a place of mind

UBC

Faculty Pension Plan

Annual Report 2009

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Board of Trustees
as at January 1, 2010

Appointed by the Board of Governors

Mr. Joost Blom, Chair
Professor Law

Dr. Joyce Boon
Associate Professor
Barber Arts & Sciences Unit 2, UBC Okanagan

Dr. Joanne Emerman
Professor
Department of Cellular & Physiological Sciences

Mr. Al Poettcker
President & CEO
UBC Properties Trust

Elected by Plan members

Dr. Joy Begley
Associate Professor
Sauder School of Business
Term expires December 31, 2010

Dr. Neil Guppy
Professor
Anthropology and Sociology
Term expires December 31, 2011

Dr. Robert L. Heinkel, Vice-Chair
Professor
Sauder School of Business
Term expires December 31, 2011

Dr. Kai Li
Professor
Sauder School of Business
Term expires December 31, 2010

Management

Mr. Mike Leslie
Executive Director - Investments

Ms. Cheryl Neighbour
Executive Director - Operations
Secretary to the Board

Service Providers

AON Consulting
Actuary

Deloitte & Touche LLP
Auditors

CIBC Mellon
Custodian & Performance Measurement Services

Lawson Lundell LLP
Legal Counsel

Message from the Chair

Dear Members:

We are pleased to present your 2009 Annual Report.

For the year ended December 31, 2009, the Balanced Fund returned 12.5%, Canadian Equity Fund 30.7%, Foreign Equity Fund 10.5%, Bond Fund 10.5%, and the Short Term Investment Fund 0.5% (all before fees). The Balanced Fund's strong absolute performance for 2009 was a result of both a recovery in the stock markets in the last three quarters of 2009 and strong returns from the bond component of this fund. The large recovery in stock markets from the lows reached on March 9, 2009 was a welcome relief from the precipitous decline experienced in 2008. In terms of the Balanced Fund's performance relative to other balanced funds of similar size, the one and four-year rankings were 92nd and 16th percentile, respectively. The lower relative return over the one-year period was not unexpected as the Balanced Fund generally has a lower risk profile than is typical of other funds in the survey, and hence, may underperform in strong markets. It does, however, provide better downside protection in falling markets, as witnessed in 2008. The risk of the Balanced Fund, as measured by the volatility of returns, continued to rank very well versus similar funds, being at the least risky end (i.e. 90th percentile) of these comparative results.

The past year could be characterized as one of strong recovery from the dramatic drop in the stock markets in 2008 that continued into early March 2009. The significant actions of governments on a global basis in 2009 to support their economies and financial institutions were unprecedented. These various stimulus measures, plus the continued low interest rate environment, encouraged many investors to regain their appetite for taking on risk, and to reinvest in the stock markets. This was helpful for both the Canadian and Foreign Equity Funds as they produced strong returns in 2009. However, the strengthening Canadian dollar did serve to lessen the returns of our Foreign Equity investments in 2009. The Bond Fund's strong returns in 2009 were a result of both excellent strategic positioning by two of our bond managers, and positive performance from the Real Return Bond component of the Bond Fund. The low returns in the Short Term Investment Fund reflected the historic interest rate lows experienced throughout 2009.

The S&P/TSX Composite index for Canadian stocks experienced a strong return of 35.1% in 2009. This was a big rebound from the -33% drop in 2008. The strong 2009 performance was primarily led by the major industry sectors that had declined significantly in 2008, being primarily the Financial, Energy, and Materials sectors. The Canadian bond market, as measured by the DEX Universe Bond index, returned 5.4% in 2009. The Corporate bond sector, with a return of 16.3%, is what drove this performance as the Government bond sector returned only 1.6% for the year. Real Return Bonds (RRBs), as measured by the DEX RRB index, had a stellar year, returning 14.5% as investors' expectations of increasing inflation drove up the value of these bonds. U.S. equities, as measured by the S&P 500 index, returned 7.4% in Canadian dollar terms versus 26.5% in U.S. dollar terms. Non-North American equities, as measured by the EAFE index, returned 12.5% in Canadian dollar terms versus 24.1% in their local currency terms. Real Estate, as measured by the IPD Canadian Property Index, returned -0.4% in 2009, as the commercial real estate market was hit by the effects of the recession.

Message from the Chair

There were no changes to the fund managers or to the asset class allocations within any of the Plan's investment options in 2009, except one manager (Barclays Global Investors) was acquired by another firm (BlackRock Inc.). There were no changes made to the investment processes or the key personnel involved with these funds as a result of this acquisition. An asset mix review was undertaken in 2009 with an outside consulting firm that will lead to changes to three of the five fund options. These investment changes are effective April 1, 2010, and were outlined in a letter to Plan members that accompanied the Q4/09 newsletter. They can also be viewed on the Faculty Pension Plan's website www.pensions.ubc.ca/faculty/fund_update.html.

