



a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

FACULTY PENSION PLAN 2013 Year In Review



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Message from the Chair

Dear Members:

We are pleased to present the Faculty Pension Plan's (FPP) Annual Report: *2013 Year in Review*.

The past year proved to be an interesting one again, with interest rates remaining very low globally and most equity markets producing very strong returns, despite less than positive economic news on many fronts. Equity returns in the U.S. and Europe were in the 35%-plus range, far above even the most optimistic forecasts at the beginning of 2013. However, bond markets continued to suffer from both low yields and an increase in interest rates in late 2013.

The FPP offers members their choice of five different investment options plus Guaranteed Investment Certificates (GICs). Over 80% of the members' assets continue to be invested in the Balanced Fund option. This option is broadly diversified over seven different asset classes and utilizes fourteen different investment mandates to implement the Fund's asset mix policy. The Balanced Fund had another strong year in 2013 with a return of 13.2% net of fees. These returns were largely a result of the high foreign and Canadian equity returns as the bond component had a negative drag on performance for the year. I encourage you to read the Market Commentary section in this Annual Report for more details about the returns on all of the Plan's fund options.

There were no significant changes made to the FPP fund options in 2013. In the second half of 2013, a review of the Balanced Fund's asset mix was initiated, with the results expected to be finalized in the first half of 2014.

Dr. Joy Begley and Dr. Kai Li were re-elected to the board of trustees for a four-year term, effective January 1, 2014 and I would like to thank them for their continuing support. Dr. Begley has been a trustee since 2007 and Dr. Li since 2009.

I look forward to meeting many of you at the Pension Forum on May 21 at Cecil Green Park House. The Pension Forum is an informal event for members to learn more about the FPP and to meet with the trustees, management and staff. There will also be a short presentation from the FPP Chair and management.

In closing, I would like to thank the other board members for their service and commitment over the past year. I would also like to thank the Pension Administration Office (PAO) staff for their dedicated efforts. I look forward to working with them in 2014.

Yours truly,



Joost Blom





Highlights

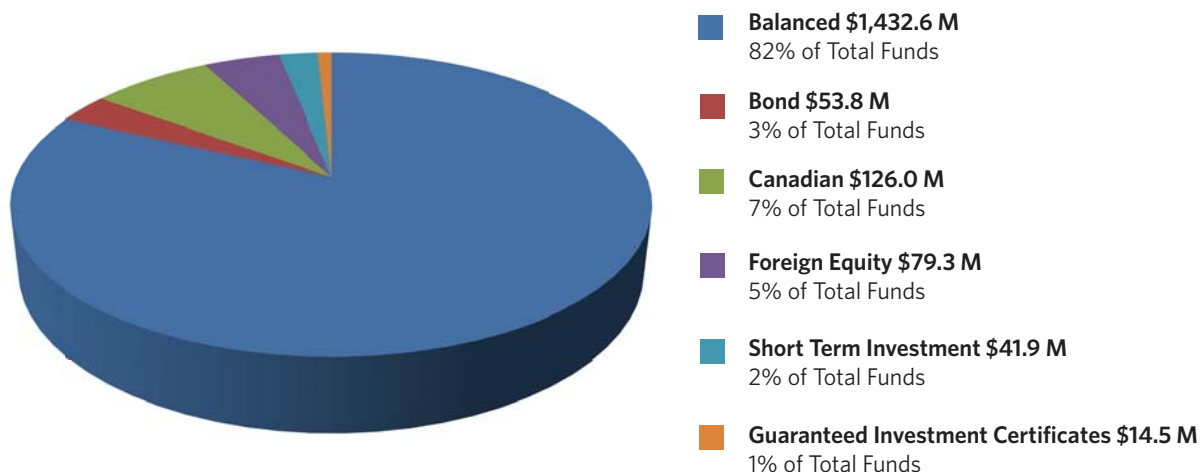
The following are highlights for the Faculty Pension Plan in 2013:

