PENSION NEWS

UBC FACULTY PENSION PLAN | Fourth Quarter 2011 Edition

Investment Market Review of 2011

One word can be used to describe the markets in 2011 - volatile. Markets, be they foreign or domestic, equity or bond, were all subject to gyrations. Market moves were sharp and sudden in this event-filled year, with news and data points being market-drivers. While it is not atypical for markets to rise or fall several percent in a week or a month or a year, the moves in 2011 were dramatic for their speed rather than their duration.

The direction of most market moves was tied to wholesale shifts between investor appetites for risk, with the transition between risk-free assets to risk-reward assets occurring day-to-day, with news and data points from abroad being the driving force for these seismic moves in price.

Europe dominated the headlines, with several of the weaker Eurozone nations like Greece, Ireland, Portugal, Spain, and Italy seeking guarantees and bailouts from their stronger Euro partners, with France and Germany front and centre. Guarantees on sovereign bonds and outright cash deposits were required for each of these debt-laden nations, and in return the strong economies of Northern Europe sought fiscal austerity in the form of pension reform, cutting of government spending, and considerably higher taxes. The final stages of the European debt crisis appear to be before us now, though the problem was of such scale that considerable finesse will be required to navigate these waters.

Not to be outdone, the escalating levels of debt in the United States drew global attention. As the United States government drew perilously close to their debt ceiling of 14.3 trillion dollars, brinksmanship between the two political parties threatened to bring the business of the United States Government to a complete halt. While a short-term resolution was arrived at, the actual problem of over-spending through borrowing and insufficient tax receipts has yet to be addressed. The making of political hay over conducting the best business for the country caused Standard & Poors to place the US on notice for a credit rating cut, a threat that S&P ultimately followed through on. Complicating matters is that the new debt ceiling figure of $16.4 trillion is being approached, with federal and state programs at risk. The funding of America's obligations looms large as an election issue for 2012.

Given the backdrop of these large-scale concerns, many other events that might not have been perceived as significant risks caused markets to roil: regime changes in North Korea, the uprisings in the Middle East, the slowing rate of growth in emerging markets like China and India, would all be reasonable cause for concern. The World has become smaller and smaller, with more news coverage, more time to fill, and a more immediate feel to it. What would have been perceived as a small, or 'normal,' amount of risk caused investors everywhere to revisit their investment programs.

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When investors favour riskier reward assets, when risk is 'on,' they will tend to reduce holdings of government bonds, as rates tend to be low; the likelihood that First World sovereign nations default is thought to be exceptionally low, and the payment due reflects exactly that. Government debt is then sold and replaced with assets that are expected to pay more, as in corporate bonds, or that have potential to appreciate over time, as in equities. The expected rate of return in excess of government debt is known as the 'risk premium,' where a few percentage points of extra return would be a typical expectation for holding non-guaranteed investment-grade corporate bonds, with a few percentage points more expected in exchange for the risk of owning stocks.

Under times of duress like the credit crunch of 2008 and 2009 or the implied risk of sovereign default seen for much of 2011, the markets become 'risk off.' Risk off scenarios typically involve selling stocks to purchase assets that are viewed as safer, though the risk off in 2011 involved a different style of retrenching against risk. Higher risk equities were sold in favour of bonds, but were also sold in favour of safer stocks. Both domestic and international stocks were quite highly correlated and markets moved quite sympathetically for most of 2011, selling off quite sharply through the summer. US markets recovered considerably more towards the end of the year, ending positive for the year, compared with a slide of almost three percent for the World index, and the Toronto market being off in price by nearly nine percent.

When market participants shift perspectives and move away from riskier assets, like stocks, government bonds tend to be the beneficiary. Fixed income investors in a 'flight to quality' purchased US treasuries, German Eurodollar Bunds (the name for German Government Bonds), and Canadian government debt in 2011, with each rising in price significantly. There is a compelling case for owning this debt over those of higher yielding or lower rated credits. Germany remains the economic engine of the Eurozone, their economy benefits from the depressed value of the Eurodollar, an artifice created by having weak members like Italy or Greece in the compact. The United States, despite losing its Triple A rating in August, was akin to the one-eyed King in the land of the blind, and saw money flow into their bonds. Despite the uncertainty surrounding their debt ceiling, few doubted their eventual ability to repay their debts. Canadian bonds benefited from a Triple A rating, relatively reasonable amounts of government debt, and a stable interest rate environment.