Drs. Robert Heinkel and Neil Guppy were re-elected to the board of trustees for a two-year term, effective January 1, 2010, and I would like to thank them both for their continued support of the FPP. I would also like especially to thank Dr. Heinkel for his having completed 20 years of service, of which 18 years has been as Vice-Chair.

In 2009, Kathy Pang was hired as the Communications Coordinator to assist with the many areas of member communication, including the website, newsletters, Annual Report and some new initiatives to ensure that the members are kept informed.

The Pension Administration Office developed an internal member record-keeping system last year to replace an external system that was not robust enough for the Plan's increasingly diverse requirements. When the new system was developed, a search was done to ensure that the Plan was using the best custodian for its financial reporting and asset custody needs. CIBC Mellon was determined as the best fit and they were hired as the new custodian effective November 1, 2009.

You will have noticed that we went 'green' with the Annual Report. The report is available on the FPP website; however, a printed copy may be requested from the Pension Administration Office, if desired.

In closing, I would like to thank the trustees and staff for their continued support and efforts over the past year.

Yours truly,

Joost Blom

Joost Blom

Administration Report

Facts at a Glance

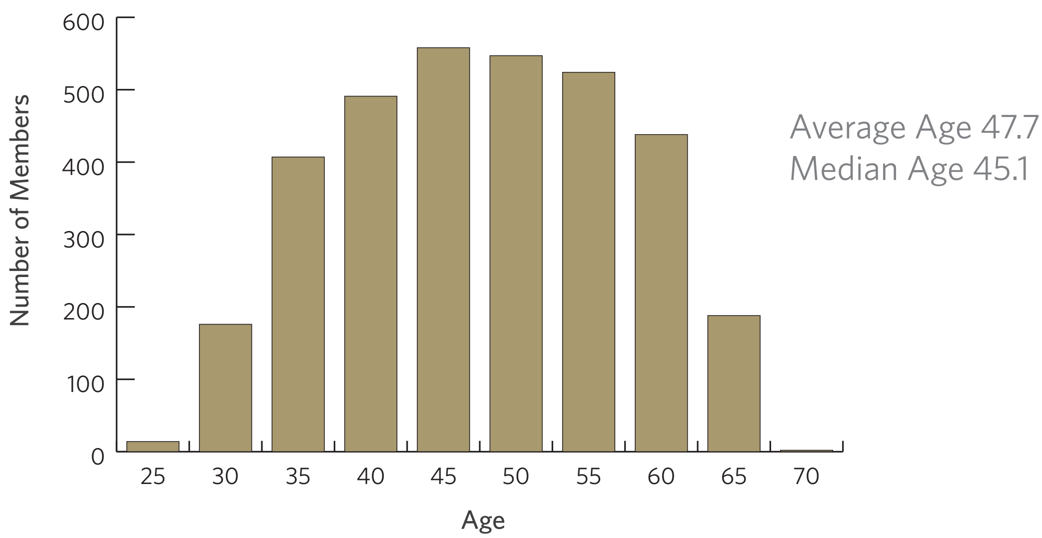
	2009	2008
Membership		
Active	3,320	3,192
Deferred	1,363	1,365
Retired	619	561
Total Membership	5,302	5,118
Market Value of Funds		
Balanced Fund	$1,015,418,630	$910,184,790
Bond Fund	$56,037,866	$34,809,790
Canadian Equity Fund	$89,734,839	$56,546,622
Foreign Equity Fund	$33,106,028	$25,902,567
Short Term Investment Fund	$50,375,490	$62,477,431
Cash Flow		
Contributions		
Employer	$31,593,463	$29,423,123
Employee	$16,302,941	$14,843,222
Voluntary	$464,768	$445,956
Transfers-in from other Registered Plans	$3,111,020	$6,094,067
Retirement Benefits Paid	$15,898,168	$16,654,545
Withdrawls and Transfers-out	$16,403,213	$37,918,563

