THE UNIVERSITY OF BRITISH COLUMBIA

2020

UBC FACULTY PENSION PLAN
2020 ANNUAL REPORT

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MESSAGE FROM THE CHAIR AND EXECUTIVE

We are pleased to present the UBC Faculty Pension Plan's ("FPP" or "the Plan") Annual Report for 2020. The Board's priorities continue to be to provide a well-managed and cost-effective pension plan, and to keep the members informed about the Plan.

2020 was an extraordinary year for us all. It was just over a year ago that the UBC Pension Administration Office had to suspend all in-person member services and transition to a remote service delivery model.

During the pandemic, face-to-face meetings and member education sessions were replaced by regular updates on the Plan website, live and on-demand webcasts, and Zoom meetings with the member services team. Members have embraced the virtual platforms and the information and tools available on the Plan's website and Sun Life's website.

There was also a smooth transition to Workday in November 2020. Active contributing members of the Plan can make changes to their personal information and addresses as well as make voluntary contributions through Workday.

2020 was also an extraordinary year for the global financial markets. At the time of writing this message, we are exactly one year from the date on which the World Health Organization declared COVID-19 to be a pandemic. The new environment into which global citizens were thrust presented many challenges, including two categories – emotional and financial – that are the very embodiment of the capital markets.

There were a host of issues throughout the year that one would think would have an extended dampening effect on investor risk appetites. The global response to the pandemic created a record decline in economic growth earlier in the year, helping fuel social unrest globally. Nowhere was this more pronounced than in the months leading into – and following – the passionately contested U.S. presidential election.

However, as has been the case with increased frequency and magnitude over the decades, the "power of policy" was on full display in 2020. With a closer integration between monetary policy (central banks) and fiscal policy (governments) than in the past, massive stimulus helped propel risk assets out of an April swoon that, to many, was shockingly short-lived. Despite persistently high unemployment and dire business conditions for many industries across the globe, the year would end with the benchmark for global equities 16% higher than where it began the year. On the surface, this was a great year for investors. Simple statistics can be deceiving, however. Whether considering the dispersion between "bricks and mortar" and "stay-at-home stocks" within the benchmark index, or simply the challenge of managing emotions and staying invested, it was a year unlike any other.

There were some interesting developments within the Faculty Pension Plan as well. In the first half of 2020, we introduced the Fossil Fuel Free Equity and Bond Fund. After the fund opened for contributions on April 1, it quickly attracted over $50 million in assets. It has thus far provided very satisfactory investment returns.

CONTINUED ON NEXT PAGE

Over the summer months, we reviewed and updated our *Statement of Investment Beliefs*, moved towards eliminating one of the Balanced Fund's domestic real estate managers, and began a search for a Global Real Estate manager. Additional funds were deployed to the CBRE U.S. Core Real Estate fund (approved in 2019). Currently, the Board is finalizing the documentation with the Global Real Estate manager they have selected.

Late in 2020, the Board commenced a Strategic Asset Mix Review, with the objective of boosting the robustness of the Balanced Fund across different economic scenarios. We look forward to communicating the results of this review in the near future.

At the end of 2020, Mr. Joost Blom, the Plan's longest serving chair, retired after 17 years on the Board. The Board wishes to express its gratitude to Joost for his leadership and commitment to the Plan.

Dr. Pam Ratner was appointed to the Board for a four-year term effective January 1, 2021, and Dr. R. Kenneth Carty was elected by the trustees as the new Chair of the Board.

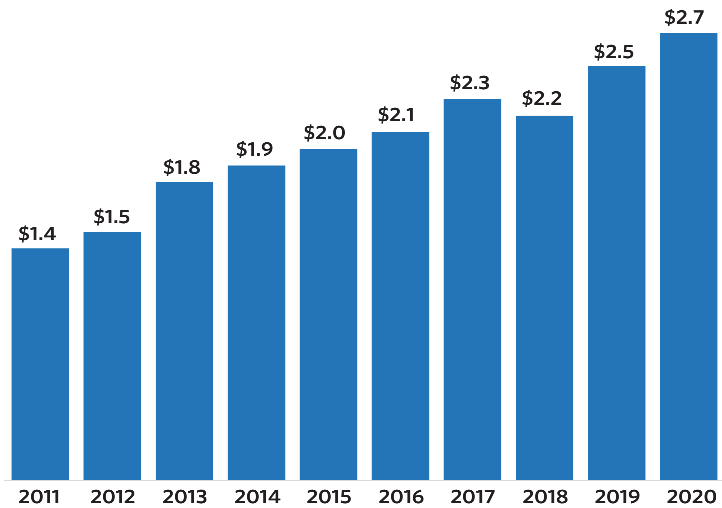
On a final note, the Board wishes to thank the Pension Administration Office staff for providing seamless service to the Plan members over the last 12 months.

