Faculty Pension Plan

2007 annual report

THE UNIVERSITY OF BRITISH COLUMBIA

Contents

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Executive Director, Operations, and Secretary: Ms. Cheryl Neighbour

Actuary: AON Consulting

Auditors: Deloitte & Touche LLP

Custodian & Performance Measurement Provider: RBC Dexia Investor Services Trust

Legal Counsel: Lawson Lundell LLP
(effective February 4, 2008)

THE UNIVERSITY OF BRITISH COLUMBIA

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LETTER FROM THE CHAIR

April 2008

Dear Members

We are pleased to present your 2007 Annual Report.

For the year ended December 31, 2007, the Balanced Fund earned 3.2%, Canadian Equity Fund 11.5%, Foreign Equity Fund -9.7%, Bond Fund 3.8% and Short Term Investment Fund 4.5% (before fees). Although on an absolute basis its 2007 return was low, the Balanced Fund was not alone in this. In fact it again improved its performance relative to other balanced pension funds of comparable size, with one year returns ranking in the 26th percentile, while maintaining the risk (volatility of returns) of the Plan at a comparatively low level.

The past year was a difficult year for investors globally, with credit issues dominating the news. The S&P/TSX composite index of Canadian equities returned 9.8% for the year – only slightly short of the fifth consecutive year of double digit returns for the Canadian stock market. This was led by the Information Technology sector with an annual return of 48.2% followed by the Materials sector at 30.3%. The Canadian bond market, as measured by the DEX Universe index (formerly Scotia Capital Universe index), returned 3.7% for the year. The strength of the Canadian dollar had a dramatic negative effect on investments outside of Canada. The Canadian dollar started 2007 at 85.86 cents U.S., and ended the year at $1.007 U.S., after reaching a high of $1.10 in November. U.S. equities, as measured by the S&P 500 index returned -10.5% in Canadian dollar terms. Non-North America equities, as measured by the MSCI-EAFE index, returned -5.7% in Canadian dollar terms.

As a result of the elimination of the Foreign Property Rule in the Income Tax Act in 2005, and the performance of the former Canadian fixed income managers, the trustees moved all of the fixed income funds (except the real return bond allocation) in the Balanced Fund and the Bond Fund in February 2007 to new managers. State Street Global Advisors, AllianceBernstein, and PIMCO Canada Corp. were selected. State Street invests the funds in a Canadian enhanced index fixed income product, targeting low risk to add moderate return above the index. The Plan also invests in AllianceBernstein's and PIMCO's "Core Plus" products, which not only invest in the Canadian fixed income market, but also place some of the funds in global bonds including a small portion in emerging markets debt, high yield bonds and currencies.

Effective September 7, 2007, all of the assets in the Short Term Investment Fund were moved from the Legg Mason Western Asset Canadian Money Market Fund to bcIMC Short Term Fund 1. The Legg Mason Western Asset fund had some exposure to short term corporate paper, and due to the credit concerns in the short term debt markets, the trustees decided to move the funds to the bcIMC fund that invests only in Canadian government issues. bcIMC also manages foreign equities and Canadian real estate for the Faculty Pension Plan.

We had one change to the Board last year. Dr. Joanne Emerman replaced Professor Dennis Pavlich, who was appointed President of the Great Northern Way Campus in December 2006. I would like to thank Professor Pavlich for his many valuable contributions to the Faculty Pension Plan over the past eleven years and wish him well in his new endeavour. The Board of Governors appointed Dr. Emerman, from the Department of Cellular & Physiological Sciences, for a four-year renewable term. This is Dr. Emerman's second time as a Trustee; she also served on the Board in 1996 and 1997. The trustees and staff look forward to working with Dr. Emerman.

The Pension Administration Office has been very busy with legislative changes over the past year. Mandatory retirement was eliminated by the BC government, effective January 1, 2008 (mandatory retirement for faculty members was eliminated in May 2007). This change did not require an alteration of the terms of the Plan because they already encompassed the possibility that a member might stay employed beyond the normal retirement age. Also, the Income Tax Act (ITA) was changed to allow members to defer commencing their pensions until age 71. Additionally, the ITA implemented new pension tax credits and pension income splitting, which means that retired members retain more of their retirement income.

In closing, I wish to thank the trustees for their input, time and guidance during the past year. Furthermore, I would like to thank the Plan's staff for their invaluable assistance and diligence in the day-to-day operation of our Plan.

Yours truly,

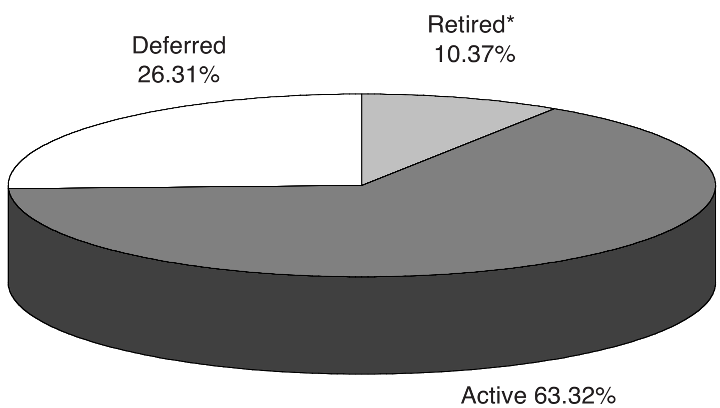
Joost Blom,
Chair

Facts at a Glance

	2007	2006	2005
Active and Deferred Members	4,476	4,363	4,252
Retired Members Receiving Benefits	518	461	423
Market Value of Funds	$1,274,239,918	$1,248,384,637	$1,115,391,698
Total Contributions (Member + University)	$47,471,021	$42,711,008	$38,698,666
Retirement Benefits Paid			
Minimum Retirement Benefit (MRB) + Variable Payment Life Annuity (VPLA)	$8,621,443	$7,888,207	$7,314,424
RRIF-Type Payments	$3,515,755	$2,907,886	$736,010
LIF-Type Payments	$1,303,907	$709,803	$283,989
Value of Members' Accounts Transferred out of Plan	$43,237,764	$38,975,611	$48,820,698
VPLA - 4% Unit Value[1]	$21.65	$19.89	$18.64
VPLA - 7% Unit Value[1]	$15.37	$14.53	$14.01

[1] Refer to page 6 for 2008 unit values.

Plan Membership



* Retired members include all members receiving MRB, VPLA, RRIF-Type or LIF-Type Payments.

Membership

Active members are those who are currently employed by UBC and are making contributions, or on whose behalf contributions are being made, to the Plan.

Deferred members are those who have resigned but have left all or a portion of their account balances in the Plan.

Retired members are those who are receiving VPLA, MRB, RRIF-type or LIF-type payments from the Plan.

Terminated members are those who have withdrawn their funds from the Plan. They are not included in the membership.

Summary of Active and Deferred Members

	2007	2006	2005
Beginning of period	4,363	4,252	3,979
Add: new members	234	249	466
Sub-total	4,597	4,501	4,445
Less: terminated and retired	121	138	193
Total Active/ Deferred Members	**4,476**	**4,363**	**4,252**

Of the total members, 3,162 are active members and 1,314 are deferred members.

