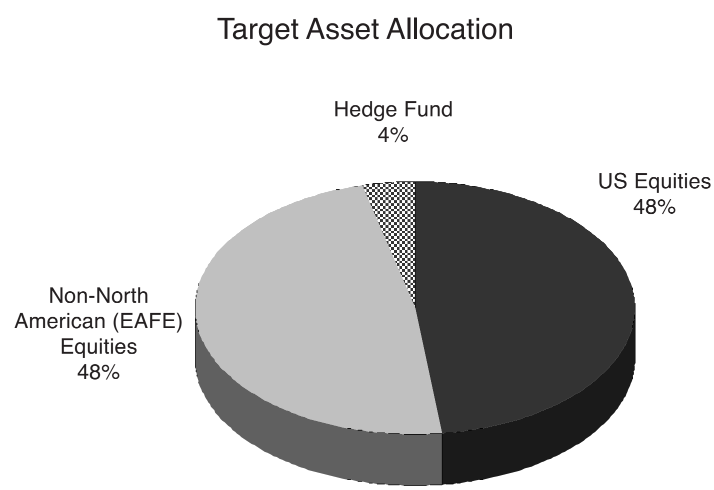
The US equity component is invested in an "enhanced index fund," which is designed to outperform the S&P 500 index while controlling risk. The non-North American component includes international equities in the developed markets of Europe, Australia, and the Far East (EAFE). The EAFE portfolio is managed by British Columbia Investment Management Corporation (bcIMC)

[1] This includes investment fees deducted directly from the bcIMC Active EAFE Fund plus custodial fees deducted directly from the pooled funds held.

and is invested with five diversified investment managers. The hedge fund is a quantitative global investment strategy, which provides diversification with the Fund's other asset classes.

Asset Class	Target Allocation (%)	Benchmark	Manager (Style or Fund)
United States Equities	48.0	S&P 500	Barclays Global Investors (Pension U.S. Alpha Tilts Fund)
Non-North American Equities	48.0	MSCI-EAFE	bcIMC (Active EAFE Fund)[1]
Hedge Fund	4.0	Scotia Capital 91 day T-Bills	Barclays Global Investors (Global Markets Selection Fund)
Total	**100.0**		

[1] *The bcIMC Active EAFE fund is invested with the following investment managers: Alliance Capital (enhanced index), JPM Fleming (market oriented), Wellington (market oriented), Pyrford (value, top down), and Clay Finlay (growth at a reasonable price).*



Bond Fund

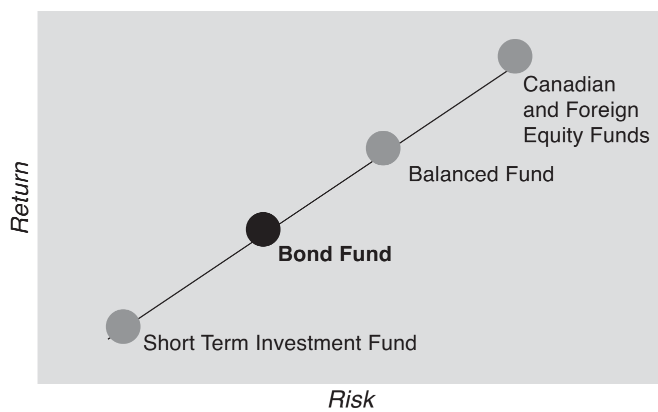
Objective

The Bond Fund's objective is to earn a long-term average rate of return that is higher than the Scotia Capital Universe Bond Index, by holding a well-diversified portfolio of Canadian fixed income securities of various maturities issued by governments and corporations.

Risk/Return

Bond returns are inversely correlated to interest rate changes and are subject to volatility. Declining interest rates create increases in bond prices and rising interest rates cause decreasing prices. Over the long term, the Bond Fund is expected to earn a return and have volatility in between the Short Term Investment Fund and the Balanced Fund.

Risk vs. Return



Suitability

The trustees introduced the Bond Fund to provide a choice for members who wish to reduce their exposure to stock market risk.

