Financial statements of

The University of British Columbia Faculty Pension Plan

December 31, 2010

The University of British Columbia
Faculty Pension Plan
December 31, 2010

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Independent Auditor's Report

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

We have audited the accompanying financial statements of The University of British Columbia Faculty Pension Plan, which comprise the statement of net assets available for benefits as at December 31, 2010, and the statement of changes in net assets available for benefits for the year then ended, and notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The University of British Columbia Faculty Pension Plan as at December 31, 2010, and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
March 23, 2011

The University of British Columbia Faculty Pension Plan

Statement of net assets available for benefits as at December 31, 2010

(Expressed in thousands of dollars)

	2010	2009
	$	$
Assets		
Assets held by the Plan's custodian		
Investments (Note 3)		
Short-term notes	**55,200**	52,604
Bonds	**498,149**	438,567
Equities	**715,062**	659,348
Real estate	**106,588**	86,584
	1,374,999	1,237,103
Cash and cash equivalents	**5,511**	10,378
Investment income receivable	**506**	460
	1,381,016	1,247,941
Contributions receivable		
University	**105**	6
	1,381,121	1,247,947
Liabilities		
Accounts payable and accrued liabilities	**1,849**	1,052
Plan withdrawals payable to members	**2,265**	2,222
	4,114	3,274
Net assets available for benefits (Note 4)	**1,377,007**	1,244,673

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
year ended December 31, 2010

(Expressed in thousands of dollars)

	2010	2009
	$	$
Increase in net assets		
Members' required contributions	**16,673**	16,303
University's required contributions	**33,048**	31,593
Members' additional voluntary contributions	**498**	465
Transfers from other plans	**3,071**	3,111
	53,290	51,472
Return on investments, including changes in market values (Note 5)	**125,741**	139,442
	179,031	190,914
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**20,503**	15,898
Death benefits	**813**	55
Members' accounts transferred and refunded	**19,447**	16,348
	40,763	32,301
Operations		
Actuarial services	**44**	48
Audit and consulting services	**41**	32
Legal services	**49**	39
Office and administrative costs	**1,051**	940
	1,185	1,059
Investment transaction and administration fees	**4,749**	2,802
	46,697	36,162
Net increase in net assets available for benefits	**132,334**	154,752
Net assets available for benefits, beginning of year	**1,244,673**	1,089,921
Net assets available for benefits, end of year	**1,377,007**	1,244,673

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;
- 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.

(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.

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 based on the fair values of the net assets of the investees. The net assets include mainly direct real estate investments which 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 5).

(e) Allocation of net assets

In the allocation of net assets available for benefits (Note 4), 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.

(g) Future accounting changes

In April 2010, Canadian Institute of Chartered Accountants ("CICA") has issued a new accounting framework applicable to pension plans. Effective for fiscal years beginning on or after January 1, 2011, pension plans are required to adopt the accounting standards set out in Part IV of the CICA handbook.

(Expressed in thousands of dollars)

3. 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 0.02% to 0.14% (2009 - 0.1% to 0.5%).

(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:

	2010	2009
	$	$
Canadian		
Corporations	**253,747**	224,337
Pooled equity funds	**94,768**	75,542
Foreign		
Corporations	**137**	4,008
Pooled equity funds	**366,410**	355,461
	715,062	659,348

(d) *Real estate*

All real estate investments are in Canadian property.

(e) *Fair value measurements - Levels disclosure*

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).

(Expressed in thousands of dollars)

3. Investments (continued)

The following is a summary of the inputs used as of December 31, 2010 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 unobservable inputs (Level 3)	Total
	$	$	$	$
Short-term notes	-	55,200	-	55,200
Bonds	-	498,149	-	498,149
Equities	259,121	455,941	-	715,062
Real estate	-	-	106,588	106,588
Total investments	259,121	1,009,290	106,588	1,374,999

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 unobservable inputs (Level 3)	Total
	$	$	$	$
Short-term notes	-	52,604	-	52,604
Bonds	-	438,567	-	438,567
Equities	229,229	430,119	-	659,348
Real estate	-	-	86,584	86,584
Total investments	229,229	921,290	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, 2009	Income included in statement of changes in net assets available for benefits	Net unrealized gains (losses) included in statement of changes in net assets available for benefits	Transfer in	Balance as at December 31, 2010
	$	$	$	$	$
Assets					
Real estate	86,584	3,754	6,250	10,000	106,588

(Expressed in thousands of dollars)

4. Net assets available for benefits

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

	2010	2009
	$	$
Money Purchase account	**1,143,310**	1,044,295
RRIF-type payment account	**122,310**	100,627
Variable Payment Life Annuity account	**72,405**	69,591
LIF-type payment account	**38,982**	30,160
	1,377,007	1,244,673

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.

