



THE UNIVERSITY OF BRITISH COLUMBIA

2019

UBC FACULTY PENSION PLAN
ANNUAL REPORT

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MESSAGE FROM THE CHAIR AND EXECUTIVE

We are pleased to present the UBC Faculty Pension Plan's (the "Plan") Annual Report for 2019. The Plan's continued success is built on the Board's primary goal of providing a well-managed and cost-effective pension plan.

The following remarks about our investments relate to the year ending December 31, 2019. That was the very day that the novel coronavirus was first reported to the World Health Organization as having emerged in Wuhan, China. At the time of writing in March 2020 the equity markets, in particular, had recently suffered significant declines owing to the pandemic, but in view of the volatility of the markets, and the uncertainty at that point as to the future course of the pandemic, we have said nothing in this letter about 2020. An update will, of course, be given soon.



Left to right: Kamila Giesbrecht, Joost Blom and Orla Cousineau

2019 delivered a spectacular year for bonds and equities. Despite escalating trade tensions between the United States and China, Brexit uncertainty, and a slowdown in the global economy, the year progressed in a surprisingly positive fashion. In the second half of the year, global markets soaked up additional stimulus from global central banks and extended the longest bull market in history.

Canadian and Foreign equities posted very strong returns, 21.2% and 20.1% respectively. Canadian bonds also delivered an attractive total return of 7.9%, as bond values benefited from falling interest rates from an already low base. The Plan's exposure to Canadian commercial real estate in the Balanced Fund continues to provide strong consistent returns with lower degree of volatility.

In the first half of 2019, we completed an Asset Mix Study, an exercise we typically undertake every three to five years. The changes arising out of the study:

- eliminated the allocation to Real Return Bonds in the Balanced and Bond Funds; and
- replaced the SSGA/Windwise Canadian Universe Bond Index with the BlackRock Universe Bond Index.

A further change arising out of the study is to add a 5% allocation in the Balanced Fund to U.S. commercial real estate by decreasing the current allocation to Canadian equities, which will be implemented in 2020 with CRBE Global Investors.

An area of focus in 2019 was exploring whether a fossil fuel free investment option could be offered by the Plan. The member survey conducted in March 2019 showed there was significant interest in having a fossil fuel free fund option. The Board then carefully explored the legal and operational issues of offering such a fund. In November 2019, the Board approved the addition of a new fossil fuel free investment option. The new Fossil Fuel Free Equity and Bond Fund was made available as of April 1, 2020. The fund is managed by Jarislowsky Fraser, the same manager that is managing the fossil fuel free mandate for the UBC Endowment Sustainable Future Pool.

At the end of 2019, we saw one change in Board membership. After eight years, Mr. Vijay Verma decided not to stand for re-election. We are grateful for his contributions and service to the Board. Dr. Martin Comyn, former researcher with TRIUMF, was elected for a four-year term, effective January 1, 2020.

In 2019 Mike Leslie, the Executive Director, Investments, announced his retirement for the end of January 2020. The Board expresses its warmest thanks to Mike Leslie for his 11 years of service and commitment to the Plan.

The Board welcomes Kamila Giesbrecht as the new Executive Director, Investments, for the Plan. Ms. Giesbrecht was most recently an investment consultant and she brings over 20 years of experience to the Plan.



