



a place of mind

THE UNIVERSITY OF BRITISH COLUMBIA

FACULTY PENSION PLAN 2012 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: 2012 Year in Review.

Despite all of the negative economic news in many regions of the world and interest rates being at historical lows, the returns of all of the Plan's fund options were positive in 2012. Perhaps somewhat surprising was that against a backdrop of very high government debt, political tensions and weak economic growth, the stock markets in many countries did well in 2012.

The FPP's assets are invested through twelve different external investment management firms covering fifteen different mandates, and through Guaranteed Investment Certificates (GICs). Of benefit to the Plan was that the managers were generally performing well and as a result, no investment manager changes were required in 2012. In particular, a number of our equity and bond managers significantly outperformed their index benchmarks, by which they added substantial value to the Plan's returns. This broad diversification by manager and investment mandate also served to keep the volatility of the Plan's returns relatively low.

The Balanced Fund, where over 80% of the members' assets are invested, had a return of 9.6%, net of fees for 2012. This very positive return was largely a result of strong returns from both Canadian and Foreign Equities as well as the Real Estate component of the Balanced Fund. I encourage you to read the Market Commentary in this Annual Report for more details on the returns of the Plan's fund options.

There were no changes made to the FPP fund options in 2012. However, in May 2012 a new investment option, GICs with terms from 1 to 5 years, was added to the Plan. As of the end of 2012, almost \$15 million had been allocated by members to the new GIC funds.

Mr. Al Poettcker, who served on the board since 1999, stepped down as trustee in 2012. We warmly thank him for his many contributions and the careful stewardship that he provided to the board. At the same time, we are very pleased to advise that Dr. Kenneth Carty has been appointed to the Board of Trustees. Dr. Carty is Professor Emeritus in the Department of Political Science and we look forward to working with him.

The Pension Administration Office (PAO) moved to its new premises in November 2012 as it had outgrown its space in the previous location. The new premises provide the ability to expand the pension team to service the growing membership in both the Faculty and Staff Pension Plans.

In closing, I would like to thank the other members of the board of trustees for their support and commitment over the past year. I would also like to thank the PAO staff for their dedicated efforts. I look forward to working with them in 2013.

Yours truly,



Joost Blom

About the Plan

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.

2012 Highlights

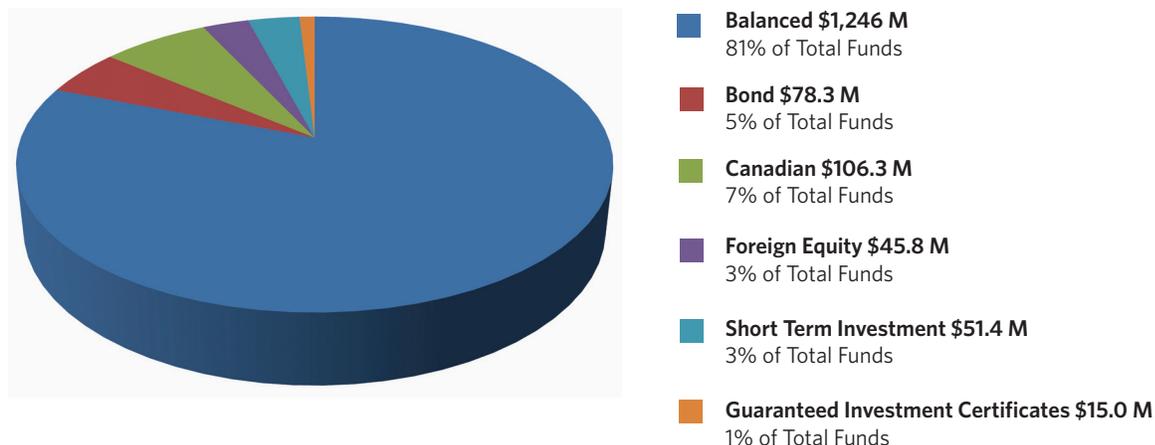
The following are highlights for the Faculty Pension Plan in 2012:

- The Plan launched a new investment option, Guaranteed Investment Certificates, in May of 2012. Almost \$15 million had been allocated by members to the new GIC funds as at December 31, 2012.
- As of April 1, 2012, the Faculty Pension Plan is overseeing communications and account changes for RRIF/LIF-type plan members. Based on a review that was conducted on how members communicate changes for their RRIF-type or LIF-type plans, this change was made to ensure our members receive the highest level of customer service. A letter was mailed to our RRIF/LIF-Type Plan members regarding this change.
- It was a busy year for our new member services specialist, Lorraine Heseltine, who held the following workshops in 2012:
 - Two “You and Your Pension Plan” new member workshops at the Vancouver campus.
 - Five “Understanding Your Retirement Options” seminars at the Vancouver campus and one at the Okanagan campus.
- The Pension Administration Office moved to the Donald Rix Building in November. The new office provides the ability to expand the pension team to service the growing membership in both the Faculty and Staff Pension Plans.
- The Plan held its first Pension Forum in May. A great opportunity to learn more about the pension plan and meet the board trustees, management, and staff.

Financial Statistics

All figures are based on the Plan's audited 2012 Financial Statements

Market Value of the Funds as at December 31, 2012



Market Value of the Funds for last five years

All figures as at December 31

	2008	2009	2010	2011	2012
Balanced	\$910,184,790	\$1,015,418,630	\$1,115,397,884	\$1,123,219,589	\$1,246,829,399
Bond Fund	\$34,809,790	\$56,037,866	\$64,874,459	\$82,320,645	\$78,343,673
Canadian Equity Fund	\$56,546,622	\$89,734,839	\$108,117,922	\$96,602,910	\$106,331,985
Foreign Equity Fund	\$25,902,567	\$33,106,028	\$37,180,319	\$36,881,169	\$45,873,527
Short Term Investment Fund	\$62,477,431	\$50,375,490	\$51,436,859	\$67,297,338	\$51,364,549
Guaranteed Investment Certificates*	N/A	N/A	N/A	N/A	\$14,980,211
Total Market Value of Funds	\$1,089,921,200	\$1,224,672,853	\$1,377,007,443	\$1,406,321,651	\$1,543,723,343