Membership Statistics

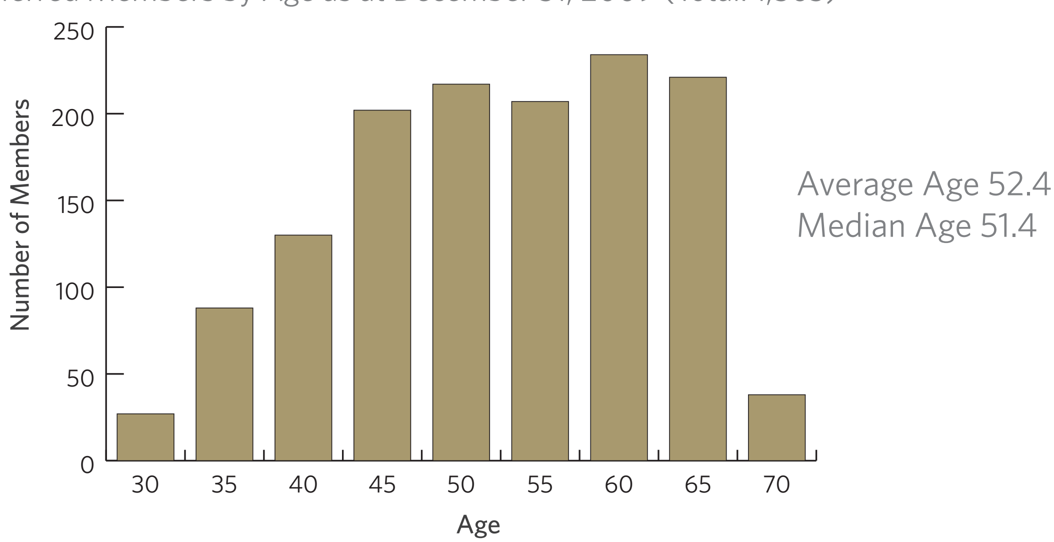
Membership Statistics as at December 31 for Years 2005 to 2009

Membership	**2005**	**2006**	**2007**	**2008**	**2009**
Active	3,054	3,091	3,162	3,192	3,320
Deferred	1,198	1,272	1,314	1,365	1,363
Retired	423	461	518	561	619
Total Membership	**4,675**	**4,824**	**4,994**	**5,118**	**5,302**
New Enrollments	466	249	234	191	242

Active Members by Age as at December 31, 2009 (Total: 3,320)



Deferred Members by Age as at December 31, 2009 (Total: 1,363)

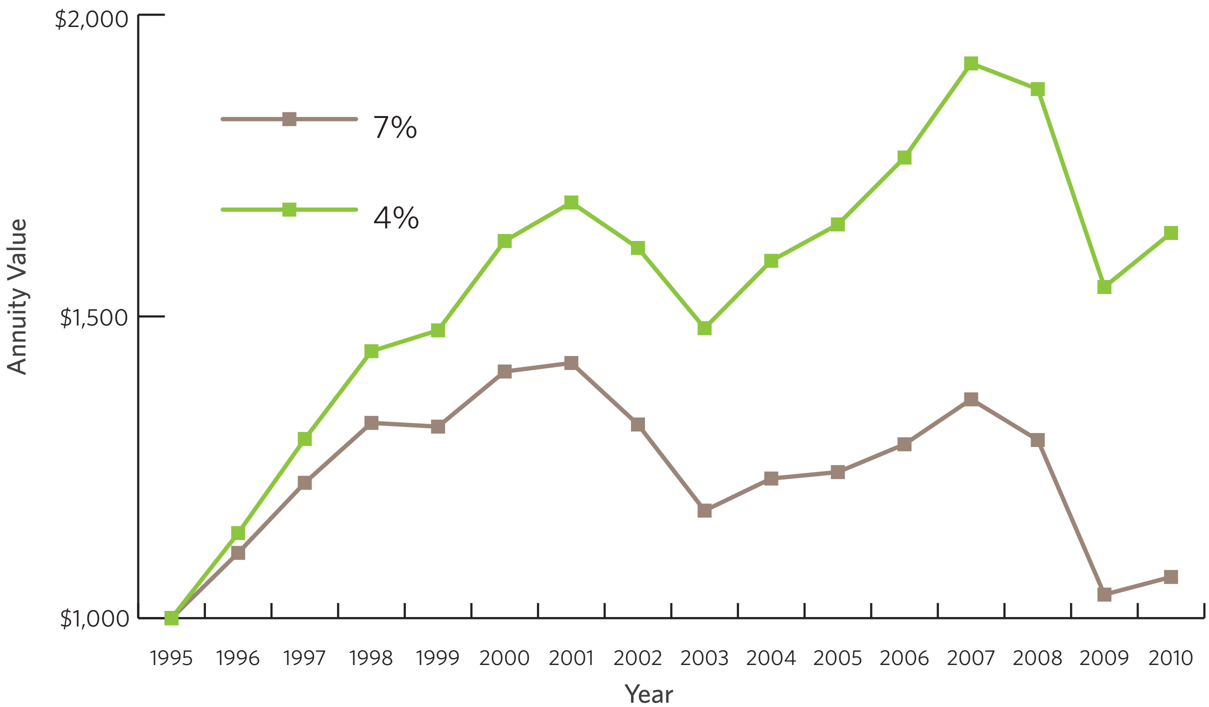


Variable Payment Life Annuities (VPLA)

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.

