



THE UNIVERSITY OF BRITISH COLUMBIA

# Faculty Pension Plan Year in Review

*Celebrating 50 years*



# Contents

Message from the Chair and Executive	3
Celebrating 50 years	4
2017 Highlights	
Financial Highlights	6
Membership Highlights	8
Investments	
Investment Philosophy	9
Market Commentary	10
Investment Fund Performance	11
Investment Manager Performance	14
Who are we	
Board of Trustees	15
Management & Staff	16

# Message from the Chair and Executive

We are pleased to present the UBC Faculty Pension Plan's (the "Plan") Annual Report for 2017.

On April 1, 2017 we celebrated the 50th anniversary of the Plan. We are proud of what the Plan has accomplished in its first 50 years, and we have set out the major milestones later in this report. As a pension plan, our focus is long-term investing, and the Balanced Fund that was created 50 years ago has delivered an annualized 50-year net rate of return of 8.57%.

We believe the Plan's success is built on the Plan's strong governance structure, an independent Board of Trustees, and the focus of the Trustees on providing a well-managed, cost-effective pension plan.

The Plan offers members a diverse selection of investment options during the accumulation phase. Because of its scale it also offers low management fees, which enable members to save and invest for their future. As for the decumulation (post-retirement) phase, the Plan is one of the few defined contribution pension plans in Canada that offers retirement income options within the Plan. Over the last 10 years we have seen a significant increase in the number of members who are choosing to leave their money invested in the Plan, and start to draw a retirement income from the Plan.

On the investment side, 2017 proved to be a positive year overall with the asset classes that the Plan is invested in, except for bonds, all performing well. Both Canadian and foreign equities provided strong results as most world economies strengthened in 2017. Although the large Energy sector continued to underperform in Canada this was offset by the other industry sectors performing well to pull up overall results. The U.S. and other foreign stock markets also had strong results as their government stimulus programs continued to provide support to their markets.

Bond returns were again low in 2017 as the Bank of Canada increased interest rates twice to combat the risk of inflation, reflecting a stronger economy and lowering unemployment rate. The Plan's exposure to commercial real estate continued to provide good consistent returns with a low degree of volatility.

In 2017 there was just one notable change made to the Plan's investment manager structure. One of the global equity managers (JP Morgan) was removed due to continued underperformance and these assets were reallocated to a new active global equity manager, Arrowstreet Capital. This manager change affected both the Balanced Fund and Foreign Equity Fund options.

As we move forward into the year ahead, one of the Board's goals is to educate our members more fully about the Plan so as to ensure that all members are aware of the benefits of being part of the Faculty Pension Plan, including the flexible investment and retirement income options available to them.

Yours truly,



Joost Blom  
Chair



Orla Cousineau  
Executive Director, Operations



Mike Leslie  
Executive Director, Investments



Mike Leslie, Orla Cousineau and Joost Blom

# Celebrating 50 years

*Our mission is to provide a well-managed, cost-effective retirement plan, designed to assist members in meeting their financial responsibilities, both leading up to retirement and if members choose, through retirement.*



## 1967

**The UBC Faculty Pension Plan (FPP) is established.** The FPP started with 848 members and one investment option - the Balanced Fund. The contribution rate is the same today as when it was established - 10% from UBC and 5% from plan members, with a Canada Pension Plan offset.

## 1992

**The Supplemental Arrangement is set up by the University.** The Plan receives contributions that are over the limits allowed to registered plans. In 2017, the maximum registered pension plan contribution is \$26,230 which is reached at earnings of \$187,298.

**The Pension Administration Office is set up.** An in-house pension administration system is designed to administer the pensions for faculty and staff.

## 1974

**Variable Payment Life Annuity (VPLA) options expanded.** Upon review of the 8% VPLA option and considering the expected rate of return going forward, the Trustees introduce a 7% VPLA option. In 1994, 20 years later, the 4% VPLA option is introduced.

## 1993

**Three new investment options added.** Members now have a choice of the Balanced Fund, Bond Fund, Equity Fund and Money Market Fund.



## 1982

**Pension portability permitted.** Until this time, members were not allowed to transfer their money out of the FPP on retirement. Retiring members are now allowed to transfer their money out of the FPP.



