

Financial Statements of

**THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN**

December 31, 2011 and 2010

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
December 31, 2011 and 2010

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Independent Auditor's Report

To the Members of the Board of Directors

We have audited the accompanying financial statements of The University of British Columbia Staff Pension Plan, which comprise the statements of financial position as at December 31, 2011 and 2010, and the statements of changes in net assets available for benefits for the years then ended, and the notes to the financial statements. The financial statements have been prepared by management of The University of British Columbia Staff Pension Plan based on Section 9(7) of the Pension Benefits Standards Act and its regulations ("financial reporting framework").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation of these financial statements in accordance with the financial reporting framework, 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. Management is also responsible for determining that the financial reporting framework is acceptable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 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 in our audits 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 Staff Pension Plan as at December 31, 2011 and 2010 and the changes in its net assets available for benefits for the years then ended in accordance with the financial reporting framework.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist The University of British Columbia Staff Pension Plan to meet the requirements of the Financial Institutions Commission of British Columbia. As a result, the financial statements may not be suitable for another purpose.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
August 1, 2012

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
Statements of financial position
December 31, 2011 and 2010
(Expressed in thousands of dollars)

	2011	2010
	\$	\$
(Restated - Note 2)		
ASSETS		
Assets held by RBC Dexia Investor Services Trust		
Investments (Note 4)		
Short-term notes	4,774	7
Derivative-related, net	709	2,446
Bonds	301,835	252,976
Mortgages	43,081	-
Equities	422,638	474,305
Real estate	62,128	57,267
Infrastructure	34,805	23,102
	869,970	810,103
Cash	8,301	12,631
Investment income receivable	166	-
	878,437	822,734
Contributions receivable		
University	157	198
Members	93	142
	250	340
Accounts receivable	202	53
	878,889	823,127
LIABILITIES		
Benefits payable	3,029	2,429
Accounts payable and accrued liabilities	1,447	856
	4,476	3,285
NET ASSETS AVAILABLE FOR BENEFITS	874,413	819,842

COMMITMENTS (Note 9)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS



Chair



Director

See accompanying notes to the financial statements.

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Statements of changes in net assets available for benefits

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

	2011	2010
	\$	\$ (Restated - Note 2)
INCREASE IN NET ASSETS		
Members' required contributions	23,112	22,490
University's required contributions	30,814	30,075
Transfers from other plans for buyback	29	176
Members' additional voluntary contributions	19	24
	53,974	52,765
Investment income (Note 5)	33,433	24,353
Changes in fair value of investments (Note 6)	9,896	54,328
	97,303	131,446
DECREASE IN NET ASSETS		
Payments to or on behalf of members		
Pensions to retired members	21,080	18,669
Members' accounts transferred or refunded	16,792	12,998
Death benefits	630	733
	38,502	32,400
Operations		
Administrative expenses (Note 7)	1,756	1,455
Investment		
Consulting fees	445	289
Management fees (Note 8)	2,029	1,640
	42,732	35,784
NET INCREASE IN NET ASSETS AVAILABLE		
FOR BENEFITS	54,571	95,662
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING		
OF YEAR	819,842	724,180
NET ASSETS AVAILABLE FOR BENEFITS, END		
OF YEAR	874,413	819,842

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

1. DESCRIPTION OF PLAN

The following description of The University of British Columbia Staff Pension Plan (the "Plan") is a summary only. For more complete information, reference should be made to the Plan text, which is available from The University of British Columbia (the "University" or the "Sponsor") Pension Administration Office. The Plan is registered under the Pension Benefits standards Act of British Columbia (registration no. 85439). As a registered pension plan under the Income Tax Act of Canada, the Plan is exempt from taxation.

(a) *General*

The Plan is a defined benefit plan with fixed member and employer contributions. The Plan provides that benefits may be adjusted depending on the Plan's funded status. The Plan is open to all eligible full-time and certain part-time monthly-paid staff, and compulsory after three years of service.

(b) *Funding policy*

The Plan text requires members to make contributions of 6.5% of basic salary and the University to make contributions of 10% of basic salary up to the YBE, 8.2% of basic salary between the YBE and the YMPE, and 10% of basic salary over the YMPE. YBE is the "year's basic exemption" and the YMPE is the "year's maximum pensionable earnings" under the Canada Pension Plan requirements. University contributions received by the Plan are net of benefits paid by the University in accordance with a related supplemental retirement arrangement.