Value of $1,000 Annuity from 1995 to 2010



For more information on the available retirement options: **www.pensions.ubc.ca/faculty/retiring.html**

Historical Rates of Return

The following table provides performance results for periods ending December 31, 2009. The absolute returns are compared with returns of composite indices, which reflect the asset allocation of each fund. Relative rankings indicate the investment fund's percentile standing within a universe of comparable funds.

The following table provides performance results for periods ending December 31, 2009.

	1 year	**3 years**	**5 years**	**10 years**	**Relative Ranking** (1st percentile is best ranking)		
	%	%	%	%	1 year	3 years	4 years
Balanced Fund - gross[1]	12.48	0.32	5.26	5.05	92	17	16
Balanced Fund - net[2]	11.93	-0.18	4.78	4.60			
Composite Index 1[3]	11.98	0.11	4.66	4.38			
Bond Fund - gross	10.47	5.60	5.28	6.61	14	29	32
Bond Fund - net	10.12	5.31	5.02	6.35			
Composite Index 2[4]	6.62	5.23	5.07	6.61			
Canadian Equity Fund - gross	30.67	0.33	8.26	8.64	67	22	13
Canadian Equity Fund - net	30.12	-0.09	n/a	n/a			
Composite Index 3[5]	34.28	-0.07	7.65	5.98			
Foreign Equity Fund - gross[1]	10.50	-9.82	-0.84	-2.61	75	80	79
Foreign Equity Fund - net	9.99	-10.21	n/a	n/a			
Composite Index 4[6]	9.43	-8.53	-0.51	-2.15			
Short Term Investment Fund - gross	0.47	2.68	2.95	3.40	100	100	94
Short Term Investment Fund - net	0.29	2.53	2.78	3.18			
Composite Index 5[7]	0.36	2.43	2.78	3.18			

1 The gross return represents income from investments, including accrued interest. It also reflects changes in market values during the year.
2 The net return is the gross return minus investment management and administration fees.
3 Composite Index 1: 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
4 Composite Index 2: 86.8% DEX Universe, 13.2% DEX Real Return Bond
5 Composite Index 3: 25% S&P/TSX, 50% S&P/TSX Capped, 25% S&P/TSX Capped 60
6 Composite Index 4: 48% MSCI-EAFE, 48% S&P 500, 4% DEX 91-Day TB
7 Composite Index 5: DEX 91-Day TB until August 2007; DEX 30-Day TB commencing September 2007

Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2009. The trustees and management monitor the performance of each of the managers and meet with them regularly to review their performance. Measured against comparable managers, each manager's relative performance is expected to rank in the top third. The managers are also expected to achieve returns greater than their index-based benchmark over a four-year period.

Asset Class / Manager / Index-based Benchmark	Gross Rates of Return (%)[1] For periods ending December 31, 2009			
	1 year	2 years	3 years	4 years
Canadian Equity				
Connor, Clark & Lunn Q-Growth Fund	28.9	-6.5	-0.3	3.5
S&P/TSX Composite Index	35.1	-4.9	-0.2	3.9
Guardian Capital LP	28.5	-4.8	0.4	5.4
Leith Wheeler Investment Counsel	28.3	-5.9	-0.7	3.8
S&P/TSX Capped Composite Index	35.1	-4.9	-0.2	3.9
PCJ Investment Counsel	37.4	-2.1	1.9	6.2
S&P/TSX Capped 60 Index	31.9	-4.7	0.3	4.7
US Equity				
BlackRock Inc.[2]- Pension US Alpha Tilts Fund	6.1	-8.2	-10.4	-4.5
S&P 500 Index (Canadian $)	7.4	-8.0	-8.9	-3.3
Non-North American Equity				
bcIMC - Active EAFE Fund	16.3	-11.9	-10.3	-2.5
bcIMC - Enhanced EAFE Index Fund	11.9	-14.7	n/a	n/a
MSCI-EAFE Index (Canadian $)	12.5	-10.5	-8.8	-1.1

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Investment Managers' Rates of Return cont'd

