a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

2014

Staff Pension Plan
Year in Review

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About This Report

This report provides a summary of the major highlights and events that occurred over the course of 2014 for the Staff Pension Plan of the University of the British Columbia. The report also includes a brief plan overview, membership and financial statistics, and an investment review from the Plan's investment manager.

Plan Purpose

The purpose of the UBC Staff Pension Plan is to provide stable lifetime retirement pensions for its members.

Plan Overview

The Staff Pension Plan (SPP), established January 1, 1972, is a Defined Benefit pension plan that provides retirement, termination, and death benefits for eligible staff of the University of British Columbia and related employers. The Plan is funded by fixed contributions from Plan members and the University. Beyond these contributions, neither have any further financial responsibility to fund the Plan. Members contribute 6.5% of their salary, and the University contributes 10% of the member's salary less a 1.8% CPP offset, which on average represents 8.7% of member salaries.

As of July 1, 2009, pensions for new members entering the Plan are calculated according to a formula of 1.8% of salary multiplied by years of pensionable service. Members who also have service prior to July 1, 2009 will have their pension calculated using the pre-July 1, 2009 and post-July 1, 2009 formulas. Retirement pensions are indexed subject to the Plan's ability to pay. If there is not adequate funding, the Plan's policy for balancing benefits and funding requires a reduction of benefits, starting with future indexing. The Plan's Actuary determines if there is adequate funding based on the results of the latest Actuarial Valuation report. The year 2014 was an actuarial valuation year with the valuation based on data as at December 31, 2013.

The University has delegated the day-to-day administration of the Plan to the SPP Board, and administration services are provided by the Pension Administration Office (PAO) in Human Resources. Amendments to the Plan Text are recommended by the SPP Board, reviewed by the University Administration and approved by the UBC Board of Governors. The SPP also employs several advisors and consultants to provide expertise and advice on specific areas.

Balancing assets and liabilities is critical to providing stable lifetime retirement pensions. The SPP funds ($1,272.5 M as at December 31, 2014) are invested in accordance with the *Statement of Policies and Procedures* (SIPP). The SIPP is prepared by the SPP Board with the assistance of the Plan's investment consultant, PBI Actuarial Consultants (PBI) Ltd. and input of the investment manager, UBC Investment Management Trust (IMANT) Inc., and is approved by the UBC Board of Governors.

The Plan's British Columbia Registration Number is P085439-1 and CRA Registration Number is 0572362.

2014 in Summary

It was another year of growth for the UBC Staff Pension Plan (SPP) in both membership and Plan assets. As of December 31, 2014, the Plan had $1,272.5 M in assets and total membership grew by 4.7% in 2014. The following is a summary of key events that occurred in 2014:

Results of the Actuarial Valuation

Every three years, the Plan is required to undergo a financial checkup called an actuarial valuation, conducted by the Plan's actuary. The key impact of the actuarial valuation for Plan members is that the valuation determines the level of benefits and indexing that the Plan can support for the years following the valuation.

The December 31, 2013 actuarial valuation revealed that the Plan is in a reasonably healthy, funded position. Basic and future benefits can be provided and the Plan can afford to keep indexing at a level of 50% of inflation for the next three years (2015 to 2017).

Retroactive Enrollment Plan Amendment

Effective January 1, 2015, retroactive enrollment to the SPP was removed. The SPP Board approved this change on October 21, 2014 and the amendment was approved by the B.C. Financial Institutions Commission. This change did not affect existing SPP members; it only affected employees who were eligible to join the SPP before the amendment effective date and had deferred their enrollment. Eligible employees were notified of this change between October to November 2014 by posted mail and email. The Plan saw a noticeable increase in enrollments during the last three months of 2014, which is reflected in the 3.8% increase of active members.

SPP Board Membership

2014 was an election year for elected Directors on the SPP Board. Brian Evans and Karen Ranalletta were elected as members of the SPP Board in the 2014 election. Their terms of office are from January 1, 2015 to December 31, 2018.

The UBC Board of Governors re-appointed Peter Smailes to a second term as an SPP Director and his new term is from January 1, 2015 to December 31, 2018.

After 30 years of service on the SPP Board, George McLaughlin's last term on the Board was completed on December 31, 2014. The SPP Board and Pension Administration Office management and staff would like to thank Mr. McLaughlin for his significant contribution and time dedicated to the Staff Pension Plan and its members.