Summary of Retired Members

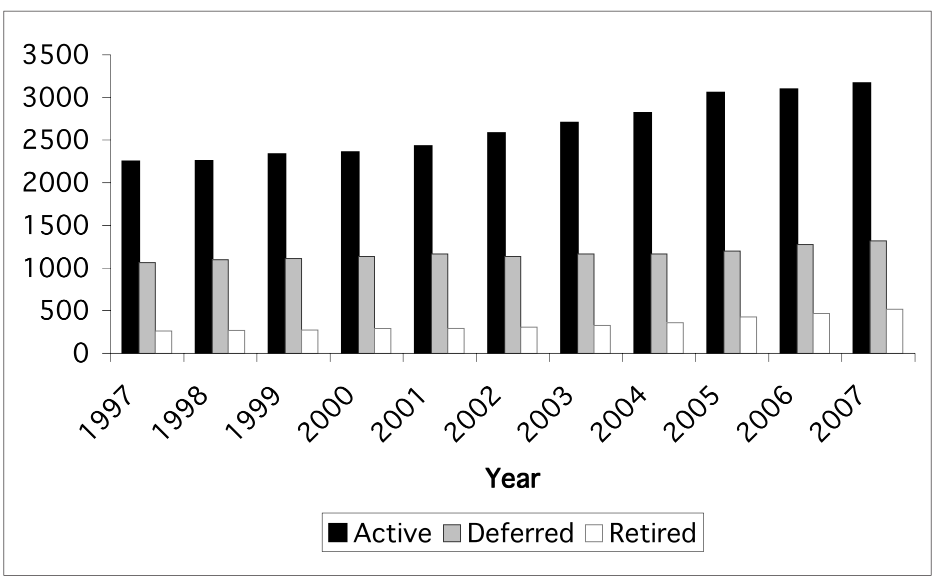
	2007	2006	2005
Beginning of period	461	423	355
Additional Retirees VPLA + RRIF + LIF	67	49	78
Less: Deceased Members	10	11	10
Total Retired Members	**518**	**461**	**423**

Members may elect one or a combination of the retirement options available. The breakdown of the options elected by retired members is as follows:

Minimum Retirement Benefits (MRB)	34
Variable Payment Life Annuities (VPLA)	350
RRIF-Type Payments	117
LIF-Type Payments	95

For more information on the available retirement options see www.pensions.ubc.ca/faculty and select ‘Thinking of Retiring’.

Plan Membership



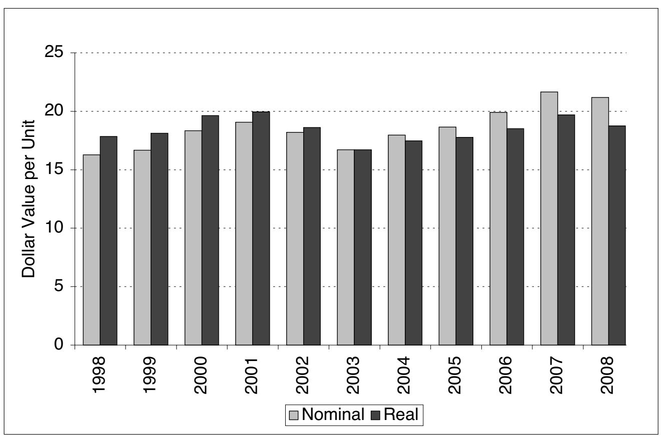
Variable Payment Life Annuity (VPLA) Unit Values

Variable Payment Life Annuities are available from the Plan with two earning assumptions: 4% or 7%. Units are purchased at retirement using all or a portion of the member's account balance.

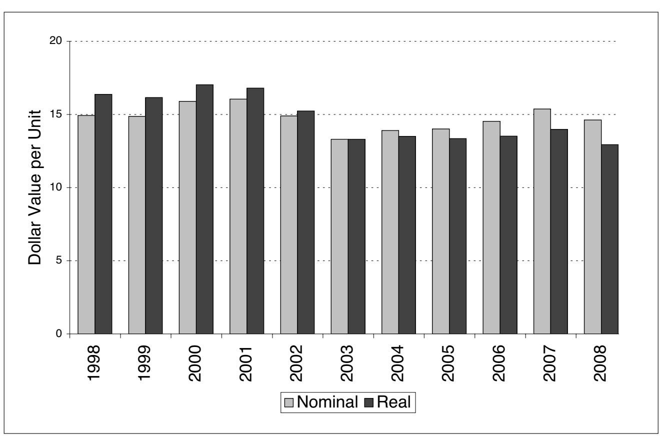
An annual valuation is completed to determine the VPLA unit value effective January 1. The unit value calculation is a result of the investment performance of the Balanced Fund and the mortality experience of the VPLA group for the previous calendar year.

The following chart illustrates the annual change to the VPLA unit value. (The real values have been adjusted for inflation using 2002 dollars to show purchasing power.)

4% VPLA Unit Values



7% VPLA Unit Values



The following tables show a history of the unit values for 4% and 7% assumptions. The annual unit value is adjusted on the annuitant's April 1 payment.

Unit Values

Year	4%	Annual unit value change (%)
1998	$16.27	11.21
1999	$16.66	2.40
2000	$18.33	10.02
2001	$19.05	3.93
2002	$18.20	-4.46
2003	$16.70	-8.24
2004	$17.96	7.54
2005	$18.64	3.79
2006	$19.89	6.71
2007	$21.65	8.84
2008	$21.17	-2.22

Year	7%	Annual unit value change (%)
1998	$14.93	8.11
1999	$14.86	-0.47
2000	$15.89	6.93
2001	$16.05	1.01
2002	$14.90	-7.17
2003	$13.29	-10.81
2004	$13.89	4.51
2005	$14.01	0.86
2006	$14.53	3.71
2007	$15.37	5.78
2008	$14.61	-4.95

For more information on the VPLA, see www.pensions.ubc.ca/faculty and follow the link under Library, to Variable Annuity (VPLA) Guide.

Market Value of Funds and Rates of Return for 2007

	Balanced Fund	Canadian Equity Fund	Foreign Equity Fund	Bond Fund	Short Term Investment Fund
Market Value as at December 31, 2007	$1,087,240,631	$85,220,108	$35,188,365	$26,365,198	$40,225,616
Gross Rate of Return[1]	3.19%	11.52%	-9.74%	3.78%	4.49%
Operating Expenses	0.08%	0.08%	0.08%	0.08%	0.08%
Investment Expenses[1]	0.45%	0.37%	0.24%	0.13%	0.07%
Net Rate of Return	2.66%	11.07%	-10.06%	3.57%	4.34%

Historical Rates of Return

RBC Dexia Investor Services measures the performance of our investment funds. They report on absolute returns and, where available, relative rankings. The absolute returns are compared with returns of composite indices which reflect the asset allocation of each fund. Relative ranking indicates the investment fund's percentile standing within a universe of comparable funds.

The following table gives performance information for periods ending December 31, 2007.