- It was a busy year for our Member Services team, who held the following workshops in 2013:
 - Two “You and Your Pension Plan” new member workshops at the Vancouver campus and one at the Okanagan campus.
 - Five “Understanding Your Retirement Options” seminars at the Vancouver campus and one at the Okanagan campus.
 - Our Executive Director of Investments also gave a presentation on the Plan’s investments at the Vancouver Campus as part of the Faculty Association Financial Lecture Series.
- There was an election held in the fall of 2013 for two Pension Board trustees to hold four-year terms on the Plan’s Board of Trustees. Dr. Joy Begley and Dr. Kai Li were both re-elected as trustees and their terms of office are from January 1, 2014 to December 31, 2017.
- State Street Global Advisors, one of the Plan’s investment managers, changed their investment mandate as of July 2013. Their new bond mandate is now a “passive” one (i.e. to meet the DEX Bond Universe index return) versus the prior “enhanced index” mandate. Details of this change can be viewed on the Fund Updates page on the Plan’s website.
- In an effort to reduce our carbon footprint on the environment, the Plan now posts quarterly investment information on the Plan’s website. By integrating this information into our website, we are hoping to pave the way for future member communications that are more timely, engaging, and audience-focused, such as subscription-based e-mail newsletters.
- As illustrated in our membership statistics, the Plan’s membership has grown considerably over the last decade. In particular, the number of retirees in the Plan has more than doubled since 2003. As a result, new positions were added in the areas of administration, member services, and communication in 2013. In addition to new staff joining the PAO, two longtime staff retired in 2013 and two new staff were hired and trained to succeed their positions.
- Over the last year, senior management from both the Staff and Faculty Plans have worked together on a succession plan for the PAO. This succession plan will consider upcoming retirements and how to best serve both pension plans and their members over the coming years.

Financial Statistics

All figures are based on the Plan's audited 2013 Financial Statements

Market Value of the Funds as at December 31, 2013



Market Value of the Funds for last five years

All figures as at December 31

	2009	2010	2011	2012	2013
Balanced	\$1,015,418,630	\$1,115,397,884	\$1,123,219,589	\$1,246,829,399	\$1,432,622,204
Bond Fund	\$56,037,866	\$64,874,459	\$82,320,645	\$78,343,673	\$53,817,936
Canadian Equity Fund	\$89,734,839	\$108,117,922	\$96,602,910	\$106,331,985	\$126,022,267
Foreign Equity Fund	\$33,106,028	\$37,180,319	\$36,881,169	\$45,873,527	\$79,281,556
Short Term Investment Fund	\$50,375,490	\$51,436,859	\$67,297,338	\$51,364,549	\$41,860,713
Guaranteed Investment Certificates*	N/A	N/A	N/A	\$14,980,211	\$14,510,620
Total Market Value of Funds	\$1,224,672,853	\$1,377,007,443	\$1,406,321,651	\$1,543,723,343	\$1,748,115,296