Assets

Total assets in the Bond Fund as at December 31, 2006, were $21.1 million.

Performance

Three investment managers invest the Bond Fund's assets, as shown under "**Structure**". The managers are expected to rank in the top third of a universe of similar managers and the active managers are expected to earn a rate of return in excess of the Scotia Capital Universe Bond Index.

Rates of return for the Bond Fund and the benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. The approximate annual investment expenses for the year ended December 31, 2006, were 0.12%.[1] Annual operating fees were approximately 0.09%.

Structure

The Bond Fund is invested in federal, provincial, corporate and inflation-linked bonds with an emphasis on high quality and limited risk. The Bond Fund is restricted to the Canadian bond market.

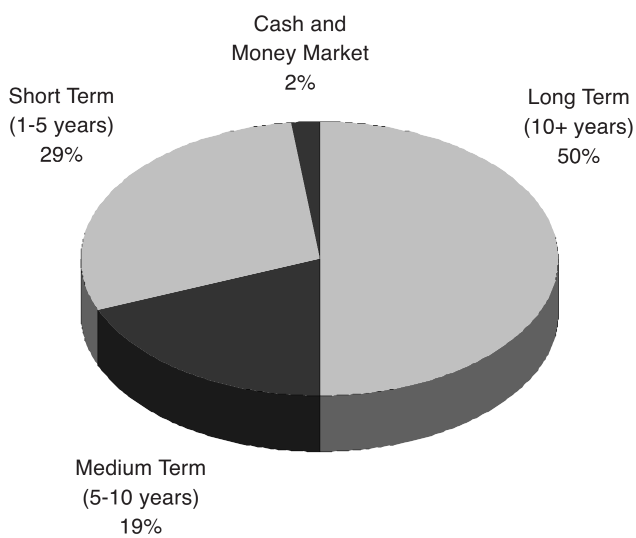
Over half of the Bond Fund is invested in a "core" management style. The bond market is very efficient and it is difficult for managers of large portfolios to outperform the market consistently without exposing the portfolio to significant risk. The core management style structures the portfolio to closely follow the Scotia Capital Universe Bond Index. This index is the most widely followed benchmark for bond portfolios in Canada. A smaller portion of the Fund is managed in a more active style that varies the duration of the bonds held in the portfolio and attempts to capitalize on the price swings caused by changing interest rate levels. The combination of different styles should provide improved returns over the long term. The remainder of the Fund is invested in real return bonds which provide returns linked to Canadian inflation.

[1] This includes custodial fees deducted directly from the Barclays Real Return Bond Index Fund.

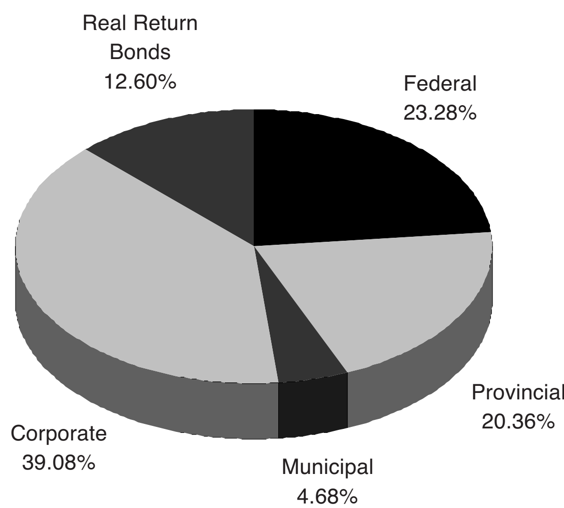
Manager (Style or Fund)	Target Allocation (%)	Benchmark
CIBC Global Asset Management (Core)[1]	57.90	Scotia Capital Universe Bond Index
Legg Mason Canada (Active Duration)	28.90	Scotia Capital Universe Bond Index
Barclays Global Investors (Real Return Bond Index Fund)	13.20	Scotia Capital Real Return Bond Index
Total	**100.00**	

[1] Formerly TAL Global Asset Management.

