Pension News

UBC FACULTY PENSION PLAN | Fourth Quarter 2010 Edition

PIMCO Investment Outlook December 2010

The following article "Allentown" has been provided by one of the Faculty Pension Plan's investment managers, Pacific Investment Management Company LLC (PIMCO). Featured in PIMCO's December 2010 *Investment Outlook*, the article looks at the effects of aggregate demand on the global economy and how economies are competing for their share of global growth. The opinions expressed are those of the author and do not necessarily reflect the opinions of the FPP Trustees or Staff. This article has been reprinted with permission solely for the interest of members, and we hope you enjoy reading it.

Allentown

Well we're living here in Allentown
And they're closing all the factories down
Out in Bethlehem they're killing time
Filling out forms
Standing in line
And we're living here in Allentown

– Billy Joel, 1982

We're all Allentowners now. Granted, 90% of the workforce is still reporting for work on time, but our standard of living, our confidence in the future – we're standing in line in Allentown. Lost in the policy debate surrounding the elections and the subsequent demonization of the Federal Reserve's Quantitative Easing ("QE2") policies has been any recognition of why we no longer live on Ronald Reagan's shining hill or how we might possibly reclaim higher ground. There are two fundamental explanations:

1. The global economy is suffering from a lack of aggregate demand.

In simple English that means that consumers are not buying enough things and that companies are not hiring enough people because of it. Growth slows down, especially in developed as opposed to developing countries, and the steel mills of Allentown, USA and Sheffield, England close down.

This shortfall of global demand is a nearly impossible concept to grasp amongst politicians and their citizenry. Don't people always want to buy more things and isn't demand theoretically insatiable? They do, and it is. Yet economic growth is a delicate dance between production and finance and when a nation's or a family's credit card gets maxed out, then demand/spending slows measurably. We are witnessing these commonsensical repercussions across the entire continent of Europe today and to a lesser extent in the United States.

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This material has been compiled by the University of British Columbia Faculty Pension Plan Administration Office from information provided to them and is believed to be correct. If there is any inconsistency between the contents of the newsletter and the pension plan trust or legislation, the trust and legislation will prevail.

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Developing nations and their consumers want to buy things too. And while their economies are growing fast, their overall size is not yet sufficient to pull along the economies of Europe, Japan and the U.S.

Their financial systems are still maturing and reminiscent of a spindly-legged baby giraffe, having lots of upward potential, but still striving for balance after a series of missteps, the most recent of which was the trio of the 1997–98 Asian crisis, the 1998 Russian default and the 2001 Argentine default. And so their policies are oriented towards export to debt-laden developed nations instead of internal consumption, leaving a gaping hole in global aggregate demand. China is a locomotive to be sure, but it cannot pull the global economy uphill on the basis of mercantilistic exports alone. It needs to develop many more of its own shopping malls and that will take years, if not decades.

2. With insufficient demand, nations compete furiously for their share of the diminishing global growth pie. All look to borrow growth from somewhere else. Nearly a half century ago, the undisputed champion of global growth was the United States – it held all the cards: an unscathed post-WWII industrial base, an acknowledged Bretton Woods reserve currency and an educated workforce able to out-innovate any and all competitors. No wonder our policies encouraged open markets and free trade policies that would only feed the United States hegemon. At some point in the 1970s to 1980s, however, the rest of the world began to catch up. Japan produced better cars than Detroit, the Iron Curtain fell, and the rise of China was soon to rock American/developed economies out of their presumption that the world was their export oyster. Billy Joel's Allentown was transformed from an iron and coke/chromium steel behemoth into an unemployment center, filling out forms – standing in line.

And so the United States and its developed economy counterparts face an unfamiliar crisis of unrecognized dimensions and potentially endless proportions. Politicians and respective electorates focus on taxes or healthcare when the ultimate demon is a lack of global demand and the international competitiveness to thrive. The solution for more jobs is seen as a simple quick step of extending the Bush tax cuts or incenting small businesses to hire additional workers, or in the case of Euroland, shoring up government balance sheets with emergency funding. It is not. These policies only temporarily bolster consumption while failing to address the fundamental problem of developed economies: Job growth is moving inexorably to developing economies because they are more competitive. Free trade and open competition, like a stretched rubber band, have snapped the U.S. and many of its Euroland counterparts in the face. By many estimates, Chinese labor works for 10% or less than its American counterparts. In addition, and importantly, it is able to innovate as quickly or replicate what we do. Jobs, in other words, can never come back to the level or the prosperity reminiscent of 1960s' Allentown, Pennsylvania until the playing field is leveled.