*GICs were introduced into the FPP in May of 2012

Financial Statistics cont'd

Cash Flow for last five years

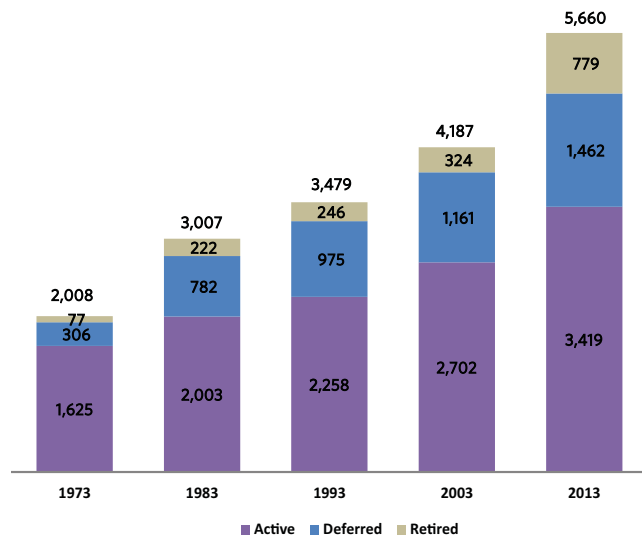
All figures as at December 31

	2009	2010	2011	2012	2013
Cash Flow					
Contributions					
Employer	\$31,593,463	\$33,047,817	\$34,511,247	\$35,227,042	\$38,017,045
Employee	\$16,302,941	\$16,673,142	\$17,385,797	\$17,489,426	\$19,135,063
Voluntary	\$464,768	\$497,862	\$607,367	\$639,088	\$715,204
Transfers-in from other Registered Plans	\$3,111,020	\$3,071,241	\$3,889,324	\$4,370,025	\$8,405,522
Retirement Benefits Paid	\$15,898,168	\$20,502,956	\$24,830,204	\$23,039,693	\$29,042,231
Withdrawals and Transfers-out	\$16,403,213	\$20,259,603	\$27,008,905	\$26,088,753	\$37,020,072

Membership Statistics

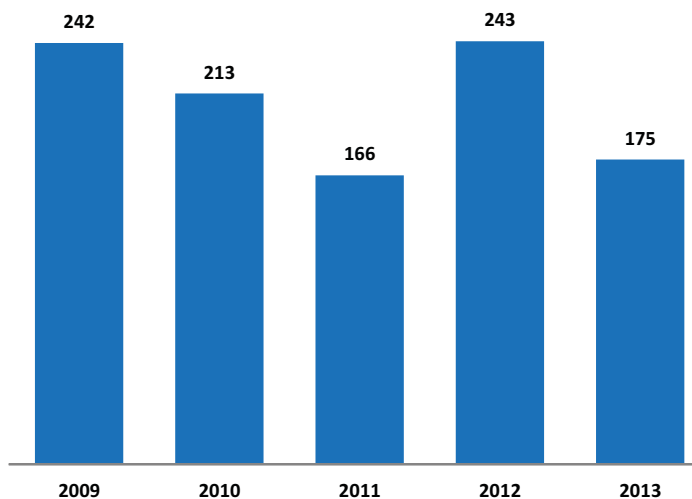
Number of Members as at December 31

Over the last ten years, Plan membership has grown by 35%. The number of retirees in the Plan has more than doubled since 2003.



New Enrollments as at December 31

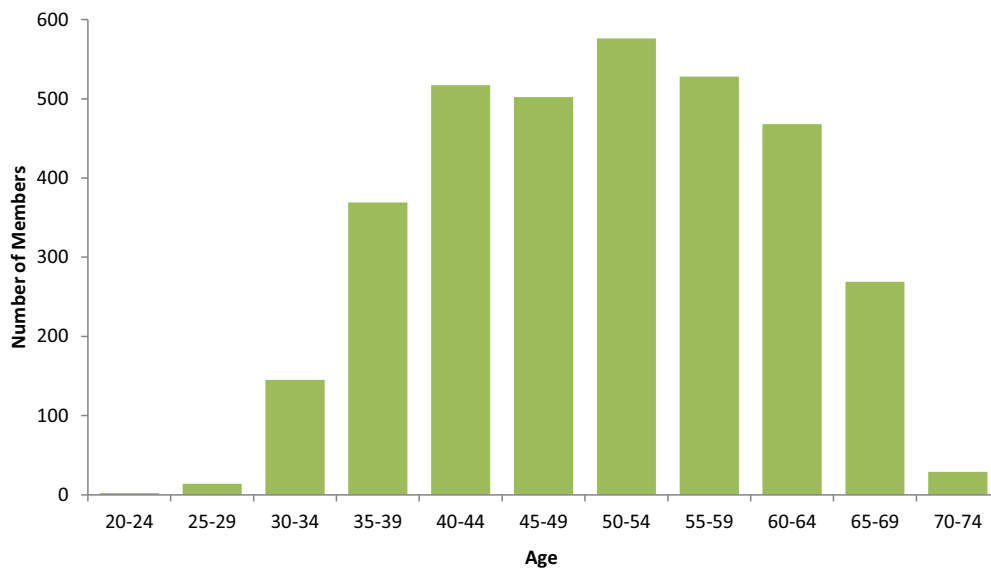
Enrollments into the Plan in 2013 decreased about 28% from 2012.



