

Financial statements of

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

December 31, 2011 and 2010

**The University of British Columbia**  
**Faculty Pension Plan**  
December 31, 2011 and 2010

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## Independent Auditor's Report

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

We have audited the accompanying financial statements of The University of British Columbia Faculty Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits for the years then ended, and the notes to the financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The University of British Columbia Faculty Pension Plan as at December 31, 2011 and 2010, and the changes in its net assets available for benefits for the years then ended in accordance with Canadian accounting standards for pension plans.

*Deloitte & Touche LLP*

Chartered Accountants  
Vancouver, British Columbia  
March 28, 2012

# The University of British Columbia Faculty Pension Plan

Statements of financial position  
as at December 31, 2011 and 2010

(Expressed in thousands of dollars)

	2011	2010
	\$	\$
<b>Assets</b>		
Assets held by the Plan's custodian		
Investments (Note 4)		(Restated - Note 2)
Short-term notes	73,350	55,200
Bonds	540,888	498,149
Equities	668,924	715,062
Real estate	120,822	106,588
	<b>1,403,984</b>	<b>1,374,999</b>
Cash and cash equivalents	6,173	5,511
Investment income receivable	624	506
	<b>1,410,781</b>	<b>1,381,016</b>
Accounts receivable	224	105
	<b>1,411,005</b>	<b>1,381,121</b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	1,356	1,849
Plan withdrawals payable to members	3,327	2,265
	<b>4,683</b>	<b>4,114</b>
<b>Net assets available for benefits (Note 5)</b>	<b>1,406,322</b>	<b>1,377,007</b>

Approved on behalf of the Board of Trustees

Chair

Vice-Chair

# The University of British Columbia Faculty Pension Plan

Statements of changes in net assets available for benefits  
years ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

	2011	2010
	\$	\$
		(Restated - Note 2)
<b>Increase in net assets</b>		
Members' required contributions	17,386	16,673
University's required contributions	34,511	33,048
Members' additional voluntary contributions	607	498
Transfers from other plans	3,889	3,071
	<b>56,393</b>	<b>53,290</b>
Investment income (Note 6)	38,171	36,776
Change in fair value of investments (Note 7)	-	88,965
	<b>94,564</b>	<b>179,031</b>
<b>Decrease in net assets</b>		
Change in fair value of investments (Note 7)	7,315	-
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	24,830	20,503
Death benefits	1,441	813
Members' accounts transferred and refunded	25,568	19,447
	<b>51,839</b>	<b>40,763</b>
Operations		
Administrative expenses (Note 8)	1,255	1,185
Investment		
Transaction fees	303	264
Management fees	4,537	4,485
	<b>4,840</b>	<b>4,749</b>
	<b>65,249</b>	<b>46,697</b>
Net increase in net assets available for benefits	29,315	132,334
Net assets available for benefits, beginning of year	1,377,007	1,244,673
<b>Net assets available for benefits, end of year</b>	<b>1,406,322</b>	<b>1,377,007</b>

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

December 31, 2011 and 2010

(Expressed in thousands of dollars)

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### 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 65<sup>th</sup> 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 71<sup>st</sup> 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;

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

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(Expressed in thousands of dollars)

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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. Termination benefits are recorded as Members' accounts transferred and refunded on the statements of changes in net asset available for benefits.

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

### 2. Adoption of new accounting framework

The accounting policies adopted in the preparation of these financial statements have been prepared on the basis of Part IV of the Canadian Institute of Chartered Accountants ("CICA") Handbook, *Canadian Accounting Standards for Pension Plans*, effective for fiscal years beginning on or after January 1, 2011. Comparative figures in these financial statements as at and for the year ended December 31, 2010 have been restated to consistently apply the same standards.

The Plan has adopted Canadian accounting standards for private enterprises in connection with any balances or transactions outside of the scope of Part IV of the Handbook.

The effects of the adoption of Part IV of the CICA Handbook on the financial statements as at and for the year ended December 31, 2010, and the net assets available for benefits at January 1, 2010, can be classified in two categories: those that have recognition and measurement effects and those that only have disclosures effects. Those that have a recognition and measurement effect are outlined in the table below.