Joost Blom
Chair

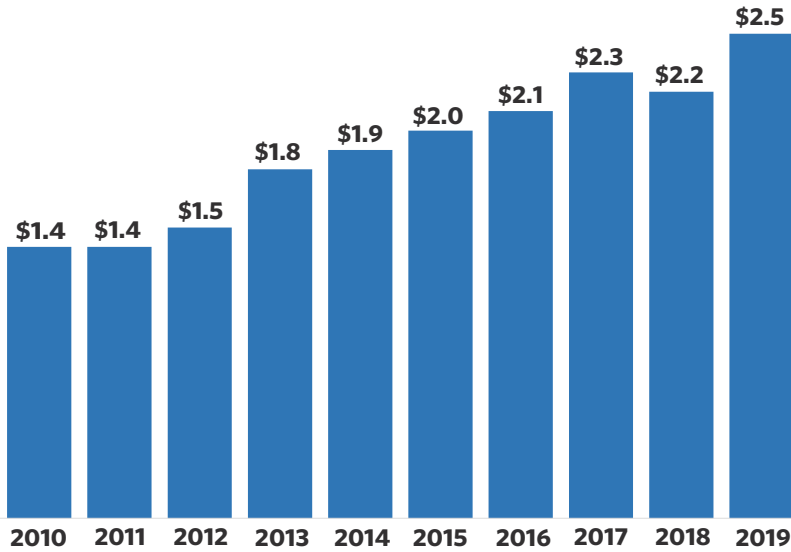


Orla Cousineau
Executive Director, Operations



Kamila Giesbrecht
Executive Director, Investments

FINANCIAL HIGHLIGHTS

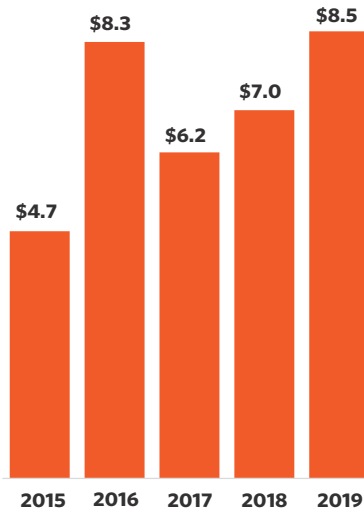


\$2.5
BILLION
Total Assets of the Plan

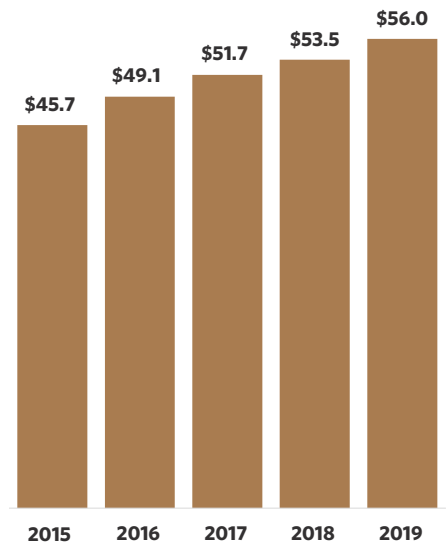
\$68.5
MILLION
Total Contributions to the Plan