*GICs were introduced into the FPP in May of 2012

Financial Statistics cont'd

Cash Flow for last five years

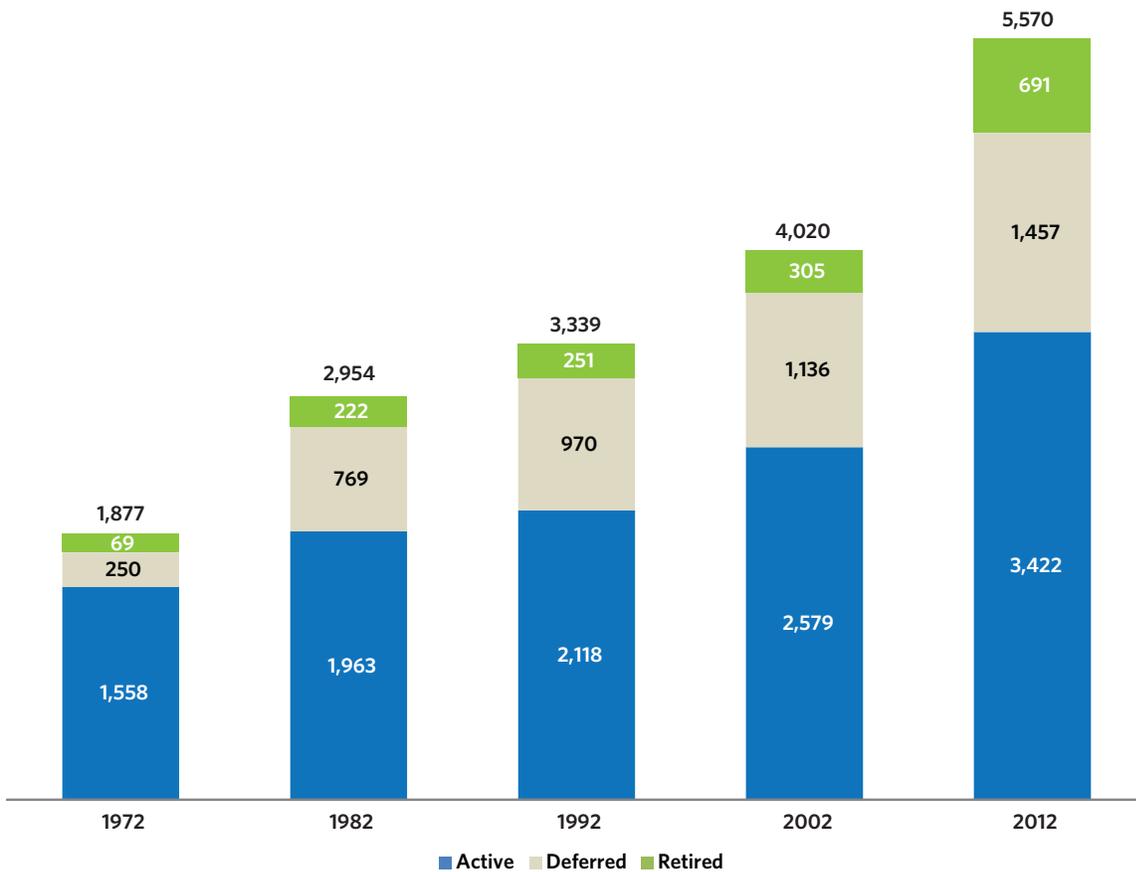
All figures as at December 31

	2008	2009	2010	2011	2012
Cash Flow					
Contributions					
Employer	\$29,423,123	\$31,593,463	\$33,047,817	\$34,511,247	\$35,227,042
Employee	\$14,843,222	\$16,302,941	\$16,673,142	\$17,385,797	\$17,489,426
Voluntary	\$445,956	\$464,768	\$497,862	\$607,367	\$639,088
Transfers-in from other Registered Plans	\$6,094,067	\$3,111,020	\$3,071,241	\$3,889,324	\$4,370,025
Retirement Benefits Paid	\$16,654,545	\$15,898,168	\$20,502,956	\$24,830,204	\$23,039,693
Withdrawals and Transfers-out	\$37,918,563	\$16,403,213	\$20,259,603	\$27,008,905	\$26,088,753

Membership Statistics

Number of Members as at December 31

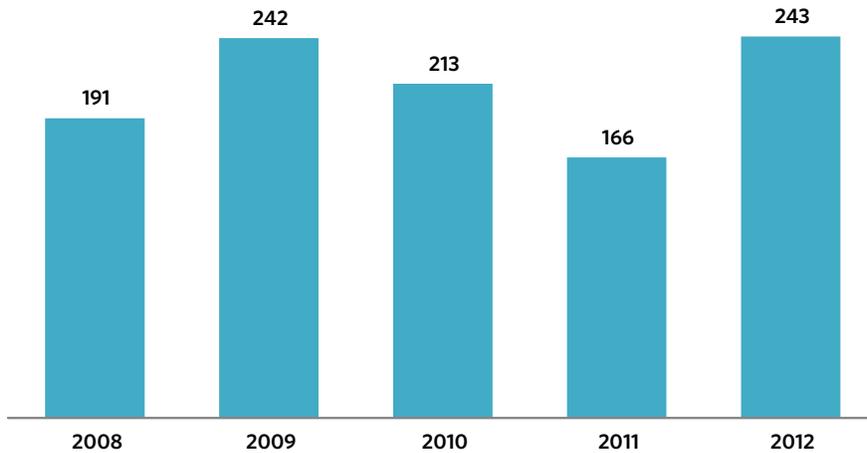
Over the last ten years, Plan membership has grown by 39%. The number of retirees in the Plan has more than doubled since 2002.



