

Financial statements of

**The University of British Columbia
Faculty Pension Plan**

December 31, 2009

The University of British Columbia

Faculty Pension Plan

December 31, 2009

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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 (the "Plan") as at December 31, 2009 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, 2009 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 24, 2010

The University of British Columbia Faculty Pension Plan


Statement of net assets available for benefits
as at December 31, 2009

(Expressed in thousands of dollars)

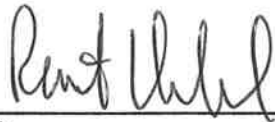
	2009	2008
	\$	\$
Assets		
Assets held by the Plan's custodian		
Investments (Note 4)		
Short-term notes	52,604	69,899
Bonds	438,567	396,917
Equities	659,348	526,946
Real estate	86,584	98,942
	1,237,103	1,092,704
Cash and cash equivalents	10,378	3,312
Investment income receivable	460	1,080
	1,247,941	1,097,096
Contributions receivable		
Members	-	4
University	6	46
	6	50
	1,247,947	1,097,146
Liabilities		
Accounts payable and accrued liabilities	1,052	761
Plan withdrawals payable to members	2,222	6,464
	3,274	7,225
Net assets available for benefits (Note 5)	1,244,673	1,089,921

Approved on behalf of the Board of Trustees

Chair



Vice-Chair



The University of British Columbia

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Statement of changes in net assets available for benefits
year ended December 31, 2009

(Expressed in thousands of dollars)

	2009	2008
	\$	\$
Increase in net assets		
Members' required contributions	16,303	14,843
University's required contributions	31,593	29,423
Members' additional voluntary contributions	465	446
Transfers from other plans	3,111	6,094
	51,472	50,806
Return on investments, including changes in market values (Note 6)	139,442	(176,628)
	190,914	(125,822)
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	15,898	16,654
Death benefits	55	890
Members' accounts transferred and refunded	16,348	32,508
Purchase of Sun Life annuity for minimum retirement benefits	-	2,449
Distribution of surplus in minimum retirement benefit account	-	2,073
	32,301	54,574
Operations		
Actuarial services	48	56
Audit and consulting services	32	23
Legal services	39	20
Office and administrative costs	940	956
	1,059	1,055
Investment transaction and administration fees	2,802	2,867
	36,162	58,496
Net increase (decrease) in net assets available for benefits	154,752	(184,318)
Net assets available for benefits, beginning of year	1,089,921	1,274,239
Net assets available for benefits, end of year	1,244,673	1,089,921

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December 31, 2009

(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 5.0% 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 5.0% and 10.0%, 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 71st 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;

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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 71; 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 year. The statement of net assets available for benefits shows the assets under control of the Trustees of the Plan.

(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. The most significant estimates relate to the fair values of investments. Actual results could differ from those estimates.

The University of British Columbia

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Notes to the financial statements

December 31, 2009

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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 on an accrual basis. Transaction costs are included in the statement of changes in net assets available for benefits in the period incurred.

(d) Translation of foreign currency

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Unrealized exchange gains or losses on foreign currency are included in the return on investments (Note 6).

(e) Allocation of net assets

In the allocation of net assets available for benefits (Note 5), the return on investments, and operational and investment transaction and administrative expenses are allocated monthly based on the opening account balances.

(f) Members' accounts transferred or refunded

Members' accounts transferred or refunded are recognized as a decrease in net assets on the accrual basis.

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3. Adoption of new accounting standards

In 2009 the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board issued amendments to CICA Handbook Section 3862, *Financial Instruments - Disclosures* ("3862 Amendments"). As a result of these amendments, the Plan is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These disclosures are included in Note 4.

In 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173, *Credit Risk and the Fair Value of Financial Assets and Financial Liabilities* ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract applies to the Plan's annual financial periods ended on December 31, 2009. The adoption of EIC-173 did not result in a material impact on the Plan's financial statements.

4. Investments

(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 0.1% to 0.5% (2008 - 0.8% to 1.3%).

(b) Bonds

The Plan's investment in bonds consists of units held in Canadian pooled bond funds.

(c) Equities

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

	2009	2008
	\$	\$
Canadian		
Corporations	224,337	172,227
Pooled equity funds	75,542	58,418
Foreign		
Corporations	4,008	3,013
Pooled equity funds	355,461	293,288
	659,348	526,946

(d) Real estate

All real estate investments are in Canadian property.

