Financial statements of

The University of British Columbia Faculty Pension Plan

December 31, 2016

The University of British Columbia
Faculty Pension Plan
December 31, 2016

Table of contents

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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, 2016, 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, 2016 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 Professional Accountants
April 25, 2017
Vancouver, British Columbia

The University of British Columbia
Faculty Pension Plan
Statement of financial position
as at December 31, 2016
(Expressed in thousands of dollars)

	2016	2015
	$	$
Assets		
Investments (Note 3)		
Balanced Fund	**1,740,994**	1,649,584
Bond Fund	**55,104**	50,553
Canadian Equity Fund	**157,974**	125,808
Foreign Equity Fund	**124,729**	125,819
Short Term Investment Fund	**31,411**	34,295
Guaranteed investment certificates	**18,475**	15,721
	2,128,687	2,001,780
Cash and cash equivalents	**1,177**	841
Investment income receivable	**6,395**	3,931
	2,136,259	2,006,552
Accounts receivable	**4,454**	3,966
	2,140,713	2,010,518
Commitments (Note 10)		
Liabilities		
Accounts payable and accrued liabilities	**1,710**	1,335
Plan withdrawals payable to members	**-**	3
	1,710	1,338
Net assets available for benefits (Note 4)	**2,139,003**	2,009,180

Approved on behalf of the Board of Trustees

_______________________ Chair

_______________________ 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, 2016

(Expressed in thousands of dollars)

	2016	2015
	$	$
Increase in net assets		
Members' required contributions	**20,838**	19,248
University's required contributions	**41,154**	38,902
Members' additional voluntary contributions	**768**	830
Transfers from other plans	**8,283**	4,695
	71,043	63,675
Investment income (Note 5)	**94,553**	113,829
Change in fair value of investments (Note 6)	**48,293**	2,587
	213,889	180,091
Decrease in net assets		
Payments to or on behalf of members		
Retirement benefits to members and beneficiaries	**49,090**	45,718
Death benefits	**2,020**	1,514
Members' accounts transferred and refunded	**25,351**	44,114
	76,461	91,346
Operations		
Administrative expenses (Note 7)	**3,022**	2,745
Investment		
Management fees	**4,583**	4,125
	84,066	98,216
Net increase in net assets available for benefits	**129,823**	81,875
Net assets available for benefits, beginning of year	**2,009,180**	1,927,305
Net assets available for benefits, end of year	**2,139,003**	2,009,180

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 text.

(a) *General*

The Plan is a defined contribution pension plan sponsored by The University of British Columbia (the “University”) and covers all eligible academic and administrative executive staff as 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” as defined in the Canada Pension Plan, while the YMPE is the “year’s maximum pensionable earnings” as defined in the Canada Pension Plan.

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 when members' accounts are transferred and refunded on the statement 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 - Accounting ("Part IV"), Canadian Accounting Standards for Pension Plans.

The Plan has adopted Canadian Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook - Accounting in connection with any balances or transactions outside of the scope of Part IV.

(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 financial position 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. Actual results could differ from those estimates.

(c) Investments

The Plan's investment structure comprises five segregated funds, which in turn hold pooled funds and real estate investments. The Plan also holds guaranteed investment certificates and investment in a real estate fund (Note 3).

Investments are recorded on a settlement date basis and at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values of investments are determined as follows:

(i) Segregated funds are valued using the net asset value per unit.

(ii) Guaranteed investments certificates ("GICs") are valued using published market closing price quotations.

(iii) The units in the real estate funds are valued based on the fair values of the underlying real estate assets. 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.

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. 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.

2. Significant accounting policies (continued)

(d) Translation of foreign currency

Transactions denominated in foreign currencies are translated at the rate of exchange at the date of the transaction. 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.

3. Investments

Information about the Plan's investments is as follows:

(a) Short-term notes

The short-term notes held in the Short Term Investment Fund are primarily securities issued by the federal government, Canadian chartered banks, or corporations that mature at various dates within the next fiscal year, as well as investments in pooled money market funds and guaranteed investment certificates.

(b) Bonds

Investments in bonds held in the Bond Fund and Balanced Fund consist of units held in Canadian pooled bond funds.

(c) Equities

The fair values of the equity investments held in the Balanced Fund, Canadian Equity Fund, and Foreign Equity Fund are summarized as follows:

	2016	2015
	$	$
Canadian		
Pooled equity funds	**523,340**	428,154
Foreign		
Pooled equity funds	**697,594**	685,379
	1,220,934	1,113,533

(Expressed in thousands of dollars)

3. Investments (continued)

(d) Real estate

All real estate investments held by funds in which the Plan has invested are in Canadian properties.