Membership Statistics cont'd

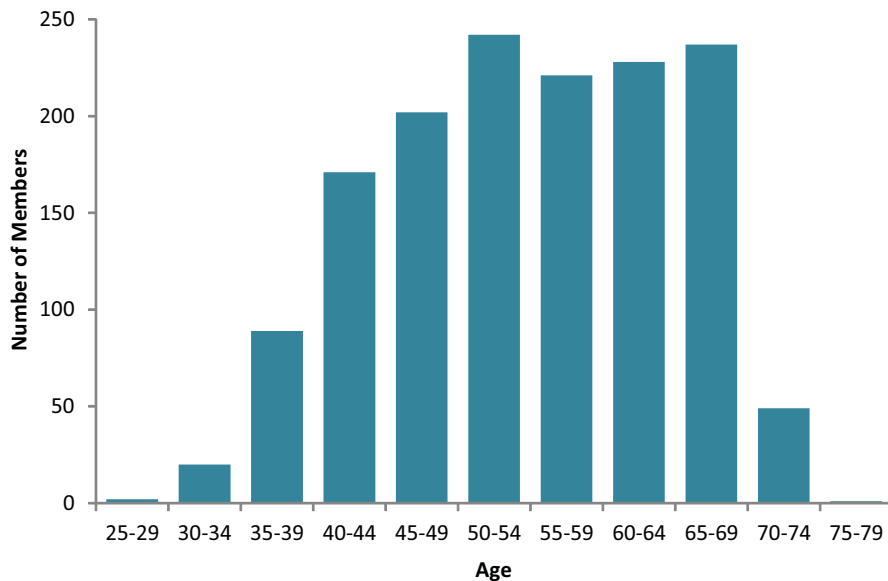
Active Members by Age Group as at December 31, 2013

The graph below shows that more than half of the Active members are age 50 and over. The average and median ages of Active members are 51.2 years and 51.5 years respectively.



Deferred Members by Age Group as at December 31, 2013

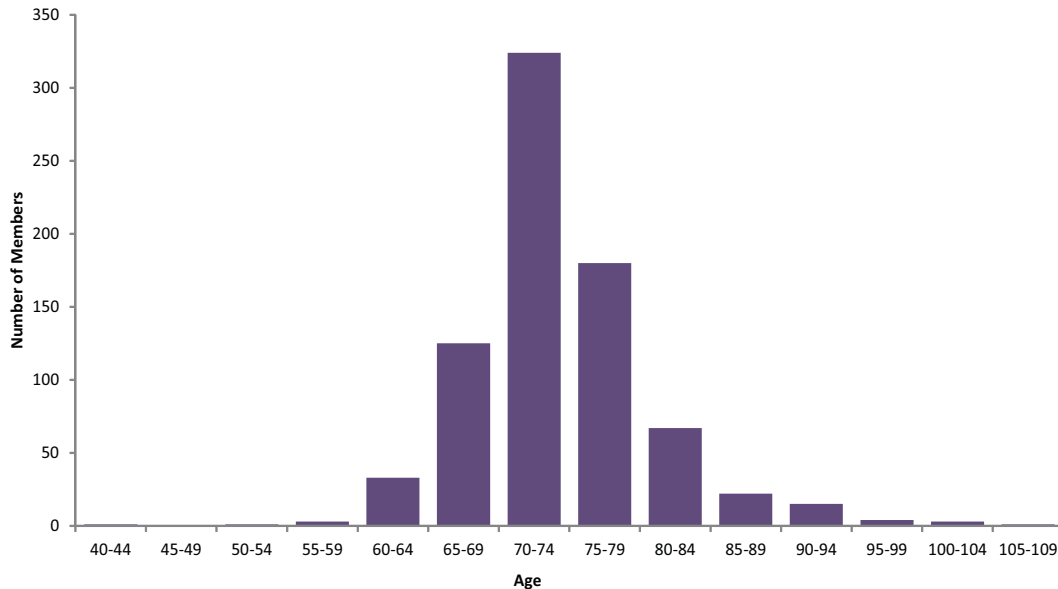
The graph below shows that 67% of the Plan's Deferred members are age 50 and over. The average and median ages of Deferred members are 54.8 years and 55 years respectively.