Members are permitted to make additional voluntary contributions, if they elected to do so before January 1, 2000 and have not subsequently withdrawn the full balance.

(c) *Benefits*

Pension benefits are calculated using the following formula:

For service earned to June 30, 2009, 2% times the average of the member's three best years' pensionable earnings times such pensionable service less a Canada Pension Plan benefit offset equal to 0.7% of the lesser of best average pensionable earnings and average YMPE times such pensionable service. For service earned beginning July 1, 2009, the benefit is a flat 1.8% of best average pensionable earnings times such pensionable service. Calculated benefits in excess of Canada Revenue Agency's allowable eligible maximum benefit are paid in accordance with a supplemental retirement arrangement, if the member is eligible. Cost of living increases are calculated each year based on the Consumer

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1. DESCRIPTION OF PLAN (Continued)

(c) *Benefits (continued)*

Price Index for Canada and added to pension benefits, subject to the Plan's ability to pay.

Additional voluntary contributions will be paid as a lump sum on the date the member's pension commences.

Termination benefits are payable on retirement or termination of employment, and death benefits are paid in the event of death prior to retirement.

2. BASIS OF ACCOUNTING AND ADOPTION OF NEW ACCOUNTING FRAMEWORK

These financial statements present the aggregate financial position of the Plan as a separate financial reporting entity independent of the Sponsor and plan members. The financial statements have been prepared in accordance with the significant accounting policies set out in Note 3 to comply with the financial reporting provisions of Section 9(7) of the Pension Benefits Standards Act of British Columbia and its regulations. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for pension plans because it excludes the pension obligation of the Plan. Consequently, these financial statements do not purport to show the adequacy of the Plans assets to meet its pension obligations.

The accounting policies adopted in the preparation of these financial statements have been prepared on the basis of Part IV of the Canadian Institute of Chartered Accountants ("CICA") Handbook, Canadian accounting standards for pension plans, effective for fiscal years beginning on or after January 1, 2011, except for the exclusion of the pension obligation as noted above. Comparative figures in these financial statements as at and for the year ended December 31, 2010 have been restated to consistently apply the same standards.

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.

The effects of the adoption of Part IV of the CICA Handbook, except for the exclusion of the pension obligation as noted above, on the financial statements as at and for the year ended December 31, 2010, and the net assets available for benefits as at January 1, 2010, can be classified into two categories: those that have recognition and measurement effects and those that only have disclosure effects. These changes are outlined in the table below.

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Year ended December 31, 2011 and 2010

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2. **ADOPTION OF NEW ACCOUNTING FRAMEWORK (continued)**

Statement of changes in net assets available for benefits

	Year ended December 31, 2010			
	Canadian generally accepted accounting principles	Reference	Reclassification	Part IV of the CICA Handbook
	\$		\$	\$
Increase in net assets				
Members' required contributions	22,490		-	22,490
University's required contributions	30,075		-	30,075
Members' additional voluntary contributions	24		-	24
Transfers from other plans	176		-	176
	52,765		-	52,765
Return on investments, including changes in market values	78,681	(a)	(78,681)	-
Return on investments				
Investment income	-	(a)	24,353	24,353
Change in fair value of investments	-	(a)	54,328	54,328
	131,446		-	131,446
Decrease in net assets				
Payments to or on behalf of members				
Retirement benefits to members and beneficiaries	18,669		-	18,669
Death benefits	733		-	733
Members' accounts transferred and refunded	12,998		-	12,998
	32,400		-	32,400
Operations				
Administrative expenses	1,455		-	1,455
Investment				
Consulting fees	289		-	289
Management fees	1,640		-	1,640
	1,929		-	1,929
	35,784		-	35,784
Net increase in net assets available for benefits	95,662		-	95,662
Net assets available for benefits, beginning of year	724,180		-	724,180
Net assets available for benefits, end of year	819,842		-	819,842

(a) As required under the Canadian accounting standards for pension plans, the changes in fair value of investment assets and investment liabilities are presented separately from investment income.

Changes in disclosures include additional information related to administrative expenses (see Note 7).

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2. ADOPTION OF NEW ACCOUNTING FRAMEWORK (continued)

There were no changes to the statement of financial position as at December 31, 2010.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) *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, as described in Note 3 (b). Actual results could differ from those estimates.

(b) *Investments*

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

Fair values for investments are determined using the following methods:

(i) Short-term notes

Domestic money market securities are stated at cost plus accrued income which approximates market value.