Membership Statistics cont'd

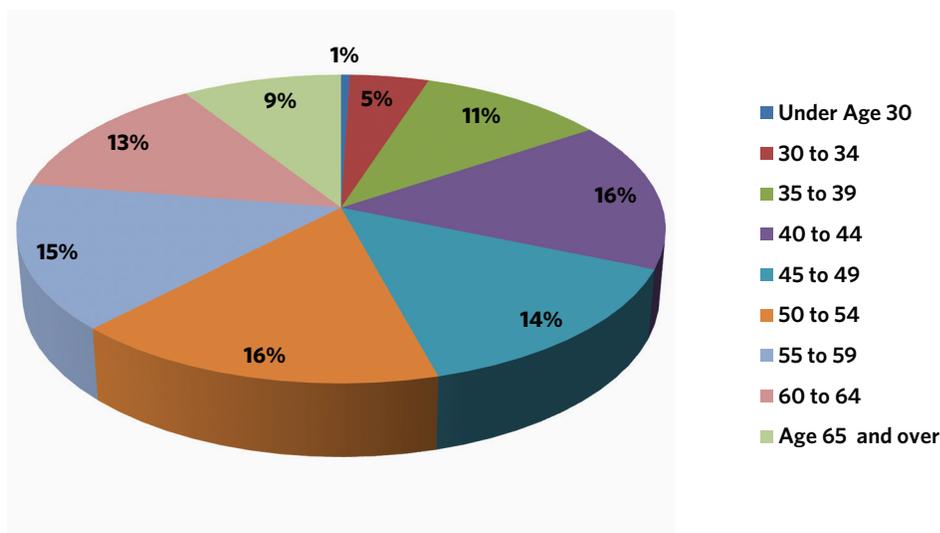
New Enrollments as at December 31

Enrollments into the Plan in 2012 increased by 46% from 2011.



Active Members by Age Group as at December 31, 2012

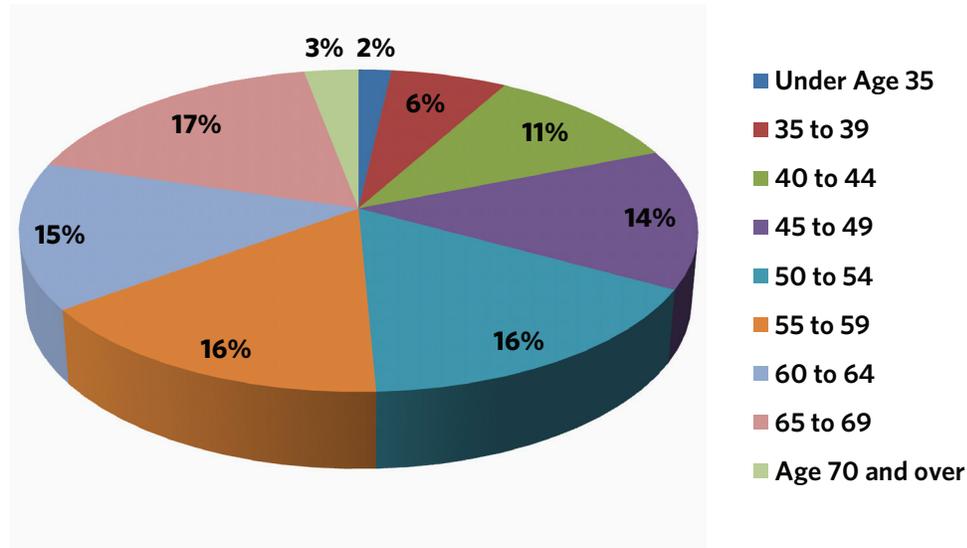
The graph below shows that more than half of the Active members are age 50 and over. The average and median ages of Active members are 50.6 years and 51 years respectively.