## 1997

**Plan's first website launched.**

# Celebrating 50 years cont'd

## 2004

**RRIF and LIF type payments are introduced to the Plan.** Retirees can leave their funds in the FPP and withdraw a minimum amount each year.



## 2007

**Mandatory retirement at age 65 is eliminated.**



## 2005

**UBC Okanagan is established.** 200 faculty members join the FPP.

## 2006

**Equity Fund is split into two funds.** The tax rules allow a higher percentage of non-Canadian assets in registered pension plans. The Equity Fund was split into the Canadian Equity Fund and the Foreign Equity Fund.

## 2012

**Guaranteed Investment Certificates are added to the investment choices for members.**

## 2015

**Sun Life hired to provide recordkeeping for the FPP.** After much review of the costs and benefits of upgrading the in-house pension administration system, the Trustees decided that the recordkeeping would be outsourced to Sun Life. The Pension Administration Office and Sun Life have a co-administration model with Sun Life performing the recordkeeping and the PAO continuing to provide member education and assistance to members with any FPP issues.

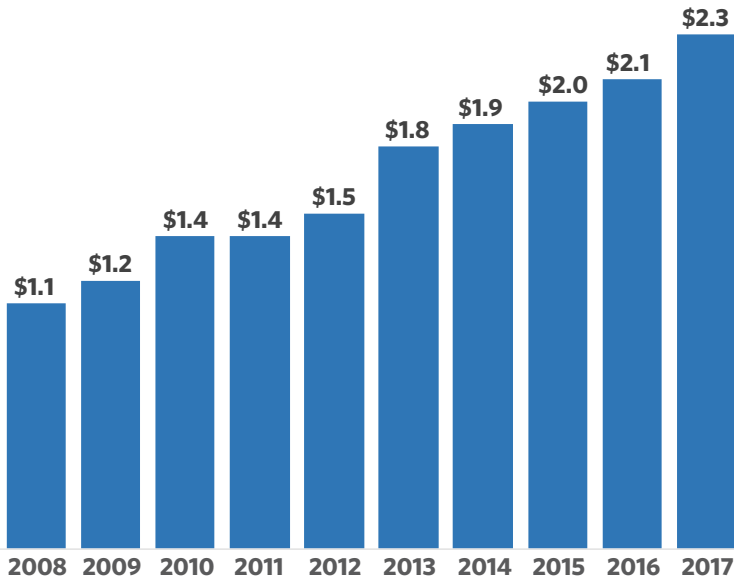
## 2017

**The UBC Faculty Pension Plan celebrates its 50th year of operation.**

*Prof. Joost Blom, chair and Dr. Robert Heinkel, vice-chair, celebrate the UBC FPP's 50th anniversary at the 2017 Pension Forum.*