5. Return on investments

	2010	2009
	$	$
Pooled fund distributions	**4,936**	10,772
Interest income	**23,493**	35,313
Net realized losses on investments	**(29,566)**	(7,605)
Dividend income	**5,740**	7,684
Real estate income	**2,607**	1,013
Unrealized gains on investments	**118,531**	92,265
	125,741	139,442

6. 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).

(Expressed in thousands of dollars)

7. 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, 2010 is their carrying value of $558,860 (2009 - $501,549). 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:

	2010	2009
	%	%
A1/P1	-	2.6
AAA	**56.5**	54.0
AA	**18.1**	18.0
A	**15.8**	17.1
BBB	**7.8**	6.9
BB and below	**1.8**	1.4

(Expressed in thousands of dollars)

7. 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 31% (2009 - 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 +/- 11.1% (2009 - +/- 11.2%) range of an expected long-term return of roughly +6.4% (2009 - +6.4%) (i.e. results ranging from -4.7% to +17.5% (2009 - -4.6% to +17.4%)). This is based on the following volatility figures:

	2010	2009
	%	%
Canadian and foreign equities	**+/- 16.0**	+/- 16.0
Bonds	**+/- 6.0**	+/- 6.0
Real estate	**+/- 7.5**	+/- 7.5
Short-term notes	**+/- 1.5**	+/- 1.5

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

	2010		2009	
	Market value	**Investments**	Market value	Investments
	$	%	$	%
Canadian bonds	**498,149**	**36**	438,567	35
Canadian equities	**348,514**	**25**	299,880	25
U.S. equities	**75,597**	**5**	175,090	14
Global (excluding Canada) equities	**255,877**	**19**	160,552	13
Real estate	**106,588**	**8**	86,584	7
Short-term notes	**55,200**	**4**	52,604	4
Hedge fund	**35,074**	**3**	23,826	2
	1,374,999	**100**	1,237,103	100

(Expressed in thousands of dollars)

7. Financial risk management (continued)

(c) *Price risk (continued)*

	2010		2009	
Benchmark for investments	**% change**	**Net impact on market value**	% change	Net impact on market value
	%	$	%	$
S&P/TSX Composite Capped	**+/- 16.0**	**+/- 55,762**	+/- 16.0	+/- 47,981
S&P 500 Cdn$	**+/- 16.0**	**+/- 14,901**	+/- 16.0	+/- 29,920
MSCI World ex Can	**+/- 16.0**	**+/- 43,746**	+/- 16.0	+/- 27,595
DEX Universe	**+/- 6.0**	**+/- 29,889**	+/- 6.0	+/- 26,314
IPD Cdn Property Index	**+/- 7.5**	**+/- 7,994**	+/- 7.5	+/- 6,494
DEX 91-Day T-Bill	**+/- 1.5**	**+/- 828**	+/- 1.5	+/- 789

Figures shown are based on December 31, 2010 and 2009 fair values.

The Plan also manages its equity price risk by allocating its equities component across seven (2009 - six) investment managers, with differing investment styles and mandates. The Plan's collective equity holdings managed by these managers are invested as follows:

	2010	2009
	%	%
Canadian		
Other sectors	**21**	20
Pooled equity funds	**11**	10
Financial services	**9**	10
Oil and gas	**7**	7
Industrial products	**2**	2
Consumer products	**2**	1
Communication and media	**1**	1
Metals and minerals	**1**	1
Merchandising	**1**	1
	55	53
Foreign		
Pooled equity funds	**45**	47
Consumer products	**-**	-
	45	47
	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 8.4 years (2009 - 7 years). Therefore, if the interest rates increased by 1.0%, the bond portfolio would fall in value by approximately 8.4% (2009 - 7.0%).

7. 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 non-North American equities are generally unhedged in terms of their currency exposure. These foreign securities as of December 31, 2010 represent roughly 27% (2009 - 29%) of the Plan's assets which consist of 16% (2009 - 15%) in U.S. currencies and 11% (2009 - 14%) in non-North American currencies. A 10% strengthening (weakening) of the Canadian dollar versus the U.S. dollar at December 31, 2010 would have decreased (increased) the U.S. equity portfolio's value by roughly $22,107 (2009 - $18,330). Since the Plan has invested in more than 20 countries in the non-North American 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.

8. 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.

9. Comparative figures

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