

STAFF PENSION PLAN UPDATE

Newsletter published by the Pension Board for members and beneficiaries of
The University of British Columbia Staff Pension Plan.

APRIL 2007



STAFF PENSION PLAN BOARD OF DIRECTORS

Brian Evans, **CHAIR**
TRIUMF
Tel: 604-222-7448
tronics@triumf.ca

Lorna Marshall, **VICE-CHAIR**
Office of the Vice President,
Research
Tel: 604-822-5159
lorna.marshall@ubc.ca

Harvey Burian
Retired
Tel: 250-954-1690
hburian@telus.net

Alan Marchant
Advancement Services
Tel: 604-822-8909
alan.marchant@ubc.ca

George McLaughlin
Plant Operations
Tel: 604-822-8832
george.mclaughlin@ubc.ca

Shirley Reeve
TRIUMF
Tel: 604-222-7391
shirley@triumf.ca

Karie Smith
Earth and Ocean Sciences
Tel: 604-822-6136
ksmith@eos.ubc.ca

Jay Parker, **SECRETARY**
Human Resources
Tel: 604-822-8114
jay.parker@ubc.ca

Correspondence should be addressed to:

Pension Administration Office
#235 – 2075 Wesbrook Mall
Vancouver, B.C. V6T 1Z1

Tel: 604-822-8100
Fax: 604-822-9471
E-mail: spp@hr.ubc.ca
Website:
www.pensions.ubc.ca/staff

Dear Plan Members:

We are pleased to report that the Staff Pension Plan (SPP) fund had a net rate of return of 12.68% for 2006. The UBC Investment Management Trust (IMANT) report beginning on page 2 gives a breakdown of returns by asset class and manager; asset mix; and changes in fund managers and the investment structure. If you have questions about the Plan's investments, the UBC IMANT staff will be attending the annual Open House on May 8th – mark your calendar to attend.

In November 2005 we asked Canada Revenue Agency (CRA) to re-approve the level of the Plan's contingency reserve at 40% of liabilities. The contingency reserve acts as a buffer against adverse economic conditions to protect members' benefits.

In February 2007, the CRA gave us the approval we requested and the responsibility to monitor the contingency reserve level. This is great news. We do not have to return to the CRA for re-approval in future. Thanks to good investment returns and the contingency reserve, the SPP is in very good financial shape.

The Summarized Financial Statements beginning on page 6 give a more detailed breakdown of the UBC SPP's assets and liabilities. If you would like to receive a copy of the Plan's full Audited Financial Statements, please visit the SPP website or contact the Pension Administration office.

The SPP Board members and administration staff and the staff of UBC IMANT look forward to meeting you at the annual Open House on Tuesday, May 8. The Open House provides an opportunity for you to ask any questions you may have about the Plan or the investments. Please join us and enjoy refreshments and the company of our colleagues. (See page 8 for details of time and place.) I hope to see you there.

Sincerely,

A handwritten signature in cursive script that reads "Brian Evans".