Dr. R. Kenneth Carty
Chair

Orla Cousineau
Executive Director, Pensions

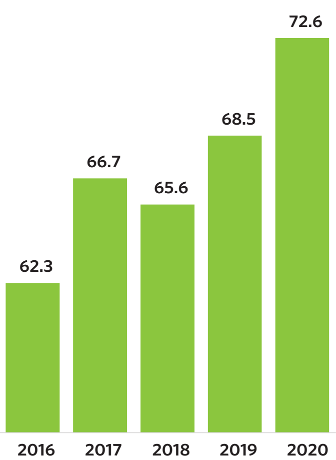
Kamila Giesbrecht
Executive Director, Investments

FINANCIAL HIGHLIGHTS

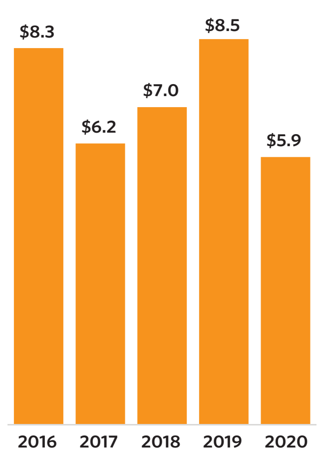


$2.7
BILLION
Total Assets of the Plan

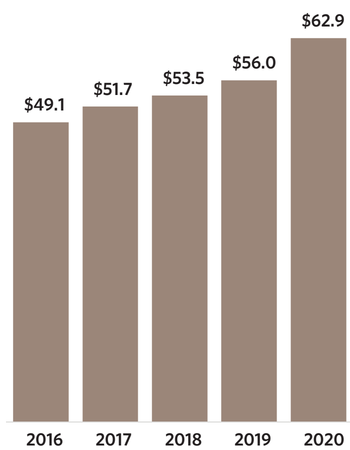
$72.6
MILLION
Total Contributions to the Plan