	1 year %	3 years %	5 years %	10 years %	Relative Ranking 1 year	3 years	4 years
Balanced Fund - gross[1]	3.19	9.72	10.09	7.15	26th	33rd	64th
Balanced Fund - net	2.66	9.24	9.62	6.72			
Composite Index 1[2]	2.16	8.56	9.68	6.95			
Canadian Equity Fund - gross	11.52	17.98	19.39	10.48	18th	35th	55th
Canadian Equity Fund - net	11.07	n/a	n/a	n/a			
Composite Index 2[3]	10.16	16.87	18.38	9.70			
Foreign Equity Fund - gross[1]	-9.74	5.67	6.69	3.38	75th	73rd	84th
Foreign Equity Fund - net	-10.06	n/a	n/a	n/a			
Composite Index 3[4]	-7.62	5.56	7.42	3.61			
Bond Fund - gross	3.78	4.46	5.24	6.07	21st	83rd	90th
Bond Fund - net	3.57	4.24	5.00	5.82			
Composite Index 4[5]	3.40	4.36	5.37	6.16			
Short Term Investment Fund - gross	4.49	3.74	3.30	4.35	66th	55th	48th
Short Term Investment Fund - net	4.34	3.56	3.10	4.06			
Composite Index 5[6]	4.41	3.66	3.24	3.83			

[1] The Gross Rate of Return represents income from investments, including accrued interest. It also reflects changes in market values during the year. Several of our funds (bcIMC Enhanced EAFE Index Fund, bcIMC Active EAFE Fund, bcIMC Realpool, bcIMC Short Term Fund 1, CUE Real Property (2), GPM Real Property (7) and Westpen Properties) deduct their expenses from their fund returns, so the returns included in the "Gross Rate of Return" and "Investment Expenses" for these funds are understated.

[2] Composite Index 1: 33% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX Capped 60, 15% S&P 500, 15% MSCI-EAFE, 2% DEX 91-Day TB, 10% IPD Canadian Property, 5% DEX Real Return Bond

[3] Composite Index 2: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX Capped 60

[4] Composite Index 3: 48% MSCI-EAFE, 48% S&P 500, 4% DEX 91-Day TB

[5] Composite Index 4: 86.8% DEX Universe, 13.2% DEX Real Return Bond

[6] Composite Index 5: DEX 91-Day TB until August 2007; DEX 30-Day TB commencing September 2007

Index Rates of Return

For periods ending December 31, 2007, the capital markets produced the following rates of return by asset class. Our managers' performance is measured against these indices.

Asset Class Index	Rates of Return (%) For periods ending December 31, 2007			
	1 yr	2 yr	3yr	4yr
Canadian equities				
S&P/TSX Composite Index	9.8	13.5	16.9	16.3
S&P/TSX Capped Composite Index	9.8	13.5	16.9	16.3
Canadian large cap equities				
S&P/TSX Capped 60 Index	11.1	15.1	18.7	17.5
Canadian bonds				
DEX Universe Bond Index	3.7	3.9	4.7	5.3
Real return bonds				
DEX Real Return Bond Index	1.6	-0.7	4.4	7.5
U.S. equities				
S&P 500 Index (Canadian $)	-10.5	1.6	1.8	2.1
Non-North American equities				
MSCI-EAFE Index (Canadian $)	-5.7	8.9	9.5	10.0
Real estate				
IPD Canadian Property Index	13.0	15.6	16.4	15.5
Absolute return hedge fund				
DEX 91-Day Treasury Bill Index	4.4	4.2	3.7	3.3
Money market				
DEX 30-Day Treasury Bill Index	4.3	4.1	3.6	3.3

Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2007. The trustees monitor the performance of each of the managers and meet with them regularly to review their performance. Measured against comparable managers, each manager's performance is expected to rank in the top third. The managers are also expected to achieve returns greater than their benchmark over a four year period.

Asset Class Manager	Gross Rates of Return(%)[1] For periods ending December 31, 2007 1 yr	2 yr	3 yr	4 yr
Canadian equity				
Connor, Clark & Lunn Q-Growth Fund	13.5	14.5	20.1	20.6
Guardian Capital LP	11.5	16.7	17.7	16.2
Leith Wheeler Investment Counsel	10.7	14.4	n/a	n/a
PCJ Investment Counsel	10.4	15.2	18.3	17.3
US equity				
Barclays Global Investors - Pension US Alpha Tilts Fund	-14.5	-0.6	1.7	n/a
Non-N.A. equity[2]				
bcIMC - Active EAFE Fund & Enhanced EAFE Index Fund[3]	-6.9	7.9	8.5	n/a
Hedge fund				
Barclays Global Investors - Global Market Selection Fund	12.7	13.9	17.2	n/a
Fixed income				
AllianceBernstein[4]	n/a	n/a	n/a	n/a
PIMCO Canada Corp.[4]	n/a	n/a	n/a	n/a
State Street Global Advisors[4]	n/a	n/a	n/a	n/a
Barclays Global Investors - Real Return Bond Fund	-1.5	-1.0	n/a	n/a
Real estate[2]				
bcIMC - Realpool	21.3	23.6	21.7	n/a
CUE Real Property (2)	30.7	25.4	28.1	24.1
GPM Real Property (7)	32.8	24.9	24.6	20.8
Westpen Properties	22.0	25.5	24.6	21.3
Money market[2]				
bcIMC - Short Term Fund 1[5]	n/a	n/a	n/a	n/a

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.
2 Investment manager fees for these funds are directly charged to the fund; therefore, the manager's reported rate of return is a net rate of return.
3 On November 16, 2007, the bcIMC Active EAFE Fund was split into two funds: bcIMC Active EAFE Fund and bcIMC Enhanced EAFE Index Fund.
4 Fixed income component was restructured in February 2007 and new managers were hired.
5 Effective September 7, 2007, all of the assets in the Short Term Investment were transferred to the bcIMC Short Term Fund 1.

Balanced Fund

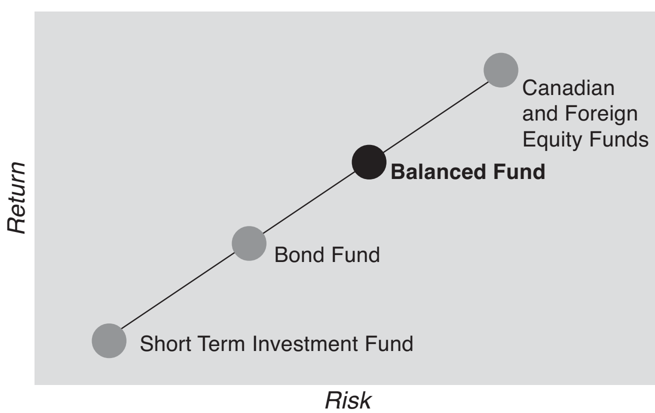
Objective

The Balanced Fund's objective is to earn an acceptable long-term average rate of return commensurate with a moderate level of risk by investing in a portfolio of stocks, bonds and real estate in a well-diversified global portfolio.

Risk/Return

A balanced portfolio is a composite of different asset classes, the combination of which reduces the risk of the portfolio while maintaining good return potential. The Balanced Fund asset mix is designed to maximize long-term returns while maintaining risk at comparable or lower risk exposure than the median balanced fund for similar pension plans. The returns of the assets held in the Balanced Fund fluctuate with economic conditions in Canada and globally, individual company and industry performance, political and world events, changes in interest rates and other factors.

Risk vs. Return



Suitability

The trustees introduced the Balanced Fund to provide a choice for members who do not want to make their own asset allocation decisions and are seeking satisfactory long-term growth with moderate volatility, through diversification across different asset classes.

Assets

Total assets in the Balanced Fund as at December 31, 2007, were $1,087.2 million.