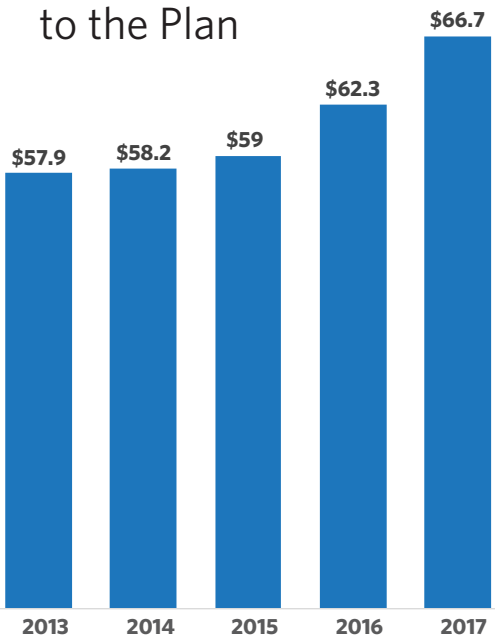


# Financial Highlights

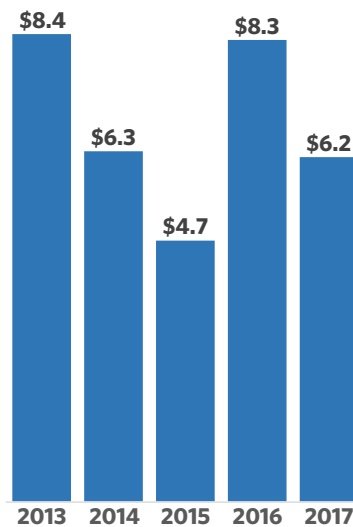


**\$2.3**  
billion  
Total Assets of the Plan

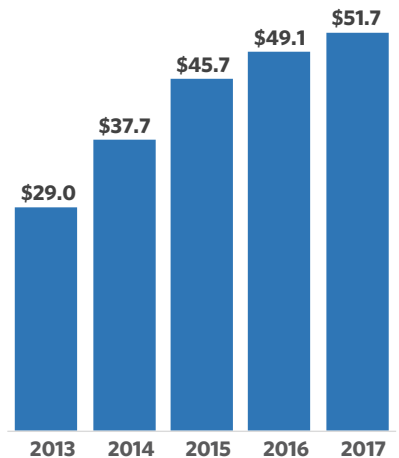
**\$66.7**  
million  
Total Contributions  
to the Plan



**\$6.2**  
million  
Total Transfers into  
the Plan

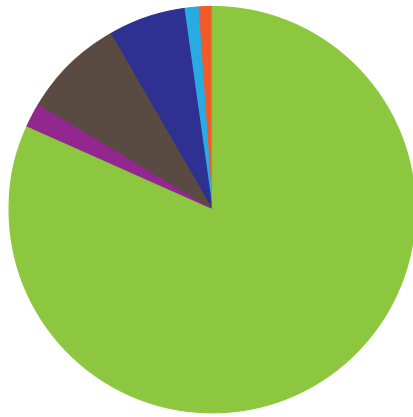


**\$51.7**  
million  
Total Retirement  
Benefits Paid



# Financial Highlights cont'd

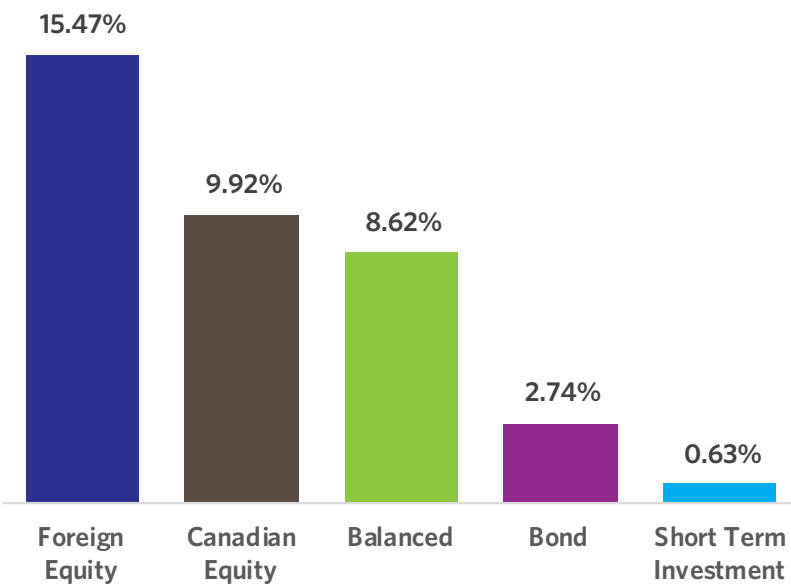
## Market Value of the Funds as at December 31, 2017