2014 in Summary cont'd

Debbie Wilson resigned from the SPP Board to join the Pension Administration Office. It is expected a new Director will be appointed in 2015.

Pension Administration Office (PAO)

In 2015, the Executive Director for the Staff Pension Plan and the Executive Director of Operations for the Faculty Pension Plan will both retire. A succession plan for these two retirements was presented and approved by the two Pension Boards in 2014. On the recommendation of the two Executive Directors, the Pension Boards have taken this opportunity to restructure the Pension Administration Office. Instead of two Executive Directors, one for each UBC pension plan, there will be one Executive Director, Pensions and one Associate Director, Pensions for both pension plans.

As mentioned earlier, the Pension Administration Office hired Debbie Wilson as the new Associate Director, Pensions and she joined the Pension Administration Office in February 2015. Ms. Wilson brings a wealth of experience and expertise to the Pension Administration Office. Most recently, Ms. Wilson was the Director of Pensions and Benefits for Simon Fraser University. In addition, she has 24 years' experience as a consulting actuary with Mercer.

The search for the new Executive Director, Pensions is underway and the target start date is June 1, 2015. Both of the current Executive Directors will continue working until later in 2015 to assist in the transition. With the comprehensive and careful succession plan approved last year and the availability of the current Executive Directors until later in 2015, we are confident that transition to the new leadership team will be smooth.

Membership and Financial Highlights

MEMBERSHIP HIGHLIGHTS
as at December 31, 2014

4.7%

Total membership grew by 4.7% in 2014.

Average age
71.5 yrs

1,993 Retired Members

5.5% increase from 2013

35.4 yrs

The average age of new enrollees in in the Plan is 35.4 years.

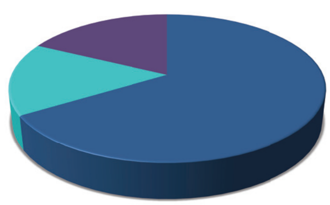
65 yrs

In 2014, 19% of members retiring and starting a pension from the Plan were age 65.

Average age
47.6 yrs

1,779 Deferred Members

8.1% increase from 2013



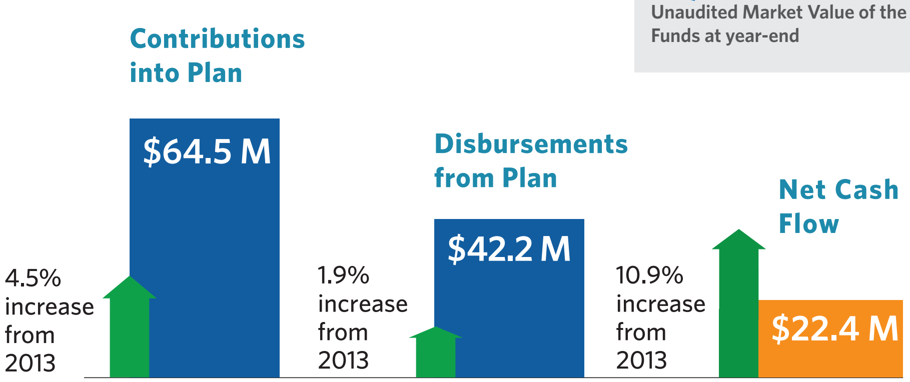
Average age
44.8 yrs

7,435 Active Members

3.8% increase from 2013

FINANCIAL HIGHLIGHTS
as at December 31, 2014

$1,272.5 M
Unaudited Market Value of the Funds at year-end



Membership Statistics

The Plan's membership numbers are never constant; there are always employees joining and leaving the Plan. It is important to maintain or increase the number of members joining the Plan, as contributions made by these members go towards funding the Plan. These funds, along with investment returns and employer contributions, provide pension benefits for members retiring from the Plan.

Growth in Plan Membership

Membership Statistics as of December 31 for Years 1971 to 2014 illustrates that since 2001 total membership has grown by 79%. Total membership includes Active (contributing members), Deferred (members no longer contributing and have not yet elected an option from the Plan), and Retired members. The SPP provides retirement, termination, and death benefits for these groups as well as for staff of related employers.