Membership Statistics cont'd

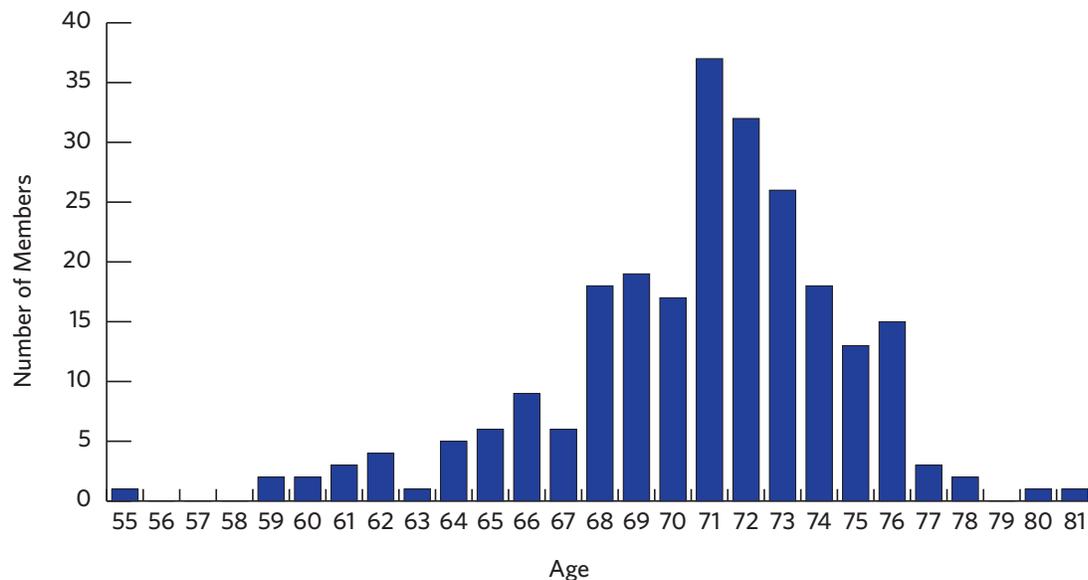
Deferred Members by Age Group as at December 31, 2012

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 54.4 years and 55 years respectively.



