



Pension News

UBC Faculty Pension Plan
Fourth Quarter 2009 Edition

FPP Investment Options: Valuation of the Funds

Members of the Faculty Pension Plan (FPP) may invest in one or more of five fund options offered by the FPP. The values of the five funds are calculated monthly to reflect changes in the values of the underlying assets; consequently each member's account balance changes monthly with changes in asset values and new contributions. This article explains the valuation of the funds.

Principles in Managing the FPP Funds

The Trustees have adopted several principles for managing the FPP Funds, including:

- Each Fund should be invested to maximize the rate of return at a level of risk suitable for the Fund.
- Risk should be managed through broad diversification.
- The cost of operating the funds should be controlled and minimized.

All three principles have an impact on the structure and operation of the FPP Funds:

- The Trustees seek to find asset classes and sub-asset categories within asset classes that are expected to deliver higher rates of return.
- Risk is managed by diversifying in a wide range of asset classes (particularly in the Balanced Fund), with multiple investment managers using varied investment processes.
- Cost is controlled through a careful selection of service providers and by the design of efficient administrative processes.

Value of Underlying Assets

The FPP Funds are invested by external investment managers, each with a mandate to invest in specific asset classes. The Trustees have chosen multiple investment managers in some asset classes, each with different investment processes, to ensure diversification of the investment approach.

A consequence of the objective of seeking higher-returning or risk-modifying asset classes is that the Funds might be invested in asset classes or with investment managers whose funds are illiquid – the underlying assets are not actively traded – so daily values or even weekly values are not available. For instance, the FPP Balanced Fund invests in two different real estate funds.



Real estate is a favourable investment for pension funds because it tends to provide steady income, increase in value as the economy grows, and generally increase in value with inflation. But real estate property values, although they can be estimated from recent sales, are not frequently determined, so real estate fund values are usually appraised not more frequently than monthly; in fact, the month-end values reported by the investment managers often are based on estimates only. The FPP Balanced Fund invests in other less liquid investments, including hedge funds, which are typically valued only monthly.

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Member Transactions

Member transactions include deposits to the FPP through contributions or transfers in of assets from other registered sources (for instance RRSPs) and withdrawals when a member leaves the FPP. Transactions also include member investment allocation changes.

Although some of the FPP Funds may hold cash from time to time, cash is a poor long-term investment, and each FPP Fund is invested to minimize the cash level. Because there are costs when the underlying assets are sold or purchased, both internally at FPP and externally with the investment managers, the FPP “batches” transactions once a month. With batched transactions, contributions and transfers-in are offset against benefit payments and transfers-out; only the net purchases or sales are used to buy or sell additional investments in the underlying funds. Transaction requests must be made by the fourth-to-last business day of a month, and are processed using the month-end values.

Monthly Valuations

Members’ account balances are updated once a month, effective at the end of the month. The values are determined as soon as the market values of the underlying investments are known. Because some of the underlying investments are not liquid, some of the month-end values are not available until ten to twelve business days after the month-end. Members’ accounts are updated retroactively as soon as the values of the investments are known. All transactions use the month-end market value for each of the funds, ensuring equity for all members.

As an example, if a member has terminated employment and wishes to transfer their entire account balance to another registered plan, the transfer request must be received at least four business days before the end of the month for payment to be made in the following month. The Plan will release 90% of the estimated account balance on the 3rd business day of the following month, and then approximately three weeks later the final payment will be sent, after the true previous month-end account value has been determined.

FPP account balances are valued and updated much less frequently than mutual fund balances, which are often valued daily. To some extent, the less frequent valuation of the FPP Funds is a consequence of the three objectives set out at the beginning of this article.

The trade-off for access to asset classes that may have a higher long-term return or a lower risk but may be illiquid, while keeping costs as low as possible, is less frequent valuations. Minimizing cost is very important; the cost of operating the FPP, including investment and administration, is approximately 0.5%. This rate is especially low compared to management expense ratio (MER) of mutual funds, typically over 2%. Over a thirty-year career, the lower cost can increase the accumulated value of an account by as much as 30%.

The Trustees understand that members may be concerned about changes in the value of their account balances, especially when the markets are volatile, but the procedures put in place are intended to best achieve the long-term objectives for the FPP Funds.