Brian Evans
CHAIR

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

2006: Double-digit returns again

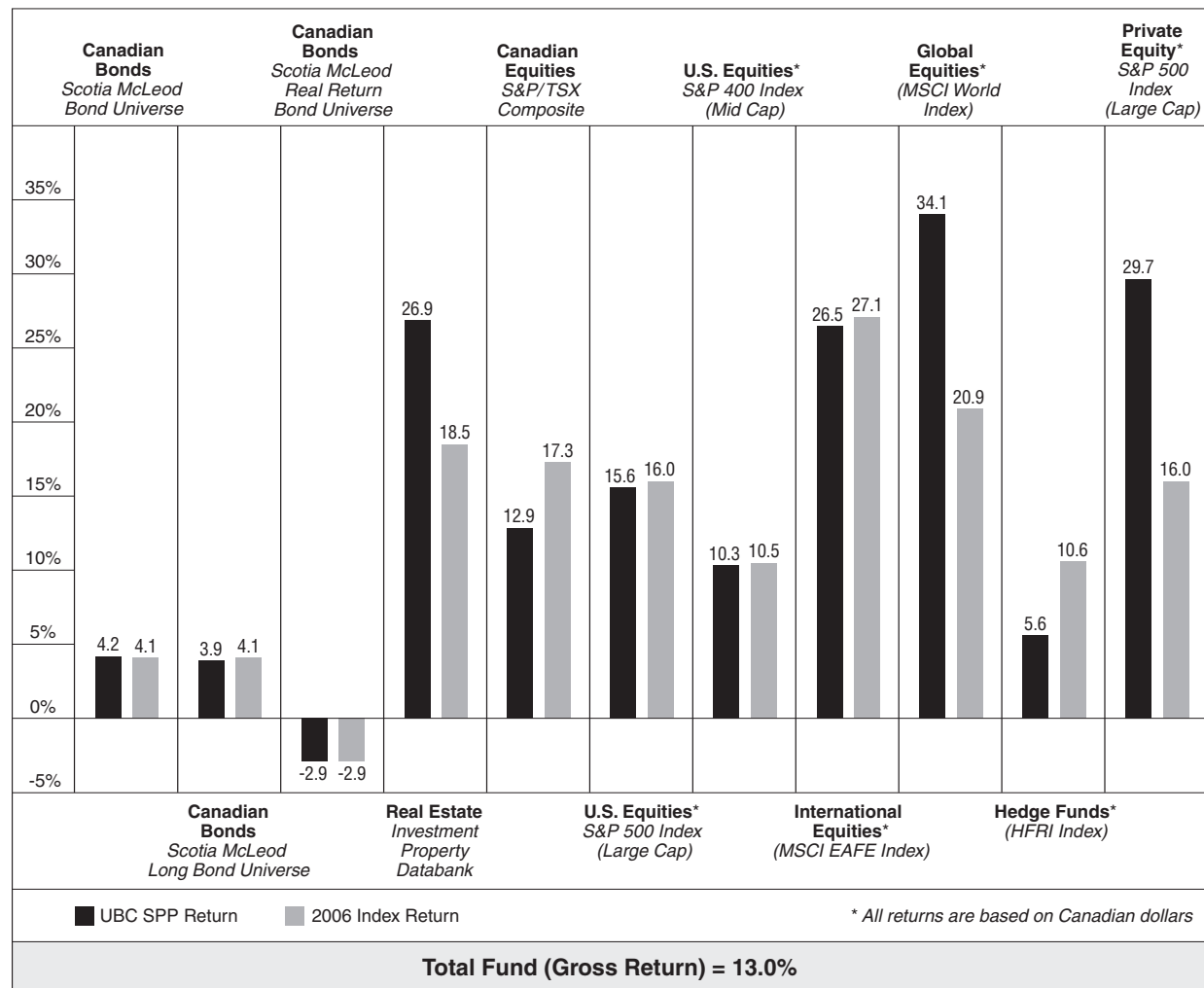
The UBC Staff Pension Plan (SPP) continued to generate impressive returns in 2006, with a net return of 12.68% (gross return of 13.05%). That marks a four-year run of positive returns that began in 2003. The net return in 2005 was 11.54% (gross return 12.12%).

Several factors played a role in fund returns in 2006:

- Strong equity markets were seen around the world and returns from real estate continued to exceed expectations.
- For the first time in the past few years; the Canadian dollar saw no significant change compared to the U.S. dollar.

- With interest rates remaining relatively stable during the year, returns on fixed income were lower than long term averages.

The following table compares the Pension Fund returns, by asset class, to returns of major capital markets, referred to as Market Index Returns. UBC Investment Management Trust (IMANT) measures the performance of the Fund's investment managers against these index returns. The target of the investment managers is to meet or exceed the returns of the corresponding index.



Index: A portfolio of securities, such as the S&P/TSX Composite Index, used by investment managers to compare investments against a specified target or benchmark.

Currency Hedging: If the Canadian dollar appreciates against the U.S. dollar, the value of a U.S. equity investment is reduced. Currency hedging limits the effect of currency fluctuation. In simple terms, currency hedging is offsetting Canadian dollars with U.S. dollars using a number of special financial hedging instruments such as currency-futures contracts.

UBC Investment Management Trust Report

The UBC IMANT Board of Directors and staff are responsible for determining the asset mix, investment manager selection, and allocations as well as ongoing monitoring of investment performance and investment alternatives. UBC IMANT reports to UBC's Board of Governors on an ongoing basis as well as updating the SPP Board of Directors as required.

Asset mix

UBC IMANT assumed the responsibility for managing the investments of the Staff Pension Plan in July 2004. In November 2004, the UBC IMANT Board approved a new long-term asset mix with a view to generating more stable annual returns without increasing the Fund's overall risk.

Significant asset shifts continued last year as the Fund was repositioned towards those long-term asset mix targets (see 'Changes in fund managers' on page 4). In 2006, \$160 million of the Fund's total assets were reallocated between new and existing investment managers.