Asset Class / Manager / Index-based Benchmark	Gross Rates of Return (%)[1] For periods ending December 31, 2009			
	1 year	2 years	3 years	4 years
Hedge Fund				
BlackRock Inc.[2] - Global Market Selection Fund	14.3	3.2	6.3	8.4
DEX 91-Day Treasury Bill Index	0.6	2.0	2.8	3.1
Fixed Income				
AllianceBernstein	15.1	6.7	n/a	n/a
PIMCO Canada Corp.	13.5	6.6	n/a	n/a
State Street Global Advisors	5.6	6.3	n/a	n/a
DEX Universe Bond Index	5.4	5.9	5.2	4.9
BlackRock Inc.[2] - Real Return Bond Fund	14.4	7.2	5.3	3.0
DEX Real Return Bond Index	14.5	7.2	5.3	3.2
Real Estate				
bcIMC - Realpool	-7.5	-3.5	4.2	9.2
Westpen Properties	-7.1	-1.7	5.6	11.1
IPD Canadian Property Index	-0.9	1.2	5.9	8.8
Money Market				
bcIMC - Short Term Fund [2]	0.4	1.8	2.7	3.0
DEX 30-Day Treasury Bill Index	0.4	1.5	2.4	2.8

[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] BlackRock Inc. purchased Barclays Global Investors (BGI) on December 1, 2009. There were no changes in investment processes or key personnel as a result of this acquisition.

For the most current FPP Rate of Return figures, visit
www.pensions.ubc.ca/faculty/ror_summary.php

Investment Commentary 2009

Balanced Fund

The Balanced Fund had strong returns in 2009 as equity markets greatly improved from 2008. In addition, the Fund's bond component also performed well. The only asset class component that showed weakness in 2009 were the returns from the real estate portion of the Fund. The valuations on many commercial real estate properties were appraised downward in 2009 to reflect the softening economy and higher expected vacancy rates, which reduced their returns.

The Balanced Fund's one-year performance of 12.5% was low relative to other funds of similar size as the Fund's asset mix is more conservative than the other funds. This lower risk profile has been a benefit in terms of protecting the Fund's downside performance in very weak markets, like that experienced in 2008. Over the four-year period, the Fund's relative performance has been good. While maintaining a lower risk profile, the Fund ranked at the 16th percentile versus other similar funds.

Bond Fund

At 10.5%, the Bond Fund had solid performance in 2009 against both the bond index benchmark, and also relative to a peer universe of other bond funds. It ranked at the 14th percentile over the one-year period. These strong results were largely due to two of the bond managers providing significant value added over the bond index from their portfolios' strategic positioning. Also, the Real Return Bonds were a source of additional performance, with a return of 14.5% in 2009.

More information on the fund options is available at: **www.pensions.ubc.ca/faculty/investment.html**

Canadian Equity Fund

The Canadian Equity Fund witnessed a strong return of 30.7% in 2009, following a large negative return in 2008. The three largest industry sectors (i.e. Financials, Energy, and Materials) that make up roughly 77% of the Canadian stock index all had good returns in 2009. Three of the four investment managers in this Fund underperformed their benchmark index for the one-year period. This was largely due to many of the highest performing stocks in 2009 tending to be those that were judged as lower "quality" on average, by different industry metrics. The managers in the Fund take a long term approach to the market and focus mainly on the larger, financially stronger firms when selecting stocks. This led to the managers holding a lower weighting than the index in many of these types of lower quality stocks. Longer term, the Fund's returns are ahead of the index and comparatively, it ranked at the 13th percentile over the four-year period.

Foreign Equity Fund

The Foreign Equity Fund returned 10.5% in 2009, which was a positive rebound from 2008. Both the U.S. equity (6.1%) and the Non-North American equity (14.5%) components contributed to the results. The strengthening Canadian dollar versus most foreign currencies in 2009 reduced the Fund's foreign equity returns when these were converted back to Canadian dollars. Also, the Hedge Fund component had a return of 14.3%, which was a positive contributor to the Fund's 2009 performance.

Short Term Investment Fund

The STIF's low return of 0.5% in 2009 was a direct result of the low interest rate environment that persisted throughout 2009. The Fund invests in short-term, very conservative fixed income instruments which, although being the most secure instruments, are also those currently providing lower yields.

Financial Statements of

The University of British Columbia Faculty Pension Plan

December 31, 2009

Deloitte.

Deloitte & Touche LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada
Tel: 604-669-4466
Fax: 604-685-0395

www.deloitte.ca

Auditor's 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, 2009 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, 2009 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 24, 2010

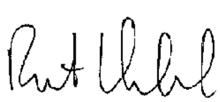
Financial Statements

The University of British Columbia | Faculty Pension Plan
Statement of net assets available for benefits
as at December 31, 2009
(Expressed in thousands of dollars)

	2009	2008
	$	$
Assets		
Assets held by the Plan's custodian		
Investments (Note 4)		
Short-term notes	**52,604**	69,899
Bonds	**438,567**	396,917
Equities	**659,348**	526,946
Real estate	**86,584**	98,942
	1,237,103	1,092,704
Cash and cash equivalent	**10,378**	3,312
Investment income receivable	**460**	1,080
	1,247,941	1,097,096
Contributions receivable		
Members	**-**	4
University	**6**	46
	6	50
	1,247,947	1,097,146
Liabilities		
Accounts payable and accrued liabilities	**1,052**	761
Plan withdrawals payable to members	**2,222**	6,464
	3,274	7,225
Net assets available for benefits (Note 5)	**1,244,673**	1,089,921