(ii) Pooled funds

Bonds and equities

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

Mortgages

Pooled fund values are provided by the investment managers and are generally valued at a principal amount, which produces a yield equivalent to the prevailing rate of return on mortgages of similar type and term.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Investments (continued)*

(iii) Private equities

Private equity investments are stated at audited values reported in their respective financial statements. Valuation methods include, but are not limited to, the market approach (i.e. observable valuation measures for comparable companies) and the income approach (i.e. discounted cash flow model), with consideration for factors such as expected liquidation value, leverage, and economic conditions.

(iv) Real estate

Real estate investments are held in equities, real estate investment trusts and limited partnerships investing in real estate. The fair value of the shares, investment trust units and limited partnership units are valued based on the most recent external manager appraisals and audited financial statements of the underlying properties such as commercial, industrial and residential properties. A combination of internal and external appraisals are used.

(v) Infrastructure

Infrastructure investments are held through limited partnership units investing in infrastructure assets. The fair value of limited partnership units are valued based on most recent external managers' valuations and audited financial statements of the underlying infrastructure assets such as toll roads, water utilities, power and electrical utilities, communication towers and parts. Methods used by external fund managers include, but are not limited to discounted cash flow models, the income approach or recent market transactions.

(vi) Derivatives - currency forward contracts

Currency forward contracts are valued based on market closing forward rates from independent sources.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Members' accounts transferred or refunded*

Members' accounts transferred or refunded are recognized as a decrease in net assets on the accrual basis.

(d) *Foreign currency translation*

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).

4. INVESTMENTS

(a) *Short-term notes*

Investments in short-term notes in 2011 and 2010 were primarily securities issued by either Canadian chartered banks or the Bank of Canada that mature at various dates in the next fiscal year.

(b) *Fair value measurements*

International Financial Reporting Standard 7, *Financial Instruments: Disclosures*, establishes a three-tier hierarchy as a framework for disclosing fair values 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).

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4. INVESTMENTS (Continued)

The following is a summary of the inputs used as of December 31, 2011 in valuing the Plan's cash and investments:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and short-term notes				
Cash	\$ 8,301	\$ -	\$ -	\$ 8,301
Short-term notes	-	4,774	-	4,774
Derivative-related, net	-	709	-	709
Bonds	-	301,835	-	301,835
Mortgages	-	43,081	-	43,081
Equities				
Canadian Equities	40,629	89,883	-	130,512
US Equities	-	105,397	-	105,397
Foreign Equities (i)	-	87,476	3,164	90,640
Hedge Funds (ii)	-	-	31,125	31,125
Private Equities (iii)	-	-	64,964	64,964
Real estate (iv)	-	-	62,128	62,128
Infrastructure (v)	-	-	34,805	34,805
Total investments	\$ 48,930	\$ 633,155	\$ 196,186	\$ 878,271

The following is a summary of the inputs used as of December 31, 2010 in valuing the Plan's cash and investments:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Cash and short-term notes				
Cash	\$ 12,631	\$ -	\$ -	\$ 12,631
Short-term notes	-	7	-	7
Derivative-related, net	-	2,446	-	2,446
Bonds	-	252,976	-	252,976
Equities				
Canadian Equities	-	134,099	-	134,099
US Equities	-	101,804	-	101,804
Foreign Equities (i)	-	94,477	5,343	99,820
Hedge Funds (ii)	-	-	76,587	76,587
Private Equities (iii)	-	-	61,995	61,995
Real estate (iv)	-	-	57,267	57,267
Infrastructure (v)	-	-	23,102	23,102
Total investments	\$ 12,631	\$ 585,809	\$ 224,294	\$ 822,734

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Notes to the Financial Statements

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4. INVESTMENTS (Continued)

(b) *Fair value measurements (continued)*

The following table provides the changes during the year ended December 31, 2011 for financial instruments for which Level 3 inputs were used in determining fair value:

	Foreign equities	Hedge funds	Private equities	Real estate	Infrastructure	Total
Beginning balance, January 1, 2011	\$ 5,343	\$ 76,587	\$ 61,995	\$ 57,267	\$ 23,102	\$ 224,294
Purchases	-	22,837	6,738	1,681	11,111	42,367
Sales	(1,711)	(69,165)	(6,784)	(4,151)	(1,210)	(83,021)
Realized (losses) gains	(674)	(1,353)	1,752	3,093	561	3,379
Net transfers into and/or out of Level 3	-	(6)	(829)	(2,596)	(696)	(4,127)
Change in unrealized appreciation	206	2,225	2,092	6,834	1,937	13,294
Ending balance, December 31, 2011	\$ 3,164	\$ 31,125	\$ 64,964	\$ 62,128	\$ 34,805	\$ 196,186