Membership Statistics cont'd

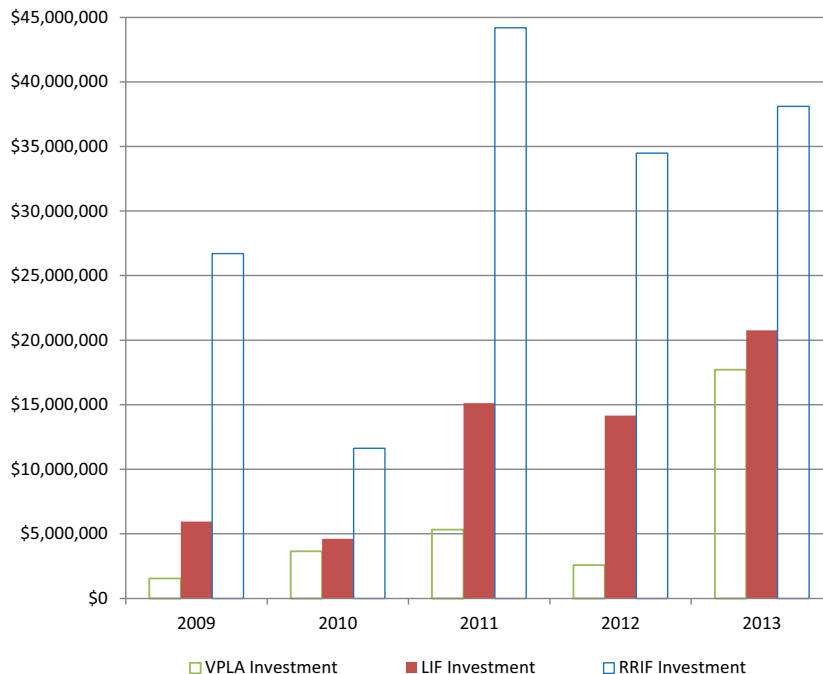
Retired Members by Age as at December 31, 2013

As of December 31, 2013, there are 779 retired members who have elected one or more retirement options from the Plan. Of the 779 members, approximately 46% are receiving UBC RRIF-Type Payments, 37% are receiving UBC LIF-Type Payments, and 48% have elected a UBC Variable Payment Life Annuity option. Members may choose to elect more than one retirement option; therefore, some members have a combination of retirement options from the Plan. The average and median ages of Retired members are 74 years and 73.5 years respectively.



Where new retirees are putting their money

The following graph shows where new retirees are putting their money, within the FPP retirement options (Variable Payment Life Annuity, LIF-Type Payment, and RRIF-Type Payment).





Market Commentary

The various Funds' gross returns (before fees) are used in the Market Commentary for consistent comparison to other similar funds. The Faculty Pension Plan website provides these returns both before and after fees.

Background

Many countries showed some economic improvement in 2013 over the previous year, but this improvement failed to be as robust as most governments were hoping for. A number of countries, in particular the U.S., Japan and the European Central Bank continued with aggressive monetary programs to help support their economies. The equity markets were very positive given these government support programs; however, it is not evident that the underlying economic weaknesses have been resolved. Investors' expectations of low returns in the bond market also helped to support the strong equity returns in 2013.

Balanced Fund

Overall, 2013 was another strong year for the Balanced Fund with a return of 13.8%, bringing the ten-year return to a respectable 7.1% per annum. Of particular strength in 2013 were the Foreign Equity and Canadian Equity components of the Fund, which returned 36.8% and 20.3% respectively. Foreign Equities, especially those in the U.S. and certain European countries (e.g. Germany, Spain) witnessed the highest returns. The strong Canadian Equity returns was largely a reflection of the high returns in the Consumer, Industrial and Financial sectors.

