



a place of mind  
THE UNIVERSITY OF BRITISH COLUMBIA

# **Faculty Pension Plan** Year in Review

# 2015

Annual Report

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# Message from the Chair

Dear Members,

We are pleased to present the UBC Faculty Pension Plan's (FPP) Annual Report: *2015 Year in Review*.

To start with the investment side, the year 2015 provided reasonable overall returns for most asset classes except for Canadian equities. Both geopolitical and economic concerns led to increased market volatility and influenced the returns in many global markets. The large fall in energy prices in 2015 hurt both our domestic stock market returns, which were negative, and led to a significant decline in the Canadian dollar. This weaker Canadian dollar accounted for much of our strong foreign equity returns in 2015 given our foreign currency exposure is unhedged. Interest rates continued to remain low in 2015 with domestic bonds providing only low single-digit returns for the year.



The Board of Trustees made no significant changes to the FPP fund options or the underlying investment managers in 2015. A minor manager change was made with Sun Life Financial being hired to replace the British Columbia Investment Management Corporation in managing the Short Term Investment Fund.

In 2015, Orla Cousineau, Executive Director, Pensions, and Debbie Wilson, Associate Director, Pensions, joined the UBC Pension Administration Office. Cheryl Neighbour, the Executive Director of Operations for the FPP, retired at the end of 2015, after ensuring there was a smooth transition to Sun Life and to the new senior leadership team for the UBC Pension Administration Office. That team now consists of Orla Cousineau, Debbie Wilson, and Mike Leslie, Executive Director, Investments. The Board expresses its warmest thanks to Cheryl Neighbour for her 14 years of service and commitment to the FPP.

As announced in last year's annual report, Sun Life Financial was selected as the new record keeper and custodian for the FPP effective June 2015. The Plan's assets and member accounts were successfully transferred to Sun Life in mid-2015. The FPP is now co-administered by the UBC Pension Administration Office and Sun Life. The UBC Pension Administration Office continues to provide member services such as seminars and one-on-one meetings. The transition to Sun Life has given members new flexibility and easy access to review account balances online, and daily fund valuation now makes it possible for members to view the current market value of their investments. Another important improvement is that members can make changes or updates to their account in a timelier manner.

Dr. Robert Heinkel and Mr. Vijay Verma were re-elected to the Board of Trustees for a four-year term, effective January 1, 2016 and I would like to thank them for their continuing contribution to the FPP. Dr. Heinkel has been a trustee since 1990 and Mr. Verma since 2012.

I look forward to meeting many of you at the Pension Forum on May 25 at the Marine Drive Residence. There will be information booths available and there will also be short presentations from me as FPP Chair and from management.

In closing, I would like to thank the other board members for their service and commitment over the past year. I would also like to thank the Pension Administration Office staff for their dedicated efforts. I look forward to working with them in 2016.

Yours truly,

A handwritten signature in black ink, appearing to read "Joost Blom". The signature is written in a cursive style with a long horizontal line extending from the end.

# Highlights

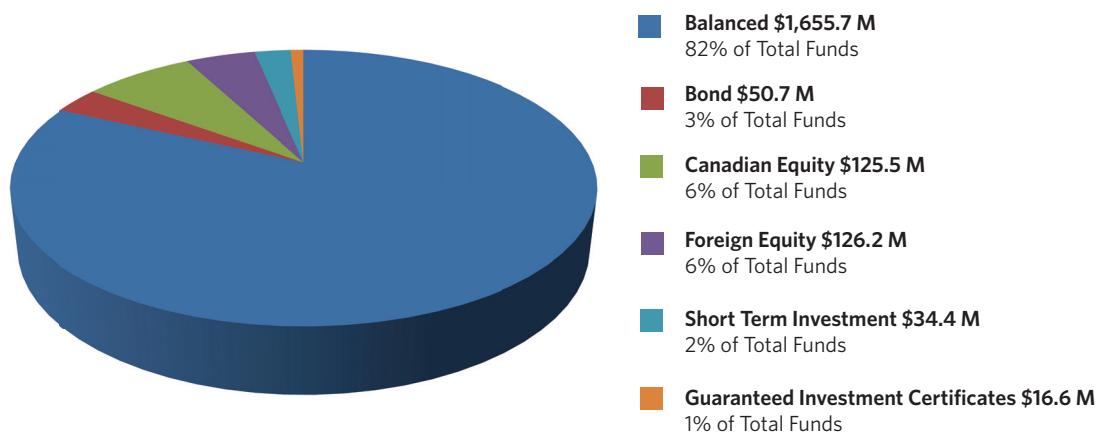
The following are highlights for the Faculty Pension Plan (FPP) in 2015:

- As at December 31, 2015, the market value of the total FPP funds was approximately \$2 billion.
- As illustrated in our membership statistics, the Plan's membership has grown steadily over the last couple of decades. In particular, the number of retirees in the Plan has more than doubled since 2005.
- It was a busy year for our Member Services team, who held the following seminars in 2015:
  - Two "Faculty Pension Plan 101" new member seminars at the Vancouver campus and one at the Okanagan campus.
  - Six "Understanding Your Retirement Income Options" seminars at the Vancouver campus and one at the Okanagan campus.
  - Our Executive Director of Investments also gave a presentation on the Plan's investments at the Vancouver campus as part of the UBC Faculty Association Financial Planning Lecture Series, as well as an Investment Update presentation at the Okanagan campus.
- In June 2015, Sun Life Financial became the record keeper and custodian for the UBC Faculty Pension Plan. The Plan is now co-administered by the UBC Pension Administration Office and Sun Life Financial.
- After 14 years as Executive Director of Operations for the UBC Faculty Pension Plan, Cheryl Neighbour retired at the end of 2015. Orla Cousineau was hired as Executive Director, Pensions and Debbie Wilson was hired as Associate Director, Pensions, and together with Mike Leslie, Executive Director, Investments, they form the new senior leadership team for the UBC Pension Administration Office.

# Financial Statistics

All figures are based on the Plan's audited 2015 Financial Statements which will be available on the Library page of the Plan's website.

## Market Value of the Funds as at December 31, 2015



## Market Value of the Funds for last five years

All figures as at December 31

	2011	2012	2013	2014	2015
<b>Balanced</b>	\$1,123,219,589	\$1,246,829,399	\$1,432,622,204	\$1,587,262,145	\$1,655,735,859
<b>Bond Fund</b>	\$82,320,645	\$78,343,673	\$53,817,936	\$57,369,657	\$50,718,051
<b>Canadian Equity Fund</b>	\$96,602,910	\$106,331,985	\$126,022,267	\$133,862,533	\$125,471,482
<b>Foreign Equity Fund</b>	\$36,881,169	\$45,873,527	\$79,281,556	\$95,616,095	\$126,230,452
<b>Short Term Investment Fund</b>	\$67,297,338	\$51,364,549	\$41,860,713	\$38,246,438	\$34,407,793
<b>Guaranteed Investment Certificates*</b>	N/A	\$14,980,211	\$14,510,620	\$14,948,646	\$16,616,001
<b>Total Market Value of Funds</b>	\$1,406,321,651	\$1,543,723,343	\$1,748,115,296	\$1,927,305,514	\$2,009,179,637

\*GICs were introduced into the FPP in May of 2012

# Financial Statistics cont'd

## Cash Flow for last five years

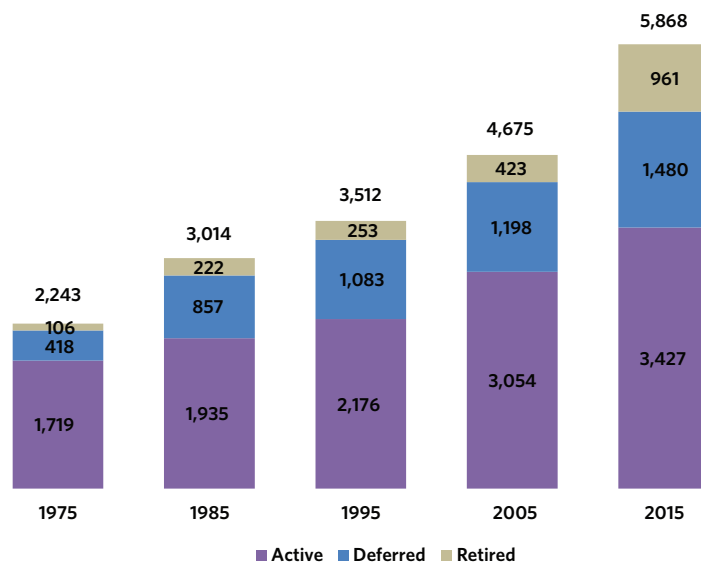
All figures as at December 31

	2011	2012	2013	2014	2015
<b>Cash Flow</b>					
Contributions					
Employer	\$34,511,247	\$35,227,042	\$38,017,045	\$38,373,562	\$38,901,720
Employee	\$17,385,797	\$17,489,426	\$19,135,063	\$18,997,745	\$19,248,282
Voluntary	\$607,367	\$639,088	\$715,204	\$851,428	\$830,213
Transfers-in from other Registered Plans	\$3,889,324	\$4,370,025	\$8,405,522	\$6,284,112	\$4,695,115
Retirement Benefits Paid	\$24,830,204	\$23,039,693	\$29,042,231	\$37,728,149	\$45,718,463
Withdrawals and Transfers-out	\$27,008,905	\$26,088,753	\$37,020,072	\$34,572,366	\$45,627,952