Part of the shift consisted of re-allocations to existing and new private equity and real estate managers. Private equity is the equity security of companies that have not yet 'gone public' and are not yet listed on a public exchange. Private equities are generally not liquid and it is important to note that the actual dollars committed

to private equity and real estate are being invested over 3- to 5-year periods, and that reaching the Fund's long term asset mix will take time.

One result of this funding schedule is that the asset class providing the cash for the investment will remain overweight (funded above the approved target level) until the funds are needed for investment by the real estate and private equity managers.

For example, at the end of 2006, 18.6% of the fund was invested in Canadian equities, compared to the target rate of 15.0%. However, during the year, the Canadian equity weight was reduced to provide funding for private equity and real estate. Initial returns from private equity and the new real estate ventures have been positive for the Fund, particularly with the strong real estate markets seen around the world.

The Canadian equity weight was also reduced by reallocation of assets in international markets and the U.S., especially in the last quarter of 2006. With improved returns in non-Canadian equity markets, this asset shift proved beneficial for the Fund.

The following table highlights the changes that were made to the asset mix during the past year. It shows the asset mix approved by the UBC IMANT Board, the actual mix at December 31, 2006, and for comparative purposes, the December 31, 2005 asset mix.

Asset Class		Approved Asset Mix	Asset Mix Dec. 31, 2006	Asset Mix Dec. 31, 2005
Fixed Income	Bonds (Including Cash) – Universe	25.0%	19.7%	18.7%
	Bonds – Long Bonds	5.0%	4.8%	5.2%
	Bonds – Real Return Bonds	5.0%	4.8%	5.6%
	Real Estate/Infrastructure	10.0%	11.6%	7.5%
	Total Fixed Income	45.0%	40.9%	37.0%
Equity and Alternatives	Canadian Equity	15.0%	18.6%	24.7%
	U.S. Equity	12.5%	14.3%	12.8%
	EAFE/Global – Equity	12.5%	15.6%	13.9%
	Hedge Funds	10.0%	8.2%	10.8%
	Private Equity	5.0%	2.4%	0.8%
	Total Equity and Alternatives	55.0%	59.1%	63.0%
Total Fund		100%	100%	100%

EAFE: *The Europe, Australia and Far East Index (EAFE) is an unmanaged market-value weighted index designed to measure the overall condition of overseas markets. The EAFE index is published by Morgan Stanley Capital International.*

Private Equity: *Equity securities of companies that have not yet "gone public" – are not yet listed on a public exchange. Private equities are generally not liquid and are thought of as a long-term investment.*

Changes in Fund Managers

Several more new fund managers were added in 2006, bringing us closer to our goal of achieving our new long-term asset mix. The changes, like those of the year before, focused on alternative assets such as hedge funds, private equity and real estate. The new funds include:

- A global currency fund with Barclays (BGI)
- A global multi-strategy hedge fund with Goldman Sachs
- An energy-focused private equity fund with Kern Energy of Calgary

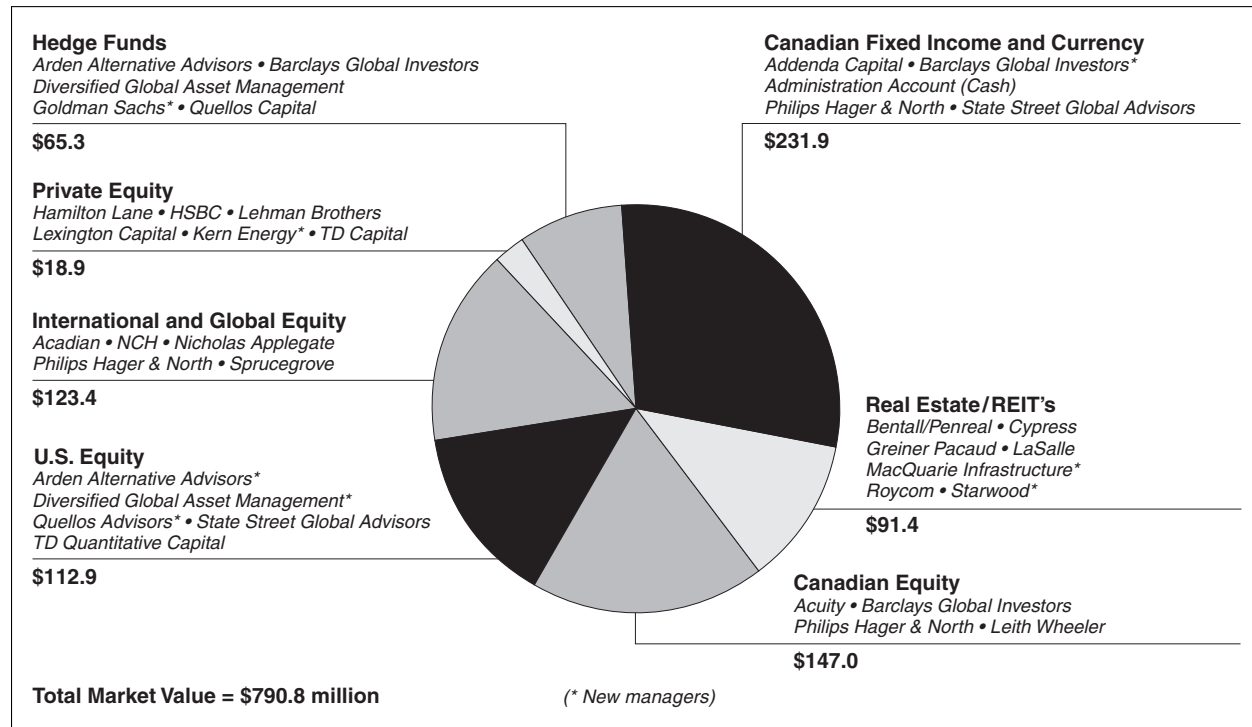
- New global real estate funds with Starwood Capital
- A North American infrastructure fund with MacQuarie Partners