The Balanced Fund's one-year performance of 13.8% was near the median (55th percentile) relative to a peer comparison of other similar balanced funds. Typically, the Fund tends to underperform these other funds when stock returns are strong, due to the more conservative asset mix profile of the Balanced Fund (i.e. less equity weighting on average than its peers). In 2013, several of the Fund's equity managers significantly outperformed their index benchmarks and this added a substantial amount of value to the Fund. Over a ten-year period, the Fund's performance places it in the 27th percentile when compared to other similar balanced funds while it ranks in the "least risky" quartile compared to its peers.

Bond Fund

The Bond Fund had a one-year return of -3.6% as bonds generally did not perform well in 2013 due to rising interest rates, even though they are still at historical lows. In the longer term, the Fund's return is 5.2% per annum over the last ten years with low volatility.

The Bond Fund's 20% allocation to Real Return Bonds (RRBs) was the primary reason for the Fund's weak results in 2013 as these RRBs returned -13% due to benign inflation and their long duration. Over the last five years, these RRBs have had better returns (i.e. 6.1% per annum) and are held in the Fund largely for protection against inflation.

Of the two active bond managers with mandates which allowed a limited amount of investing in bonds outside of Canada, one had returns that surpassed their index benchmarks by a healthy margin. These two managers represent 40% of the Bond Fund and have performed well above the index benchmark return over the last five years, thus adding a further level of diversification to the Fund.

The Bond Fund's performance relative to other similar funds has been a little below average over the last five years, while the risk level has been about average over the last four years.

Market Commentary cont'd

Canadian Equity Fund

The Fund posted a strong return of 20.3% in 2013, with a significant outperformance of more than 7.3% over the Fund's index benchmark. The ten-year return for this Fund is now a very respectable 9.5% per annum. The Canadian stock market index remains very heavily weighted in commodity stocks such as mining and oil and gas companies. Gold stocks in particular, did very poorly in 2013 and were a large determinant of how a manager performed versus the index benchmark. The Fund is managed by four different investment firms, each handling approximately 25% of the Fund. Two of the four managers in the Fund outperformed the stock index benchmark significantly (by over 11%) for the year, given their portfolio's positioning. Their success was mainly attributable to holding the strongest stocks in the industry sectors that performed best for the year (e.g. Consumer Discretionary and Industrials) while also being underweight in sectors that had weak returns for the year, such as gold and utility stocks.

Over a ten-year timeframe, the Fund's performance ranks high in the first quartile (i.e. 17th percentile) compared to similar Canadian equity funds, while having a risk profile that places it lower than the average peer fund due to its high level of diversification.

Foreign Equity Fund

The Foreign Equity Fund had an exceptionally strong return of 36.8% for the year. Over a ten-year period, results for this Fund is 5.5% per annum, which is largely a reflection of the very weak results from the recession in 2008. This Fund was restructured almost four years ago to include two new managers with Global equity mandates representing 73% of the Fund, plus one U.S. equity-only manager (managing 21% of the Fund) and a 6% allocation to a Hedge Fund.

The U.S. equity-only manager had the highest return of 41.1% for the year in Canadian-dollar terms. The Global equity portion, which makes up the majority of this Fund, also posted very strong returns, with both managers returning more than 37% for the year. The depreciating Canadian dollar also increased the returns of these foreign equities when they are converted back into Canadian dollars.

The Hedge Fund component of the Fund had the weakest return of just 4.4% for the year. This return was substantially less than the three equity managers' returns due to the type of investments held by the hedge fund, which includes mostly non-equity asset classes. The hedge fund mandate allows investing in a wide variety of asset classes, including bonds and commodities, with typically only a minor portion of the portfolio being invested directly in equities. One of the main reasons for holding the Hedge Fund strategy in this Fund is the diversification benefits it provides by having returns uncorrelated to the other equity managers.

The Fund's ten-year returns are a little below average while its risk profile is about average in comparison to its peer group of similar foreign equity funds. Since the significant restructuring of this Fund in 2010, these relative results have continued to show marked improvement with returns now ranking in the top quartile over the past four years.