Performance

Twelve investment managers invest the Balanced Fund's assets, as shown under "Structure". The investment managers are expected to earn a rate of return in excess of their benchmark index return. They are also expected to rank in the top third of a universe of similar managers.

Rates of return for the Balanced Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. One manager for the Balanced Fund is paid a base fee plus an additional fee if returns exceed their benchmarks. During the year ended December 31, 2007, the base fee for investment expenses was approximately 0.43%[1]. The additional fee paid for superior performance during that year was 0.14%. Annual operating fees were approximately 0.08%.

Structure

The target asset allocation of the Balanced Fund, as set by the trustees, is shown in the pie chart following. The trustees regularly rebalance the portfolio to maintain this target asset mix.

The Canadian equity component is comprised of four portfolios, each selected to provide the Fund with a diversified style of investment management.

The US equity component is invested in an enhanced index fund, which is designed to outperform the S&P 500 index while controlling risk. The non-North American equity component includes international equities in the developed markets of Europe, Australia, and the Far East (EAFE). The EAFE portfolio is managed by British Columbia Investment Management Corporation (bcIMC). In November 2007, bcIMC split their active EAFE fund into two funds. The Balanced Fund is now invested in both the new Active EAFE Fund (which is managed by six diversified investment managers) and the Enhanced EAFE Index Fund (which

[1] This includes the investment fees deducted directly from the following funds: bcIMC Active EAFE Fund, bcIMC Enhanced EAFE Index Fund, bcIMC Realpool, CUE Real Property(2), GPM Real Property(7) and Westpen Properties, plus custodial fees deducted from all of the pooled funds held by the Fund.

is managed by one investment manager). The hedge fund is a quantitative global investment strategy that provides diversification with the Balanced Fund's conventional asset classes.

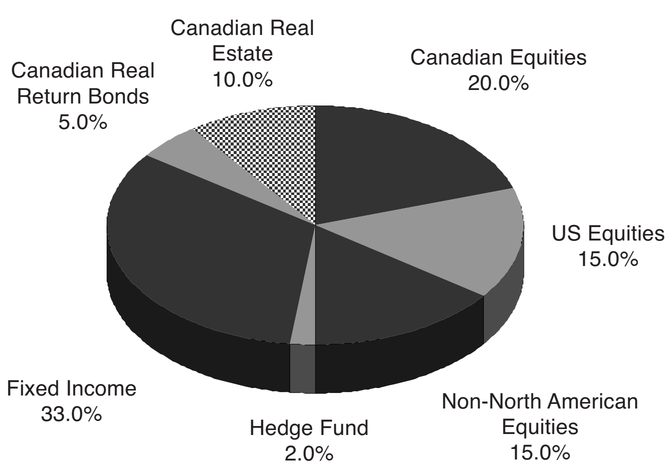
The bond component was restructured in February 2007. It is now invested in a Canadian enhanced index fixed income fund, two Core Plus portfolios and an inflation-linked Canadian bond index fund. The Canadian enhanced fixed income fund is a risk controlled product which is very similar to the DEX Universe index. The two Core Plus managers invest primarily in Canadian fixed income securities but diversify their portfolios by investing in foreign denominated bonds, including a small portion in high yield bonds and emerging markets debt.

The real estate investments are holdings in diversified portfolios of properties situated in the main urban areas of Canada.

Asset Class	**Target Allocation %**	**Benchmark**	**Manager (Style or Fund)**
Equities	**50.0**		
Canada	5.0	S&P/TSX Composite	Connor, Clark & Lunn (Q Growth Fund)
	5.0	S&P/TSX Capped Composite	Guardian Capital LP (Core)
	5.0	S&P/TSX Capped Composite	Leith Wheeler Investment Counsel (Value)
	5.0	S&P/TSX Capped 60	PCJ Investment Counsel (Growth/Sector Rotator)
United States	15.0	S&P 500	Barclays Global Investors (Pension U.S. Alpha Tilts Fund)
Non-North American	10.5	MSCI-EAFE	bcIMC (Active EAFE Fund) [1]
	4.5	MSCI-EAFE	bcIMC (Enhanced EAFE Index Fund)[2]
Hedge Fund	**2.0**	DEX 91-day T-Bill	Barclays Global Investors (Global Market Selection Fund)
Fixed Income	**38.0**		
Canada	6.6	DEX Universe	AllianceBernstein (Core Plus)
	9.9	DEX Universe	PIMCO Canada Corp. (Core Plus)
	16.5	DEX Universe	State Street Global Advisors (Enhanced Fixed Income Index Fund)
Real Return Bonds	5.0	DEX Real Return Bond	Barclays Global Investors (Real Return Bond Index Fund)
Real Estate [3]	**10.0**		
Canada	0.5	IPD Canadian Property	CUE Real Property (2) Ltd.
	2.0	IPD Canadian Property	GPM Real Property (7) Ltd.
	4.7	IPD Canadian Property	Westpen Properties Ltd.
	2.8	IPD Canadian Property	bcIMC Realpool
Total	**100.0**		

1 *The bcIMC Active EAFE Fund is invested with the following investment managers: Acadian, AllianceBernstein, JP Morgan, Pictet, Pyrford and Wellington.*
2 *The bcIMC Enhanced EAFE Index Fund is invested with AllianceBernstein.*
3 *The Balanced Fund invests in real estate pooled funds.*

Target Asset Allocation



Canadian Equity Fund

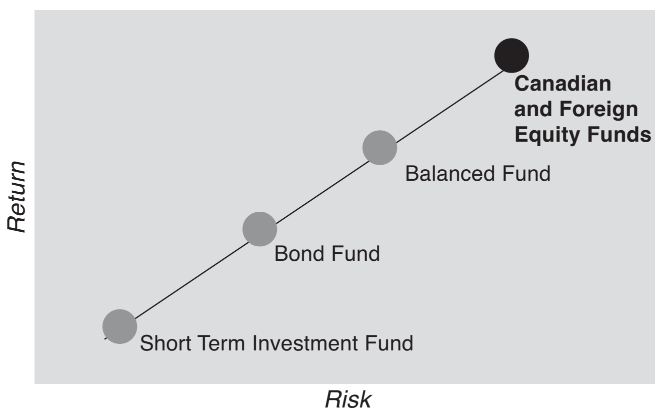
Objective

The Canadian Equity Fund's objective is to earn an above average long-term rate of return by investing in a diversified portfolio of Canadian equities.

Risk/Return

Equities are expected to earn the highest long-term average rates of return of the major asset classes, but also to have the highest level of risk or volatility. The returns of the stocks held in the Canadian Equity Fund fluctuate with individual company and industry performance, the Canadian economy, political and world events and other factors. Excess volatility is reduced in the Canadian Equity Fund by diversifying across different investment styles and different investment managers.

Risk vs. Return



Suitability

The trustees introduced the Canadian Equity Fund to provide a choice to members who have long-term investment horizons and who are tolerant of a higher level of volatility in their portfolio in exchange for a higher long-term expected return. The Canadian Equity Fund was introduced to allow members to choose their specific allocation to Canadian equity.

Assets

Total assets in the Canadian Equity Fund as at December 31, 2007, were $85.2 million.

Performance

Four investment managers invest the Canadian Equity Fund's assets, as shown under "Structure". The investment managers are expected to earn a rate of return in excess of their benchmark. Managers are also expected to rank in the top third of a sample of managers with similar objectives.