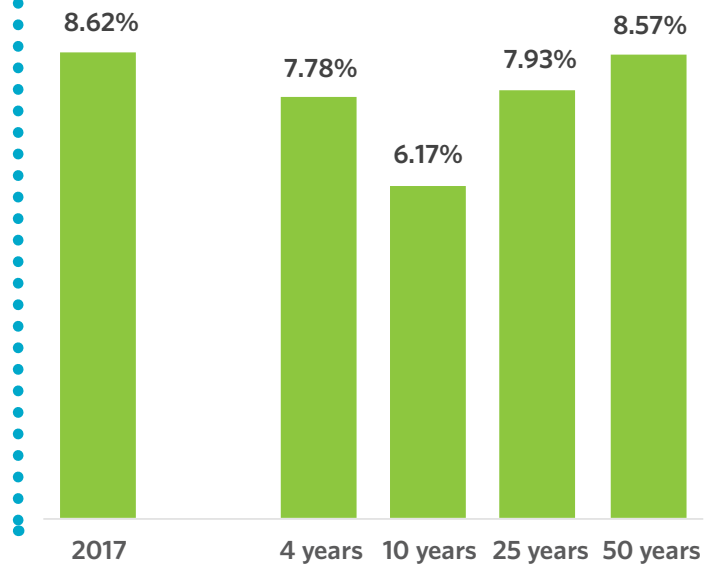
- Balanced \$1,864.1 M**  
81% of Total Funds
- Bond \$55.9M**  
2% of Total Funds
- Canadian Equity \$172.8 M**  
8% of Total Funds
- Foreign Equity \$145.8 M**  
6% of Total Funds
- Short Term Investment \$32.0 M**  
1% of Total Funds
- Guaranteed Investment Certificates and Cash \$17.9 M**  
1% of Total Funds