This phrase of a "level playing field" opens up endless possibilities. If, in fact, the solution to how we can reclaim the vision of Ronald Reagan's "shining hill" and the Allentown of decades past is to "level the playing field," there are obviously a number of ways to do it. The constructive way is to stop making paper and start making things. Replace subprimes, and yes, Treasury bonds with American cars, steel, iPads, airplanes, corn – whatever the world wants that we can make better and/or cheaper. Learn how to compete again. Investments in infrastructure and 21st century education and research, as opposed to 20th century education are mandatory, as is a withdrawal from resource-draining foreign wars. It will be a tough way back, but it can be done with sacrifice and appropriate public policies that encourage innovation, education and national reconstruction, as opposed to Wall Street finance and Main Street consumption.

The second route to the level playing field involves political and financial chicanery: trade and immigration barriers, currency devaluation and military domination of foreign oil-producing nations. It is by far the less preferable route, but unfortunately the one that is easier and, therefore, most politically feasible. Politicians do not get elected on the basis of "sacrifice." They get elected by pointing to foreign demons, be they in the Middle East or in Asia. The Chinese yuan is a far easier target than the American workers earning ten times their Chinese counterparts and producing an inferior product to boot. Politicians also get elected by promising to keep taxes low, even for the rich, with the argument that small business owners cannot afford the increase. The real beneficiaries however, are the mega-millionaires of Wall Street and Newport Beach. And yes, policymakers at the Fed write trillions of dollars' worth of checks under the guise of quantitative easing, a policy which takes Charles Ponzi one step further by purchasing the government's own paper in a last gasp effort to support asset prices.

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Faced with these two decidedly different routes to "level the playing field" it seems obvious that the United States is opting for "Easy Street" as opposed to "Buckle Down Road." Granted, "The Ben Bernank" as a YouTube cartoon rather hilariously labeled him, has for several months importuned Congress and the Executive Branch to institute substantive reforms, while he attempts to keep the patient alive via non-conventional monetary policy. But very few others are willing to extract their heads from the sand. The President's debt commission with its insistence on low personal and corporate income tax rates and a mere 15 cent increase in the gasoline tax was one example. The Republicans' reluctance to advance detailed ideas for budget balancing is another. And the Democrats' two-year focus on the biggest entitlement program since Social Security – healthcare – as opposed to fundamental reforms to counter our lack of global competitiveness – is perhaps the most grievous example of lost opportunity. Unlike the United Kingdom, where Prime Minister Cameron has championed fiscal conservatism, or even Euroland, which is being forced in the direction of Angela Merkel's Germanic work ethic, the United States seems to acknowledge no bounds to what it can spend to bolster consumption or how much it can print to support its asset markets. <u>We will more than likely continue to "level the playing field" via currency devaluation and an increasing emphasis on trade barriers and immigration, as opposed to constructive policies to make this country more competitive in the global marketplace.</u>

If so, investors should recognize that an emphasis on currency depreciation and trade restrictions are counter to their own interests. Not only would their dollar-denominated investments lose purchasing power over time from a global perspective, but they would do so also via a policy of near 0% interest rates, which are confiscatory in real terms when accompanied by positive and eventually accelerating inflation. In addition, although corporate profits are in many cases broadly diversified across national borders, there should be little doubt that the objective of tariffs and trade barriers is to advantage domestic labor as opposed to domestic capital; profits, therefore will ultimately not benefit.

Unless developed economies learn to compete the old-fashioned way – by making more goods and making them better – the smart money will continue to move offshore to Asia, Brazil and other developing economies, both in asset and in currency space. <u>The United States in short, needs to make things not paper, but that is not likely unless we see a policy revolution in Washington DC.</u> In the meantime, our unemployed will continue to fill out forms and stand in line. We're living here in Allentown.

William H. Gross
Managing Director

All investments contain risk and may lose value. Investing in foreign denominated and/or domiciled securities may involve heightened risk due to currency fluctuations, and economic and political risks, which may be enhanced in emerging markets. This material contains the current opinions of the author but not necessarily those of PIMCO and such opinions are subject to change without notice. This material has been distributed for informational purposes only. Forecasts, estimates, and certain information contained herein are based upon proprietary research and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. Pacific Investment Management Company LLC, 840 Newport Center Drive, Newport Beach, CA 92660, 800-387-4626. ©2010, PIMCO. IO101-112910 ■

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Financial Planning Lecture Series

The UBC Faculty Association's 2011 Financial Planning Lecture Series is scheduled for Feb 2, 9, and 23, and Mar 2 and 9. The Faculty Pension Plan is presenting on Wednesday, March 2, 2011. A description of the presentation is provided below, and the location and time will be posted on the FPP website in early February.