Rates of return for the Canadian Equity Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. During the year ended December 31, 2007, the approximate annual investment expenses were 0.39%.[1] Annual operating fees were approximately 0.08%.

Structure

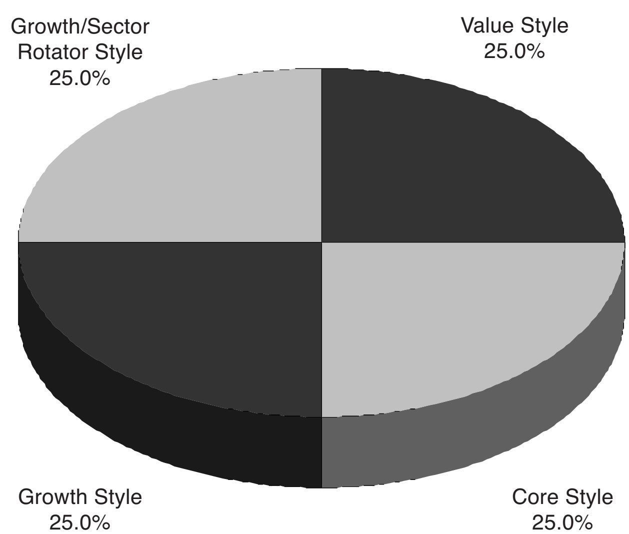
The Canadian Equity Fund is comprised of four portfolios, each selected to provide the Fund with a diversified style of investment management, as shown in the pie chart following.

The managers who invest the Canadian Equity Fund also invest the Canadian equity component of the Balanced Fund, using identical mandates.

[1] This includes custodial fees deducted directly from the Connor Clark & Lunn Q Growth Fund.

Manager (Style or Fund)	Target Allocation (%)	Benchmark
Connor, Clark & Lunn (Q Growth Fund)	25	S&P/TSX Composite
Guardian Capital LP (Core)	25	S&P/TSX Capped Composite
Leith Wheeler Investment Counsel (Value)	25	S&P/TSX Capped Composite
PCJ Investment Counsel (Growth/Sector Rotator)	25	S&P/TSX Capped 60

Target Asset Allocation



Foreign Equity Fund

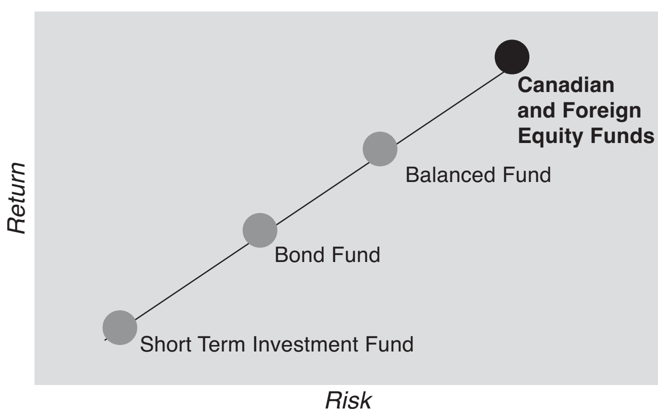
Objective

The Foreign Equity Fund's objective is to earn an above average long-term rate of return by investing in a diversified portfolio of U.S. and international equities.

Risk/Return

Equities are expected to earn the highest long-term average rates of return of the major asset classes, but also to have the highest level of risk or volatility. The returns of the stocks held in the Foreign Equity Fund will fluctuate based on individual company and industry performance, global economic conditions, political and world events and other factors. Changes in exchange rates will also affect returns. (A strong Canadian dollar will detract from returns.) Excess volatility is reduced in the Foreign Equity Fund by diversifying across different investment styles, different countries and different investment managers.

Risk vs. Return



Suitability

The trustees introduced the Foreign Equity Fund to provide a choice to members who have long-term investment horizons and who are tolerant of a higher level of volatility in their portfolio in exchange for a higher long-term expected return. The Foreign Equity Fund was introduced to allow members to choose their specific allocation to global (non-Canadian) equities.

Assets

Total assets in the Foreign Equity Fund as at December 31, 2007, were $35.2 million.

Performance

Two investment managers invest the Foreign Equity Fund's assets, as shown under "Structure". The investment managers are expected to earn a rate of return in excess of their benchmark. Managers are also expected to rank in the top third of a sample of managers with similar objectives.

Rates of return for the Foreign Equity Fund and the underlying composite benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. Barclays Global Investors is paid a base fee plus an additional fee if returns exceed their benchmarks. During the year ended December 31, 2007, the base fee for investment expenses was approximately 0.38%[1]. The additional fee paid for superior performance during that year was 0.17%. Annual operating fees were approximately 0.08%.

Structure

The target asset allocation of the Foreign Equity Fund, as set by the trustees, is shown in the pie chart following.

The managers who invest the Foreign Equity Fund also invest the foreign equity component of the Balanced Fund, using identical mandates.

The US equity component is invested in an enhanced index fund, which is designed to outperform the S&P 500 index while controlling risk. The non-North American equity component includes international equities in the developed markets of Europe, Australia, and the Far East (EAFE). The EAFE portfolio is managed by British Columbia Investment Management Corporation

[1] This includes investment fees deducted directly from the bcIMC Active EAFE Fund and bcIMC Enhanced EAFE Index Fund plus custodial fees deducted directly from the pooled funds held.

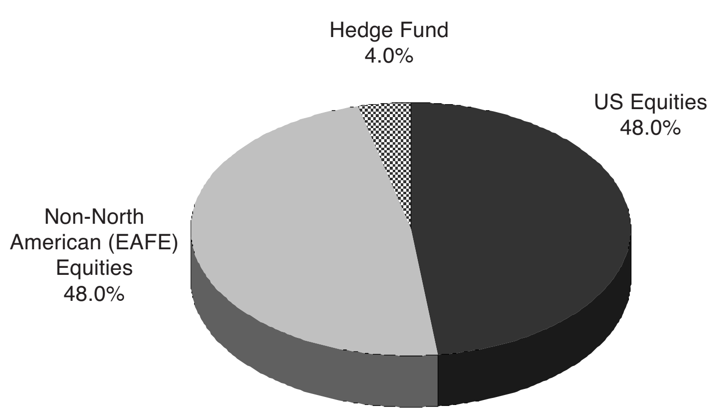
(bcIMC). In November 2007, bcIMC split their Active EAFE Fund into two funds. The Foreign Equity Fund is now invested in both the new Active EAFE Fund (which is managed by six diversified investment managers) and the Enhanced EAFE Index Fund (which is managed by one investment manager). The hedge fund is a quantitative global investment strategy, which provides diversification with the Fund's other asset classes.