$5.9
MILLION
Total Transfers into the Plan

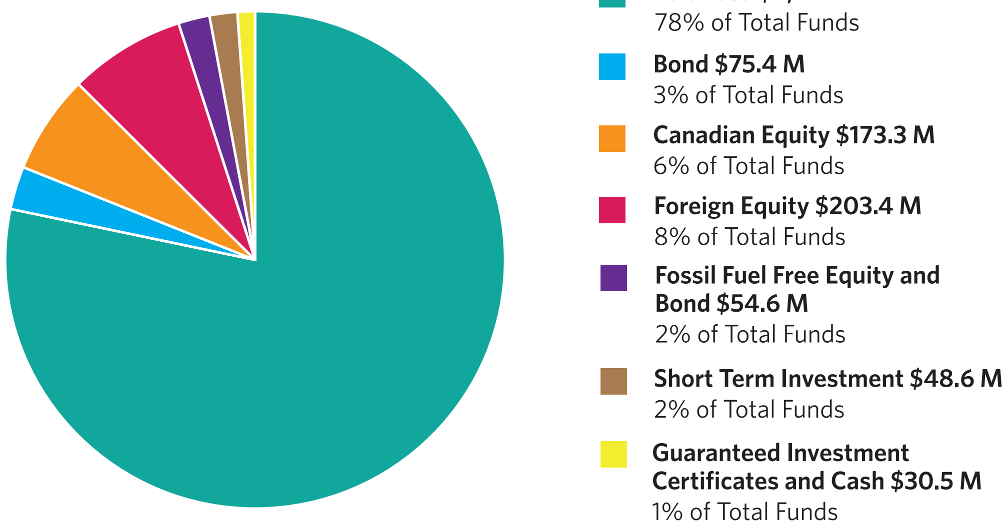


$62.9
MILLION
Total Retirement Benefits Paid

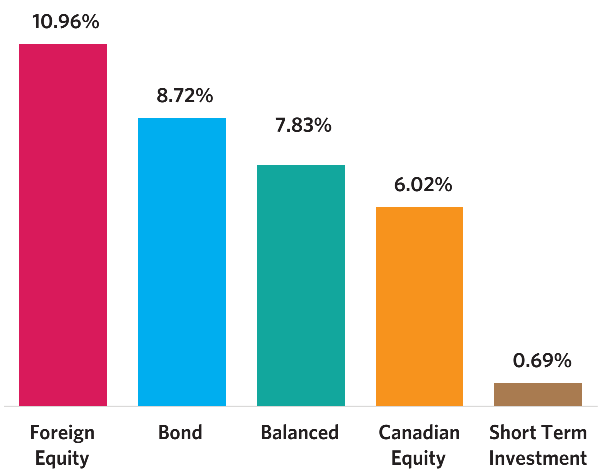


MARKET VALUE OF THE FUNDS

as at December 31, 2020

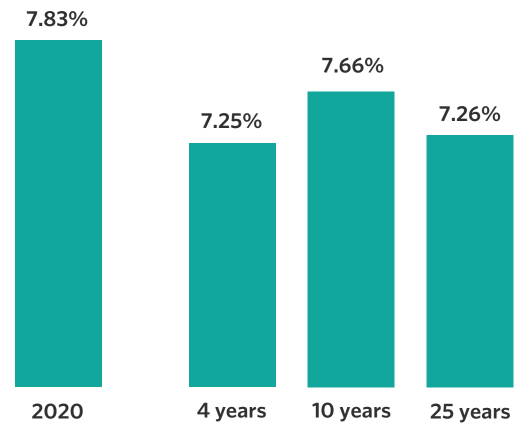


2020 FUND NET RATES OF RETURN*



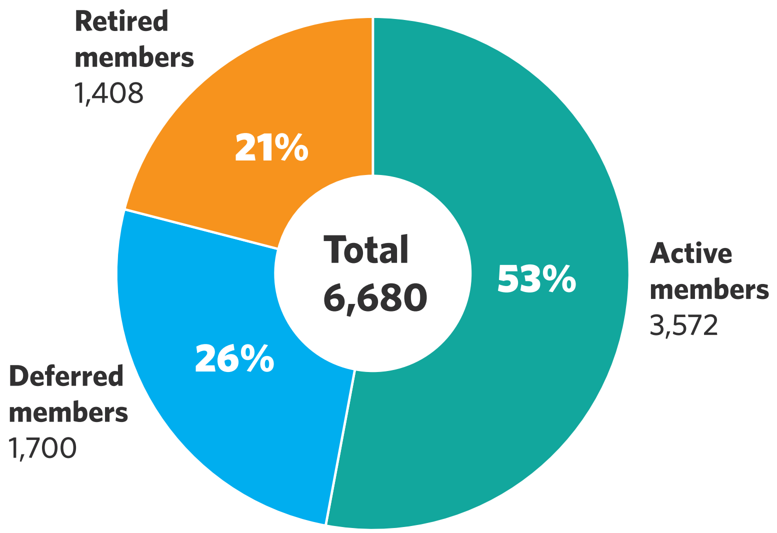
*Fossil Fuel Free Equity and Bond fund started April 1, 2020