Membership Statistics as of December 31 for Years 1971 to 2014

Membership	**1971	**1981	1991	2001	2011	2014
Active	*1006	2272	3002	4327	6484	7435
Deferred			765	890	1728	1779
Retired	0	298	710	1057	1650	1993
Total	**1006**	**2570**	**4477**	**6274**	**9862**	**11207**

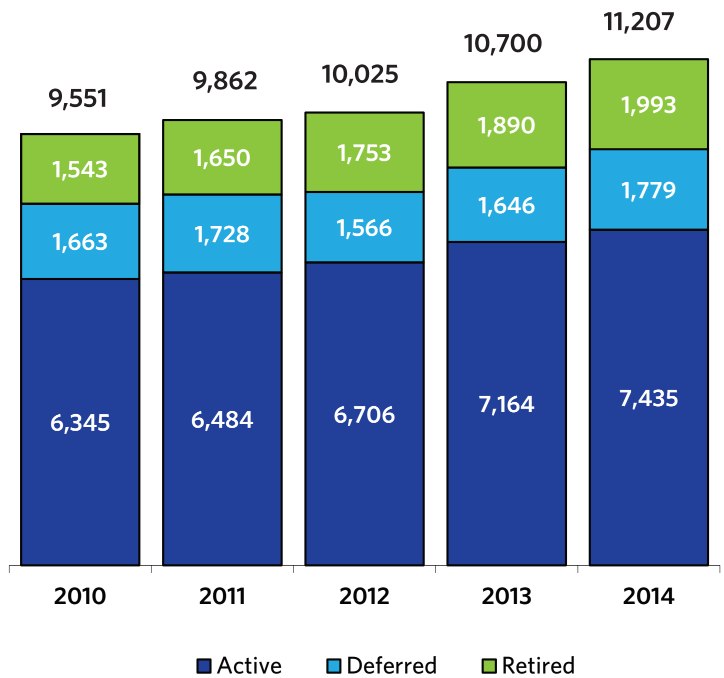
* There were 1006 individuals as at December 31, 1971 who were part of a prior UBC pension plan. These individuals became members of the SPP when the Plan was established in 1972.

** For years 1971 to 1981, Active and Deferred members are combined.

Membership Statistics cont'd

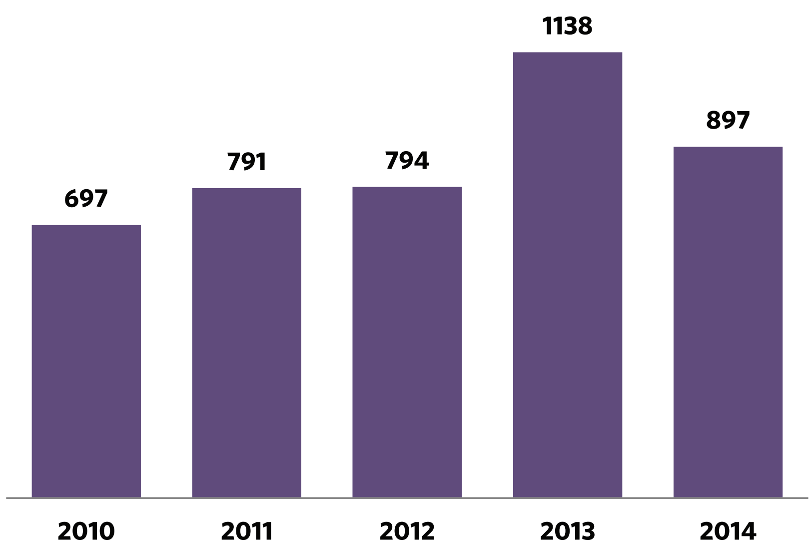
Number of Members as at December 31

The following graph shows the number of members in the Plan at year-end for the last five years. In 2014, Active, Deferred and Retired members grew by 3.8%, 8.1% and 5.5% respectively.