Asset Class	Target Allocation (%)	Benchmark	Manager (Style or Fund)
United States Equities	**48.0**	S&P 500	Barclays Global Investors (Pension U.S. Alpha Tilts Fund)
Non-North American Equities	**48.0**		
	33.6	MSCI-EAFE	bcIMC (Active EAFE Fund)[1]
	14.4	MSCI-EAFE	bcIMC (Enhanced EAFE Index Fund)[2]
Hedge Fund	**4.0**	DEX 91 day T-Bill	Barclays Global Investors (Global Market Selection Fund)
Total	**100.0**		

[1] *The bcIMC Active EAFE Fund is invested with the following investment managers: Acadian, AllianceBernstein, JP Morgan, Pictet, Pyrford and Wellington.*

[2] *The bcIMC Enhanced EAFE Index Fund is invested with AllianceBernstein.*

Target Asset Allocation



Bond Fund

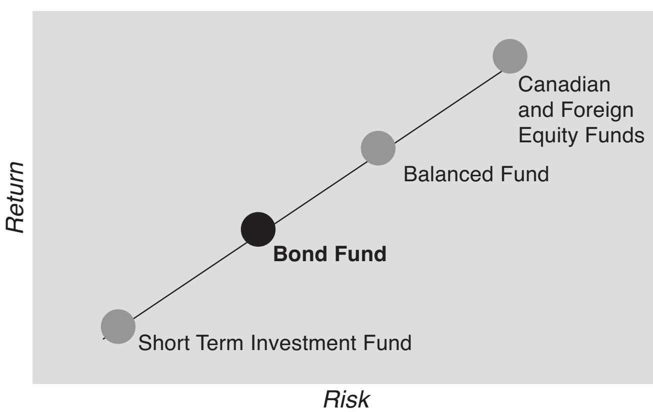
Objective

The Bond Fund's objective is to earn a long-term average rate of return that is higher than the DEX Universe Bond Index, by holding a well-diversified portfolio of fixed income securities of various maturities, issued by governments and corporations.

Risk/Return

Bond returns are inversely correlated to interest rate changes and are subject to volatility. Declining interest rates create increases in bond prices and rising interest rates cause decreasing prices. Over the long term, the Bond Fund is expected to earn a return and have volatility between the Short Term Investment Fund and the Balanced Fund.

Risk vs. Return



Suitability

The trustees introduced the Bond Fund to provide a choice for members who wish to reduce their exposure to stock market risk.

Assets

Total assets in the Bond Fund as at December 31, 2007, were $26.4 million.

Performance

Four investment managers invest the Bond Fund's assets, as shown under "Structure". The managers are expected to rank in the top third of a universe of similar managers and the active managers are expected to earn a rate of return in excess of the DEX Universe Bond Index.

Rates of return for the Bond Fund and the benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for investment managers, custodial fees and other related fees for investment management. The approximate annual investment expenses for the year ended December 31, 2007, were 0.20%.[1] Annual operating fees were approximately 0.08%.

Structure

The target asset allocation of the Bond Fund, as set by the trustees, is shown in the following table.

The Canadian enhanced index fixed income fund is a risk controlled product which is very similar to the DEX Universe index. The investment manager adds value by making many small impact decisions varying the mix from the index. The two Core Plus bond managers invest primarily in a diversified portfolio of Canadian bonds that form the DEX Universe index. They further diversify their portfolios by investing in foreign denominated bonds, including a small portion in high yield bonds and emerging markets debt. They may use derivative instruments as an alternative to directly owning bonds in order to implement their strategies. The managers employ many strategies including duration management, yield curve positioning, sector rotation as well as research and credit techniques to select individual securities. The portfolio may also have a small exposure to unhedged foreign currencies. The remainder of the Bond Fund is invested in real return bonds which provide returns linked to Canadian inflation.

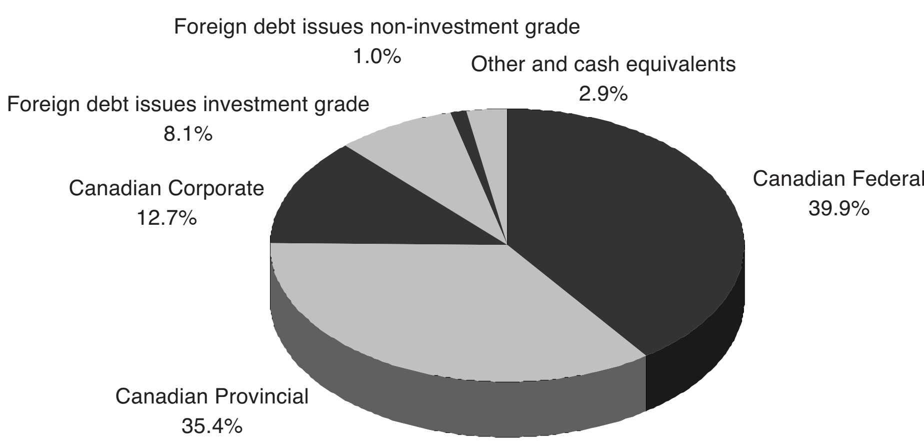
[1] This includes custodial fees deducted directly from all of the pooled funds held by the Fund.

Manager (Style or Fund)	Target Allocation (%)	Benchmark
State Street Global Advisors (Enhanced Fixed Income Index Fund)	43.4	DEX Universe Bond Index
PIMCO Canada Corp. (Core Plus)	26.0	DEX Universe Bond Index
AllianceBernstein (Core Plus)	17.4	DEX Universe Bond Index
Barclays Global Investors (Real Return Bond Index Fund)	13.2	DEX Real Return Bond Index
Total	**100.0**	

As at December 31, 2007, the Bond Fund had an average duration of 7.93 years. Duration is the most commonly used measure of bond risk. It quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. (If interest rates increase by 1%, a bond with a 7-year duration will fall in value by approximately 7%.) The duration measure incorporates a bond's yield, coupon, and final maturity into one number. The longer the duration, the higher the risk and the more sensitive the bond or portfolio is to changes in interest rates.

The following pie chart shows the allocation of the Bond Fund to different types of fixed income instruments, as a percentage of duration.

Sector Diversification (December 31, 2007)



Short Term Investment Fund

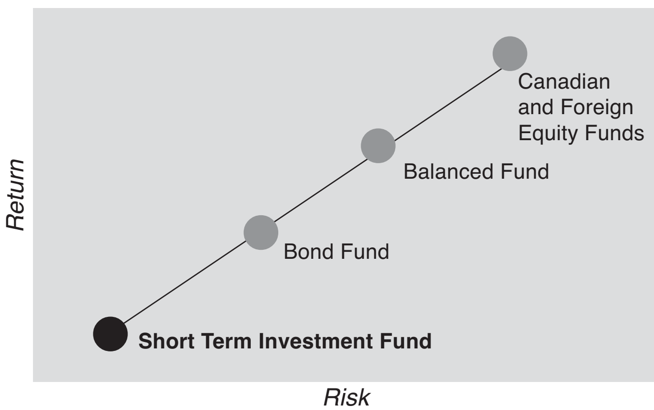
Objective

The Short Term Investment Fund's objective is to preserve capital while generating a reasonable rate of return.

Risk/Return

The Short Term Investment Fund will provide returns that are more stable, but the lowest of any of the Funds over the long term. The risk level of this Fund is low due to the high quality of the short-term investments. Returns from this Fund may not be adequate to offset inflation.

Risk vs. Return



Suitability

The trustees introduced the Short Term Investment Fund to provide a choice to members who wish to minimize expected market risk and preserve capital. This Fund is not recommended as a long-term investment for a member's total account balance.

Assets

Total assets in the Short Term Investment Fund as at December 31, 2007, were $40.2 million.

Performance

The Short Term Investment Fund is expected to provide a return in excess of the DEX 30-Day Treasury Bill Index.