Approved on behalf of the Board of Trustees

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
as at December 31, 2009
(Expressed in thousands of dollars)

	2009	2008
	$	$
Increase in net assets		
Members' required contributions	**16,303**	14,843
University's required contributions	**31,593**	29,423
Member's additional voluntary contributions	**465**	446
Transfers from other plans	**3,111**	6,094
	51,472	50,806
Return on investments, including changes in market values (Note 6)	**139,442**	(176,628)
	190,914	(125,822)
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**15,898**	16,654
Death benefits	**55**	890
Members' accounts transferred and refunded	**16,348**	32,508
Purchases of Sun Life annuity for minimum retirement benefits	**-**	2,449
Distribution of surplus in minimum retirement benefit account	**-**	2,073
	32,301	54,574
Operations		
Actuarial services	**48**	56
Audit and consulting services	**32**	23
Legal services	**39**	20
Office and administrative costs	**940**	956
	1,059	1,055
Investment transaction and administration fees	**2,802**	2,867
	36,162	58,496
Net increase (decrease) in net assets available for benefits	**154,752**	(184,318)
Net assets available for benefits, beginning of year	**1,089,921**	1,274,239
Net assets available for benefits, end of year	**1,244,673**	1,089,921

See accompanying notes to the financial statements.

The University of British Columbia | Faculty Pension Plan

Notes to the financial statements | December 31, 2009
(Expressed in thousands of dollars)

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 5.0% 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 5.0% and 10.0%, 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;

The University of British Columbia | Faculty Pension Plan

Notes to the financial statements | December 31, 2009
(Expressed in thousands of dollars)

1. Description of plan (continued)

(e) *Forms of retirement benefit (continued)*

- 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;
- 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.

(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. The most significant estimates relate to the fair values of investments. Actual results could differ from those estimates.

The University of British Columbia | Faculty Pension Plan

Notes to the financial statements | December 31, 2009
(Expressed in thousands of dollars)

2. Significant accounting policies (continued)

(c) *Investments*

Investments are recorded 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. Transaction costs are included in the statement of changes in net assets available for benefits in the period incurred.

(d) *Translation of foreign currency*

Assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Unrealized exchange gains or losses on foreign currency are included in the return on investments (Note 6).

(e) *Allocation of net assets*

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

(f) *Members' accounts transferred or refunded*

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

The University of British Columbia | Faculty Pension Plan

Notes to the financial statements | December 31, 2009
(Expressed in thousands of dollars)

3. Adoption of new accounting standards

In 2009 the Canadian Institute of Chartered Accountants ("CICA") Accounting Standards Board issued amendments to CICA Handbook Section 3862, Financial Instruments - Disclosures ("3862 Amendments"). As a result of these amendments, the Plan is required to classify fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. These disclosures are included in Note 4.

In 2009, the CICA issued Emerging Issues Committee ("EIC") Abstract 173, Credit Risk and the Fair Value of Financial Assets and Financial Liabilities ("EIC-173"). EIC-173 provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities, including derivative instruments. This abstract applies to the Plan's annual financial periods ended on December 31, 2009. The adoption of EIC-173 did not result in a material impact on the Plan's financial statements.

4. Investments

(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 0.1% to 0.5% (2008 - 0.8% to 1.3%).

(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:

	2009	2008
	$	$
Canadian		
Corporations	**224,337**	172,227
Pooled equity funds	**75,542**	58,418
Foreign		
Corporations	**4,008**	3,013
Pooled equity funds	**355,461**	293,288
	659,348	526,946

(d) *Real estate*

All real estate investments are in Canadian property.

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4. Investments (continued)

(e) *Fair value measurements - Levels disclosure (continued)*

The Plan adopted the amendments to CICA 3862, Financial Instruments - Disclosures, on January 1, 2009. CICA 3862 establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the Plan's investments. The hierarchy of inputs is summarized below:

- quoted prices (unadjusted) in active markets for identical assets of liabilities (Level 1)
- inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2) and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

The following is a summary of the inputs used as of December 31, 2009 in valuing the Plan's investments carried at fair values:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant observable inputs (Level 3)	Total
	$	$	$	$
Short-term notes	52,604	-	-	52,604
Bonds	438,567	-	-	438,567
Equities	635,522	23,826	-	659,348
Real estate	-	-	86,584	86,584
Total investments	1,126,693	28,826	86,584	1,237,103