\$8.5
MILLION
Total Transfers into the Plan

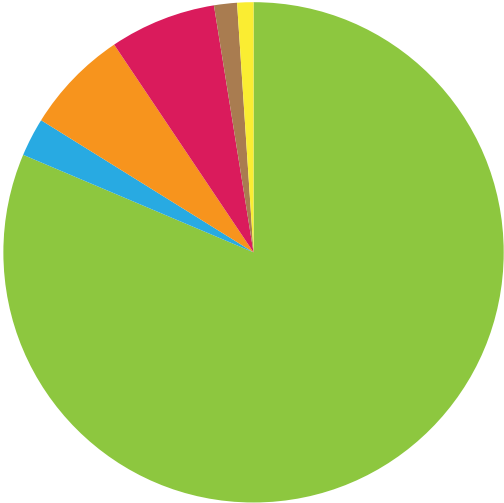


\$56.0
MILLION
Total Retirement Benefits Paid



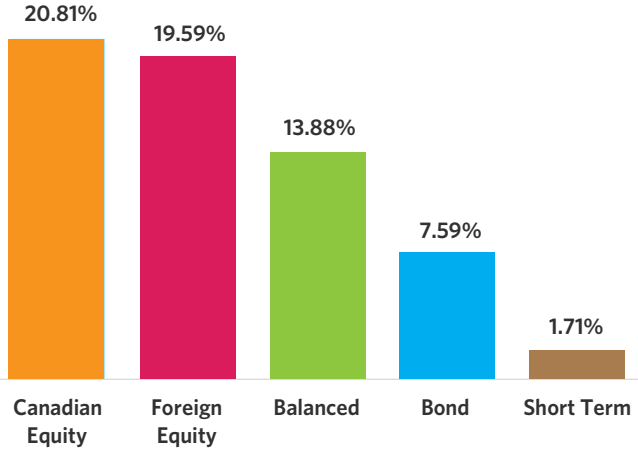
MARKET VALUE OF THE FUNDS

as at December 31, 2019

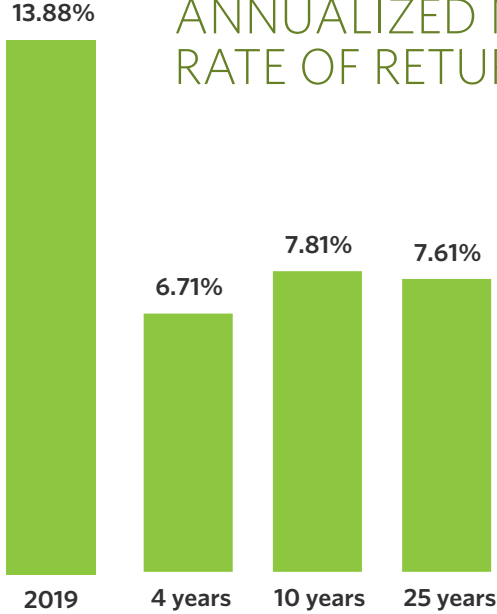


- **Balanced \$2,050 M**
81% of Total Funds
- **Bond \$69.3 M**
3% of Total Funds
- **Canadian Equity \$170.4 M**
7% of Total Funds
- **Foreign Equity \$181.4 M**
7% of Total Funds
- **Short Term Investment \$35.6M**
1% of Total Funds
- **Guaranteed Investment Certificates and Cash \$24.4 M**
1% of Total Funds