Rates of return for the Short Term Investment Fund and the benchmark index are shown under "Historical Rates of Return" on page 7.

Fees

The investment expenses include fees for the investment manager, custodial fees and other related fees for investment management. The approximate annual investment expenses for the year ended December 31, 2007, were 0.09%.[1] Annual operating fees were approximately 0.08%.

Structure

Effective September 7, 2007, all of the assets in the Short Term Investment Fund were transferred to the British Columbia Investment Management Corporation (bcIMC) Short Term Fund 1. The bcIMC Short Term Fund 1 invests in very short term debt securities (up to 45 days) that are issued, insured or guaranteed by a Canadian government. This fund assumes minimal investment risk and targets to outperform the DEX 30-Day Treasury Bill Index. The fund invests in fixed income securities which are issued, insured or guaranteed by the Government of Canada, a provincial or a municipal government.

[1] This includes investment fees deducted directly from the bcIMC Short Term Fund 1.

Financial Statements of

THE UNIVERSITY OF BRITISH COLUMBIA FACULTY PENSION PLAN

December 31, 2007

The University of British Columbia
Faculty Pension Plan
December 31, 2007

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Auditors' report

To the Members of
The University of British Columbia Faculty Pension Plan

We have audited the statement of net assets available for benefits of The University of British Columbia Faculty Pension Plan (the "Plan") as at December 31, 2007 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the Plan's net assets available for benefits as at December 31, 2007 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 8, 2008 (except as to Note 10 which is as of March 7, 2008)

The University of British Columbia
Faculty Pension Plan

Statement of net assets available for benefits
as at December 31, 2007

(Expressed in thousands of dollars)

	2007	2006
	$	$
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 4)		
Short-term notes	**48,154**	41,139
Bonds	**447,072**	398,835
Equities	**655,941**	696,163
Real estate	**129,354**	113,368
	1,280,521	1,249,505
Cash	**745**	472
Investment income receivable	**991**	4,870
	1,282,257	1,254,847
Contributions receivable		
Members	**533**	1,335
University	**-**	1,659
	533	2,994
	1,282,790	1,257,841
Liabilities		
Accounts payable and accrued liabilities	**3,127**	2,657
Plan withdrawals payable to members	**5,424**	6,800
	8,551	9,457
Net assets available for benefits (Note 5)	**1,274,239**	1,248,384

Subsequent event (Note 10)

Approved on behalf of the Board of Trustees

Joost Blom

Chair

Vice-Chair

See accompanying notes to the financial statements.

The University of British Columbia
Faculty Pension Plan

Statement of changes in net assets available for benefits
year ended December 31, 2007

(Expressed in thousands of dollars)

	2007	2006
	$	$
Increase in net assets		
Members' required contributions	**13,810**	12,888
University's required contributions	**27,427**	25,781
Members' additional voluntary contributions	**373**	362
Transfers from other plans	**5,861**	3,680
	47,471	42,711
Return on investments, including changes in market values (Notes 3 and 7)	**40,024**	154,055
	87,495	196,766
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**13,441**	11,506
Death benefits	**1,050**	2,700
Members' accounts transferred and refunded	**42,188**	36,276
	56,679	50,482
Operations		
Actuarial services	**65**	37
Audit and consulting services	**23**	22
Legal services	**2**	37
Office and administrative costs	**854**	777
	944	873
Investment transaction and administration fees (Note 3)	**4,017**	3,939
	61,640	55,294
Increase in net assets available for benefits	**25,855**	141,472
Net assets available for benefits, beginning of year	**1,248,384**	1,106,912
Net assets available for benefits, end of year	**1,274,239**	1,248,384

See accompanying notes to the financial statements.

1. Description of plan

The following description of The University of British Columbia Faculty Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text.

(a) General

The Plan is sponsored by The University of British Columbia (the "University") and covers all full-time academic and administrative executive staff, as defined in the Plan text, appointed for one year or more, as well as other members defined in the Plan text. The Plan is registered under the Pension Benefits Standards Act of British Columbia (registration no. 85435). As a registered pension plan under the Income Tax Act of Canada, the Plan is exempt from taxation.

(b) Funding policy

The Plan text requires members and the University to make contributions of 5% and 10%, respectively, of basic salary up to the YBE, 3.2% and 8.2%, respectively, of basic salary between the YBE and the YMPE, and 5% and 10%, respectively, of basic salary over the YMPE. YBE is the "year's basic exemption" under Canada Pension Plan requirements, while the YMPE is the "year's maximum pensionable earnings" under the Canada Pension Plan requirements.

The Trustees are authorized to receive as contributions only such amounts as are authorized by the Income Tax Act, and in the event excess funds are received, these are refunded to whoever made the contribution.

(c) Investment options

Members in the Money Purchase account, Registered Retirement Income Fund ("RRIF") type payment account or Life Income Fund ("LIF") type payment account can choose to invest their individual account balances in a balanced fund, bond fund, short-term investment fund, or two equity funds.

(d) Retirement benefits

Normal retirement is the first day of July or January following the member's 65th birthday, whichever comes first. However, a member may retire anytime after attaining the age of 55, or may postpone retirement benefits until December 1 of the calendar year of the member's 71st birthday.

(e) Forms of retirement benefit

Upon retirement, the balance in a member's account may be:

- transferred to the Variable Payment Life Annuity account to provide a variable annuity administered by the Plan;
- transferred to the LIF-type payment account (maximum withdrawal, which is based on the member's age, changes each year based on rates for long-term Government of Canada bonds) or RRIF-type payment account (no maximum withdrawal) administered by the Plan;

1. Description of plan (continued)

(e) Forms of retirement benefit (continued)

- transferred to an approved LIF, Registered Retirement Savings Plan or RRIF administered externally;
- used to purchase an annuity from a financial institution authorized to issue such products;
- withdrawn as cash from non-locked in balances;
- deferred until December 1 in the year the member turns 71; or
- used for a combination of options.

(f) Termination and death benefits

Benefits are also paid on termination of employment or in the event of death of the member prior to retirement.

Benefits on death subsequent to retirement are paid in accordance with the form of retirement benefit payment selected by the retired member.

2. Significant accounting policies

(a) Basis of presentation

The financial statements are prepared on the going concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the University and Plan members. The financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal year. The statement of net assets available for benefits shows the assets under control of the Trustees of the Plan, and does not purport to show their adequacy to meet the obligations of the Plan. The obligations for pension benefits are not presented in the statement of net assets available for benefits but are disclosed in Note 6.

(b) Use of estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of increases and decreases in net assets for the reporting period. Actual results could differ from those estimates.

2. Significant accounting policies (continued)

(c) Investments

Investments are recorded on a settlement basis and at fair value. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. Fair values of investments are determined as follows:

(i) Short-term notes, bonds and publicly traded equities are valued using published market quotations.

(ii) Real estate equities are valued using published market quotations. Direct real estate investments are valued quarterly by the real estate investment managers using a combination of internal and external appraisals to establish current market values.

Adjustments to investments due to the fluctuation of fair values are reflected as part of the return on investments in the statement of changes in net assets available for benefits. Investment transactions are recognized in the financial statements based on the settlement date. Realized gains and losses are calculated based on the average cost of the investments. Investment income is recognized on an accrual basis.

(d) Allocation of net assets

In the allocation of net assets (Note 5), the return on investments, and operational and investment transaction and administrative expenses are allocated monthly based on the opening account balances.