While Canadians are typically more risk-averse, the Canadian market is perceived as a risk-market. The Canadian economy, and our stock market, are definitely considered to be investments that are 'risk-on.' While our banks are among the best capitalized in the world, a large part of their business can be tied to mining, materials, and energy; the stock index also carries a large weighting in commodities and energy. With this relative over-exposure to metals, materials, mining, and energy, the Canadian market is viewed as one that is closely tied with global Gross Domestic Product expansion. When factories in China are running, Canadian ore is smelted, Canadian oil is burned, and Canadian stocks are earning. The Canadian equity markets, despite our understanding and inherent home bias, are tied to global economic risks.

Volatility, as measured by day-over-day price changes in the stock market reached an all-time high in 2011. Comparing the last ten years of day-over-day price changes in the markets to the 83 years of recorded Index data for the S&P 500 shows that volatility has increased by nearly twenty percent. Comparing 2011 to the last ten years shows that volatility has increased by another twenty percent. Market participants have become quicker to react to events today than in the past, as money moves from asset classes more seamlessly than ever, and capital moves across borders with ever increasing ease.

The view for 2012 is that while things are not all clear, they can be thought to be clearing. The market has sent European leaders several messages, that the creation of a supra-national bank to backstop short-term shocks in the market is a must, as is working together through collective austerity and more tightly entwined economic policy. The United States enters an election year with high, though declining unemployment, a need for renewed talks on debt ceilings and taxation, and perhaps a new tack of political cohesion between the parties for the collective good. Growth projections remain somewhat strong for global Gross Domestic Product, with China and India continuing their path towards economies representative of the scale of their populations. As GDP grows, many of the debt issues that befall the developed world could begin to be set aside; the hope is that as tax receipts grow, governments may repay their debts. With interest rates globally at near historical lows, it is entirely likely that modest amounts of inflation will appear in the system in time, a benefit to the debtor nations as they can repay the obligations of today with lower valued dollars of tomorrow.

The markets will eventually return to being risk taking, though the timing of precisely when that will happen is as yet unclear. The problems in front of the markets are considerable, and no doubt a number of false starts will occur on the path to prosperity. In the meantime, one prediction can be made. In the short-term, expect things to continue to be volatile. ■

This article was prepared for the UBC Faculty Pension Plan by Guardian Capital, one of the Plan's Canadian Equity managers. The opinions expressed in this article are those of the author and do not necessarily reflect the opinion of the FPP management or trustees. Comments and questions should be sent to fpp@hr.ubc.ca

MARKET COMMENTARY

Equity markets rebounded quite strongly in the fourth quarter of 2011 following very weak results in the third quarter. Investor concerns continued to focus on European sovereign debt and banking concerns, fears of a possible recession in the U.S., and slowing growth in China. Markets remained very volatile with investors reacting to ongoing economic news; thus, moving markets either strongly up or down. Bond markets continued to do well in the fourth quarter as money continued to move into bonds which bid up bond prices and thus decreased their yield.

The Canadian stock market returned a solid 3.6% in the fourth quarter, partially offsetting a weak one-year return of -8.7%. High exposure to commodity stocks hurt the market's returns as two of the largest index sectors, Materials and Energy, were down 21.2% and 9.9% respectively for the year. These two sectors represent almost 50% on the TSX Index.

The U.S. stock market also had a very strong fourth quarter increasing by 9.3% and finished the year in positive territory at 4.6% in Canadian dollar terms. Global equities (as measured by the MSCI World index) returned 5.3% over the fourth quarter, but were -2.7% for the year in Canadian dollar terms. These returns were largely affected by the European markets that produced weak returns due to their well publicized ongoing debt problems. Emerging markets also had weak performance in 2011 with a return of -16.1% for the year.

The Canadian Bond market continued to be strong in the fourth quarter with a return of 2.1%, resulting in a return of 9.7% for the year. Long-term bonds at 18.1% and Real Return bonds at 18.3% were the strongest performers for the year as investors bid up prices for these issues. The Canadian 10-year bond yield dropped below 2% for the first time in over a century. With interest rates continuing to be very low, the return on 91-Day Treasury Bills was a mere 1.0% for the year. ■

Update on the FPP GICs

In the second quarter 2011 issue of the *Pension News*, we published an article on Guaranteed Investment Certificates. The FPP will offer this investment option in the near future and is making progress on updating administration and database systems to be able to provide this option for members. Stay tuned as we will have more information on the GIC option in the next *Pension News*.