The following table provides financial instruments recognized at fair value and for which Level 3 inputs were used in determining fair value:

	Balance as at December 31, 2008	Income included in statement in changes in net assets available for benefits	Net unrealized gains (losses) included in statement of changes in net assets available for benefits	Transfer out	Balance as at December 31, 2009
	$	$	$	$	$
Assets					
Real Estate	97,031	2,905	(10,826)	(2,526)	86,584

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5. Net assets available for benefits

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

	2009	2008
	$	$
Money Purchase account	**1,044,295**	928,332
RRIF-type payment account	**100,627**	70,580
Variable Payment Life Annuity account	**69,591**	67,854
LIF-type payment account	**30,160**	23,155
	1,244,673	1,089,921

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 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 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 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. Return on investments

	2009	2008
	$	$
Pooled fund distributions	10,772	22,849
Interest Income	35,313	20,691
Net realized gains (losses) on investments	(7,605)	7,726
Dividend income	7,684	7,663
Real estate income	1,013	1,600
Unrealized gains (losses) on investments	92,265	(237,157)
	139,442	(176,628)

7. Financial instruments

The fair values of the Plan's cash and cash equivalents, 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).

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8. Financial Risk management

As a pension plan, the Plan is fundamentally concerned with the management of financial risk. This note summarizes and quantifies these risks and the way the Plan manages them.

The Plan employs a Statement of Investment Policies and Goals ("Policy") to identify, assess, manage and monitor the risks. The Policy provides asset mix ranges and limitations the Plan is to follow. The Policy is overseen by the Board of Trustees ("Board").

The Board oversees management of the Plan with a view to promoting effective plan design, governance, investment policy, financing, administration and legal compliance. The Board monitors the investment performance of the Plan, including total fund, asset class, and manager performance against specified benchmarks.

A majority of the Plan's assets are invested in pooled funds. Pooled funds provide a more cost effective means of achieving diversification within selected asset classes, given the size of the mandates granted to the investment managers. The manager of the investment fund is governed by the manager's own investment policy for the pooled fund. The Board is responsible for ensuring that the detailed investment policy statement setting out the investment constraint for the managers of such funds are prepared and agreed to by the managers.

(a) *Credit risk*

Credit risk is the risk of financial loss to the Plan if a counterparty to a financial instrument fails to meet its contractual obligations. The Plan's investments in cash and cash equivalents, short-term investments, bonds, and debentures are subject to credit risk. The Plan manages this risk by limiting the credit exposure allowed by the investment managers. The maximum exposure to credit risk for these instruments as at December 31, 2009 is their carrying value of $501,549 (2008 - $470,128). The investment policies of the various bond managers provides limits to the credit exposure and/or sets a minimum overall average portfolio quality allowed by each manager.

The overall credit ratings of fixed income securities held in the Plan are as follows:

	2009	2008
	%	%
A1/P1	**2.6**	3.0
AAA	**54.0**	47.5
AA	**18.0**	26.7
A	**17.1**	17.7
BBB	**6.9**	4.5
BB and below	**1.4**	0.6

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8. Financial Risk management (continued)

(b) *Liquidity risk*

Liquidity risk refers to the likelihood of a potential loss arising from a large percentage of requests for redemptions by Plan members. This risk is mitigated as active members and those in the Variable Payment Life Annuity ("VPLA") program cannot withdraw their funds from the Plan. The percentage of the Plan's assets with deferred, retired and LIF/RRIF members that could withdraw their funds on short notice is approximately 32%.

All of the Plan's liabilities are due within one year.

Most of the Plan's assets are invested in large pooled funds of which the Plan is just one of many parties invested in these pooled funds which provides a high degree of liquidity. The Plan's managers typically invest in equities and bonds that are very marketable and that have a high degree of liquidity should they need to be sold in a relatively short timeframe.

(c) *Price risk*

Investments in the various fund options are subject to price risk. The value of the various holdings in the funds may move up or down, sometimes rapidly. Different types of investments have historically reflected higher levels of risk, as measured by the volatility of their returns. Given the overall asset class holdings of the Plan we would expect most annual returns to be within a +/- 11.2% (2008 - +/- 13.0%) range of an expected long-term return of roughly +6.4% (2008 - +6.5%) (i.e. results ranging from -4.6% to +17.4% (2008 - -6.5% to +19.5%)). This is based on the following volatility figures:

	2009	2008
	%	%
Canadian and foreign equities	**+/- 16.0**	+/-20.0
Bonds	**+/-6.0**	+/-8.0
Real estate	**+/-7.5**	+/-8.0
Short-term holdings	**+/-1.5**	+/-2.0

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8. Financial Risk management (continued)