(e) Members' accounts transferred or refunded

Members' accounts transferred or refunded are recognized as a decrease in net assets on the accrual basis.

3. Change in accounting policy

Effective January 1, 2007, the Plan adopted the new recommendations of the CICA Emerging Issues Committee Abstract – 168 ("EIC-168"), *Accounting for Transaction Costs by Pension Plans*.

The Committee reached a consensus that pension plans should not include transaction costs in the fair value of investments either on initial recognition or on subsequent re-measurement. Transaction costs should be included in the statement of changes in net assets available for benefits in the period incurred.

The change in accounting policy has been applied retrospectively, without restatement of prior periods.

The impact of this accounting change was to increase investment transaction and administration fees by $284 and to increase the return on investment by $284 for the year ended December 31, 2007. There is no impact on the net assets available for benefits at December 31, 2007.

(Expressed in thousands of dollars)

4. Investments

The Plan's investments are exposed to market risk due to changing market conditions, including changes in interest rates and foreign exchange rates. The Plan manages market risk by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes to control overall market risk. The Plan is also exposed to foreign exchange risk as the value of equities held in foreign currencies varies with changes in currency exchange rates. The Plan does not use derivative financial instruments to manage these risks.

Details of significant terms and conditions and exposures to interest rate and credit risks on investments are as follows:

(a) *Short-term notes*

The short-term notes are primarily securities issued by the federal government, Canadian chartered banks or corporations, maturing at various dates within the next fiscal year, as well as investments in pooled money market funds. The effective interest rates of the short-term notes held at year end range from 3.8% to 4.7% (2006 - 3.12% to 6.50%).

(b) *Bonds*

The Plan's investment in bonds consists of units held in Canadian pooled bond funds.

(c) *Equities*

The fair value of the equity investments, by category, is summarized as follows:

	2007	2006
	$	$
Canadian		
Corporations	**283,444**	218,770
Pooled equity funds	**80,600**	73,932
Foreign		
Pooled equity funds	**291,897**	403,461
	655,941	696,163

(Expressed in thousands of dollars)

4. Investments (continued)

(c) Equities (continued)

The Plan manages its equity market risk by allocating its equities component across six (2006 - six) investment managers, with differing investment styles and mandates, none of which manages in excess of 30% of the equities component. The Plan's collective equity holdings managed by these managers are invested as follows:

	2007	2006
	%	%
Canadian		
Financial services	**9**	13
Oil and gas	**5**	6
Metals and minerals	**2**	2
Industrial products	**4**	4
Consumer products	**1**	1
Merchandising	**2**	2
Communication and media	**2**	3
Other sectors	**12**	3
Pooled equity funds	**11**	12
	48	46
Foreign		
Pooled equity funds	**52**	54
	100	100

(d) Real estate

All real estate investments are in Canadian property.

(e) Securities lending

The Plan participates in a security lending program whereby it lends securities it owns to others. For securities lent, the Plan receives a fee as well as receiving, as collateral, securities with a minimum market value of 105% of the market value of the securities lent. The program is managed by a federally regulated financial institution, which also guarantees the Plan's exposure under the program. At December 31, 2007, the Plan had securities with an estimated market value of $29,920 (2006 - $54,327) on loan and it held, as collateral, securities with an estimated market value of $32,165 (2006 - $57,941).

(Expressed in thousands of dollars)

5. Net assets available for benefits

The net assets available for benefits as at December 31 have been allocated as follows:

	2007	2006
	$	$
Money Purchase account	**1,086,466**	1,087,956
Variable Payment Life Annuity account	**81,132**	79,113
RRIF-type payment account	**78,100**	59,489
Minimum Retirement Benefit account	**4,735**	5,092
LIF-type payment account	**23,806**	16,734
	1,274,239	1,248,384

The Money Purchase account represents assets held by the Plan for the individual accounts of all active and deferred members prior to their retirement.

The Variable Payment Life Annuity account represents assets held by the Plan for the individual accounts of retired members receiving a variable annuity administered by the Plan.

The RRIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Registered Retirement Income Fund type payments administered by the Plan.

The Minimum Retirement Benefit pension option, which is no longer available to new retirees, offered monthly pension benefits to retired members who had elected that option, based on the member's salary while employed by the University and their years of contributing service.

The LIF-type payment account represents assets held by the Plan for the individual accounts of retired members receiving Life Income Fund type payments administered by the Plan.

6. Obligations for pension benefits - minimum retirement benefit account

The present value of accrued pension benefits was determined using the projected benefit method prorated on service based on economic assumptions as of January 1, 2005, which forecast economic patterns for the next few years, gradually modifying into the long-term. An actuarial valuation was made as of January 1, 2005 and was subsequently extrapolated to December 31, 2007 by Aon Consulting Inc., a firm of consulting actuaries. The actuarial valuation was conducted in respect of the Minimum Retirement Benefit account only.

(Expressed in thousands of dollars)

6. Obligations for pension benefits - minimum retirement benefit account (continued)

The actuarial present value of benefits as at December 31, and the principal components of changes in the actuarial present value during the year were as follows:

	2007	2006
	$	$
Actuarial present value of accrued pension benefits, beginning of year	**1,651**	2,073
Interest accrued on benefits	**92**	117
Benefits paid	**(485)**	(539)
Actuarial present value of accrued pension benefits, end of year	**1,258**	1,651

The assumptions used in determining the actuarial present value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation were as follows:

	2005-2007	2008 and later
	%	%
Annual interest rates	6.50	6.75
Annual rates of inflation	2.00	2.50

7. Return on investments

	2007	2006
	$	$
Interest income	**13,785**	18,737
Pooled fund distributions	**33,413**	21,784
Real estate income	**2,694**	2,227
Dividend income	**6,766**	1,669
Net realized gains on investments	**50,588**	25,449
Unrealized (losses) gains on investments	**(67,222)**	84,189
	40,024	154,055

8. Financial instruments

The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts payable and plan withdrawals payable to members approximate their carrying values due to the short-term nature of these financial instruments.

The Plan's investments are carried at fair value in accordance with the significant accounting policy disclosed in Note 2 (c).

9. Future accounting changes

The Canadian Institute of Chartered Accountants has issued CICA Handbook Section 3862, *Financial Instruments - Disclosures*, ("HB-3862") and Section 3863, *Financial Instruments - Presentation* ("HB-3863"). These new sections establish standards for disclosures about financial instruments, including disclosures about fair value and the credit, liquidity and market risks associated with the financial instruments, and for presentation of financial instruments and non-financial derivatives. These new standards supersede Handbook Section 3861.

Both sections are effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007. These new standards relate to presentation and disclosure only and will not impact the net assets available for benefits of the Plan.

10. Subsequent event

On March 7, 2008, the Trustees approved the purchase of a special annuity from Sun Life Assurance Company of Canada Limited ("Sun Life") that will provide for the payment of pension benefits required under the terms of the minimum retirement benefit ("MRB") account (see Notes 5 and 6). The purchase price for the MRB annuity was $2,449 and the purchase date was March 11, 2008. MRB pensioners will receive their monthly pensions from Sun Life, commencing May 1, 2008. The purchase of this annuity will allow the release of the remaining surplus funds to those members who contributed to the MRB account.

Additional information:

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