2019 FUND NET RATES OF RETURN

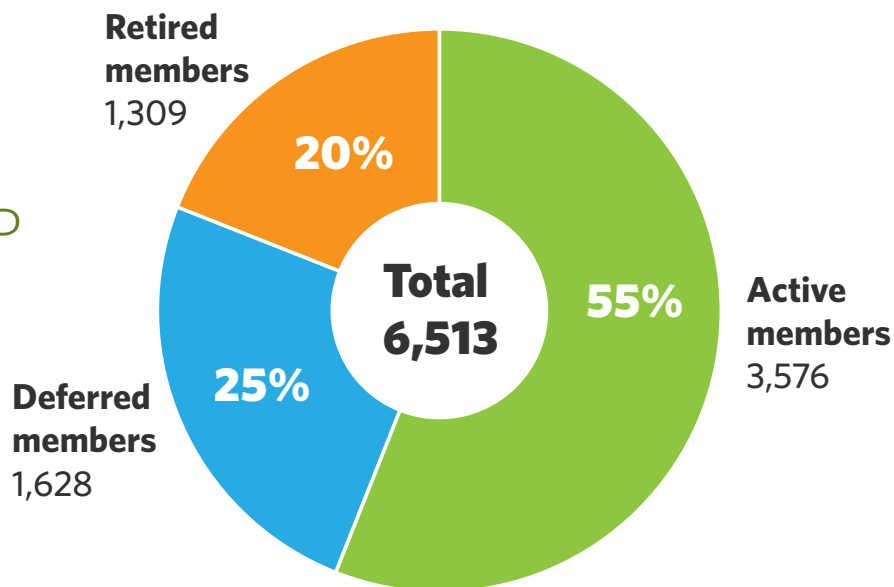


BALANCED FUND ANNUALIZED NET RATE OF RETURN

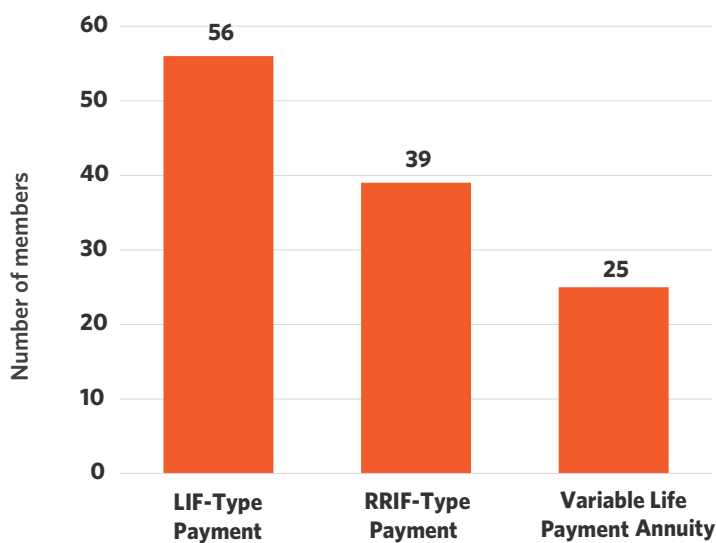


MEMBERSHIP HIGHLIGHTS

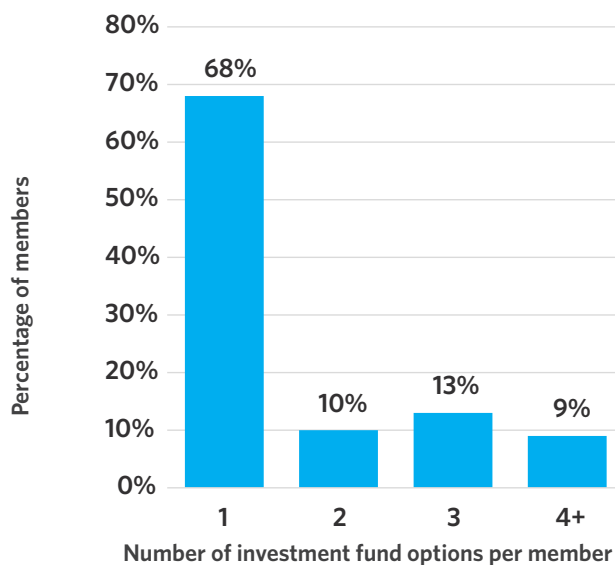
TOTAL PLAN MEMBERSHIP



RETIREMENT INCOMES STARTED IN 2019



FUND OPTIONS USAGE



Total assets transferred to retirement income within the Plan: **\$60.7 M**

66% of retiring members' assets stayed in the Plan

INVESTMENT PHILOSOPHY

The FPP is an integral part of saving for retirement for our members. The objective of the Plan is to grow your funds over time such that at retirement there is sufficient capital accumulated to help fund your retirement years.

The FPP provides a number of different fund options so that members can design an asset mix strategy that meets their unique needs and risk profile. The Balanced Fund option is also provided for those members who prefer a pre-established diverse mix of the various asset classes. It seeks to provide satisfactory long-term growth with moderate year-to-year volatility through a broadly diversified number of asset classes and investment managers.

The FPP hires external investment management firms to invest in each asset class. These are large professional firms that are market leaders in their field. Due to the large asset size of the FPP, we can attract world-class firms to work with us at attractively low fees, and provide a wide range of both asset class and investment manager style diversification.

The FPP employs both active and passive investment strategies within the fund options as some capital markets or asset classes are more efficient than others. Active managers are used where there is a high probability of adding value and/or providing some downside protection in a cost-effective manner over a passive strategy.

We understand that with any investing there are numerous risks involved such as currency risk, interest rate risk, credit risk, inflation risk and high volatility risk. The FPP seeks to mitigate these risks to some degree by providing broad diversification across asset classes, manager styles, regional exposures and asset classes that provide some inflation protection. However, we also realize that these risks must be assumed to some degree to be able to earn a meaningful return over time in excess of the inflation rate.

During the first half of 2019, we completed an Asset Mix Study, an exercise we typically undertake every three to five years. The changes arising out of this study were as follows:

- The elimination of Real Return Bonds in the Balanced and Bond Funds;
- The replacement of the SSGA/Windwise Canadian Universe Bond Index with the BlackRock Universe Bond Index; and
- The planned 2020 addition in the Balanced fund of a 5% allocation to U.S. commercial real estate managed by CBRE Global Investors, funded by decreasing the allocation to Canadian equities.

The changes to the Plan's fixed income manager structure resulted in a fee reduction of about two basis points for the Balanced and Bond Funds.