# Membership Statistics

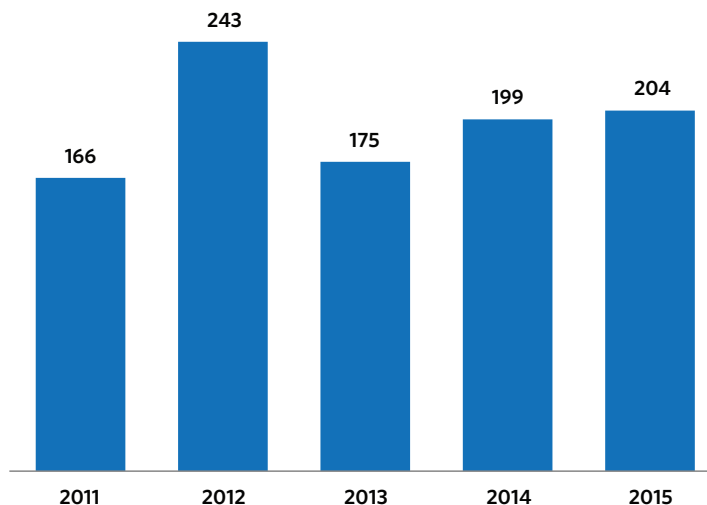
## Number of Members as at December 31

The number of retirees in the Plan has more than doubled since 2005. “Active” refers to eligible plan members who are currently employed by UBC or other participating employers, and “Deferred” refers to members who are no longer employed but have chosen to leave their pension funds in the Plan.



## New Enrollments as at December 31

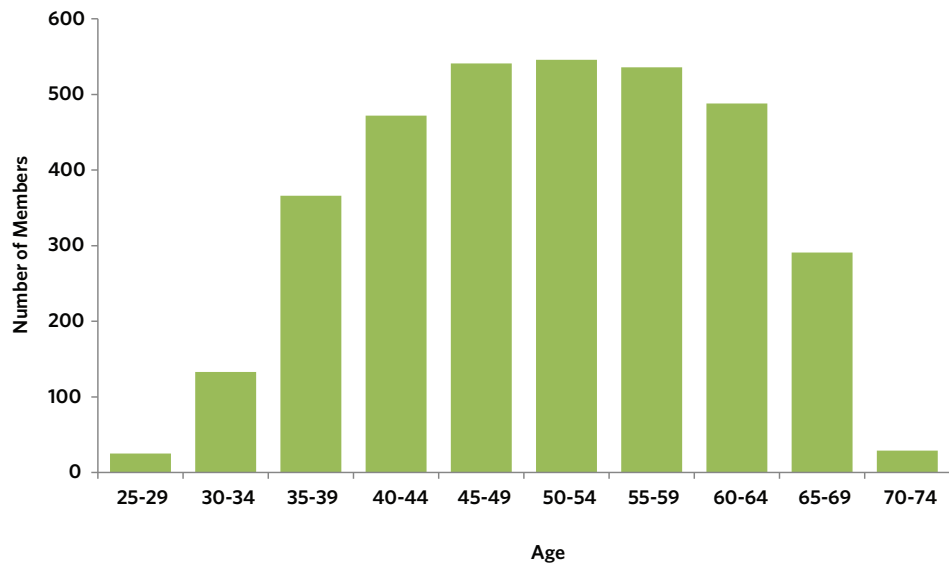
Enrollments into the Plan in 2015 increased about 2.5% from 2014.