Investment Market Update
UBC Faculty Pension Plan

David Ayriss
Leith Wheeler Investment Counsel

Mike Leslie
Executive Director - Investments
Faculty Pension Plan

In 2010, the Canadian and several foreign stock markets witnessed strong returns. Hear about the main reasons behind last year's performance, and what did well and what did not do well. Canadian stock market returns were among the highest anywhere, but how have our domestic market returns compared to other countries over longer timeframes? Also, insights into how the markets may unfold in 2011 will be discussed along with what could be the key concerns and drivers of market performance in the year ahead.

RRSP Information for 2011

March 1, 2011 is the RRSP contribution deadline for the 2010 tax year.

This article provides you with information on how much you may contribute.

To find your contribution limit

The maximum amount you can contribute to an RRSP each year is shown on the Canada Revenue Agency (CRA) Notice of Assessment form that you receive after you file your income tax return. You can also find your contribution limit by calling the CRA at 1-800-267-6999 or by using the My Account option on the CRA website at (http://www.cra-arc.gc.ca/). You will need a Government of Canada 'epass', which you can obtain on this website.

How do your Faculty Pension Plan contributions impact your RRSP contribution room?

While contributions to the UBC Faculty Pension Plan (FPP) will reduce your RRSP contribution room, it is important to remember that this does not happen until the following calendar year and the calculations are always performed by the CRA. You do not need to make any calculations to determine your 2010 RRSP contribution room – you simply have to refer to the Notice of Assessment form you received after filing your 2009 tax return.

CRA calculates the maximum 2010 RRSP contribution amount available by taking 18% of your gross 2009 income (before taxes and deductions) to a maximum of $22,000 less your 2009 Pension Adjustment amount which represents the 2009 FPP contributions reported in Box 52 of your 2009 T4. When making their calculations of your RRSP contribution limit, CRA will also include any unused contribution room since the 1991 tax year.

Contributions made to the FPP in 2010 have no impact on your 2010 RRSP contribution limit. But, they will impact your 2011 RRSP contribution room.

Can I use my RRSP contribution room to contribute voluntarily to the Faculty Pension Plan?

RRSP contribution room can only be used for contributions to an RRSP. However, you can later transfer the value of your RRSP on a tax-sheltered basis to your UBC Faculty Pension Plan account. Your RRSP contributions must have been made by yourself (not your spouse) and in your name. Further information on 'Transfers-In' is available under the QuickFind menu on the FPP website.

How do additional voluntary contributions (AVCs) to the FPP work?

For 2011, the CRA maximum contribution to a pension plan is the lesser of 18% of your 2011 pensionable earnings and $22,970. Your AVC room is the difference between the CRA maximum and the required contributions that will be made to your pension plan account in 2011. To determine how much you can voluntarily contribute, use the calculator tool found under the QuickFind menu on the FPP website.

Your 2011 AVCs must be contributed to the Faculty Pension Plan prior to December 31, 2011.

NB - Pension plan voluntary contribution room is calculated using your current year's earnings and RRSP contribution room is calculated using your previous year's earnings.

Should I make voluntary contributions to an RRSP or to the Faculty Pension Plan?

There are benefits for contributing to either vehicle and your decision should be based on your own personal needs. Please visit the 'Voluntary Contributions' page found under the QuickFind menu for additional information regarding choosing between these two vehicles. ■

This article was prepared by Jim Loughlean, Member Services Specialist for the UBC Faculty Pension Plan. Comments and questions should be sent to fpp@hr.ubc.ca.

In the first quarter of 2010, stock markets continued to climb from the lows reached in March 2009. Much of the economic results reported either positive or "less negative" news, providing investors with some level of comfort that things were generally improving in the economy. The second quarter of 2010 witnessed weak returns for stock markets worldwide, pushing year-to-date returns into negative territory. Issues with high government debt levels in several European countries, and concern over slowing economic growth worldwide, led to increased fears with investors. The third quarter of 2010 produced [illegible] retu[illegible] m[illegible]ock [illegible]s despite economic news reports [illegible] sl[illegible]ng g[illegible]th. [illegible]he[illegible]d ex[illegible]ctations that the U.S. governme[illegible] wo[illegible] cont[illegible]e to [illegible]op[illegible] thei[illegible]conomy increased investors' [illegible]thusia[illegible] an[illegible] willin[illegible]ess [illegible] inc[illegible]se their investments in th[illegible] ma[illegible] The f[illegible]th [illegible] of 2010 produced strong r[illegible]urns in most s[illegible]ock m[illegible]kets as t[illegible]e rally continued from the previous q[illegible] number of areas, including continued support from central banks, led investors to be more confident that a global recovery was underway.