A large number of our members choose to leave their accumulated assets in the Plan after they retire. The FPP provides a number of retirement options to assist members and allow them to continue to invest in our highly diversified, cost-effective funds.

MARKET COMMENTARY

STOCKS

Stock markets had a spectacular 2019. Despite escalating trade tensions between the United States and China, protests against the political establishment in Hong Kong, Lebanon, Chile, Ecuador, and other places, Brexit uncertainty, and a slowdown in the global economy, the year progressed in a surprisingly positive fashion. In the second half of the year, all global markets soaked up additional stimulus from global central banks and a first phase deal between the United States and China to extend the longest bull market in history. During the fourth quarter, data seemed to stabilize, headline risks dissipated, and equity markets rose significantly around the world with a few indices at or near all-time record highs.

Canadian and Foreign equities posted very strong returns, 21.2% and 20.1% respectively. Although it was a strong year for equity markets, it was a difficult one for active managers as returns were concentrated in a handful of stocks.

BONDS

Bonds also delivered an attractive total return of 7.9%, as bond values benefited from falling interest rates from an already low base. Monetary easing occurred globally in 2019, with central banks in the U.S., Europe, Japan, and China lowering rates and/or restarting quantitative easing. In the fourth quarter, yields rose and central banks broadly held policy steady, resulting in weaker quarterly numbers. The Canadian central bank concluded 2019 by keeping its overnight rate at 1.75%, leaving it with one of the highest policy rates across developed economies.

COMMERCIAL REAL ESTATE

The Plan's exposure to commercial real estate in the Balanced Fund continued to provide strong and consistent returns with low volatility; in 2019 it posted total returns in the 7.5% range. Most major urban areas and property sectors experienced high occupancy rates, with the exception being the Calgary office sector, which remains weak. Property lease rates continued to grow in several key markets and industry sectors.

INVESTMENT FUND PERFORMANCE

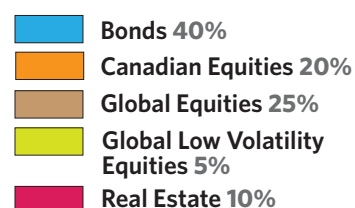
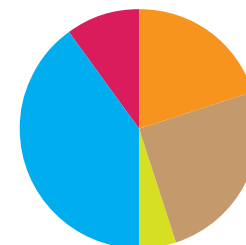
BALANCED FUND

The strong results in 2019 (14.32%) were primarily driven by very strong stock returns. Globally, equity markets capped off a very robust year – the MSCI All Country World Index rose almost 27%, its strongest performance since 2009. A surge in U.S. technology and communication giants, as well as a recovery in Eurozone and Asian stocks, drove the rally in the waning months of 2019, a period when some pressing downside risks started to recede. The US and China made modest progress toward ending the trade war, global manufacturing output stabilized, and the UK election result ended ongoing uncertainty about when the country would leave the European Union.

The Canadian stock market, in line with the rest of the developed countries, also had a very strong year (22.9% for the S&P/TSX Composite Index). The Canadian portfolio delivered solid returns (21.20%), but it had difficulty keeping up with a market that was dominated by tech darling Shopify, which rocketed ahead by more than 173% in 2019, and by the gold sector which posted a 42.5% return.

The Bond component of the Fund posted a healthy 7.86% as well, ahead of its benchmark. This performance had a lot to do with renewed central bank stimulus that was aimed at offsetting slower growth and insulating the market against economic and political risks. Active managers of bonds in the Fund benefited from an underweight exposure to Canadian Federals, selective overweights in corporate bonds, and active currency positioning.

The Real Estate component (10% of the Fund) contributed positively with an overall return of 7.5% for the year.



ANNUAL GROSS RATE OF RETURN (%)

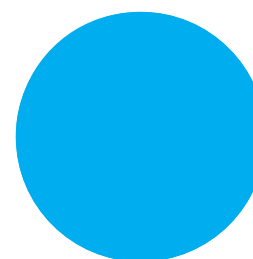
	1 year	4 years
Actual	14.32	7.12
Benchmark return	14.12	6.62
Value added	0.20	0.50

BOND FUND

The Bond Fund consists mostly of Canadian bonds. It is managed by three different managers – two who employ an active management strategy, and one who employs a passive strategy. Over the long term, the fund is expected to earn a return between the Short Term Investment Fund and the Balanced Fund.