This article was prepared by Satanove & Flood Consulting Ltd. Comments should be sent to: fpp@hr.ubc.ca

Contribution Limits for 2010

The contribution limit for registered pension plans in 2010 is 18% of income, to a maximum of \$22,450. When both employee and employer contributions reach this limit, future employer contributions are deposited to the UBC Supplemental Plan. Further information on the Supplemental Plan can be found on the FPP website at <http://www.pensions.ubc.ca/faculty/supfac.html>, or by contacting Jim Loughlean at (604) 822-8987 or by email at jim.loughlean@ubc.ca.



Voluntary Contributions

Did you know that voluntary contributions are allowed in the Faculty Pension Plan? Any member whose annual pensionable earnings are less than \$160,000 may be eligible to make additional voluntary contributions (AVCs) up to the limit set by the Income Tax Act.

Take advantage of the calculator on the FPP website at <http://www.pensions.ubc.ca/faculty/calculators.html> to calculate what your contribution room may be.

Financial Planning Lecture Series

The UBC Faculty Association’s 2010 Financial Planning Lecture Series schedule is every Wednesday from March 3 to April 7. The Faculty Pension Plan is presenting on March 24. Details will be posted on the FPP website before March.



You are cordially invited to attend the...



Faculty Pension Plan Open House: *2009 Year in Review*

Please join us and meet the trustees and staff of the Faculty Pension Plan. There will be presentations on the Plan's performance in 2009, and a discussion of the initiatives for 2010. Light refreshments will also be served.

Date: Wednesday, May 12, 2010

Time: 10:30 am to 12:30 pm
(The presentation will start at 10:45 am)

Location: Ponderosa Centre – Arbutus Room
2071 West Mall (at University Boulevard)

If you wish to attend, please contact the Pensions Office at pensions@hr.ubc.ca or by phone at (604) 822-8100 by April 28, 2010.

We look forward to seeing you!

~ The Board of Trustees and Staff

Note: UBC Okanagan – We expect to schedule a presentation at the Okanagan Campus in the late spring. Communication will go out once the date, time and location have been confirmed.



Going Green: Annual Report Online (or print by request)

The Pension Administration Office is going green and the 2009 Annual Report will be available online starting April 15, 2010. Members are encouraged to read the annual report on the FPP website; however, if you do not have online access, and need a paper copy provided to you, please contact the Pensions Office by March 15, 2010 at (604) 822-8100 or by e-mail at pensions@hr.ubc.ca with the subject line "Annual Report Print Copy."

Faculty Pension Plan Board Members

Mr. Joost Blom, Chair, Law604-822-4564

*Dr. Robert Heinkel, Vice-Chair
Commerce.....604-822-8347*

Dr. Joy Begley, Commerce.....604-822-8527

*Dr. Joyce Boon, Biology/
Physical Geography.....250-807-9545*

*Dr. Joanne Emerman, Cellular & Physiological
Sciences.....604-822-2969*

Dr. Neil Guppy, Sociology604-822-3670

Dr. Kai Li, Commerce604-822-8353

*Mr. Al Poettcker,
UBC Properties Trust.....604-731-3103*

Faculty Pension Plan Staff

*Executive Director – Investments
Mr. Mike Leslie.....604-822-6429*

*Executive Director – Operations
& Secretary to the Board
Ms. Cheryl Neighbour..... 604-822-8112*

*Correspondence/Queries:
UBC Faculty Pension Plan
#235 – 2075 Wesbrook Mall
General Services Admin. Building
Vancouver, B.C. V6T 1Z1*

Reception.....604-822-8100

Jim Loughlean604-822-8987

Louise Mah.....604-822-6015

Frances Lu604-822-8647

Fax Line.....604-822-9471

Email: fpp@hr.ubc.ca

Web: [http:// www.pensions.ubc.ca/faculty](http://www.pensions.ubc.ca/faculty)

Trustee Election Results

Drs. Robert Heinkel and Neil Guppy were re-elected as members of the Board of Trustees for the term of January 1, 2010 to December 31, 2011. Dr. Guppy was first elected to the Board on January 1, 2006 and Dr. Heinkel on January 1, 1990. We are pleased to congratulate and thank Dr. Heinkel for his twenty years of service and commitment to the FPP.

Transfers to the FPP from RRSPs and other Registered Plans

Members can transfer assets from RRSPs and other registered pension plans into the UBC Faculty Pension Plan. These plans must be with a Canadian institution and the contributions must have been made by yourself (not your spouse) and be in your name.

These transferred-in funds can be invested in any of the Plan's five investment options. Transfers into the Faculty Pension Plan from other registered plans are considered "tax-sheltered rollovers," and have no tax consequences.