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(Expressed in thousands of dollars)

4. Investments (continued)

(e) Fair value measurements - Levels disclosure

The Plan adopted the amendments to CICA 3862, *Financial Instruments - Disclosures*, on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Plan's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets of liabilities (Level 1)
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2) and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following is a summary of the inputs used as of December 31, 2009 in valuing the Plan's investments carried at fair values:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)	Total
	\$	\$	\$	\$
Short-term notes	52,604	-	-	52,604
Bonds	438,567	-	-	438,567
Equities	635,522	23,826	-	659,348
Real estate	-	-	86,584	86,584
Total investments	1,126,693	23,826	86,584	1,237,103

The following table provides financial instruments recognized at fair value and for which Level 3 inputs were used in determining fair value:

	Balance as at December 31, 2008	Income included in statement of changes in net assets available for benefits	Net unrealized gains (losses) included in statement of changes in net assets available for benefits	Transfer out	Balance as at December 31, 2009
	\$	\$	\$	\$	\$
Assets					
Real estate	97,031	2,905	(10,826)	(2,526)	86,584

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(Expressed in thousands of dollars)

5. Net assets available for benefits

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

	2009	2008
	\$	\$
Money Purchase account	1,044,295	928,332
RRIF-type payment account	100,627	70,580
Variable Payment Life Annuity account	69,591	67,854
LIF-type payment account	30,160	23,155
	<u>1,244,673</u>	<u>1,089,921</u>

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 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 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 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.

6. Return on investments

	2009	2008
	\$	\$
Pooled fund distributions	10,772	22,849
Interest income	35,313	20,691
Net realized (losses) gains on investments	(7,605)	7,726
Dividend income	7,684	7,663
Real estate income	1,013	1,600
Unrealized gains (losses) on investments	92,265	(237,157)
	<u>139,442</u>	<u>(176,628)</u>

7. Financial instruments

The fair values of the Plan's cash and cash equivalents, investment income receivable, contributions receivable, accounts payable 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).

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Notes to the financial statements

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(Expressed in thousands of dollars)

8. Financial risk management

As a pension plan, the Plan is fundamentally concerned with the management of financial risk. This note summarizes and quantifies these risks and the way the Plan manages them.

The Plan employs a Statement of Investment Policies and Goals ("Policy") to identify, assess, manage and monitor the risks. The Policy provides asset mix ranges and limitations the Plan is to follow. The Policy is overseen by the Board of Trustees ("Board").

The Board oversees management of the Plan with a view to promoting effective plan design, governance, investment policy, financing, administration and legal compliance. The Board monitors the investment performance of the Plan, including total fund, asset class, and manager performance against specified benchmarks.

A majority of the Plan's assets are invested in pooled funds. Pooled funds provide a more cost effective means of achieving diversification within selected asset classes, given the size of the mandates granted to the investment managers. The manager of the investment fund is governed by the manager's own investment policy for the pooled fund. The Board is responsible for ensuring that the detailed investment policy statement setting out the investment constraint for the managers of such funds are prepared and agreed to by the managers.

(a) Credit risk

Credit risk is the risk of financial loss to the Plan if a counterparty to a financial instrument fails to meet its contractual obligations. The Plan's investments in cash and cash equivalents, short-term investments, bonds, and debentures are subject to credit risk. The Plan manages this risk by limiting the credit exposure allowed by the investment managers. The maximum exposure to credit risk for these instruments as at December 31, 2009 is their carrying value of \$501,549 (2008 - \$470,128). The investment policies of the various bond managers provides limits to the credit exposure and/or sets a minimum overall average portfolio quality allowed by each manager.

The overall credit ratings of fixed income securities held in the Plan are as follows:

	2009	2008
	%	%
A1/P1	2.6	3.0
AAA	54.0	47.5
AA	18.0	26.7
A	17.1	17.7
BBB	6.9	4.5
BB and below	1.4	0.6

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(Expressed in thousands of dollars)

8. Financial risk management (continued)

(b) Liquidity risk

Liquidity risk refers to the likelihood of a potential loss arising from a large percentage of requests for redemptions by Plan members. This risk is mitigated as active members and those in the Variable Payment Life Annuity ("VPLA") program cannot withdraw their funds from the Plan. The percentage of the Plan's assets with deferred, retired and LIF/RRIF members that could withdraw their funds on short notice is approximately 32%.

All of the Plan's liabilities are due within one year.

Most of the Plan's assets are invested in large pooled funds of which the Plan is just one of many parties invested in these pooled funds which provides a high degree of liquidity. The Plan's managers typically invest in equities and bonds that are very marketable and that have a high degree of liquidity should they need to be sold in a relatively short timeframe.