2010 Year in Review

You're invited

UBC Faculty Pension Plan Open House

Please join us at the Open House and meet the trustees and staff of the Faculty Pension Plan. There will be presentations on the Plan's performance in 2010, and a discussion of initiatives for 2011. Light refreshments will also be served.

Date: Wednesday, May 25, 2011
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)

RSVP by May 18 to:

pensions@hr.ubc.ca | 604-822-8100

a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

Investment Change within the Short Term Investment Fund

As of January 2011, the underlying fund within the Short Term Investment Fund (STIF) changed. The old fund, Short Term 1, purchased only government securities with holding periods averaging three to five days. The new fund, Short Term 2, also managed by B.C. Investment Management Corp. (bcIMC), allows for a longer term of up to 90 days on average for the portfolio. It also allows for high quality corporate bonds to be held. As with the existing fund, this new fund is still very conservative and only holds very high quality issues.

The primary objective of the new bcIMC fund, within the STIF option, is to preserve capital and minimize market risk. But, by allowing a longer term and some corporate bonds in the portfolio, the yield of this new fund is expected to be somewhat higher than the existing fund. There will only be a very slight increase in management fees (1/100th of one percent) for the STIF option with this change.

MARKET COMMENTARY

THE FOURTH QUARTER OF 2010 produced strong returns in most stock markets as the rally continued from the previous quarter. Encouraging economic news in a number of areas, including continued support from central banks, led investors to be more confident that a global recovery was underway.

The Canadian stock market had a strong fourth quarter returning 9.4%, increasing the one-year return to 17.6%. But, the returns still remain quite modest over the last four years at an annualized rate of only 4%. All of the ten industry sectors had positive returns in Q4 led by the Materials and Energy sectors, which together represent approximately a 50% weighting in the stock index.

The U.S. stock market also had a very strong fourth quarter, up 10.8%, and the one-year return was 15.1% in U.S. dollar terms. This translated into lower returns of 7.3% for the fourth quarter, and 9.1% for the one-year period in Canadian dollar terms, due to the strengthening Canadian dollar. Non-North American equities (as measured by the EAFE index) returned 5.6% and 4.8% over the fourth quarter and one-year period respectively, in local currency terms. These returns were 3.3% and 2.1% over the fourth quarter and one-year period respectively in Canadian dollar terms.

The Canadian Bond market turned negative in the fourth quarter with a return of -0.7% as interest rates came under pressure, but still produced a decent 6.7% return over the one-year period. Long Term Bonds performed the weakest in Q4 at -1.2%, but this was the strongest bond sector over the one-year period at 12.5%. In terms of returns by issuer, Federal bonds were the weakest in Q4 at -0.9% and over one year at 5.4%. Provincial bonds proved to be the strongest issues over one year, returning 8.6%. Real Return Bonds returned 1.5% in Q4 helping to produce a strong one-year return of 11.1%. ■

PERFORMANCE OF THE FUNDS
FOR PERIODS ENDING DECEMBER 31, 2010

	3 months	1 year	3 years*	5 years*	10 years*
Balanced Fund - gross	4.28%	9.98%	2.48%	4.82%	5.52%
Balanced Fund - net	4.10%	9.37%	1.95%	4.32%	5.05%
Composite Index 1	3.54%	9.12%	2.29%	4.33%	5.05%
Bond Fund - gross	-0.04%	8.61%	7.22%	5.76%	6.42%
Bond Fund - net	-0.13%	8.25%	6.88%	5.47%	6.15%
Composite Index 2	-0.26%	7.63%	6.65%	5.30%	6.36%
Canadian Equity Fund - gross	10.08%	17.97%	2.23%	7.23%	8.61%
Canadian Equity Fund - net	9.94%	17.43%	1.78%	6.78%	N/A
Composite Index 3	9.15%	16.66%	1.85%	6.51%	6.84%
Foreign Equity Fund - gross	6.49%	6.27%	-4.78%	-1.30%	-0.85%
Foreign Equity Fund - net	6.20%	5.44%	-5.33%	-1.79%	N/A
Composite Index 4	5.53%	5.86%	-4.28%	-0.59%	-0.27%
Short Term Investment Fund - gross	0.26%	0.58%	1.38%	2.52%	2.82%
Short Term Investment Fund - net	0.22%	0.43%	1.23%	2.36%	2.63%
Composite Index 5	0.23%	0.43%	1.12%	2.34%	2.67%

The Average Rate of Return for the FPP funds are updated on a monthly basis and are available under the QuickFind menu on the FPP website.