Short Term Investment Fund (STIF)

The STIF's return in 2013 was 1.3%, reflecting the very low interest rate environment throughout 2013. The Bank of Canada's Overnight Rate in 2013 remained at 1% as the government maintained this historic low in continuing to provide support for an economic recovery. The Fund only invests in very high quality fixed income instruments with a very short (i.e. typically 45 days or less) maturity. After netting out the effects of inflation as measured by the Consumer Price Index (1.7% in 2013), the "real return" of this Fund was slightly negative.

Fund Rates of Return

The following table provides performance results for periods ending December 31, 2013. The absolute returns are compared with returns of composite indices, which reflect the asset allocation of each fund. Relative rankings indicate the investment fund's percentile standing within a universe of comparable funds.

	1 year	3 years	5 years	10 years	Relative Ranking		
	%	%	%	%	(1st percentile is best ranking)		
					1 year	4 years	5 years
Balanced Fund - gross ¹	13.77	8.94	9.85	7.14	57	45	68
Balanced Fund - net ²	13.18	8.37	9.27	6.63			
Composite Index 1 ³	11.13	7.16	8.61	6.01			
Bond Fund - gross	-3.58	3.61	5.94	5.22	61	77	62
Bond Fund - net	-3.89	3.28	5.60	4.93			
Composite Index 2 ⁴	-3.65	3.56	4.97	5.07			
Canadian Equity Fund - gross	20.33	7.30	13.75	9.50	55	19	27
Canadian Equity Fund - net	19.81	6.82	13.25	N/A			
Composite Index 3 ⁵	13.06	3.46	11.65	7.84			
Foreign Equity Fund - gross ¹	36.81	15.96	12.86	5.33	31	26	56
Foreign Equity Fund - net	35.93	15.17	12.12	N/A			
Composite Index 4 ⁶	35.48	15.17	12.09	5.43			
Short Term Investment Fund - gross	1.36	1.29	0.98	2.16	1	31	77
Short Term Investment Fund - net	1.16	1.11	0.81	1.98			
Composite Index 5 ⁷	1.01	1.00	0.76	1.96			

¹ The gross return represents income from investments, including accrued interest. It also reflects changes in market values during the year.

² The net return is the gross return minus investment management and administration fees.

³ 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 Bond

⁴ Composite Index 2: 80% DEX Universe, 20% DEX Real Return Bond

⁵ Composite Index 3: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX 60 Capped

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

⁷ 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.

Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2013. The trustees and management monitor the performance of each of the managers and meet with them regularly to review their performance. Measured against comparable managers, each manager's relative performance is expected to rank in the top third. The managers are also expected to achieve returns greater than their index-based benchmark over a four-year period.

Asset Class	Manager	Gross Rates of Return (%) ¹				
		For periods ending December 31, 2013				
		Index-based Benchmark	1 year	2 years	3 years	4 years
Canadian Equity						
	Connor, Clark & Lunn Q-Growth Fund		25.50	16.84	8.73	12.08
	S&P/TSX Composite Index		12.99	10.05	3.40	6.79
	Guardian Capital LP		13.94	13.85	5.87	8.18
	Leith Wheeler Investment Counsel		24.69	19.77	11.08	12.54
	S&P/TSX Capped Composite Index		12.99	10.05	3.40	6.79
	PCJ Investment Counsel		17.13	12.80	3.46	6.63
	S&P/TSX Capped 60 Index		13.26	10.63	3.63	6.09
U.S. Equity						
	BlackRock Inc. - U.S. Equity Index		41.12	26.46	18.73	15.21
	S&P 500 Index (Canadian \$)		41.27	26.59	18.80	16.29
Non-Canadian Equity						
	MFS		38.07	29.62	18.40	N/A
	JP Morgan		37.43	26.00	13.96	N/A
	MSCI World x Canada (Canadian \$)		37.05	25.16	15.27	N/A

