Financial statements of

The University of British Columbia Faculty Pension Plan

December 31, 2013

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Independent Auditor's Report

To the Board of 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 financial position as at December 31, 2013, and the statement of changes in net assets available for benefits for the year then ended, and the 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 accounting standards for pension plans, 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.

Auditor's 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, 2013, and the changes in its net assets available for benefits for the year then ended in accordance with Canadian accounting standards for pension plans.

Deloitte LLP

Chartered Accountants
March 26, 2014
Vancouver, British Columbia

The University of British Columbia
Faculty Pension Plan
Statement of financial position
as at December 31, 2013
(Expressed in thousands of dollars)

	2013	2012
	$	$
Assets		
Investments (Note 3)		
Short-term notes	**59,686**	69,557
Bonds	**560,652**	565,799
Equities	**977,676**	770,016
Real estate	**147,484**	136,788
	1,745,498	1,542,160
Cash and cash equivalents	**6,023**	5,190
Investment income receivable	**624**	740
	1,752,145	1,548,090
Accounts receivable	**782**	62
	1,752,927	1,548,152
Commitments (Note 10)		
Liabilities		
Accounts payable and accrued liabilities	**1,324**	1,443
Plan withdrawals payable to members	**3,488**	2,986
	4,812	4,429
Net assets available for benefits (Note 4)	**1,748,115**	1,543,723

Approved on behalf of the Board of Trustees

A. Blom _______________ Chair

Ruth Wehl _______________ Vice-Chair

The accompanying notes to the financial statements are an integral part of this financial statement.

The University of British Columbia
Faculty Pension Plan
Statement of changes in net assets available for benefits
year ended December 31, 2013
(Expressed in thousands of dollars)

	2013	2012
	$	$
Increase in net assets		
Members' required contributions	**19,135**	17,489
University's required contributions	**38,017**	35,227
Members' additional voluntary contributions	**715**	639
Transfers from other plans	**8,405**	4,370
	66,272	57,725
Investment income (Note 5)	**45,150**	45,058
Change in fair value of investments (Note 6)	**165,069**	89,666
	276,491	192,449
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**29,042**	23,040
Death benefits	**505**	625
Members' accounts transferred and refunded	**36,515**	25,464
	66,062	49,129
Operations		
Administrative expenses (Note 7)	**1,405**	1,469
Investment		
Transaction fees	**242**	265
Management fees	**4,390**	4,185
	4,632	4,450
	72,099	55,048
Net increase in net assets available for benefits	**204,392**	137,401
Net assets available for benefits, beginning of year	**1,543,723**	1,406,322
Net assets available for benefits, end of year	**1,748,115**	1,543,723

The accompanying notes to the financial statements are an integral part of this financial statement.

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 Document.

(a) *General*

The Plan is a defined contribution pension plan 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, guaranteed investment certificates 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;
- 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.

1. Description of Plan (continued)

(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. Termination benefits are recorded as Members' accounts transferred and refunded on the statements of changes in net asset available for benefits.

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

The accounting policies adopted in the preparation of these financial statements have been prepared on the basis of Part IV of the CPA Canada Handbook, Canadian Accounting Standards for Pension Plans.

The Plan has adopted Canadian accounting standards for private enterprises in connection with any balances or transactions outside of the scope of Part IV of the Handbook.

(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 available for benefits for the reporting period. The most significant estimates relate to the fair values of investments. Actual results could differ from those estimates.

(c) Investments

Investments are recorded on a settlement date basis and at fair value. Fair value is the amount for which an asset could be exchanged or liability be settled between knowledgeable, willing parties in an arm's length transaction. Fair values of investments are determined as follows:

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

(ii) Real estate equities are valued based on the fair values of the net assets of the investees. The net assets mainly include 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.

(iii) Pooled fund values are provided by investment managers and are generally based on quoted market prices of the underlying investments. The underlying investments include publicly traded equities and bonds.

2. Significant accounting policies (continued)

(c) Investments (continued)

Adjustments to investments due to the fluctuation of fair values are reflected as part of the change in fair value of investments in the statement of changes in net assets available for benefits. Investment transactions are recognized in the financial statements based on their 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 statement of financial position date. Unrealized exchange gains or losses on foreign currency are included in the change in fair value of investments (Note 6).