Maturity Distribution (December 31, 2006)



Sector Diversification (December 31, 2006)



Short Term Investment Fund (STIF)

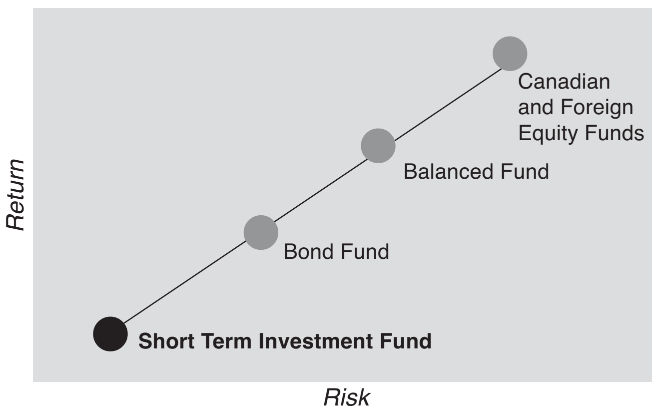
Objective

The Short Term Investment Fund's primary objective is to preserve capital while generating a reasonable rate of return.

Risk/Return

The Short Term Investment Fund will provide returns that are more stable, but the lowest of any of the Funds over the long term. The risk level of this Fund is low due to the high quality of the short-term investments. Returns from this Fund may not be adequate to offset inflation.

Risk vs. Return



Suitability

The trustees introduced the Short Term Investment Fund to provide a choice to members who wish to minimize expected market risk and preserve capital. This Fund is not recommended as a long-term investment for a member's total account balance.

Assets

Total assets in the Short Term Investment Fund as at December 31, 2006, were $33.6 million.

Performance

The Short Term Investment Fund is expected to provide a return in excess of the Scotia Capital 91-Day Treasury Bill Index.

Rates of return for the Short Term Investment Fund and the Scotia Capital 91-Day T-Bill Index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for the investment manager, custodial fees and other related fees for investment management. The approximate annual investment expenses for the year ended December 31, 2006, were 0.09%. Annual operating fees were approximately 0.09%.

Structure

The Short Term Investment Fund is invested in a Canadian pooled money market fund, the "Treasury Plus Pool", managed by Legg Mason Canada, one of the Plan's fixed income managers. The fund invests in high quality money market instruments, including short-term investments issued or guaranteed by Canadian federal, provincial or municipal governments, by Canadian banks, or by Canadian corporations with a credit rating of at least R-1 by Dominion Bond Rating Service (or equivalent rating). As at December 31, 2006, 53.9% of the Fund was invested in Government of Canada securities, 3.8% was invested in Provincial securities, 14.5% was in securities issued by Schedule 1 Banks and 27.8% was invested in corporate paper.

The dollar-weighted average term to maturity of investments in the Fund was 85 days as at December 31, 2006, with the maximum term to maturity of a single instrument being 298 days.

Financial Statements of

THE UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN

December 31, 2006

The University of British Columbia
Faculty Pension Plan
December 31, 2006

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Auditors' report

To the Members of
The University of British Columbia Faculty Pension Plan

We have audited the statement of net assets available for benefits of The University of British Columbia Faculty Pension Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2006 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 16, 2007

The University of British Columbia Faculty Pension Plan

Statement of net assets available for benefits as at December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
	$	$
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 3)		
Short-term notes	**41,139**	43,558
Bonds	**398,835**	370,653
Equities	**696,163**	594,961
Mortgage	**-**	669
Real estate	**113,368**	100,274
	1,249,505	1,110,115
Cash	**472**	589
Investment income receivable	**4,870**	4,687
	1,254,847	1,115,391
Contributions receivable		
Members	**1,335**	1,100
University	**1,659**	1,534
	2,994	2,634
Deferred and other assets	**-**	50
	1,257,841	1,118,075
Liabilities		
Accounts payable and accrued liabilities	**2,657**	1,789
Plan withdrawals payable to members	**6,800**	9,374
	9,457	11,163
Net assets available for benefits (Note 4)	**1,248,384**	1,106,912

Approved on behalf of the Board of Trustees

Chair

Vice-Chair

See accompanying notes to the financial statements.