(c) *Price risk (continued)*

Based on the estimated range of volatility by asset class this would equate to the following dollar amounts, with all other variables held constant:

	2009		2008	
	Market value	**Investments**	Market value	Investments
	$	**%**	$	%
Securities held for trading				
Canadian bonds	**438,567**	**35**	396,917	36
Canadian equities	**299,880**	**25**	230,638	22
U.S. equities	**175,090**	**14**	156,253	14
Non-North American equities	**160,552**	**13**	118,885	11
Real estate	**86,584**	**7**	98,942	9
Short-term investment fund	**52,604**	**4**	69,899	6
Hedge fund	**23,826**	**2**	21,170	2
	1,237,103	**100**	1,092,704	100

	2009		2008	
Benchmark for investments	**% change**	**Net impact on market value**	% change	Net impact on market value
	%	**$**	%	$
S&P/TSX Composite Capped	**+/- 16.0**	**+/- 47,981**	+/- 20.0	+/- 46,128
S&P 500 Cdn$	**+/- 16.0**	**+/- 29,920**	+/- 20.0	+/- 31,251
MSCI EAFE Cdn$	**+/- 16.0**	**+/- 27,595**	+/- 20.0	+/- 23,777
DEX Universe	**+/- 6.0**	**+/- 26,314**	+/- 8.0	+/- 31,753
IPD Cdn Property Index	**+/- 7.5**	**+/- 6,494**	+/- 8.0	+/- 7,963
DEX 91-Day T-Bill	**+/- 1.5**	**+/- 789**	+/- 2.0	+/- 1,398

Figures shown are based on December 31, 2009 and 2008 fair values.

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8. Financial Risk management (continued)

(c) *Price risk (continued)*

The Plan also manages its equity price risk by allocating its equities component across six (2008 - six) investment managers, with differing investment styles and mandates. The Plan's collective equity holdings managed by these managers are invested as follows:

	2009	2008
	%	%
Canadian		
Other sectors	**20**	15
Pooled equity funds	**10**	10
Financial services	**10**	9
Oil and gas	**7**	5
Industrial products	**2**	3
Communication and media	**1**	3
Consumer products	**1**	2
Metals and minerals	**1**	1
Merchandising	**1**	1
	53	49
Foreign		
Pooled equity funds	**47**	50
Consumer products	**-**	1
	47	51
	100	100

(d) *Interest rate risk*

The Plan is subject to interest rate risk. Interest rate risk is the risk that fixed-income securities will decline in value because of changes in market interest rates. Rising interest rates cause a decrease in bond prices. Duration is the most common measure of this risk and quantifies the effect of changes in bond prices due to a change in interest rates. The bond portfolio has an average duration of roughly 7 years (2008 - 7.5 years). Therefore, if the interest rates increased by 1.0%, the bond portfolio would fall in value by approximately 7.0% (2008 - 7.5%).

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8. Financial Risk management (continued)

(e) *Currency risk*

Currency risk is the risk that the value of non-Canadian investments, measured in Canadian dollars, will decrease because of unfavorable changes in currency exchange rates. Two of the Plan's three bond managers may invest a portion of their portfolio outside of Canada but they only hold a small exposure to unhedged foreign currencies as they mostly hedge their currency exposure. Otherwise, the Plan's investments in U.S. and international equities are generally unhedged in terms of their currency exposure. These foreign securities as of December 31, 2009 represent roughly 29% (2008 - 27%) of the Plan's assets which consist of 15% (2008 - 15%) in U.S. currencies and 14% (2008 - 12%) in EAFE currencies. A 10% strengthening (weakening) of the Canadian dollar versus the U.S. dollar at December 31, 2009 would have decreased (increased) the U.S. equity portfolio's value by roughly $18,330 (2008 - $16,383). Since the Plan has invested in more than 20 countries in the international equities, it is not feasible to do a sensitivity analysis on each of these different currencies. However, generally when there is a 10% strengthening (weakening) of the Canadian dollar versus the corresponding currency, there would be a 10% decrease (increase) in the value of the corresponding country's portion of the portfolio from this currency movement. This assumes that all other variables remain constant.

9. Capital management

The Plan's objectives when managing capital are to safeguard the ability to continue as a going concern, so that the Fund can provide sufficient benefits to the Plan members.

The Plan manages the capital structure and makes adjustments to it in light of changes in economic conditions and risk characteristics of underlying assets. To maintain or adjust the capital structure, the Plan may sell assets to meet immediate obligations where appropriate. The Plan is not subject to externally imposed capital requirements.

The Board is responsible for monitoring and evaluating the fund performance on a regular basis.

10. Comparative figures

Certain prior year figures have been reclassified to conform with the current year presentation.

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