BALANCED FUND ANNUALIZED NET RATE OF RETURN

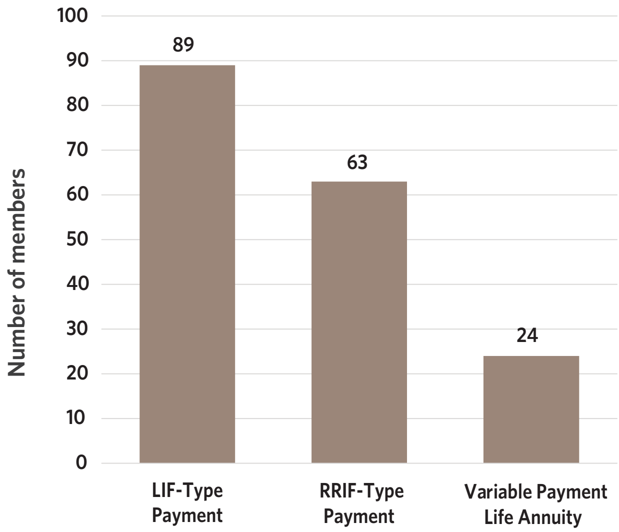


MEMBERSHIP HIGHLIGHTS

TOTAL PLAN MEMBERSHIP



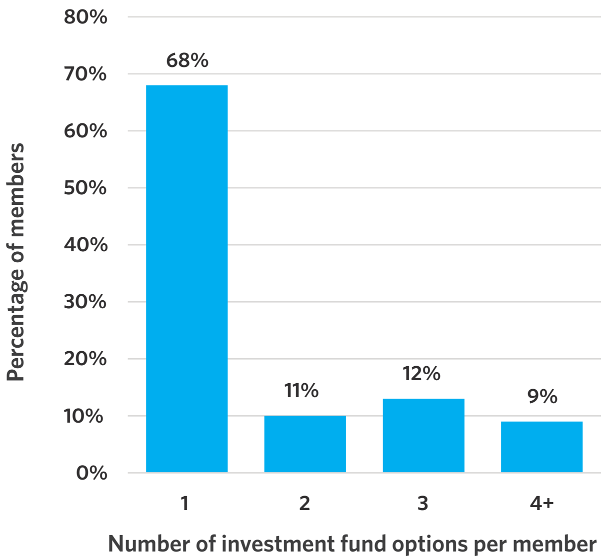
RETIREMENT INCOMES STARTED IN 2020



Total assets transferred to retirement income within the Plan: **$101.1 M**

79% of retiring members' assets stayed in the Plan

FUND OPTIONS USAGE



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.

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.

INVESTMENT UPDATES

In the first half of 2020, we introduced the Fossil Fuel Free Equity and Bond Fund. After the fund opened for contributions on April 1, it attracted over $50 million in assets. This Fund has less than a year of performance history and therefore is not included in the “Investment Fund Performance” section of this report.

During the summer months, we reviewed and updated our *Statement of Investment Beliefs*. We initiated the process to replace one of the Balanced Fund’s domestic real estate managers with one with a global mandate. Currently, the Board is finalizing the documentation with the successful candidate.

As approved in 2019, assets in the Balanced Fund were deployed to the CBRE U.S. Core Real Estate fund, with the last portion of the Fund’s total commitment being invested at the time of writing this report.

In late fall, we initiated a Strategic Asset Mix Review of the Balanced Fund, with the objective of boosting its robustness across different economic scenarios. The results of this project will be communicated in the near future.

MARKET COMMENTARY

STOCKS

On the surface, 2020 was a great year for investors. Below the surface, observant commentators spoke of the k-shaped recovery, in which large corporations and the wealthy benefited from asset price inflation and government policy, but in which the middle class and the poor struggled – and continue to struggle – to find their footing.

The S&P 500 stock index, perhaps the most widely-watched gauge of equity market performance, finished the year at record highs, up more than 18%. Globally, the MSCI All Country World Index gained over 16%. There were a handful of big winners in the midst of the pandemic; the so-called "FAANG" stocks (Facebook, Amazon, Apple, Netflix – later Microsoft – and Google) represented over 20% of the S&P 500 at one point and thus a significant portion of the global market as well. Bricks-and-mortar companies, more often found in a value manager's portfolio, would only start to perform later in the year.

Aside from pinning this shocking rally on the obvious coordinated policy response, one explanation for what some have dubbed as "Tech Bubble 2.0" is that high valuation multiples are now justified by permanently low interest rates. This thinking leads one to accept far higher valuations for less profitable companies, as present values of future earnings are discounted by rates close to zero. Investors want to have their cake and eat it too — they expect a strong recovery in earnings but also expect policy makers to manage the yield curve and keep interest rates permanently low. However, if history is any guide, valuations will indeed matter again, perhaps less in the short run, but always in the long run. Value managers can be excused for turning a blind eye towards the famed economist John Maynard Keynes and his writings, that "in the long run we are all dead."

One last caveat: history's guidance surely depends on underlying structures and systems being similar. Valuation-agnostic passive investors are taking market share away from active investors at a rapid pace, reaching record levels in asset terms in 2020. Students of the markets lament this loss of "price discovery" and engage in handwringing over the fate of fundamental analysis in the active management world.

BONDS

Bonds also delivered an attractive total return of 8.7% (FTSE Canadian Universe Bond Index). The "wall of money" created by monetary and fiscal stimulus remained a key support, and its impact was boosted by positive news on the vaccine front. Within the corporate bond sector, heavy supply was met by robust demand.