The University of British Columbia
Faculty Pension Plan

Statement of changes in net assets available for benefits
year ended December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
	$	$
Increase in net assets		
Members' required contributions	**12,888**	11,903
University's required contributions	**25,781**	23,299
Members' additional voluntary contributions	**362**	230
Transfers from other plans	**3,680**	3,266
	42,711	38,698
Return on investments, including changes in market values (Note 6)	**154,055**	123,924
	196,766	162,622
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**11,506**	8,335
Death benefits	**2,700**	2,208
Members' accounts transferred and refunded	**36,276**	46,612
	50,482	57,155
Operations		
Actuarial services	**37**	76
Audit and consulting	**22**	26
Legal	**37**	94
Office and administrative	**777**	846
	873	1,042
Investment administration fees	**3,939**	4,218
	55,294	62,415
Increase in net assets available for benefits	**141,472**	100,207
Net assets available for benefits, beginning of year	**1,106,912**	1,006,705
Net assets available for benefits, end of year	**1,248,384**	1,106,912

See accompanying notes to the financial statements.

The University of British Columbia
Faculty Pension Plan

Notes to the financial statements
December 31, 2006
(Expressed in thousands of dollars)

1. Description of plan

The following description of The University of British Columbia Faculty Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text.

(a) General

The Plan is sponsored by The University of British Columbia (the "University") and covers all full-time academic and administrative executive staff, as defined in the Plan text, appointed for one year or more, as well as other members defined in the Plan text. The Plan is registered under the Pension Benefits Standards Act of British Columbia (registration no. 85435). As a registered pension plan under the Income Tax Act of Canada, the Plan is exempt from taxation.

(b) Funding policy

The Plan text requires members and the University to make contributions of 5% and 10%, respectively, of basic salary up to the YBE, 3.2% and 8.2%, respectively, of basic salary between the YBE and the YMPE, and 5% and 10%, respectively, of basic salary over the YMPE. YBE is the "year's basic exemption" under Canada Pension Plan requirements, while the YMPE is the "year's maximum pensionable earnings" under the Canada Pension Plan requirements.

The Trustees are authorized to receive as contributions only such amounts as are authorized by the Income Tax Act, and in the event excess funds are received these are refunded to whoever made the contribution.

(c) Investment options

Members in the Money Purchase account, Registered Retirement Income Fund ("RRIF") type payment account or Life Income Fund ("LIF") type payment account can choose to invest their individual account balances in a balanced fund, bond fund, short-term investment fund, or two equity funds.

(d) Retirement benefits

Normal retirement is the first day of July or January following the member's 65th birthday, whichever comes first. However, a member may retire anytime after attaining the age of 55, or may postpone retirement benefits until December 1 of the calendar year of the member's 69th birthday.

(e) Forms of retirement benefit

Upon retirement, the balance in a member's account may be:

- transferred to the Variable Payment Life Annuity account to provide a variable annuity administered by the Plan;
- transferred to the LIF-type payment account (maximum withdrawal, which is based on the member's age, changes each year based on rates for long-term Government of Canada bonds) or RRIF-type payment account (no maximum withdrawal) administered by the Plan;

1. Description of plan (continued)

(e) Forms of retirement benefit (continued)

- transferred to an approved LIF, Registered Retirement Savings Plan or RRIF administered externally;
- used to purchase an annuity from a financial institution authorized to issue such products;
- withdrawn as cash from non-locked in balances;
- deferred until December 1 in the year the member turns 69; or
- used for a combination of options.

(f) Termination and death benefits

Benefits are also paid on termination of employment or in the event of death of the member prior to retirement.

Benefits on death subsequent to retirement are paid in accordance with the form of retirement benefit payment selected by the retired member.

2. Significant accounting policies

(a) Basis of presentation

The 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 University and Plan members. The financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period. The statement of net assets available for benefits shows the assets under control of the Trustees of the Plan, and does not purport to show their adequacy to meet the obligations of the Plan. The obligations for pension benefits are not presented in the statement of net assets available for benefits but are disclosed in Note 5.