Financial Planning Lecture Series

The UBC Faculty Association 2012 Financial Planning Lecture Series is scheduled for January 25, February 1, 8, 15 and 29. The FPP is presenting on Wednesday, February 29, 2012. A description of the presentation is provided below, and the location and time will be posted on the FPP website in late January.

Investment Market Update
UBC Faculty Pension Plan

DAVID AYRISS
Leith Wheeler Investment Counsel

MIKE LESLIE
Executive Director - Investments, Faculty Pension Plan

In 2011, the Canadian and many foreign stock markets witnessed negative returns while the Canadian bond market produced very strong results. Learn about the main reasons behind last year's performance, and what areas did, or did not, do well. Also, an outlook on how the markets may unfold in 2012 will be discussed including the key drivers/concerns that may affect these markets.

FPP Member Services Specialist

Many of our members may know Jim Loughlean who has been on the FPP team for over 7 years as our Member Services Specialist. Jim will retire at the end of February 2012 and we would like to congratulate and thank him for all the work that he has contributed to the Plan and our members. Jim has been an integral and key member of the FPP administration team, and has often been praised for his commendable customer service and informative retirement seminars. We wish him the very best in his retirement.

We are pleased to announce that we have hired a replacement for the Member Services Specialist position, and would like to welcome Lorraine Heseltine. Lorraine previously worked for Mercer for over 20 years providing administration outsourcing services to corporate sponsored and multi-employer pension plans. We are excited to have Lorraine on board and believe she will be a great addition and asset to the FPP team.

Lorraine Heseltine and Jim Loughlean, Member Services Specialists for the UBC Faculty Pension Plan.

New Member and Retirement Workshops

"You & Your Pension Plan" workshops for new members or members wishing to learn more about the Plan are available throughout the year, as well as "Understanding Your Retirement Income Options" workshops for members approaching retirement.

You & Your Pension Plan
February 22, 2012
9:30 am to 11:30 am

For more info or to register for one of the sessions above, please contact Lorraine Heseltine at lorraine.heseltine@ubc.ca. Please refer to the Workshops page on the FPP website for up-to-date workshop information and dates.

FPP Annual Report: Online May 1

The online 2011 UBC Faculty Pension Plan Annual Report will be available on May 1, 2012. Members are encouraged to read the annual report on the Faculty Pension Plan website; however, if you do not have online access and need a paper copy, please contact the Pension Office by April 10 at 604.822.8100 or by e-mail at pensions@hr.ubc.ca with the subject line "Annual Report Print Copy."

New this year:

FPP Pension Forum

Instead of hosting an Open House this year, we are excited to offer something a little different and interactive for our members. On Wednesday, May 23, the FPP will host its first **PENSION FORUM** – an informal event for members to actively learn more about the FPP, and meet and converse with the FPP trustees, management and staff. There will also be a short presentation from the FPP management and trustees, and guest speakers.
Light refreshments will be served.

Wednesday, May 23, 2012
10:30 am to 12:30 pm (Presentation at 11:15 am)
Ponderosa Centre – Arbutus Room
2071 West Mall (at University Boulevard)

Please RSVP by May 16 to:
pensions@hr.ubc.ca | 604.822.8100

Here is your opportunity to learn more about your pension plan

We are pleased to host several information tables at the Pension Forum. Bring your questions - we will be happy to help answer them.

Are you a new FPP member?

Visit the **General Information table** to learn more about the Faculty Pension Plan, or sign up for an **information session or workshop**. Don't know what to ask? Ask one of our staff or a trustee what you should know about pensions.

What do you know about the FPP Funds?

Did you know we are offering a new **GIC investment option** in the near future? Visit the **Investment table** to learn more about this fund and the other FPP investment options.

Approaching Retirement?

Visit the **Retirement table** and ask us about your retirement options. While you are there, visit the **Retirement and Survivor Benefits Program table** to learn more about the health benefits that are available as part of the retirement program.

Working past age 65 or thinking about it?

Learn what **choices you'll need to make about your pension if you decide to work past age 65**. Did you know that your other UBC employee benefits may change?

Never used myPension or the FPP calculators? Want to learn how?

Visit the **myPension and FPP calculators table** to learn how to use these valuable online tools.

RRSP Information for 2012

February 29, 2012 is the RRSP contribution deadline for the 2011 tax year.

This article provides you with information on how much you may contribute.

To find your contribution limit
The maximum amount you can contribute to an RRSP each year is shown on the Canada Revenue Agency (CRA) Notice of Assessment form that you receive after you file your income tax return. You can also find your contribution limit by calling the CRA at 1.800.267.6999 or by using the My Account option on the CRA website at (www.cra-arc.gc.ca). You will need a Government of Canada 'epass,' which you can obtain on this website.