Where possible, common managers are used for both the SPP and the UBC Endowment Fund to improve operational efficiencies and to reduce fees for the public market mandates.

The managers or mandates complement each other to diversify the overall risk of the Fund, but there are also additional costs associated with multiple managers. The use of index funds, multiple mandates with the same manager, and leveraging of other University relationships help to control these costs.

Investment Structure and Managers

At December 31, 2006, the Staff Pension Plan had more than \$790 million in assets. The following managers were retained by the Staff Pension Plan. The new managers are denoted with an asterisk.



UBC IMANT Staff (as of December 31, 2006)

- **Philip A. Falls** became President and Chief Executive Officer of UBC IMANT in October 2006
- **Roger Polishak**, Director, Manager, Relations and Investment Operations
- **Cheryl Frey** joined UBC IMANT as Associate, Analytics and Research, in April 2006
- **Sean Macaulay**, Director, Quantitative Analysis and Strategic Research
- **Susan Bibbs**, Administration Manager

Investment Returns

The following table shows the investment performance of the Fund and the managers over four years (where applicable). Only assets with which the manager has been involved for at least one year are detailed. However, the returns for all the new assets are reflected in the Fund's total return and the asset class return, e.g., U.S. equity.

Asset Class	Manager / Mandate	Gross Compound Rate of Return Periods Ending December 31 (Annualized)				Quartile Rank
		1st Year	2nd Year	3rd Year	4th Year	
Fixed Income	PHN – Active Cdn Bonds	4.5%	5.7%	6.3%	6.5%	2nd
	State Street – Indexed Cdn Bond	4.2%	5.4%	6.1%	6.3%	2nd
	State Street – Cdn Long Bond	3.9%	8.8%	9.3%	8.9%	1st
	State Street – Cdn Real Return Bond	-2.9%	5.7%	9.5%	10.5%	1st
	Addenda – Active Cdn Bonds	4.0%	4.6%	n/a	n/a	4th
	Total Fixed Income	2.8%	5.9%	7.1%	7.4%	1st
Canadian Equity	Barclays – S&P/TSX Cdn Equity	14.7%	21.1%	19.4%	21.8%	2nd
	PHN – S&P/TSX Cdn Equity	16.6%	18.6%	18.8%	20.9%	3rd
	Leith Wheeler – S&P/TSX Cdn Equity	19.3%	n/a	n/a	n/a	2nd
	Acuity Inc Trusts – S&P/TSX Cdn Equity	-5.9%	n/a	n/a	n/a	4th
	Total Canadian Equity	12.9%	18.9%	18.3%	20.4%	3rd
US Equity	TDQC – S&P 500 Index US Equity	14.4%	9.0%	9.8%	14.7%	1st
	State Street – S&P 400 Index US Equity	10.3%	9.7%	9.2%	9.7%	1st
	Total US Equity	15.6%	9.8%	9.4%	11.3%	1st
International and Global Equity	Nicholas Applegate – EAFE Equity	21.3%	20.8%	16.2%	14.9%	2nd
	Spruce Grove – EAFE Equity	30.2%	n/a	n/a	n/a	1st
	Acadian – Global Equity	34.1%	n/a	n/a	n/a	1st
	Total International and Global	29.4%	19.8%	15.9%	14.0%	3rd
Hedge	Arden – Hedge Fund of Funds	7.7%	n/a	n/a	n/a	3rd
	DGAM – Hedge Fund of Funds	9.3%	4.0%	n/a	n/a	2nd
	Quellos Capital – Hedge Fund of Funds	11.7%	8.0%	9.7%	n/a	1st
	Quellos Financial Ventures Hedge Fund	3.8%	n/a	n/a	n/a	4th
	BGI – Multi-Strategy Hedge Fund	5.8%	n/a	n/a	n/a	4th
	Total Hedge	5.6%	4.1%	6.6%	n/a	1st
Real Estate	Cypress – Canadian Real Estate	40.8%	31.3%	28.6%	32.2%	1st
	RoyCom 4.5/6.0 – Canadian Real Estate	14.3%	20.8%	17.7%	19.4%	1st
	Bentall/PenReal – Canadian Real Estate	31.8%	26.3%	21.5%	17.8%	2nd
	GPM – Canadian Real Estate	13.2%	7.7%	n/a	n/a	4th
	Total Real Estate	26.9%	25.0%	22.9%	25.0%	1st
Private Equity	Hamilton Lane – Private Equity	-9.7%	n/a	n/a	n/a	4th