(e) Fair value measurements - Levels disclosure

Part IV 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 assets or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices) (Level 2) and
- inputs for the assets or liabilities 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, 2016 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
	$	$	$	$
Balanced Fund				
Segregated fund	-	1,670,277	-	1,670,277
Real estate fund	-	-	70,717	70,717
Bond Fund	-	55,104	-	55,104
Canadian Equity Fund	-	157,974	-	157,974
Foreign Equity Fund	-	124,729	-	124,729
Short Term Investment Fund	-	31,411	-	31,411
GICs	-	18,475	-	18,475
Total investments	-	2,057,970	70,717	2,128,687

(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, 2015 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
	$	$	$	$
Balanced Fund				
Segregated fund	-	1,576,761	-	1,576,761
Real estate fund	-	-	72,823	72,823
Bond Fund	-	50,553	-	50,553
Canadian Equity Fund	-	125,808	-	125,808
Foreign Equity Fund	-	125,819	-	125,819
Short Term Investment Fund	-	34,295	-	34,295
GICs	-	15,721	-	15,721
Total investments	-	1,928,957	72,823	2,001,780

The following table provides information for financial instruments recognized at fair value as at December 31, 2016 and for which Level 3 inputs were used in determining fair value:

	Balance as at December 31, 2015	Reinvested income included in statement of changes in net assets available for benefits	Net realized and unrealized gains (losses) included in statement of changes in net assets available for benefits	Sales	**Balance as at December 31, 2016**
	$	$	$	$	**$**
Asset					
Real estate	72,823	4,788	(1,309)	(5,585)	**70,717**

The key assumptions used in determining the fair values of the Level 3 investments included 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 has been allocated as follows:

	2016	2015
	$	$
Money Purchase account	**1,485,113**	1,428,380
RRIF-type payment account	**358,245**	323,226
Variable Payment Life Annuity account	**174,809**	114,040
LIF-type payment account	**120,836**	143,534
	2,139,003	2,009,180

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

Investment income earned from GICs, real estate investments and investments held in the segregated funds are as follows:

	2016	2015
	$	$
Interest income	**21,366**	28,072
Pooled fund distributions	**65,975**	69,772
Real estate income	**7,212**	12,948
Dividend income	**-**	3,037
	94,553	113,829

6. Change in fair value of investments

	2016	2015
	$	$
Realized (loss) gains on investments	**(4,944)**	297,593
Change in unrealized gains (loss) on investments	**53,237**	(295,006)
	48,293	2,587

(Expressed in thousands of dollars)

7. Administrative expenses

	2016	2015
	$	$
Office and administrative costs	**1,641**	1,762
Other	**37**	183
Actuarial services	**74**	91
Audit	**31**	36
Custodian	**1,239**	673
	3,022	2,745

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 segregated funds. The pooled fund investments held in the segregated 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 managers of the investment funds held in the segregated funds are governed by the managers' 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 has no specific concentration of credit risk as no significant portion of the investments are invested in securities with similar characteristics or subject to similar economic, political or other conditions. The fair value of the Plan's assets represent the Plan's maximum exposure to credit risk.

(Expressed in thousands of dollars)

8. Financial risk management (continued)

(a) Credit risk (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's segregated funds are as follows:

	2016	2015
	%	%
AAA	**49.2**	45.4
AA	**24.5**	24.6
A	**13.2**	15.5
BBB	**10.3**	11.5
BB and below	**2.8**	3.0

(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 39% (2015 - 37%).

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

Most of the Plan's segregated funds are invested in large pooled funds of which the respective segregated fund is just one of many parties invested in these pooled funds, which provides a high degree of liquidity. The investment 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 held by the segregated funds 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 approximately 8.9 years (2015 - 8.8 years).

(d) Currency risk

Currency risk is the risk that the fair value or future cash flows of non-Canadian investments, measured in Canadian dollars, will decrease because of changes in currency exchange rates. Two of the Plan's four 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 segregated funds' 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, 2016 represent approximately 33% (2015 - 34%) of the Plan's segregated funds' assets which consist of 33% (2015 - 34%) in foreign currencies.

(Expressed in thousands of dollars)

8. Financial risk management (continued)

(e) Other price risk

The investments are exposed to other price risk due to changing market conditions. Investment managers manage the portfolio's other price risk by establishing and monitoring asset allocation strategies and by diversifying investments within the various asset classes to control overall price risk.

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, as set out in the Policy.

10. Commitments

The Plan has entered into an operating lease for office premises with an expiry date of October 31, 2022. As of December 31, 2016, the future minimum lease payments are due as follows:

	$
2017	72
2018	75
2019	75
2020	75
2021	75
2022	62
	434