New Enrollments as at December 31

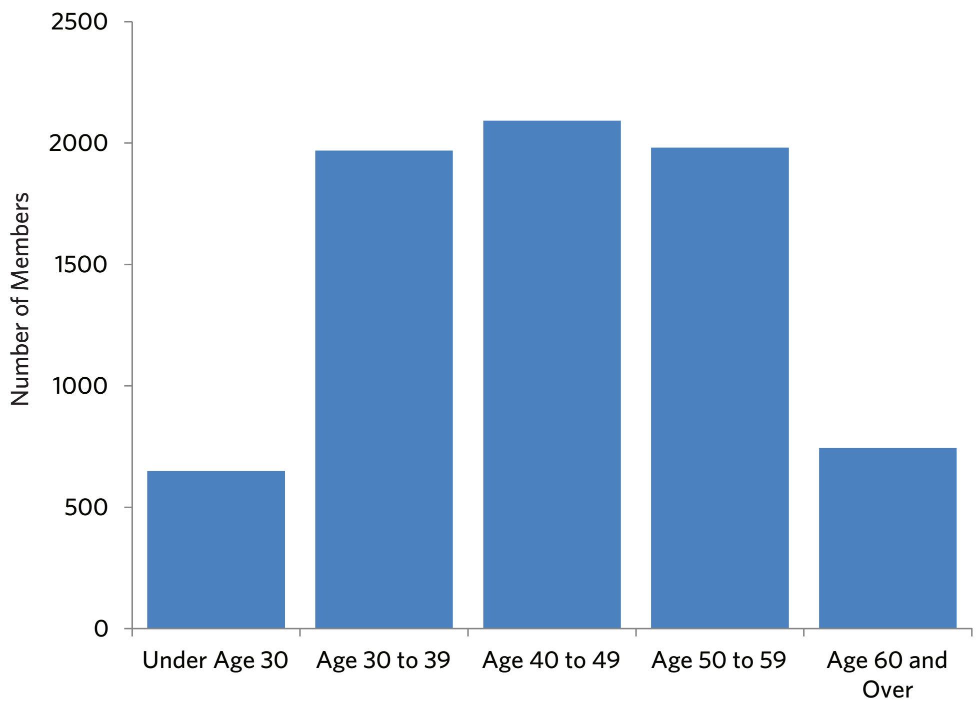
There were 897 new enrollments into the Plan in 2014, which was a 21% decrease from 2013. In 2013, the Plan's eligibility rules changed so that CUPE 116 Hourly employees are eligible to join the Plan. Almost 300 CUPE 116 employees were eligible as of April 1, 2013 and joined the Plan, which increased enrollments significantly in 2013. Although there was a large decline in enrollments from 2013 to 2014, 2014 had more enrollments than the average of 2010 to 2012. This was due to the communications campaign notifying eligible staff of the removal of retroactive enrollment effective January 1, 2015.



Membership Statistics cont'd

Active Members by Age

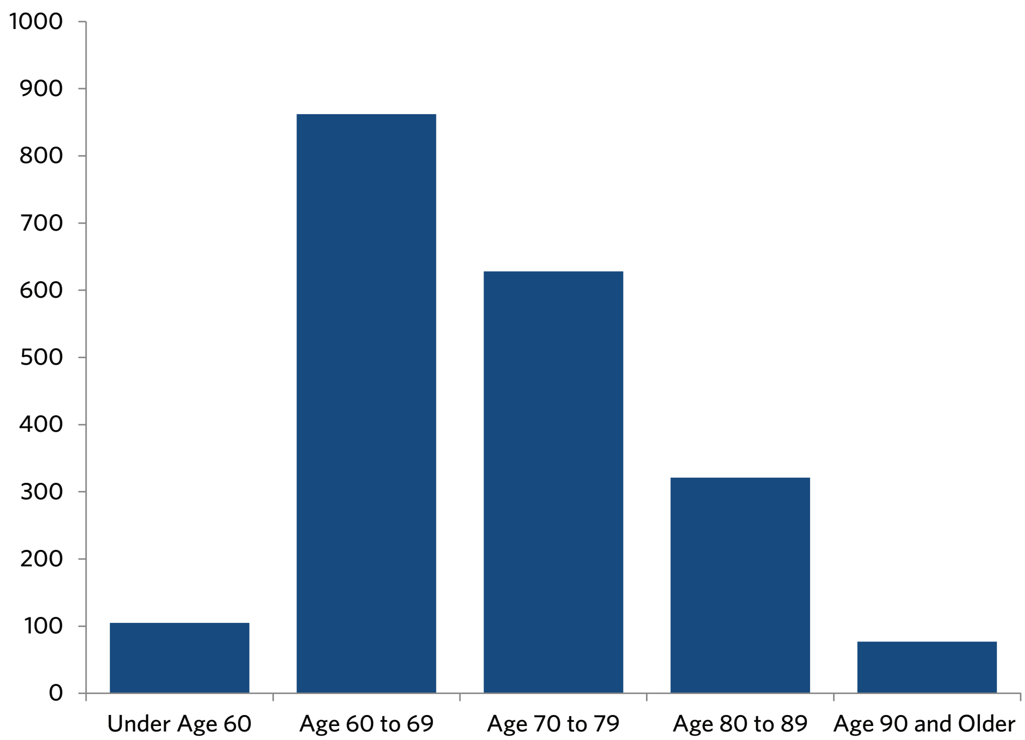
Active members are members who are making contributions into the Plan. The average age of Active members in 2014 was 44.8 years, with a median age of 45 years. The financial health of a pension plan, like the UBC Staff Pension Plan, is somewhat dependent on there being new members entering the Plan to help finance the pension benefits of retiring members.