# Membership Statistics cont'd

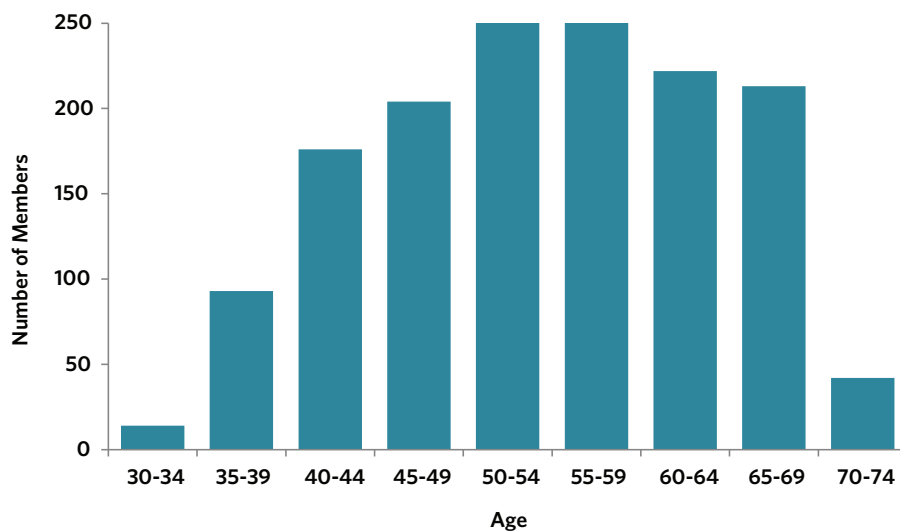
## Active Members by Age Group as at December 31, 2015

The average and median ages of Active members are 50.9 years and 51 years respectively.



## Deferred Members by Age Group as at December 31, 2015

The average and median ages of Deferred members are 54.1 years and 54 years respectively.

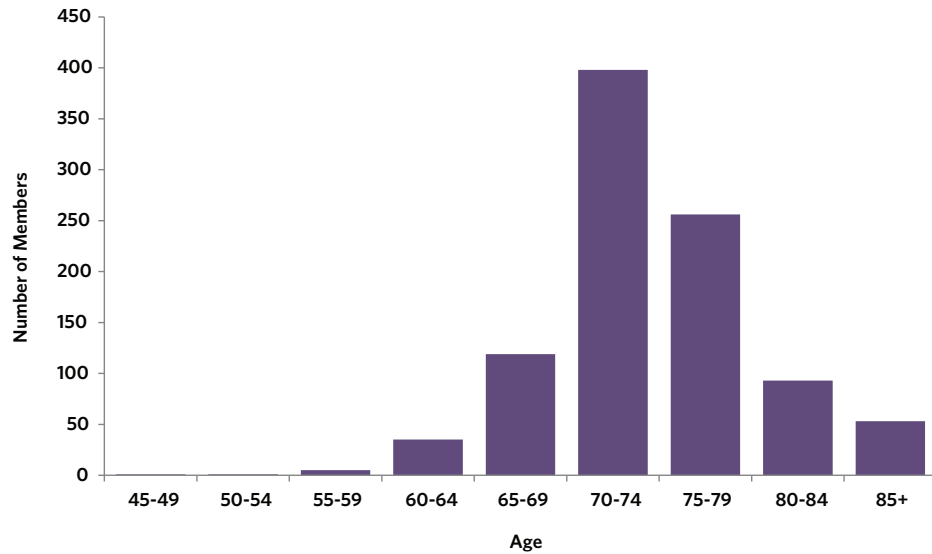




# Membership Statistics cont'd

## Retired Members by Age as at December 31, 2015

In 2015, there were 961 retired members who have elected one or more retirement options from the Plan. The average and median ages of Retired members are 76.6 years and 76 years respectively.