Please visit our website:
http://www.pensions.ubc.ca/faculty/transfer_in.html for more information regarding fund transfers to the FPP.

Investment Changes within Funds

Effective April 1, 2010, there will be some changes to investments in the Balanced, Bond, and Foreign Equity Funds. Please see the enclosed letter for more information regarding these changes.

Financial Advisors

The Board of Trustees encourages members to seek independent financial advice when making investment allocation and retirement decisions. Members are reminded that the trustees of the Plan, the University, and the Pension Administration Office, or its respective employees, **do not endorse any particular advisors**. Members are encouraged to make enquiries before engaging an advisor, as this decision is their own responsibility. (See "Choosing a Financial Advisor" in the 2nd Quarter 2003 issue of *Pension News*.) We can provide some suggested criteria to help you select an advisor for matters relating to the FPP and a list of the financial planners who meet these criteria. To obtain a copy of this list, please send an email to fpp@hr.ubc.ca with "Financial Planners List" in the subject line.



Faculty Pension Plan Open House

The Faculty Pension Plan is having an Open House on Wednesday, May 12, 2010 from 10:30 am to 12:30 pm in the Arbutus Room at Ponderosa Centre, 2071 West Mall. Please join us and meet the trustees and staff of the FPP. At 10:45 am, there will be presentations on the Plan's performance in 2009, and a discussion on the initiatives for 2010. Please confirm your attendance at pensions@hr.ubc.ca or by phone at (604) 822-8100 by April 28, 2010.



Pension Benefits from Canada and the United States

Did you know that there is a social security agreement between Canada and the United States that may help you qualify for pension benefits from both countries? As an example, most social security programs require contributions or domicile for a certain number of years. However, under this agreement, periods of residence in Canada or contributions to the Canada Pension Plan could be used to satisfy the eligibility conditions for US social security benefits and vice-versa. Similar agreements are in effect with other countries as well and information can be found on the Service Canada website:

<http://www.servicecanada.gc.ca/eng/isp/ibfa/intlben.shtml>

You may also find additional information at:

<http://www.pensions.ubc.ca/faculty/socialsecuritybenefits.html>

Workshops Offered by the Pension Administration Office

You & Your Pension Plan

If you are a new member or wish to learn more about the Plan, we host seminars to cover all aspects of the UBC Faculty Pension Plan.

Understanding Your Retirement Income Options

For members approaching retirement, this seminar is helpful as it explains the various options available.

Please check our website for dates and times: <http://www.pensions.ubc.ca/faculty/workshops.html>

If you have any questions or wish to register for one of these workshops, please call Jim Loughlean at (604) 822-8987 or by email at jim.loughlean@ubc.ca.

Do you know these Deferred and Retired Members?

The Faculty Pension Plan would like your help to find members of the Plan with whom we have lost contact over the years. If you have information, such as addresses, phone numbers, emails, contact information of family, friends, and relatives, or connections through social media tools, for the members listed below, please contact Louise Mah at (604) 822-6015 or by email at lomah@hr.ubc.ca. Any information provided is held confidential and is greatly appreciated.

Name	Left UBC
Cho, H J Peter	June 1988
Chung, Ilchoo	June 1984
Du Mont, Gertraude E	June 1975
Grondey, Hiltrude <i>Chemistry</i>	n/a
Haddock, Christopher	April 1990
Henderson, Robert C	June 1971
Herbst, Karl Peter	Dec 1989
Kiyono, Kazuharu	n/a
Knight, Peter <i>Zoology</i>	July 2003
Lumsden, Hugh David	June 1971
McAllister, Irene	Jan 1980
Michaels, Geoffrey	June 1991
Milsum, Catherine <i>English</i>	July 1996
Rau, Jon	June 1991
Reid, Gregor Scott D. <i>Paediatrics</i>	June 2005
Schneider, Jan <i>Sauder School of Business</i>	Dec 2004
Sullivan, Daniel J	July 1975
Varma, Devinder	April 1986
Wang, Jian <i>Pharmaceutical Sciences</i>	Aug 2000
Zahn, Rainer	June 1990
Zhang, Li <i>Biochemistry</i>	July 1999



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Market commentary

In the fourth quarter of 2009, the stock market continued to rebound from the lows reached in March 2009. Huge government stimulus packages and record low interest rates combined to help improve both liquidity in the markets and investors' appetite for risk.