	HSBC – Private Equity	47.5%	n/a	n/a	n/a	1st
	Lehman – Secondary Private Equity	83.0%	n/a	n/a	n/a	1st
	Lexington – Secondary Private Equity	-8.1%	n/a	n/a	n/a	4th
	TD Capital – Private Equity	-3.8%	n/a	n/a	n/a	4th
	Total Private Equity returns compared to the S&P 500	29.7%	n/a	n/a	n/a	1st
Median		12.6%	12.2%	11.6%	12.1%	
Total Fund		13.0%	12.6%	12.1%	12.8%	2nd

Annualized Return: Describes a fund's return, on average, each year of a multi-year period. Where no data appears, the fund manager was not managing the fund during those years.

Quartile Rank: For the longest period for which the manager has worked for the SPP. A quartile rank measures a fund's position in relation to other funds in the same category. A rank of 1st means the fund is in the top 25% and a rank of 4th means the fund is in the bottom 25% of funds in the category.

Median: The midpoint of a range of numbers – half the numbers will be above the median and half will be below.

Auditors' Report on Summarized Financial Statements

To the Members of The University of British Columbia Staff Pension Plan

The accompanying summarized statements of net assets available for benefits and changes in net assets available for benefits are derived from the complete financial statements of The University of British Columbia Staff Pension Plan as at December 31, 2006 and for the year then ended on which we expressed an opinion without reservation in our report dated February 23, 2007. The fair summarization of the complete financial statements is the responsibility of management. Our responsibility, in accordance with the applicable Assurance Guideline of the Canadian Institute of Chartered Accountants, is to report on the summarized financial statements.

In our opinion, the accompanying summarized financial statements fairly summarize, in all material respects, the related complete financial statements in accordance with the criteria described in the Guideline referred to above.

These summarized financial statements do not contain all the disclosures required by Canadian generally accepted accounting principles. Readers are cautioned that these statements may not be appropriate for their purposes. For more information on the Plan's net assets available for benefits and the changes in its net assets available for benefits, reference should be made to the related complete financial statements.



CHARTERED ACCOUNTANTS
Vancouver, British Columbia
February 23, 2007

The University of British Columbia Staff Pension Plan Summarized Statement of Net Assets Available for Benefits

December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
Assets		
Assets held by RBC Dexia Investor Services Trust		
Investments		
Short-term notes	\$ 50	\$ 1,592
Bonds	215,007	206,134
Equities	479,422	438,925
Real estate	90,710	52,157
	785,189	698,808
Cash	5,342	1,421
Income receivable	346	286
	790,877	700,515
Contributions receivable		
University	2,006	1,800
Members	857	764
	2,863	2,564
Accounts receivable	12	28
Deferred costs	94	195
	\$ 793,846	\$ 703,302
Liabilities		
Benefits payable	\$ 1,774	\$ 2,294
Accounts payable and accrued liabilities	623	493
	2,397	2,787
Net assets available for benefits	\$ 791,449	\$ 700,515

The University of British Columbia Staff Pension Plan Summarized Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2006

(Expressed in thousands of dollars)