(c) Price risk

Investments in the various fund options are subject to price risk. The value of the various holdings in the funds may move up or down, sometimes rapidly. Different types of investments have historically reflected higher levels of risk, as measured by the volatility of their returns. Given the overall asset class holdings of the Plan we would expect most annual returns to be within a +/- 11.2% (2008 - +/- 13.0%) range of an expected long-term return of roughly +6.4% (2008 - +6.5%) (i.e. results ranging from -4.6% to +17.4% (2008 - -6.5% to +19.5%)). This is based on the following volatility figures:

	2009	2008
	%	%
Canadian and foreign equities	+/- 16.0	+/- 20.0
Bonds	+/- 6.0	+/- 8.0
Real estate	+/- 7.5	+/- 8.0
Short-term notes	+/- 1.5	+/- 2.0

Based on the estimated range of volatility by asset class this would equate to the following dollar amounts, with all other variables held constant:

	2009		2008	
	Market value	Investments	Market value	Investments
	\$	%	\$	%
Securities held for trading				
Canadian bonds	438,567	35	396,917	36
Canadian equities	299,880	25	230,638	22
U.S. equities	175,090	14	156,253	14
Non-North American equities	160,552	13	118,885	11
Real estate	86,584	7	98,942	9
Short-term notes	52,604	4	69,899	6
Hedge fund	23,826	2	21,170	2
	1,237,103	100	1,092,704	100

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(Expressed in thousands of dollars)

8. Financial risk management (continued)

(c) Price risk (continued)

Benchmark for investments	% change	2009		2008	
		Net impact on market value	% change	Net impact on market value	% change
	%	\$	%	\$	%
S&P/TSX Composite Capped	+/- 16.0	+/- 47,981	+/- 20.0	+/- 46,128	+/- 20.0
S&P 500 Cdn\$	+/- 16.0	+/- 29,920	+/- 20.0	+/- 31,251	+/- 20.0
MSCI EAFE Cdn\$	+/- 16.0	+/- 27,595	+/- 20.0	+/- 23,777	+/- 20.0
DEX Universe	+/- 6.0	+/- 26,314	+/- 8.0	+/- 31,753	+/- 8.0
IPD Cdn Property Index	+/- 7.5	+/- 6,494	+/- 8.0	+/- 7,963	+/- 8.0
DEX 91-Day T-Bill	+/- 1.5	+/- 789	+/- 2.0	+/- 1,398	+/- 2.0

Figures shown are based on December 31, 2009 and 2008 fair values.

The Plan also manages its equity price risk by allocating its equities component across six (2008 - six) investment managers, with differing investment styles and mandates. The Plan's collective equity holdings managed by these managers are invested as follows:

	2009	2008
	%	%
Canadian		
Other sectors	20	15
Pooled equity funds	10	10
Financial services	10	9
Oil and gas	7	5
Industrial products	2	3
Communication and media	1	3
Consumer products	1	2
Metals and minerals	1	1
Merchandising	1	1
	53	49
Foreign		
Pooled equity funds	47	50
Consumer products	-	1
	47	51
	100	100

(d) Interest rate risk

The Plan is subject to interest rate risk. Interest rate risk is the risk that fixed-income securities will decline in value because of changes in market interest rates. Rising interest rates cause a decrease in bond prices. Duration is the most common measure of this risk and quantifies the effect of changes in bond prices due to a change in interest rates. The bond portfolio has an average duration of roughly 7 years (2008 - 7.5 years). Therefore, if the interest rates increased by 1.0%, the bond portfolio would fall in value by approximately 7.0% (2008 - 7.5%).

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Notes to the financial statements

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(Expressed in thousands of dollars)

8. Financial risk management (continued)

(e) Currency risk

Currency risk is the risk that the value of non-Canadian investments, measured in Canadian dollars, will decrease because of unfavorable changes in currency exchange rates. Two of the Plan's three bond managers may invest a portion of their portfolio outside of Canada but they only hold a small exposure to unhedged foreign currencies as they mostly hedge their currency exposure. Otherwise, the Plan's investments in U.S. and international equities are generally unhedged in terms of their currency exposure. These foreign securities as of December 31, 2009 represent roughly 29% (2008 - 27%) of the Plan's assets which consist of 15% (2008 - 15%) in U.S. currencies and 14% (2008 - 12%) in EAFE currencies. A 10% strengthening (weakening) of the Canadian dollar versus the U.S. dollar at December 31, 2009 would have decreased (increased) the U.S. equity portfolio's value by roughly \$18,330 (2008 - \$16,383). Since the Plan has invested in more than 20 countries in the international equities, it is not feasible to do a sensitivity analysis on each of these different currencies. However, generally when there is a 10% strengthening (weakening) of the Canadian dollar versus the corresponding currency, there would be a 10% decrease (increase) in the value of the corresponding country's portion of the portfolio from this currency movement. This assumes that all other variables remain constant.

9. Capital management

The Plan's objectives when managing capital are to safeguard the ability to continue as a going concern, so that the Fund can provide sufficient benefits to the Plan members.

The Plan manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust the capital structure, the Plan may sell assets to meet immediate obligations where appropriate. The Plan is not subject to externally imposed capital requirements.

The Board is responsible for monitoring and evaluating the fund performance on a regular basis.

10. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.