How do your Faculty Pension Plan contributions impact your RRSP contribution room?
While contributions to the UBC Faculty Pension Plan (FPP) will reduce your RRSP contribution room, it is important to remember that this does not happen until the following calendar year and the calculations are always performed by the CRA. You do not need to make any calculations to determine your 2011 RRSP contribution room – you simply have to refer to the Notice of Assessment form you received after filing your 2010 tax return.

The CRA calculates the maximum 2011 RRSP contribution amount available by taking 18% of your gross 2010 income (before taxes and deductions) to a maximum of $22,450, less your 2010 Pension Adjustment amount, which represents the 2010 FPP contributions reported in Box 52 of your 2010 T4.

When calculating your RRSP contribution limit, CRA will also include any unused contribution room since the 1991 tax year.

Contributions made to the FPP in 2011 have no impact on your 2011 RRSP contribution limit. But, they will impact your 2012 RRSP contribution room.

Can I use my RRSP contribution room to contribute voluntarily to the Faculty Pension Plan?
RRSP contribution room can only be used for contributions to an RRSP. However, you can later transfer the value of your RRSP on a tax-sheltered basis to your UBC Faculty Pension Plan account. Your RRSP contributions must have been made by yourself (not your spouse) and in your name. Further information on 'Transfers-In' is available under the QuickFind menu on the FPP website.

How do additional voluntary contributions (AVCs) to the FPP work?
For 2012, the CRA maximum contribution to a pension plan is the lesser of 18% of your 2012 pensionable earnings and $23,820. Your AVC room is the difference between the CRA maximum and the required contributions that will be made to your pension plan account in 2012. To determine how much you can voluntarily contribute, use the calculator tool found under the QuickFind menu on the FPP website.

Your 2012 AVCs must be contributed to the FPP prior to December 31, 2012.

NB - Pension plan voluntary contribution room is calculated using your current year's earnings and RRSP contribution room is calculated using your previous year's earnings.

Should I make voluntary contributions to an RRSP or to the Faculty Pension Plan?
There are benefits for contributing to either vehicle and your decision should be based on your own needs. Please visit the 'Voluntary Contributions' page found under the QuickFind menu for additional information regarding choosing between these two vehicles. ■

This article was prepared by Jim Loughlean, Member Services Specialist for the UBC Faculty Pension Plan. Comments and questions should be sent to fpp@hr.ubc.ca.

Help us find these FPP members

The Faculty Pension Plan would like your help to find members of the Plan with whom we have lost contact over the years. If you have any contact information for the members listed below, please contact Louise Mah at 604.822.6015 or by e-mail at louise.mah@ubc.ca. Any information provided is held confidential and greatly appreciated.

Name	**Left UBC**
Cho, H J Peter	Jun 1988
Chung, Ilchoo	Jun 1984
Du Mont, Gertraude E	Jun 1975
Grondey, Hiltrude *Chemistry*	Unknown
Haddock, Christopher	Apr 1990
Henderson, Robert C	Jun 1971
Herbst, Karl Peter	Dec 1989
Knight, Peter *Zoology*	Jul 2003
Lumsden, Hugh David	Jun 1971
Slutsky, Barry V Law	Jul 2006
Song, Cai *Psychiatry*	Aug 2004
Sullivan, Daniel J	Jul 1975
Walker, Douglas *Psychiatry*	Apr 1998
Wang, Jian *Pharmaceutical Sciences*	Aug 2000
Zhang, Li *Biochemistry*	Jul 1999

Unsolicited Financial Advice

The FPP has learned that some faculty members have received unsolicited visits from individuals claiming to offer financial advice on behalf of the FPP. These individuals, in fact, are not affiliated with the Plan or any of the FPP trustees, management and staff, and their services are not endorsed. Although the Board of Trustees encourages members to seek independent financial advice when making investment allocation and retirement decisions, members are reminded that the trustees of the Plan, the University, and the Pension Administration Office, or its respective employees, **do not endorse any particular advisors**.