Membership Statistics cont'd

Retirees by Age

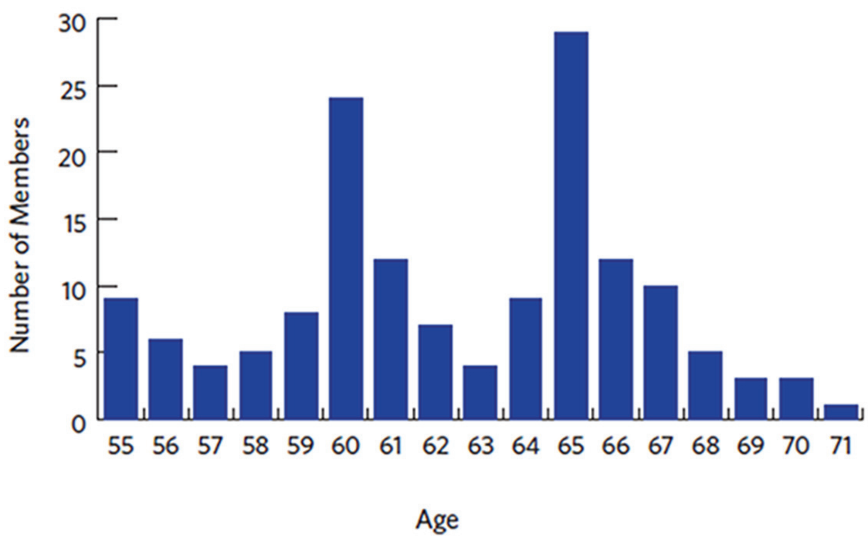
The following graph, Retirees by Age, illustrates the age distribution of the Plan's Retired members. These members are receiving a pension from the Plan. Since members age 55 and over must elect a pension option from the Plan (unless they qualify for a small pension lump sump payout), we will see growth in this group as more members will be receiving pensions from the Plan. Also, retirees are living longer because of longer life expectancies.



Membership Statistics cont'd

2014 Retirements by Age

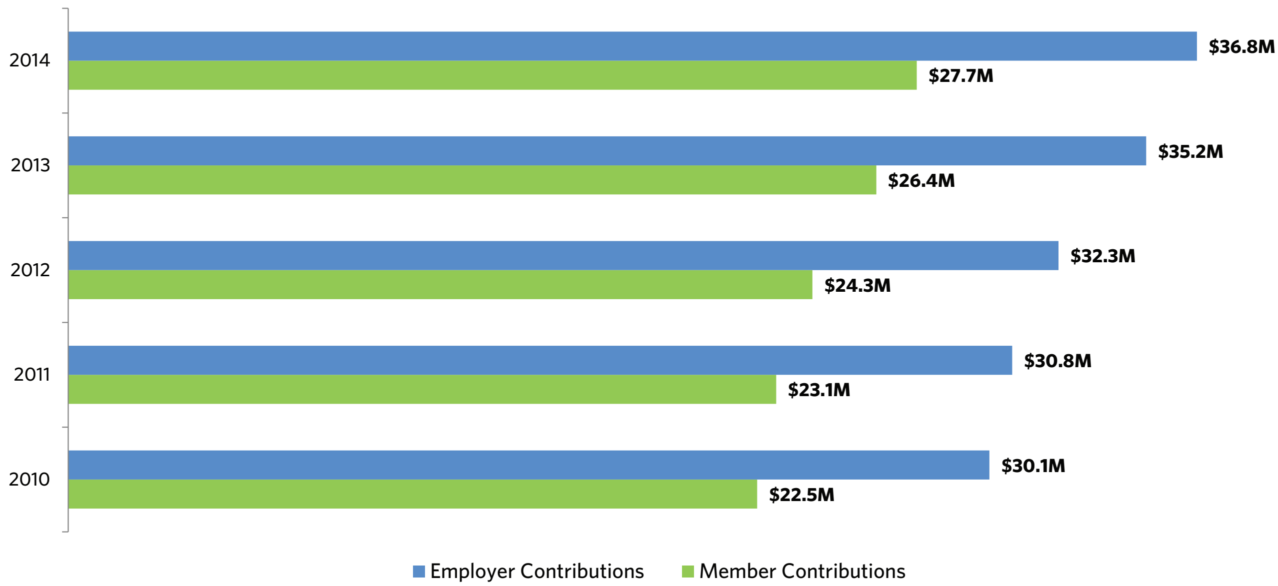
The graph below illustrates that, in 2014, the greatest number of retirements (19%) occurred at age 65. These retirees took a Monthly Lifetime Pension or Monthly Lifetime Pension with a Lump Sum as their retirement option. In 2014, more members retired under the age of 65 than after the age of 65.