## Retirement Options elected by Members as at December 31, 2015

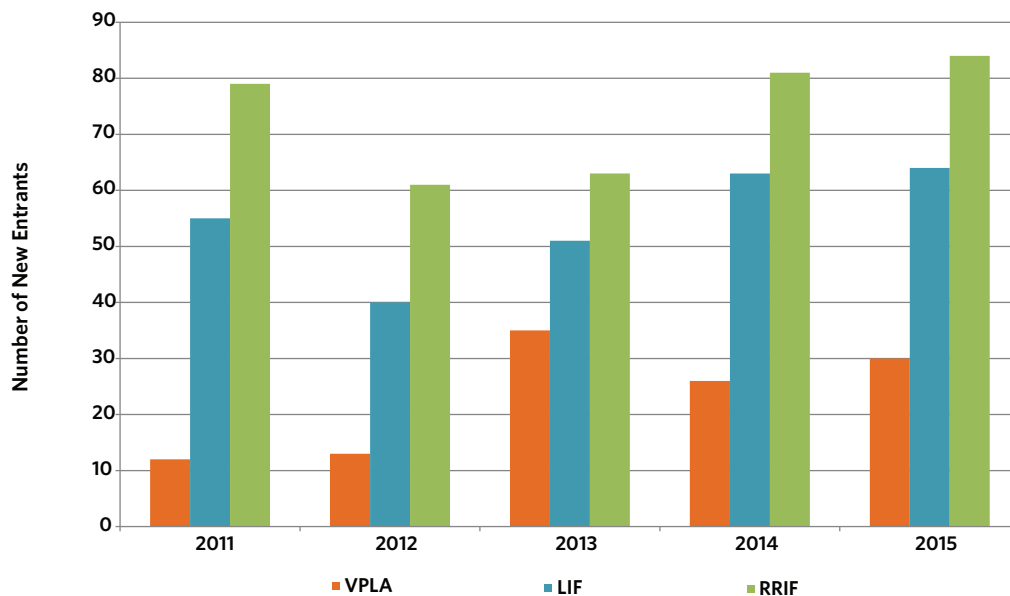
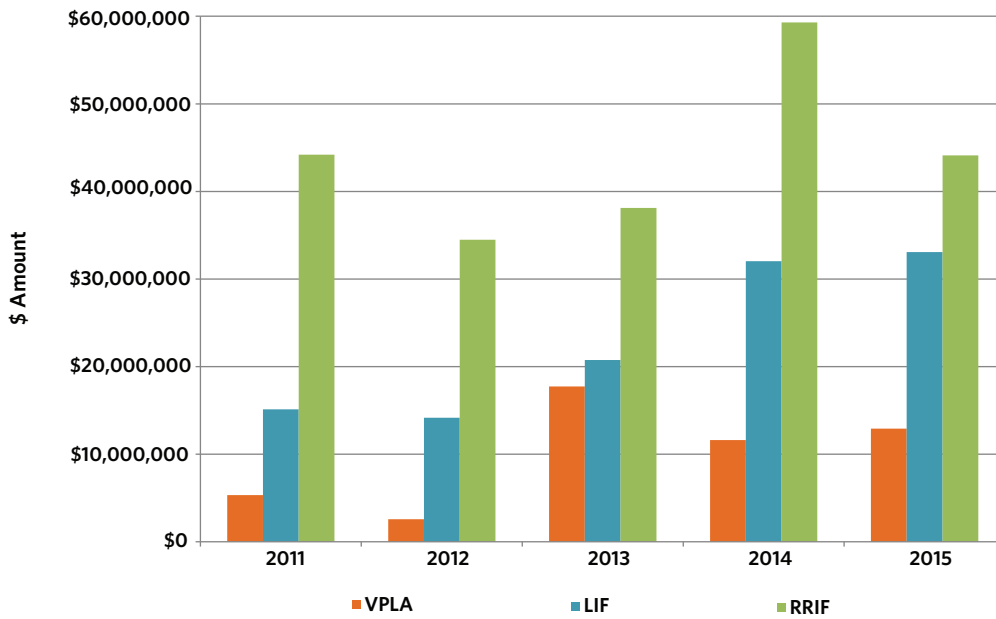
Members may choose to elect more than one retirement option; therefore, some members have a combination of retirement options from the Plan.



# Membership Statistics cont'd

## Where new retirees put their money

The following two graphs show where new retirees put their money within the FPP retirement options (Variable Payment Life Annuity, LIF-Type Payment, and RRIF-Type Payment).



# Market Commentary

The various Funds' gross returns (before fees) are used in the Market Commentary to be consistent with the method in which these returns are compared to other similar funds. The Faculty Pension Plan website provides these returns both before and after fees.

## Background

In the past year a number of factors played a key role in influencing both the stock and bond markets. China's slowing economic growth, the drop in commodity prices and especially the continued fall in energy prices all had a large effect on market returns. Canada, having an economy with a significant commodity-based component, had one of the worst performing stock markets of any developed country. Canada entered a technical recession in 2015 after two successive quarters of negative growth. These economic factors led to a significant reduction in the Canadian dollar which depreciated over 16% versus the U.S. dollar in 2015. However, the lower Canadian dollar had a very positive effect on our foreign equity returns when converted back to the Canadian dollar. Interest rates also remained very low in 2015 with the Bank of Canada rate being lowered twice while the U.S. Federal Reserve raised their rates (by only 0.25%) for the first time in over nine years.

## Balanced Fund

Overall in 2015, the Balanced Fund had a return of 6.6%, bringing the ten-year return to a respectable 6.9% per annum. Of particular strength was the Foreign equity component, which comprises 30% of the Fund, and returned 19.6% for the year. Bond returns were 3.5% as interest rates remained very low and the Bank of Canada actually lowered rates in 2015. Canadian equities, which comprise 20% of the Fund, suffered at -6.8% for the year mainly due to the large drop in commodity prices. Foreign equities, including both U.S. and developed non-North American markets, produced the highest returns largely due to the drop in the Canadian dollar. The Real Estate portion of the Fund (i.e. 10% weighting) performed reasonably well at 5.6% for the year. This result was largely derived from the leasing income of the properties as capital gains on commercial properties were quite muted in 2015. The return from the Real Estate portion of the Fund has been near 10% per annum over the last ten years.