The Fund's return of 7.86%, 0.48% above the benchmark, was a result of superior performance by our two active bond managers. Both posted returns above 8% for the year. The two managers implement core plus strategies, their focus is on the Canadian bond market but they are allowed to make tactical allocations to foreign bonds, mortgages, and high yield bonds. Winning strategies implemented in 2019 included an underweight in Canadian Federals, selective allocations to U.S. and European Corporate bonds, active currency positions, and mortgages.

Overall, the bond market benefited from renewed central bank stimulus that was aimed at offsetting slower growth and insulating the market against economic and political risks.



ANNUAL GROSS RATE OF RETURN (%)

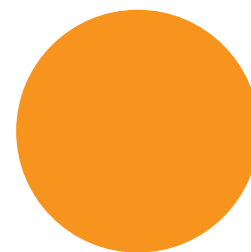
	1 year	4 years
Actual	7.86	3.38
Benchmark return	7.38	3.11
Value added	0.48	0.27

CANADIAN EQUITY FUND

Equities are expected to earn the highest long-term average rates of return of the major asset classes with the highest level of risk or volatility. Excess volatility is reduced by diversifying across different investment styles with three different active investment managers.

The Canadian stock market index had a fantastic year, posting a return of 22.9%. Our managers provided solid returns as well, but at 21.20%, the group was a bit behind the benchmark. It is important to note that 2019 was a year with narrow market leadership, making it difficult for active managers to keep pace. For example, being underweight highflying tech stock Shopify (+173.5%) hurt our relative results. In addition, amid falling bond yields during the year, investors preferred the perceived safety of defensive and yield-oriented stocks such as gold (+42.5%) and pipelines (+34.5%). Our managers had lower or no exposure to these businesses as they were viewed as being expensive relative to their growth potential.

Two of our three active managers underperformed the index for the year, which led to the Fund slight underperforming its index benchmark. Longer term, these managers have added significant value, net of fees, over the benchmark.



Canadian Equities 100%

ANNUAL GROSS RATE OF RETURN (%)

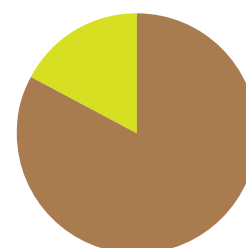
	1 year	4 years
Actual	21.20	10.21
Benchmark return	22.88	10.28
Value added	-1.68	-0.07

FOREIGN EQUITY FUND

The Foreign Equity Fund is a diversified portfolio of global equities. The returns are affected by changes in currency exchange rates and excess volatility is reduced by diversifying across different investment styles, different countries and different investment managers. It is managed by two active managers and one passive manager who has two different mandates.

The Fund had strong performance in 2019 with a return of 20.13%, slightly above its benchmark. Of our two active global managers, one significantly outperformed the global stock index while the other manager underperformed this benchmark. Both passive strategies performed as expected, in line with their respective benchmarks.

Globally markets capped off a very robust year with their highest returns since 2009. A surge in U.S. technology and communication giants, as well as a recovery in Eurozone and Asian stocks, drove the rally in the waning months of 2019, a period when some pressing downside risks started to recede. The U.S. and China made modest progress toward ending the trade war, global manufacturing output stabilized, and the UK election result ended ongoing uncertainty on the timing of when the country would leave the European Union.



Global Equities 83%
Global Low Volatility Equities 17%

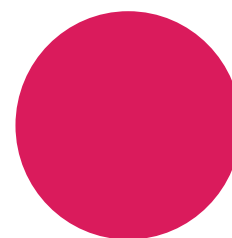
ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	20.13	9.76
Benchmark return	20.07	9.04
Value added	0.06	0.72

SHORT TERM INVESTMENT FUND

The Short Term Investment Fund (STIF) is the Plan's lowest risk/lowest return option. It typically produces a return similar to prevailing short-term interest rates in Canada.