Financial Statistics

Member and Employer Contributions as at December 31 ($ Millions)

The Staff Pension Plan provides for fixed contributions levels (from both the Plan members and the University and its related employers) to provide a certain level of benefit - a target benefit (known as your SPP basic benefit). For more information on Plan contributions, please refer to the SPP at a Glance page on the Plan's website.



Employer Contributions *includes contributions from the University and its related employers*

Operating and Investment Expenses as at December 31

The following table shows the Plan's operating and investment expenses for the last five years.

Year	Operating Expenses	% per Assets	Investment Expenses	% per Assets
2010	$1,313,353	0.18%	$1,780,267	0.24%
2011	$1,647,705	0.20%	$2,107,281	0.26%
2012	$1,596,866	0.18%	$2,544,239	0.29%
2013	$1,836,692	0.19%	*$4,188,636	0.43%
2014	$1,634,839	0.15%	$3,711,314	0.34%

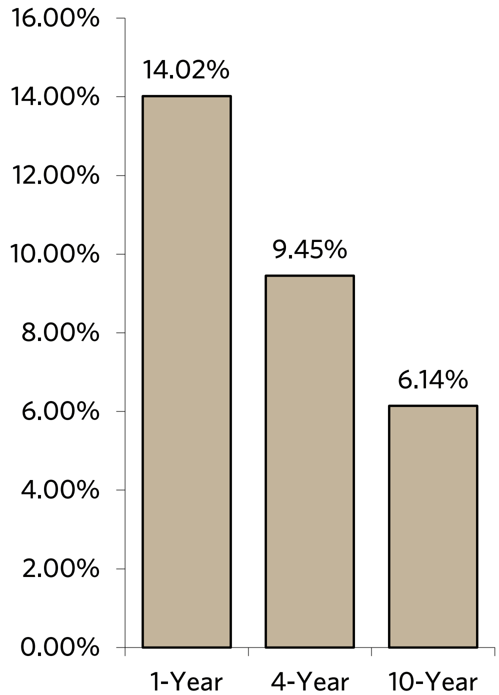
Notes:

- The fee percentages for operating and investment expenses are calculated based on average market value.
- UBC IMANT has been responsible for investing the funds since July 1, 2004.

* The investment expenses for 2013 included a one time incentive fee that was paid as a result of the closure of a fund.

Financial Statistics cont'd

SPP Fund Net Rate of Return (net of all fees)



To view the Plan's Net Rate of Return for the last 10 years, visit the Net Rate of Return page at the Plan's website.

Investment Review

The following **2014 Investment Review** *has been provided by the Plan's investment manager, UBC Investment Management Trust (IMANT) Inc. UBC IMANT is responsible for implementing the Plan's approved asset mix policy, under the direction of the Plan's investment consultant, PBI Actuarial Consultants Ltd.*

Market Commentary

The year 2014 was marked by increased volatility due to falling oil prices, declining interest rates and significant appreciation of the U.S. dollar. In spite of the volatility, both equities and bonds generated positive returns in 2014. Most major equity market indices hit record highs with U.S. equities in Canadian dollar terms returning 24.0% for the year. Canadian long bond prices increased due to a 30 basis point decrease in yield which resulted in a 17.5% return for the year.