## 2017 Fund Net Rates of Return

Balanced Fund **8.62%**

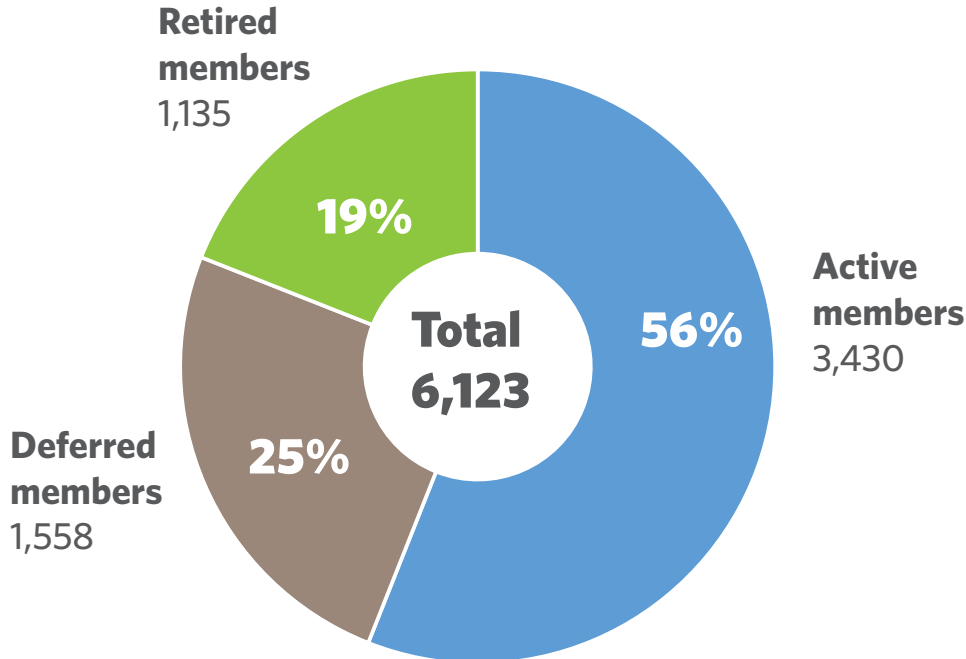


## Balanced Fund Annualized Net Rate of Return

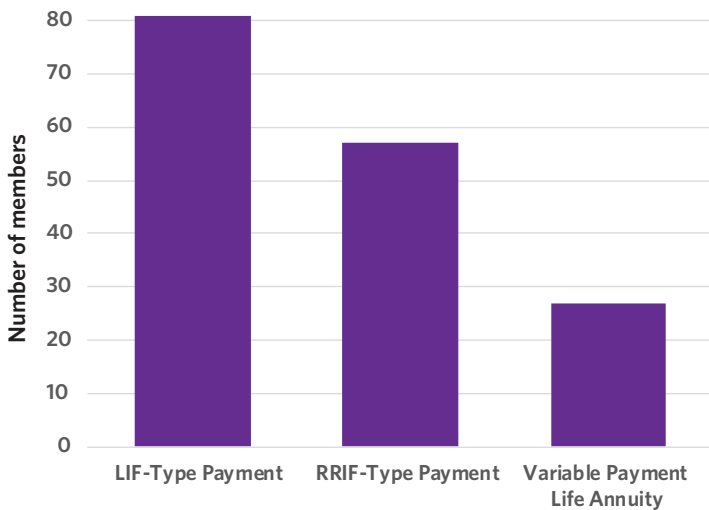


# Membership Highlights

## Total Plan Membership



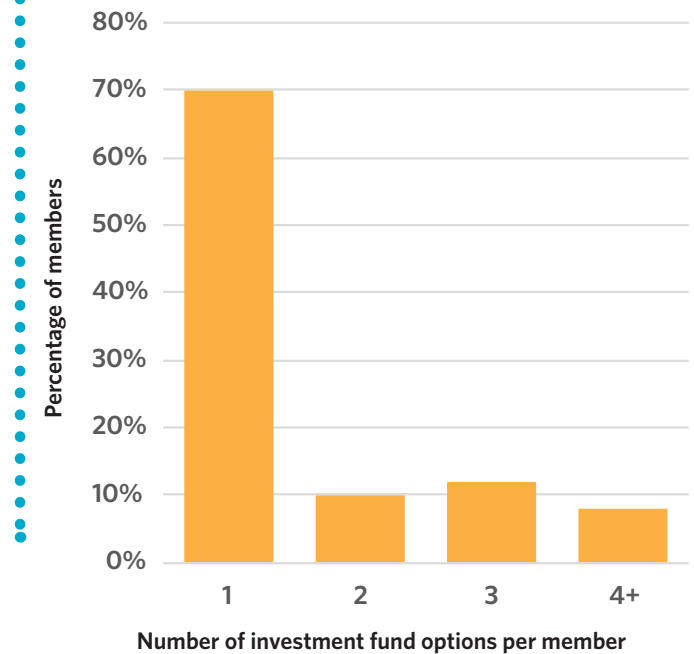
## Retirement Incomes started in 2017



Total assets transferred to retirement income within the Plan **\$91.5 M**

**70%** of retiring members opted to stay 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 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 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.

The FPP also provides a number of retirement options to assist members and allow them to continue to invest in our highly diversified, cost-effective funds. A large number of our members have chosen to leave their accumulated assets in the Plan after they retire (about 70 to 80%) over the last few years.

# Market Commentary

## Stocks

Stock markets had a strong 2017 as global economic growth was synchronized across all developed markets. The Canadian market's return at 9.1% lagged the other countries largely due to an underperforming Energy sector and lack of exposure to the hot Information Technology sector that was a boost to many other countries' markets. Both U.S. and international stocks performed very strongly in 2017 with the MSCI World index up 14.4% in Canadian-dollar terms. Emerging Markets witnessed the highest returns at over 28% as several large developing countries delivered positive economic growth and investors were willing to bid up stock prices in these riskier markets.

## Bonds

Bond returns witnessed another lackluster year as bond prices were driven down by two Bank of Canada rate increases in the third quarter of 2017. The bond index recovered somewhat in the fourth quarter as additional rate increases became less likely due to uncertainty around NAFTA negotiations, more restrictive mortgage lending rules and record-high household debt levels which could all be negatively impacted by higher interest rates. Overall the Universe Bond index returned 2.5% for the year with the highest returns coming from Long Term Bonds. Real Return Bonds witnessed very low returns as higher inflation expectations by investors remained very muted.

## Commercial Real Estate

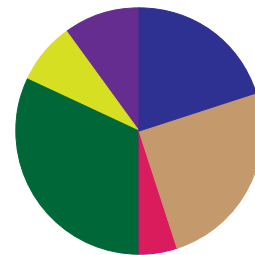
The commercial real estate market had another steady year in Canada with returns in the 6% range. Most of these returns were from the properties' lease income versus capital appreciation. Most major urban areas and property sectors are seeing high occupancy rates with the exception being the Calgary office sector which remains very weak.