(b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of increases and decreases in net assets for the reporting period. Actual results could differ from those estimates.

2. Significant accounting policies (continued)

(c) Investments

Investments are recorded at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments are determined as follows:

(i) Short-term notes, bonds and publicly traded equities are valued using published market quotations.

(ii) Real estate equities are valued using published market quotations. Direct real estate investments are valued quarterly by the real estate investment managers using a combination of internal and external appraisals to establish current market values.

Adjustments to investments due to the fluctuation of fair values are reflected as part of the return on investments in the statement of changes in net assets available for benefits. Investment transactions are recognized in the financial statements based on the settlement date. Realized gains and losses are calculated based on the average cost of the investments. Investment income is recognized in the period earned.

(d) Allocation of net assets

In the allocation of net assets (Note 4), the return on investments, and operational and investment administrative expenses are allocated monthly based on the opening account balances.

3. Investments

The Plan's investments are exposed to market risk due to changing market conditions, including changes in interest rates and foreign exchange rates. The Plan manages market risk by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes to control overall market risk. The Plan is also exposed to foreign exchange risk as the value of equities held in foreign currencies varies with changes in currency exchange rates. The Plan does not use derivative financial instruments to manage these risks.

Details of significant terms and conditions and exposures to interest rate and credit risks on investments are as follows:

(a) Short-term notes

The short-term notes are primarily securities issued by the federal government, Canadian chartered banks or corporations, maturing at various dates within the next fiscal year, as well as investments in pooled money market funds. The effective interest rates of the short-term notes held at year end range from 3.12% to 6.50% (2005 - 3.30% to 4.10%).

(Expressed in thousands of dollars)

3. Investments (continued)

(b) Bonds

The Plan has invested in a number of individual bonds as well as pooled bond funds. The market values and terms to maturity of the bonds are summarized as follows:

	Total market value	
	2006	2005
	$	$
Term to maturity		
Government of Canada		
Up to one year	**2,729**	73,098
After one year through five years	**50,159**	-
After five years	**35,896**	51,266
Canadian provincial, municipal and public authorities		
Up to one year	**-**	15,457
After one year through five years	**9,904**	-
After five years	**89,972**	76,593
Canadian corporate		
Up to one year	**9,978**	403
After one year through five years	**42,312**	45,190
After five years	**107,605**	82,998
Pooled bond fund	**50,280**	25,648
	398,835	370,653

The ranges of effective interest rates for bonds held are summarized as follows:

	2006	2005
	%	%
Government of Canada	**3.6 to 6.1**	0.6 to 5.9
Canadian provincial, municipal and public authorities	**3.2 to 6.9**	3.2 to 6.7
Canadian corporate	**3.2 to 10.3**	1.7 to 9.7
Pooled bond fund	**1.8 to 2.1**	1.4 to 1.7

The University of British Columbia
Faculty Pension Plan
Notes to the financial statements
December 31, 2006
(Expressed in thousands of dollars)

3. Investments (continued)

(c) Equities

The market value of the equity investments, by category, is summarized as follows:

	2006	2005
	$	$
Canadian		
Corporations	**218,770**	192,793
Pooled equity funds	**73,932**	92,600
Foreign		
Pooled equity funds		
Australia	**6,419**	6,763
France	**25,629**	19,275
Germany	**16,981**	13,240
Hong Kong	**8,042**	5,617
Italy	**6,649**	6,370
Japan	**35,975**	34,748
Netherlands	**10,801**	8,523
Spain	**9,169**	7,503
Switzerland	**21,509**	18,420
UK	**37,912**	35,789
US	**186,040**	4,350
Other	**38,335**	148,970
	696,163	594,961

(Expressed in thousands of dollars)

3. Investments (continued)

(c) Equities (continued)

The Plan manages its equity market risk by allocating its equities component across six (2005 - six) investment managers, with differing investment styles and mandates, none of which manages in excess of 30% of the equities component. The Plan's collective equity holdings managed by these managers are invested as follows:

	2006	2005
	%	%
Canadian		
Financial services	**13**	11
Oil and gas	**6**	6
Metals and minerals	**2**	3
Industrial products	**4**	3
Consumer products	**1**	2
Merchandising	**2**	2
Communication and media	**3**	2
Other sectors	**3**	3
Pooled equity funds	**12**	12
	46	44
Foreign		
Pooled equity funds	**54**	56
	100	100

(d) Real estate

All real estate investments are in Canadian property.