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

December 31, 2011 and 2010

(Expressed in thousands of dollars)

### 2. Adoption of new accounting framework (continued)

*Statement of changes in net assets available for benefits*

	Year ended December 31, 2010			
	Canadian generally accepted accounting principles \$	Reference	Reclassification \$	Part IV of the CICA Handbook \$
<b>Increase in net assets</b>				
Members' required contributions	16,673		-	16,673
University's required contributions	33,048		-	33,048
Members' additional voluntary contributions	498		-	498
Transfers from other plans	3,071		-	3,071
	53,290		-	53,290
Return on investments, including changes in market values	125,741	(a)	(125,741)	-
Return on investments				
Investment income	-	(a)	36,776	36,776
Change in fair value of investments	-	(a)	88,965	88,965
	179,031		-	179,031
<b>Decrease in net assets</b>				
Payments to or on behalf of members				
Retirement benefits to members and beneficiaries	20,503		-	20,503
Death benefits	813		-	813
Members' accounts transferred and refunded	19,447		-	19,447
	40,763		-	40,763
Operations				
Administrative expenses	1,185		-	1,185
Investment				
Transaction fee	264		-	264
Management fees	4,485		-	4,485
	4,749		-	4,749
	46,697		-	46,697
Net increase in net assets available for benefits	132,334		-	132,334
Net assets available for benefits, beginning of year	1,244,673		-	1,244,673
<b>Net assets available for benefits, end of year</b>	<b>1,377,007</b>		<b>-</b>	<b>1,377,007</b>

(a) As required under the Canadian accounting standards for pension plans, the changes in fair value of investment assets and investment liabilities are presented separately from investment income.

Changes in disclosures include additional information related to administrative expenses (see Note 8) and the removal of sensitivity analyses related to price risk.



# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

December 31, 2011 and 2010

(Expressed in thousands of dollars)

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### 3. 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 available for benefits for the reporting period. The most significant estimates relate to the fair values of investments. Actual results could differ from those estimates.

(c) *Investments*

Investments are recorded on a settlement date basis and at fair value. Fair value is the amount for which an asset could be exchanged or liability be settled between knowledgeable, willing parties in an arm's length transaction. Fair values of investments are determined as follows:

- (i) Short-term notes, bonds and publicly traded equities are valued using published market bid price quotations.
- (ii) Real estate equities are valued based on the fair values of the net assets of the investees. The net assets mainly include direct real estate investments which are valued quarterly by the real estate investment managers using a combination of internal and external appraisals to establish current market values.
- (iii) Pooled fund values are provided by investment managers and are generally based on quoted market prices of the underlying investments. The underlying investments include publicly traded equities and bonds.

Adjustments to investments due to the fluctuation of fair values are reflected as part of the change in fair value of 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 change in fair value of investments (Note 7).

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

December 31, 2011 and 2010

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### 3. Significant accounting policies (continued)

(e) *Allocation of net assets*

In the allocation of net assets available for benefits (Note 5), investment income, change in fair value of investments and operational and investment 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.

### 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 0.01% to 0.12% (2010 - 0.02% to 0.14%).

(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:

	2011	2010
	\$	\$
Canadian		
Corporations	234,549	253,747
Pooled equity funds	77,894	94,768
Foreign		
Corporations	-	137
Pooled equity funds	356,481	366,410
	<b>668,924</b>	<b>715,062</b>

(d) *Real estate*

All real estate investments are in Canadian property.

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## Faculty Pension Plan

Notes to the financial statements

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#### 4. Investments (continued)

##### (e) Fair value measurements - Levels disclosure

International Financial Reporting Standard 7, Financial Instruments: Disclosures, 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 or 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, 2011 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 unobservable inputs (Level 3)	Total
	\$	\$	\$	\$
Short-term notes	-	73,350	-	73,350
Bonds	-	540,888	-	540,888
Equities	229,762	439,162	-	668,924
Real estate	-	-	120,822	120,822
<b>Total investments</b>	<b>229,762</b>	<b>1,053,400</b>	<b>120,822</b>	<b>1,403,984</b>