As expected, returns were low in absolute terms, but better than benchmark.



Short term debt 100%

ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	1.85	1.21
Benchmark return	1.61	1.01
Value added	0.24	0.20

TOTAL FUND MANAGEMENT FEES ★

Balanced Fund	0.44%
Bond Fund	0.28%
Canadian Equity Fund	0.40%
Foreign Equity Fund	0.51%
Short Term Investment Fund	0.13%

★ effective December 31, 2019 and include all the operating expenses and investment management fees.

INVESTMENT MANAGER PERFORMANCE

Asset Class Manager	Gross Rates of Return (%)	
	For periods ending December 31, 2019	
Index-based Benchmark	1 year	4 years
Canadian Equity		
Connor, Clark & Lunn Q-Growth Fund (active)	24.36	10.27
Leith Wheeler Investment Counsel (active)	20.85	11.40
Guardian Capital LP (active)	18.42	9.46
S&P/TSX Composite TR	22.88	10.28
Non-Canadian Equity		
MFS (active)	25.27	11.02
MSCI World ex Canada Net (CAD) Index	21.22	9.40
Arrowstreet Capital (active)	17.25	n/a
MSCI World Investable Market Index	21.04	n/a
BlackRock MSCI ACWI ex Canada Index (passive)	20.22	n/a
MSCI ACWI ex Canada Index	20.15	n/a
BlackRock MSCI World ex Canada Minimum Volatility Index (passive)	16.01	n/a
MSCI World ex Canada Minimum Volatility (CAD) Index	15.72	n/a
Fixed Income		
AllianceBernstein (active)	8.11	3.80
PIMCO Canada Corp. (active)	8.03	3.51
BlackRock Universe Bond Index (passive)	n/a	n/a
FTSE TMX Canada Universe Bond	6.87	3.09
Real Estate		
BCI - Realpool (active)	*6.40	*5.87
Bentall Kennedy (active)	8.41	7.51
Consumer Price Index + 4%	6.22	5.90
Money Market		
Sun Life Financial Money Market (active)	1.85	1.22
FTSE TMX Canada Cdn 91-Day Treasury Bill	1.64	1.01

* net of all fees

BOARD OF TRUSTEES

as at December 31, 2019

The UBC Faculty Pension Plan is administered by a Board of Trustees composed of eight trustees. Four trustees are elected by and from the members of the Plan and four are appointed by the University. The responsibilities of the Board are outlined in detail in the Plan's Governance Policy, available on the Plan's website.

APPOINTED BY THE UBC BOARD OF GOVERNORS

Mr. Joost Blom, Chair

Professor Emeritus, Peter A. Allard School of Law
Term expires December 31, 2020

Dr. Joyce Boon

Associate Professor Emerita, Biology,
UBC Okanagan
Term expires December 31, 2020

Dr. Murray Carlson

Professor, Finance Division, Sauder School of Business
Term expires December 31, 2022

Dr. R. Kenneth Carty

Professor Emeritus, Political Science
Term expires December 31, 2022

ELECTED BY PLAN MEMBERS

Dr. Joy Begley

Associate Professor, Sauder School of Business
Term expires December 31, 2021

Dr. Lorenzo Garlappi

Professor, Sauder School of Business
Term expires December 31, 2021

Dr. Robert L. Heinkel, Vice-Chair

Professor, Sauder School of Business
Term expires December 31, 2023

Mr. Vijay Verma

Researcher Emeritus, TRIUMF
Term expires December 31, 2019

MANAGEMENT & STAFF

ORLA COUSINEAU	Executive Director, Pensions
KAMILA GIESBRECHT	Executive Director, Investments
DEBBIE WILSON	Director, Pensions
DIANA IAMPIETRO	Manager, Faculty Pension Plan
LORRAINE HESELTINE	Member Services Specialist
LILY LEE	Member Services Associate
LOUISE MAH	Pension Clerk
MARICRES DE LEON	Pension Plan Accountant
HELENA HUYNH	Systems Analyst
KATHY PANG	Communications Manager
CHELSEY MAHER	Communications Assistant
SARAH HALVORSON	Office Administrator
SHIRLEY LIM	Project Coordinator