(e) Allocation of net assets

In the allocation of net assets available for benefits to the accounts (Note 4), investment income, change in fair value of investments and operational and investment 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) Adoption of new accounting standard

Effective January 1, 2013, the Plan adopted IFRS 13 *Fair Value Measurement* ("IFRS 13") on a prospective basis. IFRS 13 defines fair value, summarizes the methods of determining fair value and outlines required fair value disclosures. IFRS 13 is utilized when another IFRS standard requires or allows fair value measurements or disclosures about fair value measurements. The adoption of IFRS 13 did not have a significant impact on the financial statements of the Plan.

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 and guaranteed investment certificates. The effective interest rates of the short-term notes held at year end range from 0.03% to 0.10% per annum (2012 - 0.03% to 0.10%).

(b) Bonds

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

(Expressed in thousands of dollars)

3. Investments (continued)

(c) Equities

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

	2013	2012
	$	$
Canadian		
Corporations	**325,260**	266,782
Pooled equity funds	**100,960**	89,265
Foreign		
Pooled equity funds	**551,456**	413,969
	977,676	770,016

(d) Real estate

All real estate investments are in Canadian property.

(e) Fair value measurements - Levels disclosure

IFRS 13 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 or 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, 2013 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	**-**	**59,686**	**-**	**59,686**
Bonds	**-**	**560,652**	**-**	**560,652**
Equities	**313,791**	**663,885**	**-**	**977,676**
Real estate	**-**	**-**	**147,484**	**147,484**
Total investments	**313,791**	**1,284,223**	**147,484**	**1,745,498**

(Expressed in thousands of dollars)

3. Investments (continued)

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

The following is a summary of the inputs used as of December 31, 2012 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	-	69,557	-	69,557
Bonds	-	565,799	-	565,799
Equities	264,731	505,285	-	770,016
Real estate	-	-	136,788	136,788
Total investments	264,731	1,140,641	136,788	1,542,160

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

	Balance as at December 31, 2012	Reinvested 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	Purchases	**Balance as at December 31, 2013**
	$	$	$	$	$
Assets					
Real estate	136,788	2,898	7,420	378	**147,484**

The total gains (losses) recognized during the year related to Level 3 investments held at December 31, 2013 was $7,420 (2012 - $13,353).

The key assumptions used in determining the fair values of the Level 3 investments include discount rates used to present value future cash flows from properties and income multiples.

(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:

	2013	2012
	$	$
Money Purchase account	**1,346,107**	1,230,761
RRIF-type payment account	**223,682**	179,123
Variable Payment Life Annuity account	**93,778**	73,851
LIF-type payment account	**84,548**	59,988
	1,748,115	1,543,723

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. Investment income

	2013	2012
	$	$
Interest income	**24,020**	27,682
Pooled fund distributions	**10,570**	8,142
Real estate income	**2,898**	2,614
Dividend income	**7,662**	6,620
	45,150	45,058

6. Change in fair value of investments

	2013	2012
	$	$
Realized gains on investments	**40,950**	15,584
Change in unrealized gains on investments	**124,119**	74,082
	165,069	89,666

(Expressed in thousands of dollars)

7. Administrative expenses

	2013	2012
	$	$
Office and administrative costs	**1,174**	1,094
Other	**123**	249
Actuarial services	**51**	71
Audit	**36**	37
Custodian	**21**	18
	1,405	1,469

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, cash and cash equivalents and amounts receivable 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 is the fair value of the financial assets as follows:

	2013	2012
	$	$
Bonds	**560,652**	565,799
Short-term notes	**59,686**	69,557
Cash and cash equivalents	**6,023**	5,190
Investment income receivable	**624**	740
Accounts receivable	**782**	62
	627,767	641,348

(Expressed in thousands of dollars)

8. Financial risk management (continued)

The investment policies of the various bond managers provide 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:

	2013	2012
	%	%
AAA	**51.6**	56.5
AA	**23.1**	22.1
A	**15.6**	13.4
BBB	**8.6**	7.4
BB and below	**1.1**	0.6

(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 33% (2012 - 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) *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 8.7 years (2012 - 8.9 years).

(d) *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, 2013 represent approximately 31% (2012 - 27%) of the Plan's assets which consist of 6% (2012 - 16%) in U.S. currencies and 25% (2012 - 11%) in non-North American currencies.

(Expressed in thousands of dollars)

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 Plan's performance on a regular basis.

10. Commitments

The Plan has entered into an operating lease for office premises. As of December 31, 2013, the future minimum lease payments are due as follows:

	$
2014	71
2015	71
2016	71
2017	71
2018	75
Thereafter	288
	647