U.S. Citizens who are members of the Faculty Pension Plan and/or Supplemental Arrangement

UBC advises all its current or former employees who may be required to file US tax returns to seek advice from a US tax consultant with regard to whether there are tax consequences or filing responsibilities with respect to the 'assets in' or 'income from' their Faculty Pension Plan and Supplemental Arrangement accounts. Failure to meet any such reporting or filing requirements could result in very significant penalties. For your information, the following is an excerpt from an article, "U.S. tax crackdown hits Canadian residents ," published in an issue of the *Globe & Mail*:

Globe and Mail – June 20, 2011 - A tax crackdown by the United States has sent more than one million Americans and green-card holders living in Canada scrambling to figure out how to comply.

The move is part of a push by the U.S. Internal Revenue Service (IRS) to make sure U.S. taxpayers are paying what they owe on foreign accounts. Unlike most countries, the U.S. requires its citizens to file annual tax returns based on their worldwide income, regardless of where they live.

Correspondence/Queries:

Reception, 604.822.8100
Lorraine Heseltine, 604.822.3485
Louise Mah, 604.822.6015
Jill Smith, 604.827.3286

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PERFORMANCE OF THE FUNDS
FOR PERIODS ENDING DEC 31, 2011

**Annualized returns*

	3 Months	1 year	3 years*	5 years*	10 years*
Balanced Fund - gross	4.24%	3.18%	8.47%	2.76%	5.74%
Balanced Fund - net	4.11%	2.62%	7.90%	2.22%	5.25%
Composite Index 1	3.85%	3.29%	8.25%	2.45%	5.06%
Bond Fund - gross	3.51%	10.52%	9.86%	7.17%	6.65%
Bond Fund - net	3.43%	10.17%	9.51%	6.85%	6.37%
Composite Index 2	3.20%	11.40%	8.53%	6.92%	6.68%
Canadian Equity Fund - gross	4.62%	-7.95%	12.37%	1.86%	8.04%
Canadian Equity Fund - net	4.51%	-8.36%	11.88%	1.43%	N/A
Composite Index 3	3.40%	-8.80%	12.63%	1.20%	7.04%
Foreign Equity Fund - gross	6.04%	-2.14%	4.74%	-5.28%	-0.30%
Foreign Equity Fund - net	5.86%	-2.86%	4.05%	-5.81%	N/A
Composite Index 4	6.01%	-0.49%	4.85%	-4.17%	0.43%
Short Term Investment Fund - gross	0.28%	1.25%	0.77%	1.97%	2.42%
Short Term Investment Fund - net	0.25%	1.10%	0.60%	1.82%	2.24%
Composite Index 5	0.22%	0.98%	0.59%	1.74%	2.30%

The Average Rate of Return for the FPP funds are updated on a monthly basis and are available under the QuickFind menu on the FPP website.

Composite Index 1: 32% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 6% S&P 500, 21% MSCI World Ex Canada, 3% Dex 91-Day TB, 10% CPI + 4% commencing November 2011 (retroactive), 8% DEX Real Return Bonds

Composite Index 2: 80% DEX Universe, 20% DEX Real Return Bonds

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

Composite Index 4: 73% MSCI World Ex Canada, 21% S&P 500, 6% DEX 91-Day TB

Composite Index 5:** DEX 91-Day TB Index until August 2007; DEX 30-Day from September 2007 to January 2011; DEX 91-Day TB Index as of February 2011.

*** Composite Index 5 has changed as of February 1, 2011 to reflect investment changes within the Short Term Investment Fund.*

COMPOSITION OF THE FUNDS
AS AT DEC 31, 2011

	Market Value ($ Millions)	% of Funds
BALANCED FUND		
Equities - Canada	221.1	19.7%
Equities - Non-Canadian	288.8	25.7%
Absolute Return Hedge Fund	30.4	2.7%
Real Estate - Canada	119.7	10.6%
Fixed Income	358.1	31.9%
Real Return Bonds - Canada	102.4	9.1%
Cash	3.5	0.3%
Total Balanced Fund	1124.0	100.0%
BOND FUND		
Fixed Income	62.3	77.3%
Real Return Bonds - Canada	17.8	22.1%
Cash	0.5	0.6%
Total Bond Fund	80.6	100.0%

	Market Value ($ Millions)	% of Funds
CANADIAN EQUITY FUND		
Equities - Canada	95.8	99.1%
Cash	0.9	0.9%
Total Canadian Equity Fund	96.7	100.0%
FOREIGN EQUITY FUND		
Equities - Non-Canadian	35.2	93.6%
Absolute Return Hedge Fund	1.8	4.8%
Cash	0.6	1.6%
Total Foreign Equity Fund	37.6	100.0%
SHORT TERM INVESTMENT FUND		
Total Short Term Inv. Fund	69.6	100.0%