The following is a summary of the inputs used as of December 31, 2010 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 unobservable inputs (Level 3)	Total
	\$	\$	\$	\$
Short-term notes	-	55,200	-	55,200
Bonds	-	498,149	-	498,149
Equities	259,121	455,941	-	715,062
Real estate	-	-	106,588	106,588
<b>Total investments</b>	<b>259,121</b>	<b>1,009,290</b>	<b>106,588</b>	<b>1,374,999</b>

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

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#### 4. Investments (continued)

(e) *Fair value measurements - Levels disclosure (continued)*

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, 2010	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 in	Balance as at December 31, 2011
	\$	\$	\$	\$	\$
Assets					
Real estate	106,588	4,048	9,936	250	120,822

#### 5. Net assets available for benefits

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

	2011	2010
	\$	\$
Money Purchase account	1,138,449	1,143,310
RRIF-type payment account	148,200	122,310
Variable Payment Life Annuity account	72,076	72,405
LIF-type payment account	47,597	38,982
	<b>1,406,322</b>	<b>1,377,007</b>

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.

# The University of British Columbia

## Faculty Pension Plan

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### 6. Investment income

	2011	2010
	\$	\$
Investment income		
Interest income	21,703	23,493
Pooled fund distributions	6,993	4,936
Real estate income	1,967	2,607
Dividend income	7,508	5,740
	<u>38,171</u>	<u>36,776</u>

### 7. Changes in fair value of investments

	2011	2010
	\$	\$
Realized gains (losses) on investments	22,645	(29,566)
Unrealized (losses) gains on investments	(29,960)	118,531
	<u>(7,315)</u>	<u>88,965</u>

### 8. Administrative expenses

	2011	2010
	\$	\$
Office and administrative costs	902	892
Other	264	187
Actuarial services	36	44
Audit	34	41
Custodian	19	21
	<u>1,255</u>	<u>1,185</u>

### 9. 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 3 (c).

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

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(Expressed in thousands of dollars)

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### 10. 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, 2011 is their carrying value of \$620,411 (2010 - \$558,860). 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:

	2011	2010
	%	%
AAA	55.1	56.5
AA	21.9	18.1
A	15.5	15.8
BBB	6.7	7.8
BB and below	0.8	1.8

# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

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(Expressed in thousands of dollars)

### 10. 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% (2010 - 31%).

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 +/-10.7% (2010 - +/-11.1%) range of an expected long-term return of roughly 6.2% (2010 - +6.4%) (i.e. results ranging from -4.4% to 16.9% (2010 - -4.7% to +17.5%)). This is based on the following volatility figures:

	2011	2010
	%	%
Canadian and foreign equities	+/- 16.0	+/- 16.0
Bonds	+/- 6.0	+/- 6.0
Real estate	+/- 7.5	+/- 7.5
Short-term notes	+/- 1.5	+/- 1.5

# The University of British Columbia

## Faculty Pension Plan

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### 10. Financial risk management (continued)

#### (c) Price risk (continued)

The Plan also manages its equity price risk by allocating its equities component across seven (2010 - seven) investment managers, with differing investment styles and mandates. The Plan's collective equity holdings managed by these managers are invested as follows:

	2011	2010
	%	%
Canadian		
Other sectors	7	15
Pooled equity funds	12	12
Financial services	10	9
Oil and gas	8	8
Industrial products	2	2
Consumer products	2	2
Communication and media	1	2
Metals and minerals	4	1
Merchandising	1	1
	<b>47</b>	<b>52</b>
Foreign		
Pooled equity funds	53	48
	<b>53</b>	<b>48</b>
	<b>100</b>	<b>100</b>

#### (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 9.1 years (2010 - 8.4 years).



# The University of British Columbia

## Faculty Pension Plan

Notes to the financial statements

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(Expressed in thousands of dollars)

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### 10. 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 non-North American equities are generally unhedged in terms of their currency exposure. These foreign securities as of December 31, 2011 represent approximately 25% (2010 - 27%) of the Plan's assets which consist of 15% (2010 - 16%) in U.S. currencies and 10% (2010 - 11%) in non-North American currencies.

### 11. 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.