Age Profile of LIF-Type Plan Members as at December 31, 2012

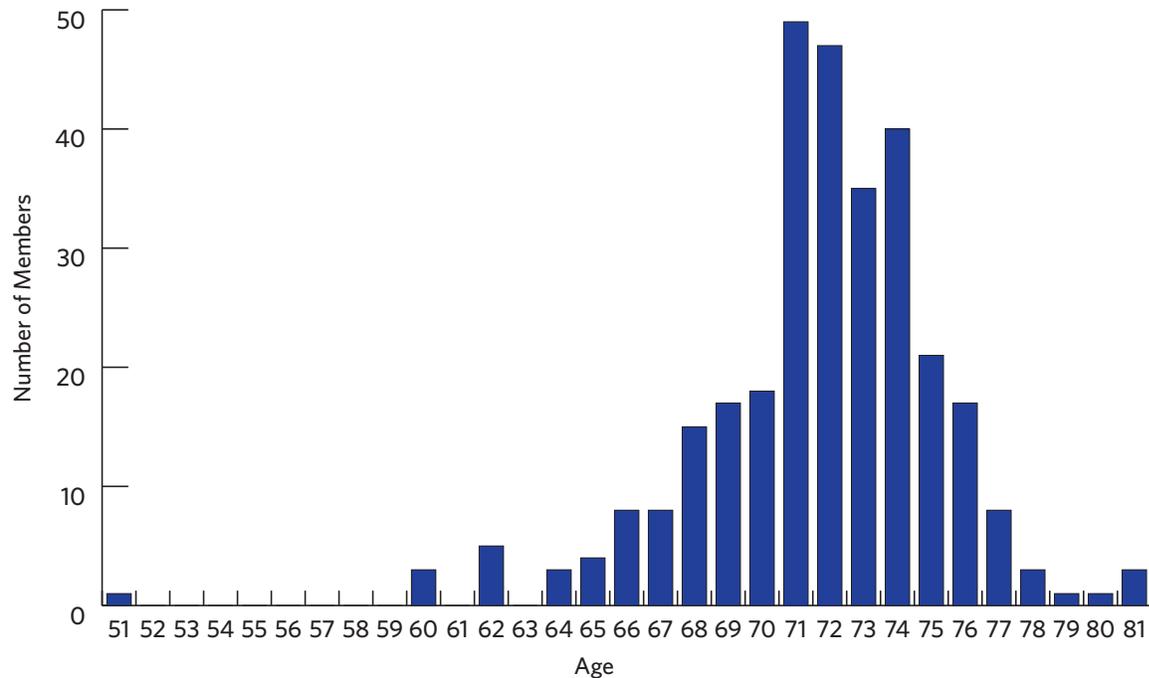
As of December 31, 2012, there were 241 members who had funds in a UBC LIF-Type Payment account under the Faculty Pension Plan. The graph below shows the age profile of these members. For more information on the Plan's LIF-Type Payment option, please refer to the *Receive UBC LIF-Type Payments* page on the Plan's website.



Membership Statistics cont'd

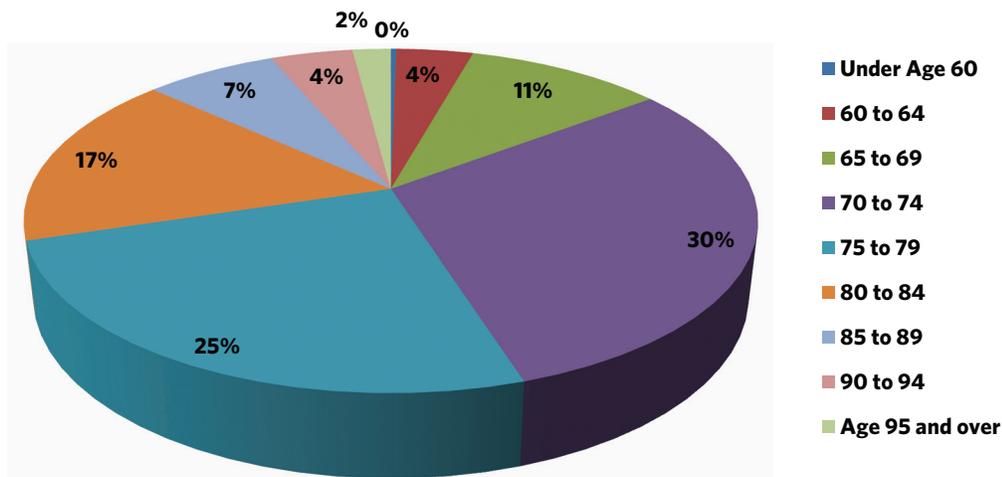
Age Profile of RRIF-Type Plan Members as at December 31, 2012

As of December 31, 2012, there were 307 members who had funds in a UBC RRIF-Type Payment account under the Faculty Pension Plan. The graph below shows the age profile of these members. For more information on the Plan's RRIF-Type Payment option, please refer to the *Receive UBC RRIF-Type Payments* page.



Variable Payment Life Annuity Plan Members by Age Group as at December 31, 2012

As of December 31, 2012, there were 347 members with funds in a Variable Payment Life Annuity under the Faculty Pension Plan. The graph below shows the age breakdown of these members. For more information on the Plan's Variable Payment Life Annuity option, please refer to the *Purchase a UBC VPLA* page on the Plan's website.