# Investment Fund Performance

## Balanced Fund

The Balanced Fund is the Plan's default fund. The target asset mix is 20% Canadian equities, 30% Global equities, 40% Bonds and 10% Commercial Real Estate. It is managed by three Canadian equity managers, three Global equity managers, four bond managers and two real estate managers.

The positive results in 2017 with the fund up 9.05% were primarily a result of both Canadian and foreign equities having strong performance. The global economy has been improving and many countries are still providing policies that are supportive of their stock markets. The Real Estate component of the fund also contributed positively to the results whereas, the bond component experienced low returns in 2017.



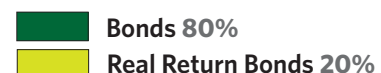
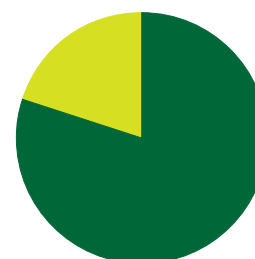
### Annual Gross Rate of Return

	1 year	4 years
<b>Actual</b>	<b>9.05</b>	<b>8.26</b>
Benchmark return	7.35	7.75
Value added	1.70	0.51

## Bond Fund

The Bond Fund consists mostly of Canadian bonds, with 20% of the Fund allocated to Real Return Bonds. It is managed by four different managers - two who employ an active management strategy, and two who employ 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 3.06% in 2017 reflected both a low interest rate environment and the Bank of Canada increasing its policy rate twice in 2017. When interest rates increase this typically reduces the prices of existing bonds. The Real Return Bond portion of the fund had weak returns due to the continuing absence of inflation. One of our two active bond managers exceeded the index return while the second manager slightly underperformed. Both active managers have added value over the index over longer periods.



### Annual Gross Rate of Return

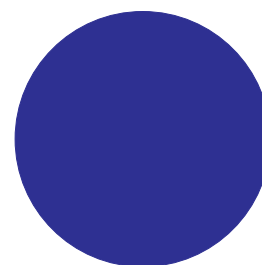
	1 year	4 years
<b>Actual</b>	<b>3.06</b>	<b>4.45</b>
Benchmark return	2.17	4.24
Value added	0.89	0.21

# Investment Fund Performance cont'd

## 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 had a strong year with the fund up 10.33% in 2017. The results were driven by 10 of the 11 industry sectors providing positive returns. The large Financials sector (36% of the index) was the main contributor to performance with a return of 13.3% for the year. The Energy sector, another large component of the index, was the only sector with a negative return for the year at -7.0%. All three of the active managers outperformed the index benchmark in 2017 and longer term.



Canadian Equities 100%

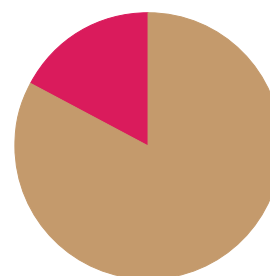
### Annual Gross Rate of Return

	1 year	4 years
<b>Actual</b>	<b>10.33</b>	<b>8.41</b>
Benchmark return	9.10	7.66
Value added	1.23	0.75

## Foreign Equity Fund

The Foreign Equity Fund is a diversified portfolio of global equities. The returns are affected by changes in 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.

This was the strongest performing of our funds with a return of 15.92% in 2017. Most developed countries economies have been improving and investors have been willing to bid up stock prices in these markets. The Emerging Markets sector had the highest returns in 2017. Both the US and many European countries also contributed to the strong returns with the Information Technology sector being particularly rewarding for the year. There was one active investment manager change implemented in late 2017 due to the manager (JP Morgan) not meeting our performance expectations. The second active manager (MFS) added substantial value over the index return.



Global Equities 83%  
Global Low Volatility Equities 17%

### Annual Gross Rate of Return

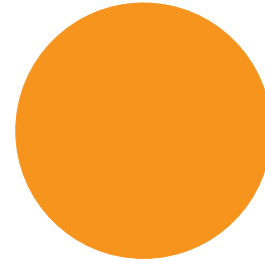
	1 year	4 years
<b>Actual</b>	<b>15.92</b>	<b>13.54</b>
Benchmark return	14.13	13.26
Value added	1.79	0.28

# Investment Fund Performance cont'd

## Short Term Investment Fund

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

The fund's low returns of 0.8% in 2017 reflects continuing low interest rates in Canada. Given the very short-term nature of the investments in this fund their yields are very low. Net of the inflation rate the fund had a negative return for the year.