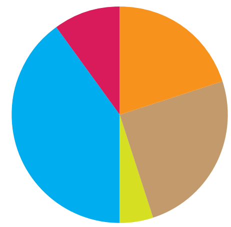
The Bank of Canada (BoC) committed to not raising interest rates until 2023 at the earliest. The BoC communicated its corporate bond purchase program and tweaked its quantitative easing program, directing purchases toward longer-maturity bonds during the fourth quarter. The U.S. Federal Reserve (Fed) made no changes to its policy towards the end of the year. In both countries, short-term bond yields remained anchored, while longer-term yields began to rise in part due to accelerating inflation expectations, resulting in what many call a "bear steepening" of the yield curves.

COMMERCIAL REAL ESTATE

The Plan's exposure to commercial real estate in the Balanced Fund provided a cushion in the first quarter of 2020, when equities experienced a sharp drop. However, real estate did not participate in the subsequent V-shaped recovery in the public markets. Both real estate funds in the Balanced Fund delivered negative returns in 2020 (-1.45% and -0.80%). For both, the most challenging sector was, not surprisingly, retail, which was hit hardest during the pandemic.

INVESTMENT FUND PERFORMANCE

BALANCED FUND



Bonds 40%
Canadian Equities 20%
Global Equities 25%
Global Low Volatility Equities 5%
Real Estate 10%

The positive results in 2020 (8.25%) were primarily driven by strong stock returns. Globally, equity markets capped off a very robust year – the MSCI All Country World Index rose over 16%, the S&P 500 over 18%. Our passive managers tracked their target benchmarks closely, and despite our active managers producing mixed results versus their respective benchmarks, both delivered solid double digit returns. For context, relatively narrow leadership atop the capitalization weighted indices exaggerated by flows into passive vehicles, made it difficult for active managers to keep up. Overall, the global equity component of the Fund was slightly behind the benchmark.

The Canadian stock market, also had a positive year (5.6% for the S&P/TSX Composite Index), albeit more muted than many other developed markets. The Fund's Canadian equity portfolio delivered strong returns (6.38%), ahead of the benchmark by 0.79%. Tech darling Shopify, which rocketed upwards by more than 178% in 2020, was the dominant driver of index returns throughout the year.

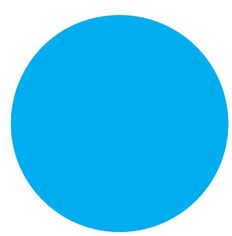
ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	**8.25**	**7.67**
Benchmark return	9.09	7.31
Value added	-0.84	0.36

The Bond component of the Fund posted a healthy 8.98% as well. This performance had a lot to do with historical levels of central bank stimulus and fiscal government support. Active managers of bonds in the Fund benefited from an underweight exposure to Canadian Federals, selective overweight in corporate bonds, and active currency positioning, that latter especially strong in the second part of the year. One of the Fund's active managers ended the year with an impressive 11.6% return, offsetting the weaker performance of the other active manager and driving overall bond performance in the Fund ahead of the benchmark.

The Real Estate component (10% of the Fund) contributed negatively to the Fund. Part of the real estate portfolio was hit hard by the pandemic-induced economic environment. This part of the portfolio reacted more slowly to the crisis and provided a cushion for overall returns in the first quarter, but did not participate in the sharp V-shaped recovery in the public markets. Unusually for this asset class, this component of the Fund posted negative absolute and relative returns for 2020.

BOND FUND



Bonds 100%

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 8.98%, 0.29% above the benchmark, was the result of superior performance by one of our two active bond managers. This manager posted a return of 11.6%, 2.92% above the benchmark. The manager implements a core plus strategy, which focuses on the Canadian bond market but allows for tactical allocations to foreign bonds, mortgages, high yield bonds, and currencies. Winning strategies implemented in 2020 included an underweight in Canadian Federals, selective allocations to Corporate bonds, and active currency positions.

ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	**8.98**	**5.17**
Benchmark return	8.69	4.79
Value added	0.29	0.38

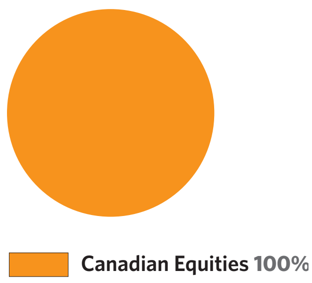
Overall, the bond market benefited from tremendous central bank and government stimulus.

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 posted a return of 5.6%, a decent result for a market dominated by sectors negatively impacted by the pandemic, such as energy and financials. Two of our managers provided returns well above the benchmark, with one lagging. Diversification of strategies helped us to finish the year with a great result; although each of our managers were underweight or did not own the high-flying tech stock Shopify (+178%), we had enough wins in the portfolio to overcome this hurdle and beat the benchmark.