Members who are Under Age 60 are shown as 0% relative to the other age groups due to rounding.

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

Weak global economic conditions continued to prevail throughout 2012, ranging from the European debt crisis, a slow U.S. economy, and China lowering its expected economic growth rate. This led to a number of countries, in particular the U.S., Japan and the ECB either continuing or initiating aggressive monetary programs to help support their economies. The equity markets were generally positive given these government support programs; however, it was not evident that the underlying issues were resolved.

Balanced Fund

Overall, 2012 was a strong year for the Balanced Fund with a return of 10.1%, bringing the ten-year return to a respectable 7.1% per annum. Of particular strength in 2012 were the Foreign Equity and Real Estate components of the Fund, which returned 16.4% and 14.0% respectively. Foreign Equities, especially those in the U.S. and certain European countries (e.g. Germany) witnessed the highest returns. The strong Real Estate returns was largely a reflection of higher appraised values for the commercial properties in which the Fund holds an ownership interest.

The Balanced Fund's one-year performance of 10.1% was higher (40th 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). However, in 2012 several of the Fund's equity and bond 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 38th 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 4.4% as bonds generally did not perform well in 2012 due to continuing low yields from historically low interest rates. In the longer term, the Fund's return of 6.3% per annum over the last ten years of low volatility has proven beneficial to the Plan's overall results.

The Bond Fund's 20% allocation to Real Return Bonds (RRBs) hurt the Fund's 2012 results as these bonds only returned 2.9%. However, over the last five years, these RRBs have had the highest returns (i.e. 9.2% per annum) of the four bond managers in this Fund.

The two active bond managers with mandates that allowed a limited amount of bond investments outside of Canada also performed well, surpassing their index benchmarks by a wide margin. These two managers represent 40% of the Bond Fund and their strong performances have added a further level of diversification to the Fund.

The Bond Fund's performance has been about average, relative to other similar funds over the last five years since it was restructured, but the Fund's risk level is less than the average bond fund.

Market Commentary cont'd

Canadian Equity Fund

The Fund posted a strong return of 11.5% in 2012, with a significant outperformance of more than 4% over the Fund's index benchmark. The ten-year return for this Fund is now a very respectable 10.3% per annum. The Canadian stock market index remains very heavily weighted in commodity stocks such as mining and oil and gas companies, many of which did not perform very well again in 2012. 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 for the year, given their portfolio's positioning. Their success was mainly attributed to a two-prong approach of holding the strongest stocks in the industry sectors which performed the best for the year (e.g. Consumer Staples and Financials), while also being underweight in sectors that had weak returns for the year, such as IT, mining and energy stocks.

Over a ten-year timeframe, the Fund's performance ranks high in the first quartile (i.e. 11th 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 a very strong return of 16.4% for the year, providing the Fund with the highest return it has achieved in many years. Longer term results for this Fund remain low, with the ten-year returns still at only 3.1% per annum. This Fund was restructured almost three years ago to include two new managers with Global equity mandates representing 73% of the Fund, plus one US equity-only manager (managing 21% of the Fund) and a 6% allocation to a Hedge Fund.

The U.S. equity-only manager produced a one-year return of 13.3% which closely matched the S&P 500 index return, which is also their mandate. The Global equity portion, which makes up the majority of this Fund, posted the strongest returns. One of the two Global managers had a particularly strong year (i.e. 21.7% return), thus outperforming their benchmark index by over 7%.

The Hedge Fund portion of the Fund had the weakest return of just 2.6% for the year. This return was substantially less than the three equity managers' returns due to the nature of the investments held by the hedge fund, which includes many non-equity asset classes. The hedge fund mandate allows investing in a wide variety of asset classes with typically only a minor portion of the portfolio being invested directly in equities. With equities being the highest returning sector in 2012, this led to the drag on their yearly performance relative to the equity managers. 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 average while its risk profile is below 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 three years.