Short term debt 100%

### Annual Gross Rate of Return

	1 year	4 years
<b>Actual</b>	<b>0.80</b>	<b>0.92</b>
Benchmark return	0.56	0.65
Value added	0.24	0.27

## Total Fund Management Fees\*

Balanced Fund	<b>0.47%</b>
Bond Fund	<b>0.35%</b>
Canadian Equity Fund	<b>0.44%</b>
Foreign Equity Fund	<b>0.56%</b>
Short Term Investment Fund	<b>0.17%</b>

\* includes 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, 2017	
	1 year	4 years
<b>Canadian Equity</b>		
Connor, Clark & Lunn Q-Growth Fund (active)	11.29	8.58
Leith Wheeler Investment Counsel (active)	10.07	8.55
Guardian Capital LP (active)	9.66	9.06
S&P/TSX Composite TR	9.10	7.57
<b>Non-Canadian Equity</b>		
MFS (active)	16.98	13.46
MSCI World ex Canada Net (CAD) Index	14.59	12.95
Arrowstreet Capital (active)	NEW	
MSCI World Investable Market Index	NEW	
BlackRock MSCI ACWI ex Canada Index (passive)	16.23	n/a
MSCI ACWI ex Canada Index	16.09	n/a
BlackRock MSCI World ex Canada Minimum Volatility Index (passive)	10.91	n/a
MSCI World ex Canada Minimum Volatility (CAD) Index	10.66	n/a
<b>Fixed Income</b>		
AllianceBernstein (active)	2.87	4.68
PIMCO Canada Corp. (active)	2.32	4.33
SSGA/Windwise Canadian Universe Bond Index (passive)	2.55	4.11
FTSE TMX Canada Universe Bond	2.52	4.09
BlackRock - Real Return Bond Fund (passive)	0.71	4.77
FTSE TMX Canada Real Return Bond	0.72	4.78
<b>Real Estate</b>		
BCI - Realpool (active)	*5.16	*5.96
Bentall Kennedy (active)	6.58	5.66
Consumer Price Index + 4%	5.87	5.61
<b>Money Market</b>		
Sun Life Financial Money Market (active)	0.80	0.90
FTSE TMX Canada Cdn 91-Day Treasury Bill	0.52	0.64

\* net of all fees

# Board of Trustees

as at January 1, 2018

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	Elected by Plan Members
<p><b>Mr. Joost Blom, Chair</b> Professor Emeritus, Peter A. Allard School of Law Term expires December 31, 2020</p>	<p><b>Dr. Joy Begley</b> Associate Professor, Sauder School of Business Term expires December 31, 2021</p>
<p><b>Dr. Joyce Boon</b> Associate Professor Emeritus, Biology, UBC Okanagan Term expires December 31, 2020</p>	<p><b>Dr. Lorenzo Garlappi</b> Associate Professor, Sauder School of Business Term expires December 31, 2021</p>
<p><b>Dr. R. Kenneth Carty</b> Professor Emeritus, Political Science Term expires December 31, 2018</p>	<p><b>Dr. Robert L. Heinkel, Vice-Chair</b> Professor, Sauder School of Business Term expires December 31, 2019</p>
<p><b>Dr. Joanne Emerman</b> Professor Emeritus, Cellular &amp; Physiological Sciences Term expires December 31, 2018</p>	<p><b>Mr. Vijay Verma</b> Researcher Emeritus, TRIUMF Term expires December 31, 2019</p>

# Management & Staff

**Orla Cousineau**  
Executive Director,  
Pensions

**Mike Leslie**  
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

**Shirley Lim**  
Project Coordinator

**Helena Huynh**  
Systems Analyst

**Kathy Pang**  
Communications  
Manager

**Chelsey Maher**  
Communications  
Assistant

**Claudia Chan**  
Office Administrator