The following table provides the changes during the year ended December 31, 2010 for financial instruments for which Level 3 inputs were used in determining fair value:

	Foreign equities	Hedge funds	Private equities	Real estate	Infrastructure	Total
Beginning balance, January 1, 2010	\$ 4,363	\$ 99,260	\$ 58,168	\$ 58,445	\$ 15,995	\$ 236,231
Purchases	-	15	8,043	743	6,194	14,995
Sales	-	(26,489)	(8,096)	(3,650)	(431)	(38,666)
Realized (losses) gains	-	(3,082)	1,409	4,575	353	3,255
Net transfers into and/or out of Level 3	-	(254)	(1,503)	(4,645)	(401)	(6,803)
Change in unrealized appreciation	980	7,137	3,974	1,799	1,392	15,282
Ending balance, December 31, 2010	\$ 5,343	\$ 76,587	\$ 61,995	\$ 57,267	\$ 23,102	\$ 224,294

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2011 and 2010.

Level 3 investments consist of the following:

(i) *Foreign equities*

These comprise shares and units of investment trusts where the underlying investments are listed on global stock exchanges.

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Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements (continued)

(ii) Hedge funds

The Plan has investments in four (2010 - six) hedge funds with four (2010 - four) hedge fund managers. The managers invest in a number of individual hedge funds with different strategies.

(iii) Private equities

Private equities consist of investments in limited liability partnerships that have invested in private equities.

(iv) Real estate

Real estate investments consist of investments in equities, real estate investment trusts and limited liability partnerships investing in real estate. Real estate investments are primarily in North American and Asian properties.

(v) Infrastructure

Infrastructure investments consist of investments in limited partnerships investing in infrastructure assets. These investments are primarily in Canada, the United States, Australia and Europe.

(c) Geographical allocation

The composition of the entire portfolio of investments, by country or region, is summarized as follows:

	2011	2010
Canada	65%	56%
United States	22%	29%
United Kingdom	3%	4%
Europe	6%	6%
Asia	4%	5%
	100%	100%

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Notes to the Financial Statements

Year ended December 31, 2011 and 2010

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5. INVESTMENT INCOME

	<u>2011</u>	<u>2010</u>
	\$	\$
Interest income	24,378	12,779
Dividend income	7,496	10,549
Real estate income	863	564
Infrastructure	696	461
	<u>33,433</u>	<u>24,353</u>

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	<u>2011</u>	<u>2010</u>
	\$	\$
Realized gains (losses) on investments	7,214	9,591
Unrealized gains (losses) on investments	2,682	44,737
	<u>9,896</u>	<u>54,328</u>

7. ADMINISTRATIVE EXPENSES

	<u>2011</u>	<u>2010</u>
	\$	\$
Salaries and administrative costs	1,024	968
Other	215	99
Actuarial services	348	239
Audit	40	39
Custodian	129	110
	<u>1,756</u>	<u>1,455</u>

8. RELATED PARTY TRANSACTIONS

The Plan reimburses UBC Investment Management Trust Inc. ("IMANT"), an entity wholly owned by the Sponsor, for its proportionate share of IMANT's operating costs. Costs for the year ended December 31, 2011, which are included in management fees, totaled \$530 (2010 - \$514).

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9. COMMITMENTS

In addition to investments already made in the following asset classes, the Plan is committed to invest the following amounts as at December 31:

	2011		2010		2011		2010	
	€	€	US\$	US\$	Cdn\$	Cdn\$		
Real estate	€ 476	€ -	\$ 65	\$ 696	\$ 8,041	\$ 1,652		
Infrastructure	-	2,022	-	657	-	-		
Private equities	-	-	11,351	15,074	3,398	5,115		
Hedge funds	-	-	967	960	-	-		
	€ 476	€ 2,022	\$ 12,383	\$ 17,387	\$ 11,439	\$ 6,767		

At December 31, 2011, the total commitment in Canadian dollars was \$25,979 (2010 - \$26,750).