**Annualized returns*

Composite Index 1:** 32% DEX Universe, 10% S&P/TSX Capped, 5% S&P/TSX, 5% S&P/TSX 60 Capped, 6% S&P 500, 21% MSCI World Ex Canada, 3% Dex 91-Day TB, 10% IPDCPI, 8% DEX Real Return Bonds

Composite Index 2:** 80% DEX Universe, 20% 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:** 73% MSCI World Ex Canada, 21% S&P 500, 6% DEX 91-Day TB

Composite Index 5: DEX 91-Day TB Index until August 2007, DEX 30-Day TB Index commencing September 2007

***Composite Indices 1, 2, and 4 have changed as of April 1, 2010 to reflect investment changes within the Balanced, Bond, and Foreign Equity Funds.*

COMPOSITION OF THE FUNDS
AS AT DECEMBER 31, 2010

	Market Value ($ Millions)	% of Funds
BALANCED FUND		
Equities - Canada	247.0	22.2%
Equities - Non-Canadian	296.4	26.6%
Absolute Return Hedge Fund	32.6	2.9%
Real Estate - Canada	104.7	9.4%
Fixed Income	342.5	30.7%
Real Return Bonds - Canada	87.9	7.9%
Cash	3.4	0.3%
Total Balanced Fund	1114.5	100.0%
BOND FUND		
Fixed Income	53.7	79.2%
Real Return Bonds - Canada	13.8	20.4%
Cash	0.3	0.4%
Total Bond Fund	67.8	100.0%

	Market Value ($ Millions)	% of Funds
CANADIAN EQUITY FUND		
Equities - Canada	105.6	99.2%
Cash	0.8	0.8%
Total Canadian Equity Fund	106.4	100.0%
FOREIGN EQUITY FUND		
Equities - Non-Canadian	34.6	93.3%
Absolute Return Hedge Fund	2.0	5.4%
Cash	0.5	1.3%
Total Foreign Equity Fund	37.1	100.0%
SHORT TERM INVESTMENT FUND		
Total Short Term Invest. Fund	51.6	100.0%

FPP Board Members

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604-822-8347

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2010 FPP Board of Trustees Election Results

We are pleased to advise that Drs. Joy Begley and Kai Li were re-elected as members of the Board of Trustees in the recent election. Their terms of office are from January 1, 2011 to December 31, 2012. We thank the candidates and all members who cast their ballots in this election.

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 contact information (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 louise.mah@ubc.ca. Any information provided is held confidential and greatly appreciated.

Name	Left UBC
Cho, H J Peter	June 1988
Chung, Ilchoo	June 1984
Du Mont, Gertraude E	June 1975
Grondey, Hiltrude *Chemistry*	Unknown
Haddock, Christopher	April 1990
Henderson, Robert C	June 1971
Herbst, Karl Peter	Dec 1989
Knight, Peter *Zoology*	July 2003
Lumsden, Hugh David	June 1971
McAllister, Irene	Jan 1980
Rau, Jon	June 1991
Sullivan, Daniel J	July 1975
Varma, Devinder	April 1986
Wang, Jian *Pharmaceutical Sciences*	Aug 2000
Zhang, Li *Biochemistry*	July 1999

FPP Annual Report: Online April 18

The online 2010 UBC Faculty Pension Plan Annual Report will be available on April 18, 2011. Members are encouraged to read the annual report on the Faculty Pension Plan website; however, if you do not have online access and need a paper copy, please contact the Pension Office by March 28 at 604-822-8100 or by email at pensions@hr.ubc.ca with the subject line "Annual Report Print Copy."

New Member and Retirement Workshops

"You & Your Pension Plan" workshops for new members or members wishing to learn more about the Plan are available throughout the year, as well as "Understanding Your Retirement Income Options" workshops for members approaching retirement.

For more info or to register for a workshop, please contact Jim Loughlean at jim.loughlean@ubc.ca. Please refer to the Workshops page on the FPP website for up-to-date workshop information and dates.