continued on next page

Investment Managers' Rates of Return cont'd

Asset Class Manager Index-based Benchmark	Gross Rates of Return (%) ¹			
	For periods ending December 31, 2013			
	1 year	2 years	3 years	4 years
Hedge Fund				
BlackRock Inc. - Global Market Selection Fund	4.41	3.49	0.74	3.82
DEX 91-Day Treasury Bill Index	1.01	1.01	1.01	0.89
Fixed Income				
AllianceBernstein	-1.20	1.95	4.30	5.62
PIMCO Canada Corp.	-0.41	3.01	4.12	5.27
State Street Global Advisors	-1.25	1.13	3.84	4.58
DEX Universe Bond Index	-1.19	1.18	3.93	4.63
BlackRock Inc. - Real Return Bond Fund	-13.04	-5.41	1.92	4.16
DEX Real Return Bond Index	-13.07	-5.45	1.90	4.12
Real Estate				
bcIMC - Realpool	9.27	12.83	14.37	12.19
Bentall Kennedy	8.68	10.17	11.10	11.49
CPI + 4%	6.66	5.74	5.93	6.03
Money Market				
bcIMC - Short Term Fund	1.33	1.30	1.28	1.11
DEX 91-Day Treasury Bill Index	1.01	1.01	1.01	0.89

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.



Plan Overview

The University of British Columbia Faculty Pension Plan, approved by Canada Revenue Agency (CRA), became effective July 1, 1967 to provide retirement, termination and death benefits for members of the academic and administrative executive staff of the University.

As a defined contribution (money purchase) pension plan, both plan members and the University or other participating employers make contributions to the member's account, which together with investment earnings, is ultimately used to provide benefits at retirement, at termination of the member's employment, or upon the death of the member. The pension plan is registered federally under the Income Tax Act; Registration No. 0211987 and provincially under the Provincial Pension Benefits Standards Act, which became effective January 1, 1993; Registration No. P085435.

Board of Trustees

as at January 1, 2014

The Faculty Pension Plan is administered by a Pension Board composed of eight Trustees. Four Trustees are elected by and from the members of the Pension Plan and four are appointed by the University. The powers and duties of the Pension Board are outlined in detail in the Plan's Trust Agreement and the University has no interest, right, or title to pension monies after transfer to the Pension Board.

Appointed by the Board of Governors	Elected by Plan Members
Mr. Joost Blom, Chair Professor, Faculty of Law Term expires December 31, 2016	Dr. Joy Begley Associate Professor, Sauder School of Business Term expires December 31, 2017
Dr. Joyce Boon Associate Professor, Biology, UBC Okanagan Term expires December 31, 2016	Dr. Robert L. Heinkel, Vice-Chair Professor, Sauder School of Business Term expires December 31, 2015
Dr. R. Kenneth Carty Professor Emeritus, Political Science Term expires December 31, 2014	Dr. Kai Li Professor, Sauder School of Business Term expires December 31, 2017
Dr. Joanne Emerman Professor, Cellular & Physiological Sciences Term expires December 31, 2014	Mr. Vijay Verma Researcher Emeritus, TRIUMF Term expires December 31, 2015

Management & Staff

<p>Mike Leslie Executive Director, Investments</p>	<p>Cheryl Neighbour Executive Director, Operations</p>
<p>Andrea Gesner Acting Senior Operations Manager</p>	<p>Nathan Nie Senior Financial Officer</p>
<p>Diana Iampietro Manager, Faculty Pension Plan</p>	<p>Maricres De Leon Pension Plan Accountant</p>
<p>Lorraine Heseltine Member Services Specialist</p>	<p>GV Fragante Systems Analyst</p>
<p>Lily Lee Member Services Associate</p>	<p>Helena Huynh Systems Analyst</p>
<p>Louise Mah Pension Clerk</p>	<p>Kathy Pang Communications Coordinator</p>
<p>Shirley Lim Project Coordinator</p>	<p>Chelsey Maher Communications Assistant</p>
<p>Claudia Chan Office Administrator</p>	<p>Kate Lewis Front Reception</p>



Service Providers

- **Aon Hewitt Consulting:** Actuary
- **Deloitte:** Auditors
- **CIBC Mellon:** Custodian & Performance Measurement Services
- **Lawson Lundell LLP:** Legal Counsel
- **Sun Life Financial:** Record keeper for LIF and RRIF-Type Payment accounts