The Canadian stock market returned 3.9% for the quarter and 35.1% for the year – the best annual return since 1983. Despite this exceptional performance in 2009, index returns are still negative over the last two years at -9.5%. All industry sectors experienced positive returns in 2009, with the largest three sectors (representing over 77% of the Canadian stock index) – Energy (39.5%), Financials (45.6%) and Materials (34.2%) – producing strong returns.

The U.S. stock market had strong fourth quarter (6.0%) and one year (26.5%) returns in U.S. dollar terms. Due to the weakening U.S. currency, this translated into only 3.6% for the quarter, and 7.4% for one year in Canadian dollars.

Non-North American equities (measured by the EAFE index) returned 3.3% over the fourth quarter and 24.7% for one year, in local currency terms. Due to a strengthening Canadian dollar these returns were only -0.2% and 11.9% respectively, in Canadian dollars. Emerging markets performed well at 6.0% for the quarter, and 51.6% over one year.

The Bond market had a slightly negative return in the fourth quarter (-0.2%), but a positive 5.4% return for one year. There was a large disparity within the bond market over one year, with Corporate bonds returning 16.3%, versus Federal government bonds returning -0.2%. These returns reflected investors' increased appetite for risk, as corporate bond prices were bid up from their lows in early 2009. Real Return Bonds had a strong year with a 14.5% return.

Performance of Funds for periods ending December 31, 2009

	3 Months	1 year	3 years	5 years	10 years
Balanced Fund - gross	1.79%	12.48%	0.32%	5.26%	5.05%
Balanced Fund - net	1.66%	11.93%	-0.18%	4.78%	4.60%
Composite Index 1	1.37%	11.98%	0.11%	4.66%	4.38%
Bond Fund - gross	0.88%	10.47%	5.60%	5.28%	6.61%
Bond Fund - net	0.82%	10.12%	5.31%	5.02%	6.35%
Composite Index 2	0.44%	6.62%	5.23%	5.07%	6.61%
Canadian Equity Fund - gross	3.79%	30.67%	0.33%	8.26%	8.64%
Canadian Equity Fund - net	3.72%	30.12%	-0.09%	N/A	N/A
Composite Index 3	3.54%	34.28%	-0.07%	7.65%	5.98%
Foreign Equity Fund - gross	2.01%	10.50%	-9.82%	-0.84%	-2.61%
Foreign Equity Fund - net	1.92%	9.99%	-10.21%	N/A	N/A
Composite Index 4	1.65%	9.43%	-8.53%	-0.51%	-2.15%
Short Term Investment Fund - gross	0.07%	0.47%	2.68%	2.95%	3.40%
Short Term Investment Fund - net	0.02%	0.29%	2.53%	2.78%	3.18%
Composite Index 5	0.05%	0.36%	2.43%	2.78%	3.18%

Composite Index 1: 33% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 15% S&P 500, 15% MSCI-EAFE, 2% DEX 91-Day TB, 10% IPDCPI, 5% DEX Real Return Bonds

Composite Index 2: 86.8% DEX Universe, 13.2% DEX Real Return Bonds

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

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

Composite Index 5: DEX 91-Day TB Index until Aug 2007, DEX 30-Day TB Index commencing Sep 2007

Composition of Funds as at December 31, 2009

	Market Value (\$ Millions)	% of Fund
BALANCED FUND		
Equities - Canada	218.0	21.5%
Equities - U.S.	155.6	15.3%
Equities - EAFE	145.7	14.4%
Absolute Return Hedge Fund	22.3	2.2%
Real Estate - Canada	86.6	8.5%
Fixed Income	323.6	31.9%
Real Return Bonds - Canada	58.2	5.7%
Cash	5.1	0.5%
Total Balanced Fund	1,015.1	100.0%
BOND FUND		
Fixed Income	48.0	82.3%
Real Return Bonds - Canada	8.6	14.8%
Cash	1.7	2.9%
Total Bond Fund	58.3	100.0%
CANADIAN EQUITY FUND		
Equities - Canada	87.3	97.5%
Cash	2.2	2.5%
Total Canadian Equity Fund	89.5	100.0%
FOREIGN EQUITY FUND		
Equities - U.S.	15.8	47.8%
Equities - EAFE	14.7	44.4%
Absolute Return Hedge Fund	1.5	4.5%
Cash	1.1	3.3%
Total Foreign Equity Fund	33.1	100.0%
SHORT TERM INVESTMENT FUND	51.3	100.0%