10. FINANCIAL INSTRUMENTS

The fair values of the Plan's cash, investment income receivable, contributions receivable, accounts receivable, benefits payable and accounts payable are considered by management to approximate their carrying values due to the short-term nature of these financial instruments.

The Plan's investments are carried at fair value in accordance with the significant accounting policy disclosed in Note 3 (b).

11. RISK MANAGEMENT

The Plan's investment activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. As a pension plan, the Plan is fundamentally concerned with the management of risk. The Plan's overall risk management program seeks to maximize the returns derived for the level of risk to which the Plan is exposed and seeks to minimize potential adverse effects on the Plan's financial performance. The risk exposure is set to achieve the overall liability requirements of the Plan design.

The assets of the Plan are managed by a wholly-owned subsidiary of the University, IMANT. The Plan employs a Statement of Investment Policies and Procedures ("Policy") to identify, assess, manage and monitor its financial risks. The Policy provides asset mix ranges and limitations on the quality and concentration of investments the Plan is to hold. The Board of Directors of the Plan ("Pension Board") formulates the Plan's policy asset mix and the terms in the Policy document, which it recommends to the UBC Board of Governors for approval. The day to day management and adherence to the policy is the responsibility of the staff of IMANT. IMANT employs 25 investment managers (2010 - 24) across 42 mandates (2010 - 40).

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11. RISK MANAGEMENT (Continued)

The Pension Board oversees the management of the Plan with a view of promoting effective plan design, governance, investment policy, financing, administration and legal compliance. IMANT staff monitors the investment performance of the fund, including asset class and manager performance against specified benchmarks and reports regularly to the Pension Board on overall performance and compliance with the Policy.

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. The manager of the investment fund shall be governed by the manager's own investment policy for the pooled fund. IMANT staff is responsible for ensuring that the detailed investment policy statement setting out the investment constraints for the managers of such segregated accounts is prepared and agreed to by the managers.

(a) *Price risk*

The Plan is exposed to price risk. This arises from investments held by the Plan for which prices in the future are uncertain. The value of the various holdings in the funds may move up or down, sometimes rapidly. The Plan manages price risk by allocating its assets across a number of different investment managers with different mandates and investment styles. Different types of investments have historically reflected higher levels of risk, as measured by their volatility of returns.

Given the overall asset class holdings of the Plan, we would expect most annual returns to be within a +/- 9% (2010 - +/- 8%) range of an expected long-term return of roughly +7% (2010 - +7%) (i.e. results ranging from -2% to + 16%). This is based on a PBI Actuarial Consultants Liability Study which was completed in 2010. While there may be some changes to the expected return from year to year of the individual asset classes, these changes will not be significant as the expected returns and volatilities are based on long-term results. The range of expected annual returns is based on the following asset class volatility figures:

	2011	2010
Canadian equities	+/- 20%	+/- 18%
US Equities	+/- 17%	+/- 18%
International equities	+/- 17%	+/- 18%
Mortgages	+/- 4%	N/A
Bonds	+/- 8%	+/- 5%
Real estate	+/- 12%	+/- 8%
Infrastructure	+/- 13.6%	+/- 13.6%
Private equity	+/- 20%	+/- 35%
Low volatility hedge fund of funds	+/- 11%	+/- 7%

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11. RISK MANAGEMENT (Continued)

(a) Price risk (continued)

	Market value at December 31, 2011 \$	Percentage of investments	Market value at December 31, 2010 \$	Percentage of investments
Securities				
Canadian equities	130,512	15	134,099	17
US equities	105,397	12	101,804	13
Foreign equities	90,640	10	99,820	12
Canadian bonds	301,835	35	252,976	31
Mortgages	43,081	5	-	-
Real estate	62,128	7	57,267	7
Infrastructure	34,805	4	23,102	3
Private equity	64,964	7	61,995	7
Hedge funds	31,125	4	76,587	10
Short-term notes	4,774	1	7	0
	869,261	100	807,657	100

**THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN**

Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(a) Price risk (continued)