Short Term Investment Fund (STIF)

The STIF's return in 2012 was 1.3%, reflecting the very low interest rate environment throughout 2012. The Bank of Canada's Overnight Rate in 2012 remained at 1% as the government maintained this historic low in seeking 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 (1.5% in 2012), the "real return" of this Fund was slightly negative.

Fund Rates of Return

The following table provides performance results for periods ending December 31, 2012. 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.

The following table provides performance results for periods ending December 31, 2012.

	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	10.14	7.72	4.11	7.06	40	63	28
Balanced Fund - net ²	9.58	7.14	3.56	6.55			
Composite Index 1 ³	7.40	6.46	3.59	6.21			
Bond Fund - gross	4.37	7.80	7.29	6.26	63	52	55
Bond Fund - net	4.04	7.46	6.95	5.97			
Composite Index 2 ⁴	3.46	7.45	6.93	6.15			
Canadian Equity Fund - gross	11.52	6.59	1.86	10.28	23	35	26
Canadian Equity Fund - net	11.02	6.11	1.42	N/A			
Composite Index 3 ⁵	7.41	4.55	0.69	9.18			
Foreign Equity Fund - gross ¹	16.46	6.59	-0.32	3.12	23	59	44
Foreign Equity Fund - net	15.69	5.82	-0.95	N/A			
Composite Index 4 ⁶	13.32	6.08	-0.18	3.55			
Short Term Investment Fund - gross	1.26	1.03	1.33	2.31	29	85	87
Short Term Investment Fund - net	1.09	0.87	1.17	2.13			
Composite Index 5 ⁷	1.01	0.81	1.07	2.14			

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, 2012. 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, 2012			
		1 year	2 years	3 years	4 years
Index-based Benchmark					
Canadian Equity					
	Connor, Clark & Lunn Q-Growth Fund	8.79	1.21	7.94	12.83
	S&P/TSX Composite Index	7.19	-1.08	4.79	11.65
	Guardian Capital LP	13.76	2.05	6.33	11.47
	Leith Wheeler Investment Counsel	15.06	4.84	8.76	13.35
	S&P/TSX Capped Composite Index	7.19	-1.08	4.79	11.65
	PCJ Investment Counsel	8.62	-2.76	3.34	10.97
	S&P/TSX Capped 60 Index	8.07	-0.88	3.81	10.22
US Equity					
	BlackRock Inc. - U.S. Equity Index	13.31	8.91	7.67	7.28
	S&P 500 Index (Canadian \$)	13.43	8.95	8.99	8.59
Non-Canadian Equity					
	MFS	21.68	9.65	n/a	n/a
	JP Morgan	15.52	3.78	n/a	n/a
	MSCI World x Canada (Canadian \$)	14.31	5.71	n/a	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, 2012			
	1 year	2 years	3 years	4 years
Hedge Fund				
BlackRock Inc. - Global Market Selection Fund	2.57	-1.05	3.63	6.21
DEX 91-Day Treasury Bill Index	1.01	1.01	0.85	0.79
Fixed Income				
AllianceBernstein	5.20	7.16	7.99	9.73
PIMCO Canada Corp.	6.55	6.46	7.24	8.76
State Street Global Advisors	3.57	6.48	6.60	6.35
DEX Universe Bond Index	3.60	6.59	6.64	6.33
BlackRock Inc. - Real Return Bond Fund	2.89	10.34	10.62	11.56
DEX Real Return Bond Index	2.85	10.33	10.58	11.55
Real Estate				
bcIMC - Realpool	16.50	17.01	13.18	7.47
Westpen Properties	11.69	12.33	12.44	7.17
CPI + 4%	4.83	5.56	5.83	5.70
Money Market				
bcIMC - Short Term Fund	1.26	1.25	1.03	0.89
DEX 91-Day Treasury Bill Index	1.01	1.01	0.85	0.79

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.