The Balanced Fund's one-year performance of 6.6% ranked in the first quartile relative to a peer comparison of other similar balanced funds. The Fund often outperforms other balanced funds when stock returns are low given the more conservative asset mix profile of the Balanced Fund (i.e. less equity weighting at 50% on average than its peers). The higher weighting to non-Canadian equity than many of its peers also drove some of this relative outperformance given the strong returns in foreign equities. Over a ten-year period, the Fund's strong return performance versus other similar balanced funds has also ranked in the first quartile while also ranking in the "least risky" quartile compared to its peers.

# Market Commentary cont'd

## Bond Fund

The Bond Fund had a one-year return of 3.5% as bonds experienced low returns in 2015 due to decreasing interest rates, which moved down to historically low levels. The Bank of Canada lowered the Overnight Lending Rate twice in 2015 to 0.5%. At the end of 2015, a ten-year Government of Canada bond was yielding only 1.4%. Longer term, the Fund's gross return is 5.3% per annum over the last ten years with a low level of volatility. The U.S. Federal Reserve raised interest rates for the first time in nine years by 0.25% to 0.5%. Many countries now have negative interest rates as their central banks strive to stimulate demand and spending.

Of the two active bond managers with mandates that allow a limited amount of investing in bonds outside of Canada, one slightly underperformed and the other materially outperformed their index benchmarks. Over longer periods (five and ten years), both of these managers have been exceeding the benchmark return while adding a further level of diversification to the Fund. These two managers now represent over half of the weighting of the Bond Fund. The Fund's 20% allocation to Real Return Bonds reduced overall results somewhat as they returned 2.7% for the year.

The Bond Fund's performance relative to other similar bond funds has been below average (i.e. third quartile) over the last five years while the risk level has been a bit higher than average over the last four years.

## Canadian Equity Fund

The Fund posted a return of -6.8% in 2015 (the index was down -8.3%) and has returned 6.1% per annum over the past ten years. The Canadian stock market index remained heavily weighted in commodity stocks (i.e. energy and mining companies) which largely affected results.

The large drop in commodity prices, especially oil prices which were down over 30% for the year, was the main reason for the negative return in 2015. The Energy sector makes up almost 20% of the market index and this sector's return for the year was -22.9%. The smaller oil and gas producers were particularly hurt compared to the large integrated oil companies. Mining stocks also had another weak year as metal prices fell with the Materials sector down 21% for the year. Information Technology was the strongest performing sector for the year being up 15.6%.

The Fund is managed by four different investment firms, each handling approximately 25% of the Fund. Three of the four managers in the Fund significantly outperformed the stock index benchmark for the year while only one manager failed to achieve the index return. Over five years, the Fund's return is 2.6% per annum above the index return, reflecting the high value added from our active managers.

Over a ten-year timeframe, the Fund's performance ranks high in the second quartile compared to similar Canadian equity funds, while having a risk profile that is lower than the average peer fund due to its high level of diversification by manager and investment style.

# Market Commentary cont'd

## Foreign Equity Fund

The Foreign Equity Fund had another strong return of 19.6% in 2015, largely as a result of the drop in the Canadian dollar. Longer term results for this Fund over ten years is 7.3% per annum, which includes the very weak results from the global financial crisis in 2008. The Fund is structured with two managers having active Global equity mandates representing 79% of the Fund, plus one passive U.S. equity-only manager (21% of the Fund). Overall, the Fund was weighted roughly 65% in the U.S. and 35% in non-North American stocks when the three managers' positions were combined.

The U.S. equity manager again had the highest return of 21.6% (24% in 2014) for the year in Canadian dollar terms. The Global equity portion, which makes up the majority of this Fund, also posted strong returns with both managers averaging over 19% for the year. The depreciating Canadian dollar significantly improved the returns of the Fund's foreign equities for the year when these returns are converted back into the Canadian dollar, given that we do not hedge our currency exposure. For example, in 2015, the U.S. equity returns (S&P 500) were 21.6% in Canadian dollars but only 1.4% in U.S. dollar terms.

The Fund's strong five-year returns (16.7% per annum) rank high in the first quartile while the Fund's risk profile is near average in comparison to its peer group of foreign equity funds. Since the significant restructuring of this Fund over five years ago, these relative results have continued to show strong improvement. The ten-year return at 6.7% is also above average in its peer group of foreign equity funds.