(e) Securities lending

The Plan participates in a security lending program whereby it lends securities it owns to others. For securities lent, the Plan receives a fee as well as receiving, as collateral, securities with a minimum market value of 105% of the market value of securities lent. The program is managed by a federally regulated financial institution, which also guarantees the Plan's exposure under the program. At December 31, 2006, the Plan had securities with an estimated market value of $54,327 (2005 - $79,271) on loan and it held, as collateral, securities with an estimated market value of $57,941 (2005 - $84,360).

(Expressed in thousands of dollars)

4. Net assets available for benefits

The net assets available for benefits as at December 31 have been allocated as follows:

	2006	2005
	$	$
Money Purchase account	**1,087,956**	980,053
Variable Payment Life Annuity account	**79,113**	72,930
RRIF-type payment account	**59,489**	39,601
Minimum Retirement Benefit account	**5,092**	4,997
LIF-type payment account	**16,734**	9,331
	1,248,384	1,106,912

The Money Purchase account represents assets held by the Plan for the individual accounts of all active and deferred members prior to their retirement.

The Variable Payment Life Annuity account represents assets held by the Plan for the individual accounts of retired members receiving a variable annuity administered by the Plan.

The RRIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Registered Retirement Income Fund type payments administered by the Plan.

The Minimum Retirement Benefit pension option, which is no longer available to new retirees, offered monthly pension benefits to retired members who had elected that option, based on the member's salary while employed by the University and their years of contributing service.

The LIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Life Income Fund type payments administered by the Plan.

5. Obligations for pension benefits - minimum retirement benefit account

The present value of accrued pension benefits was determined using the projected benefit method prorated on service based on economic assumptions as of January 1, 2005, which forecast economic patterns for the next few years, gradually modifying into the long-term. An actuarial valuation was made as of January 1, 2005 and was subsequently extrapolated to December 31, 2006 by Aon Consulting Inc., a firm of consulting actuaries. The actuarial valuation at January 1, 2005 resulted in an increase of $1,339 to the actuarial present value of accrued pension benefits at the beginning of the year. The extrapolation was based on the January 1, 2005 assumptions, and does not take into account actual experience since that date, which will not be measured until the next actuarial valuation as of January 1, 2008. The actuarial valuation was conducted in respect of the Minimum Retirement Benefit account only.

(Expressed in thousands of dollars)

5. Obligations for pension benefits - minimum retirement benefit account (continued)

The actuarial present value of benefits as at December 31, and the principal components of changes in the actuarial present value during the year were as follows:

	2006	2005
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**2,073**	1,161
Valuation adjustment	**-**	1,339
Interest accrued on benefits	**117**	144
Benefits paid	**(539)**	(571)
Actuarial present value of accrued pension benefits, end of year	**1,651**	2,073

The assumptions used in determining the actuarial present value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were as follows:

	2006-2007	2008 and later
	%	%
Annual interest rates	6.50	6.75
Annual rates of inflation	2.00	2.50

6. Return on investments

	2006	2005
	$	$
Interest income	**18,737**	17,793
Pooled fund distributions	**21,784**	23,611
Real estate income	**2,227**	4,555
Dividend income	**1,669**	2,899
Realized gains on investments	**25,449**	57,824
Unrealized gains on investments	**84,189**	17,242
	154,055	123,924

7. Financial instruments

Canadian generally accepted accounting principles require disclosure of the fair value of financial instruments. The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts payable and accrued liabilities, and plan withdrawals payable to members approximate their carrying values due to the short-term nature of these financial instruments. The Plan's investments are carried at fair value in accordance with the significant accounting policy disclosed in Note 2 (c).

8. Comparative amounts

Certain comparative amounts have been reclassified to comply with the current year's presentation.

Additional information:

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