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

		2011		2010
	Potential change in price	Impact on overall Plan's net assets (+/-)	Potential change in price	Impact on overall Plan's net assets (+/-)
TSX Composite Capped	+/- 20%	\$ 26,102	+/- 18%	\$ 24,137
S&P 500 Canadian Dollar	+/- 17%	17,917	+/- 18%	18,325
MSCI EAFE ("Morgan Stanley Capital International, Europe, Australasia and Far East")				
Canadian Dollar	+/- 17%	15,409	+/- 19%	18,966
DEX Universe Bond Indices	+/- 8%	24,147	+/- 5%	12,649
Mortgage 65% Dex Long Federal Bond/35% Dex				
Mid Term Federal Bond	+/- 4%	1,723	-	-
IPD ("Investment Property Databank") Property	+/- 12%	7,455	+/- 8%	4,581
30% Dex Real Return Bond/ 70% MCSI World Index net	+/- 13.6%	4,734	+/- 13.6%	3,141
Private Equity	+/- 20%	12,993	+/- 35%	21,698
Hedge Funds	+/- 11%	3,424	+/- 7%	5,361
DEX 91-Day T-Bill	+/- 2%	95	+/- 2%	-

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Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(b) *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 and mortgage portfolio has an average duration of roughly 13.3 years (2010 - 8.6 years). Therefore, if interest rates increased by 1%, the bond portfolio would fall in value by approximately 13% (2010 - 9%).

The impact on the value of the Plan's investments from an increase in interest rates will be mitigated by the decrease in the value of the Plan's obligations.

(c) *Currency risk*

Currency risk is the risk that the value of non-Canadian investments, reported in Canadian dollars, will decrease because of unfavorable changes in currency exchange rates. The Plan has significant investments denominated in foreign currencies across a majority of the asset classes including U.S. and international equities, real estate and hedge funds. The Plan's investment policy includes a benchmark target requirement to hedge 50% (range of 30% - 70%) of this exposure. In addition to direct hedging by some of the investment managers, the Plan retains an external manager to implement a rolling 3 month currency forward program to achieve the 50% hedging target. This program includes hedging of U.S., Euro, Japanese Yen and Pound Sterling investments. As of December 31, 2011, roughly 35% (2010 - 44%) of the Plan's assets were invested outside of Canada, and 48% (2010 - 49%) of this exposure was hedged. U.S. dollar exposure accounts for 22% (2010 - 29%) of the non-Canadian investment while EAFE currencies account for 13% (2010 - 15%) of the exposure. A 10% strengthening/weakening of the Canadian dollar versus the U.S. dollar at December 31, 2011 would have decreased/increased the U.S. dollar exposure by roughly \$19,326 (2010 - \$23,391). This amount would be reduced by roughly half through the currency hedging program. This assumes that all other variables remain constant.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(d) *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, short-term investments, bonds and mortgages are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value of \$357,991 (2010 - \$265,614). The Plan manages the risk by limiting the credit exposure allowed by the fixed income managers. The investment policies of the various bond managers provide limits to the credit exposure and/or set a minimum overall average portfolio quality allowed by each manager. The Plan also invests in derivative strategies to replicate equity index exposure and to hedge foreign currency exposure. Counterparties for these investments are restricted to a minimum credit rating of "A" or "A2".

The overall credit ratings as a percentage of the total bonds as of December 31, 2011 held in the Plan are as follows:

	2011	2010
AAA	37%	42%
AA	23%	29%
A	24%	23%
BBB	5%	4%
BB	1%	2%
Mortgages	10%	N/A

(e) *Liquidity risk*

Liquidity risk for the Plan refers to the likelihood of any potential loss from a large percentage request for redemptions by Plan members. The percentage of the Plan's assets with Deferred Members that could withdraw their funds on short notice is roughly 7.4% (2010 - 5.4%).

All of the Plan's benefit payables, accounts payable, and accrued liabilities presented on the statements of financial position 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.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2011 and 2010

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(e) *Liquidity risk (continued)*

Liquidity risk for the investment program refers to the risk that the Plan may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The investments are exposed to monthly settlement of swap agreements and quarterly settlement of currency forwards as well cash calls related to the private equity and real estate investments. The sources of funding for these settlements are from the liquid portion of the Plan, the public market securities.

Investments in infrastructure, real estate, private equity and hedge funds have more restrictive liquidity constraints than public securities. Infrastructure, real estate and private equity investments are made through limited partnership agreements typically with contractual 10 year terms. Investments in the infrastructure, real estate and private equity funds occur over four to five year periods and redemptions are at the investment manager's discretion. For hedge fund investments, redemptions are on a quarterly or semi-annual basis and require 90 days' notice.

12. CAPITAL MANAGEMENT

The Plan's objectives when managing capital are to safeguard the ability to continue as a going concern, so that the Plan 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 UBC Board of Governors is responsible for monitoring and evaluating the Plan's performance on a regular basis.