	2006	2005
Increase in net assets		
Members' required contributions	\$ 9,630	\$ 8,622
University's required contributions	22,611	20,359
Transfers from other plans	102	71
Members' additional voluntary contributions	35	34
	<u>32,378</u>	<u>29,086</u>
Return on investments, including changes in fair value	91,372	75,670
	<u>123,750</u>	<u>104,756</u>
Decrease in net assets		
Payments to or on behalf of members		
Pensions to retired members	13,881	12,419
Members' accounts transferred or refunded	14,379	12,818
Death benefits	1,711	437
	<u>29,971</u>	<u>25,674</u>
Operations		
Actuarial and consulting services	282	228
Office and administration costs	650	634
Legal, audit and custodian services	107	96
Professional services	34	37
	<u>1,073</u>	<u>995</u>
Investment administration fees	1,772	2,283
	<u>32,816</u>	<u>28,952</u>
Increase in net assets available for benefits	90,934	75,804
Net assets available for benefits, beginning of year	700,515	624,711
Net assets available for benefits, end of year	\$ 791,449	\$ 700,515

Approved on behalf of the Board of Directors



Brian Evans, CHAIR



Lorna Marshall, VICE-CHAIR

The UBC IMANT Board of Directors

(as of December 31, 2006)

Larry Bell, CHAIR
Chair, B.C. Hydro and
past Chair of the UBC
Board of Governors

Philip Falls
UBC IMANT President
and Chief Executive Officer

Byron Braley
UBC Associate Vice
President, Treasury

Nicole Byres
UBC Board of Governors
member, Chair of the
Finance Committee
and Partner, Clark Wilson

Tracey McVicar
Managing Director,
CAI Capital Management

Andrew Saxton
Chair, King George
Financial Corporation

Terry Sumner
UBC Vice President,
Administration and Finance

Bob Wallis
Vice President,
Chief Financial Officer
and Partner, Kal Tire

Peter Webster
President and Chair,
Petwyn Investments Ltd.

Insight into the Investment Returns

Over this four-year time period, the Fund's performance has been ranked in the top third of similar pension and endowment assets across Canada by the SPP's measurement consultant. Many of the managers rank above the median in their respective asset class for the period they have been associated with the Fund. The Fund's four year compound gross return of 12.8% ranks in the second quartile (the median is 12.1%).

You will notice that a number of the private equity funds are showing negative returns. These are expected because of the relatively short time frame for these investments (the term for this typical pattern of returns is called the "J-Curve"). In fact, the strong results of HSBC and Lehman (private equities) are actually ahead of schedule.

The same return pattern is also typical for new real estate investments and the Fund's investments in real estate have proven very beneficial over an extended period.

Recent changes to the treatment of income trusts in Canada did have a negative impact on one of the Fund's managers, Acuity, which dealt primarily with income trusts. The year's return was -5.9%, a result in the 4th quartile. However, the Fund is well diversified so this unexpected legislative change had only a -0.16% effect on the total fund.

Another mandate that underperformed in 2006 was the Addenda Capital fixed income. This manager makes investment decisions based on predictions of changes in interest rates. While recent results are lagging, historically this manager has been one of the top performers in this asset class in Canada.

Membership Statistics

In 2006, the UBC Staff Pension Plan membership grew to:

	2006	2005
Active members	5,600	5,370
Deferred members	1,315	1,195
Retired members	1,306	1,248
Total members	8,221	7,813

Member Accounts Credited

For 2006, members' required contribution accounts will be credited with a return of 12.68% – the net return of the Pension Fund. The net rate of return is the Pension Fund's rate of return after accounting for gains, losses and expenses.

Plan Advisors

Actuary	AON Consulting
Auditors	Deloitte & Touche LLP
Communication	Mercer Human Resource Consulting
Custodian	RBC Dexia Investor Services
Solicitor	Faskin Martineau DuMoulin LLP

Plan Expenses

Operating and Investment expenses in 2006 were: 0.14% and 0.23% respectively as compared to 0.18% and 0.40% respectively in 2005.

MEMBERS: YOU'RE INVITED!

SPP Open House

Tuesday, May 8, 2007, 11:30 a.m. to 1:30 p.m.

Location: Ponderosa Centre, Arbutus Room, 2071 West Mall (at University Blvd.)

- Snacks and refreshments will be served.
- Off-campus members will be reimbursed for parking or bus expenses. Bring your parking stub or bus ticket to the meeting.
- The pension administration staff and Directors will be available to answer your questions.