2020 was an investment roller coaster. The strategies and sector exposures, which worked better early on when interest rates, energy prices, and economic growth plummeted, gave way later in the year to strategies that stood to benefit from accelerating economic growth and inflation. The sustainability of this last factor continues to be the subject of much debate across the investment landscape.



ANNUAL GROSS RATE OF RETURN (%)

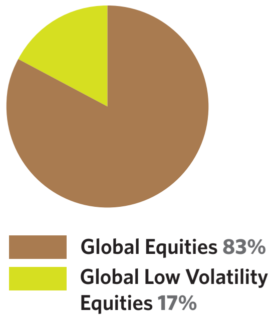
	1 year	4 years
Actual	**6.38**	**6.66**
Benchmark return	5.59	6.57
Value added	0.79	0.09

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 2020, posting a return of 11.44%, slightly behind its benchmark. Of our two active global managers, one significantly outperformed the global stock index while the other manager underperformed. Of the two passive strategies, one performed close to the benchmark, while the other experienced a disappointing level of tracking error. This second strategy is under review.

Globally, markets capped off a very positive year, shrugging off the obvious economic challenges posed by the pandemic. The markets' resurgence has been fueled by the coordinated and historic support packages from the fiscal and monetary authorities, as well as by the simple mathematics of base effects – compared to the first half of 2020, growth in economic activity in the first half of 2021 is likely to be a once-in-a-career event.



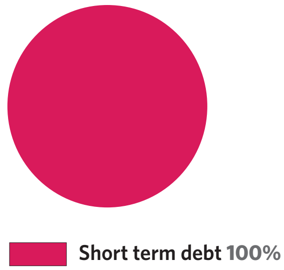
ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	**11.44**	**11.90**
Benchmark return	11.57	11.23
Value added	-0.13	0.67

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 and in line with the benchmark.



ANNUAL GROSS RATE OF RETURN (%)

	1 year	4 years
Actual	**0.82**	**1.25**
Benchmark return	0.86	1.11
Value added	-0.04	0.14

TOTAL FUND MANAGEMENT FEES*

Balanced Fund............0.44%
Bond Fund............0.28%
Canadian Equity Fund............0.40%
Foreign Equity Fund............0.51%
Fossil Fuel Free Equity and Bond Fund.....0.38%
Short Term Investment Fund............0.13%

*effective December 31, 2020 and include all the operating expenses and investment management fees.

INVESTMENT MANAGER PERFORMANCE

Asset Class Manager Index-based Benchmark	Gross Rates of Return (%) For periods ending December 31, 2020 1 year	 4 years
Canadian Equity		
Connor, Clark & Lunn Q-Growth Fund (active)	8.06	8.03
Leith Wheeler Investment Counsel (active)	7.03	5.97
Guardian Capital LP (active)	4.19	6.06
Jarislowsky Fraser (active)	n/a	n/a
S&P/TSX Composite TR	5.60	6.57
Non-Canadian Equity		
MFS (active)	11.99	12.93
MSCI World ex Canada Net (CAD) Index	14.23	12.19
Arrowstreet Capital (active)	15.96	n/a
MSCI World Investable Market Index	13.88	n/a
BlackRock MSCI ACWI ex Canada Index (passive)	12.81	11.81
MSCI ACWI ex Canada Index	14.54	12.15
BlackRock MSCI World ex Canada Minimum Volatility Index (passive)	-0.17	7.64
MSCI World ex Canada Minimum Volatility (CAD) Index	-0.49	7.40
Jarislowsky Fraser (active)	n/a	n/a
Fixed Income		
AllianceBernstein (active)	6.98	4.69
PIMCO Canada Corp. (active)	11.57	5.75
BlackRock Universe Bond Index (passive)	8.57	n/a
Jarislowsky Fraser (active)	n/a	n/a
FTSE TMX Canada Universe Bond	8.68	4.83
Real Estate		
BCI - Realpool (active)	*-1.45	*4.68
BentallGreenOak (active)	-0.80	5.76
Consumer Price Index + 4%	4.73	5.71
Money Market		
Sun Life Financial Money Market (active)	0.84	1.26
FTSE TMX Canada Cdn 91-Day Treasury Bill	0.86	1.10

* net of all fees

BOARD OF TRUSTEES

The UBC Faculty Pension Plan is administered by a Board of Trustees comprising 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

ELECTED BY PLAN MEMBERS

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
MEGHA GUPTA	Administrative Assistant