## Short Term Investment Fund (STIF)

The STIF's return in 2015 was 1.0%, reflecting the continued very low interest rate environment throughout 2015. The Bank of Canada's Overnight Rate in 2015 was reduced twice to 0.5% with the hope of stimulating slow economic growth. The Fund only invests in very high quality fixed income instruments with very short (i.e. typically 45 days or less) maturities. Investment management of this Fund was switched to Sun Life Financial in late 2015, largely for improving operational efficiency. This resulted in a very slight fee reduction as well.

# Fund Rates of Return

The following table provides performance results for periods ending December 31, 2015. 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.

	1 year	3 years	5 years	10 years	Relative Ranking		
	%	%	%	%	(1st percentile is best ranking)		
					1 year	4 years	5 years
<b>Balanced Fund</b> - gross <sup>1</sup>	6.56	10.48	8.95	6.87	10	27	8
Balanced Fund - net <sup>2</sup>	6.09	10.00	8.40	6.35			
Composite Index 1 <sup>3</sup>	6.11	9.47	7.83	6.08			
<b>Bond Fund</b> - gross	3.54	3.05	4.77	5.26	33	91	73
Bond Fund - net	3.21	2.72	4.44	4.95			
Composite Index 2 <sup>4</sup>	3.40	3.00	4.72	5.02			
<b>Canadian Equity Fund</b> - gross	-6.75	7.51	4.99	6.10	63	49	43
Canadian Equity Fund - net	-7.13	7.05	4.53	5.65			
Composite Index 3 <sup>5</sup>	-8.37	4.76	2.41	4.44			
<b>Foreign Equity Fund</b> - gross	19.55	23.87	16.72	7.33	35	21	11
Foreign Equity Fund - net	19.02	23.17	16.00	6.73			
Composite Index 4 <sup>6</sup>	20.60	23.79	16.39	7.59			
<b>Short Term Investment Fund</b> - gross	0.96	1.19	1.22	1.87	20	18	17
Short Term Investment Fund - net	0.81	1.02	1.05	1.71			
Composite Index 5 <sup>7</sup>	0.63	0.85	0.91	1.74			

Average annual rates of return are compounded monthly. Returns for periods less than one year are not annualized. Past performance is not necessarily indicative of future results.

<sup>1</sup> The Gross rate of return is the rate of return of the fund before investment management and administration fees have been reflected. However, the return is net of the investment managers' operating expenses.

<sup>2</sup> The Net rate of return is the rate of return of the fund after all expenses have been reflected.

<sup>3</sup> Composite Index 1: 32% FT TMX Bond Universe commencing February 2014, 15% S&P/TSX, 5% S&P TSX Capped, 6% S&P 500, 24% MSCI World Ex Canada commencing January 2015, 10% CPI + 4% commencing November 2011 retroactively, 8% FT TMX Real Return Bonds commencing February 2014.

<sup>4</sup> Composite Index 2: 80% FT TMX Bond Universe commencing February 2014. 20% FT TMX Real Return Bonds commencing February 2014.

<sup>5</sup> Composite Index 3: 75% S&P/TSX, 25% S&P/TSX Capped commencing June 1, 2015.

<sup>6</sup> Composite Index 4: 79% MSCI World Ex Canada commencing January 2015, 21% S&P 500.

<sup>7</sup> Composite Index 5: FT TMX 91-Day TB Index commencing February 2014.

# Investment Managers' Rates of Return

The following table details each manager's performance for the periods ending December 31, 2015. 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	Gross Rates of Return (%) <sup>1</sup>			
		For periods ending December 31, 2015			
	Index-based Benchmark	1 year	2 years	3 years	4 years
<b>Canadian Equity</b>					
	Connor, Clark & Lunn Q-Growth Fund	-4.57	3.18	10.11	9.76
	S&P/TSX Composite TR	-8.32	0.68	4.63	5.26
	Guardian Capital LP	-3.56	4.46	7.53	9.06
	Leith Wheeler Investment Counsel	-11.55	-1.77	6.35	8.46
	S&P/TSX Capped Composite Index	-8.32	0.68	4.62	5.26
	PCJ Investment Counsel	-6.82	0.74	5.93	6.59
	S&P/TSX Composite TR <sup>2</sup>	-8.38	1.42	5.22	5.93
<b>U.S. Equity</b>					
	BlackRock Inc. - U.S. Equity Index	21.61	22.77	28.65	24.66
	S&P 500 Index (Canadian \$)	21.59	22.77	28.66	24.66
<b>Non-Canadian Equity</b>					
	MFS	18.61	16.39	23.15	22.75
	JP Morgan	19.34	16.86	23.30	21.28
	MSCI World Ex Canada Net (Canadian \$)	20.04	17.28	23.32	20.81

*continued on next page*

<sup>1</sup> 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.

<sup>2</sup> A different benchmark was used prior to June 2015.

# Investment Managers' Rates of Return cont'd

Asset Class	Gross Rates of Return (%) <sup>1</sup>			
Manager	For periods ending December 31, 2015			
Index-based Benchmark	1 year	2 years	3 years	4 years
<b>Fixed Income</b>				
AllianceBernstein	3.24	6.27	3.69	4.04
PIMCO Canada Corp.	4.46	6.32	3.99	4.60
State Street Global Advisors	3.50	6.13	3.60	3.59
FTSE TMX Canada Universe Bond	3.52	6.13	3.63	3.62
BlackRock Inc. - Real Return Bond Fund	2.68	7.85	0.37	0.99
FTSE TMX Canada Real Return Bond	2.79	7.87	0.38	0.99
<b>Real Estate</b>				
bcIMC - Realpool	5.92	5.08	6.15	7.36
Bentall Kennedy	5.32	6.71	7.10	9.39
Consumer Price Index + 4%	5.61	5.54	5.44	5.29
<b>Money Market</b>				
Sun Life Financial Money Market	0.93	1.06	1.13	1.15
FTSE TMX Canada 91-Day Treasury Bill	0.63	0.77	0.85	0.89



# Plan Overview

The University of British Columbia Faculty Pension Plan, approved by Canada Revenue Agency (CRA), became effective July 1, 1967 to provide retirement, termination and death benefits for members of the faculty and administrative executive staff of the University.

As a defined contribution (money purchase) pension plan, both plan members and the University or other participating employers make contributions to the member's account, which together with investment earnings, is ultimately used to provide benefits at retirement, at termination of the member's employment, or upon the death of the member. The pension plan is registered federally under the Income Tax Act; Registration No. 0211987 and provincially under the British Columbia Pension Benefits Standards Act, which became effective January 1, 1993; Registration No. P085435.

# Board of Trustees

as at January 1, 2016

The UBC Faculty Pension Plan is administered by a pension board composed of eight trustees. Four trustees are elected by and from the members of the Plan and four are appointed by the University. The responsibilities of the Board are outlined in detail in the Plan's Governance Policy, available on the Plan's website.

<b>Appointed by the UBC Board of Governors</b>	<b>Elected by Plan Members</b>
<b>Mr. Joost Blom, Chair</b> Professor, Faculty of Law Term expires December 31, 2016	<b>Dr. Joy Begley</b> Associate Professor, Sauder School of Business Term expires December 31, 2017
<b>Dr. Joyce Boon</b> Associate Professor Emeritus, Biology, UBC Okanagan Term expires December 31, 2016	<b>Dr. Lorenzo Garlappi</b> Associate Professor, Sauder School of Business Term expires December 31, 2017
<b>Dr. R. Kenneth Carty</b> Professor Emeritus, Political Science Term expires December 31, 2018	<b>Dr. Robert L. Heinkel, Vice-Chair</b> Professor, Sauder School of Business Term expires December 31, 2019
<b>Dr. Joanne Emerman</b> Professor Emeritus, Cellular & Physiological Sciences Term expires December 31, 2018	<b>Mr. Vijay Verma</b> Researcher Emeritus, TRIUMF Term expires December 31, 2019

# Management & Staff

<p><b>Orla Cousineau</b> Executive Director, Pensions</p>	<p><b>Mike Leslie</b> Executive Director, Investments</p>
<p><b>Debbie Wilson</b> Associate Director, Pensions</p>	<p><b>Maricres De Leon</b> Pension Plan Accountant</p>
<p><b>Diana Iampietro</b> Manager, Faculty Pension Plan</p>	<p><b>Andrea Gesner</b> Pension Systems Manager</p>
<p><b>Lorraine Heseltine</b> Member Services Specialist</p>	<p><b>GV Fragante</b> Systems Analyst</p>
<p><b>Lily Lee</b> Member Services Associate</p>	<p><b>Helena Huynh</b> Systems Analyst</p>
<p><b>Louise Mah</b> Pension Clerk</p>	<p><b>Kathy Pang</b> Communications Manager</p>
<p><b>Shirley Lim</b> Project Coordinator</p>	<p><b>Chelsey Maher</b> Communications Assistant</p>
<p><b>Claudia Chan</b> Office Administrator</p>	

# Service Providers

- **Aon Hewitt:** Actuary
- **Deloitte:** Auditors
- **Sun Life Financial:** Record keeper and Custodian