The U.S. economic growth and labor market data showed signs of improvement during the year and the U.S. Federal Reserve ended its asset purchase program but kept the federal fund rate close to zero. Many central banks in Europe and Asia took steps to stimulate growth by cutting interest rates and increased their asset purchases. In Europe, weak growth and continued threat of deflation caused the European Central Bank to lower its growth forecasts for the Eurozone economy. Emerging markets struggled with falling commodity prices, inflation pressures and currency weakness. Oil prices declined sharply over the last quarter, with Texas Intermediate crude oil prices falling over 40% to just over $53 USD per barrel compared to last year. Canadian equities were hurt by Energy and Materials sectors and the Canadian dollar weakened against most developed currencies, except versus the Euro and Yen.

Index Returns to December 31, 2014 (Canadian dollars)

Asset Class	Index	1 Year	2 Year	4 Year	10 Year
Cash	FTSE TMX 91 Day T-Bills	0.9%	1.0%	1.0%	1.9%
Universe Bonds	FTSE TMX Universe Bond	8.8%	3.7%	5.1%	5.3%
Long Bonds	FTSE TMX Long Bond	17.5%	5.0%	8.2%	7.4%
Real Return Bonds	FTSE TMX Real Return Bond	13.2%	-0.8%	4.6%	5.7%
Mortgages	FTSE TMX Mortgage	4.9%	4.0%	4.5%	5.7%
Canadian Equities	S&P/TSX	10.6%	11.8%	5.2%	7.6%
U.S. Equities	S&P 500	24.0%	32.5%	20.1%	7.3%
International Equities	MSCI EAFE	3.7%	16.7%	8.9%	4.1%
Emerging Market Equities	MSCI Emerging Markets	6.7%	5.4%	1.8%	8.0%
Private Equity	Cambridge Assoc. Private Equity	28.4%	25.6%	21.4%	18.0%
Real Estate	IPD Canada	9.1%	10.8%	12.6%	11.7%
Hedge Fund of Funds	HFRI FOF: Conservative	12.1%	13.6%	6.7%	2.1%
	Consumer Price Index	1.5%	1.4%	1.5%	1.7%

Note: IPD Canada and Cambridge Assoc. Private Equity returns are shown to September 30, 2014. Foreign indices are converted from USD to CAD using Bank of Canada, close of business exchange rates.

In alternative investments, many private equity funds took advantage of the strong equity markets and valuations to make successful exits for underlying portfolio companies. Returns in commercial real estate markets moderated as capital appreciation slowed. Given reduced capitalization rates, many real estate managers were cautious to make further acquisitions in 2014. Infrastructure equity transactions continue to remain slow and highly competitive.

Investment Review cont'd

Transition to the Long Term Policy

The SPP's assets are invested to provide stable lifetime retirement pensions in accordance with the *Statement of Policies and Procedures* approved by the UBC Board of Governors. The following table contains the actual asset mixes at the end of December 2013 and 2014, along with the revised long term policy asset mix adopted in April 2013.

Transition to the Long Term Policy as at December 31, 2014

Asset Mix	Prior Policy	December 2013	December 2014	Revised Long Term Policy
Cash and Net Currency Forwards	1.0%	1.7%	0.9%	1.0%
Long Bonds	24.0%	23.3%	24.4%	24.0%
Real Return Bonds	5.0%	3.6%	3.5%	5.0%
Mortgages	5.0%	4.3%	5.5%	5.0%
Infrastructure Debt	10.0%	9.2%	9.9%	10.0%
Total Fixed Income	**45.0%**	**42.2%**	**44.2%**	**45.0%**
Canadian Equities	15.0%	15.8%	14.8%	10.0%
Global Equities (including U.S. and International)	15.0%	17.8%	16.0%	10.0%
Emerging Market Equities	0.0%	4.8%	4.6%	5.0%
Total Equities	**30.0%**	**38.3%**	**35.4%**	**25.0%**
Private Equity	5.0%	5.8%	5.2%	5.0%
Real Estate	8.0%	8.7%	8.0%	12.5%
Infrastructure Equity	12.0%	4.5%	7.0%	12.5%
Hedge Fund of Funds	0.0%	0.5%	0.2%	0.0%
Total Alternatives	**25.0%**	**19.5%**	**20.4%**	**30.0%**
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**

The SPP continued its multi-year transition to its long term investment policy weights in 2014. In public equities, investments in Canadian Equities (14.8%) and Global Equities (16.0%) were overweight versus the long term policy weight of 10.0% for each. These investments will be decreased as further real estate and infrastructure equity investments are funded over time.

In alternatives asset classes, investments will occur as commitments made to external managers are drawn and investments are diversified through time. In the private equity program, $13 million was received in net distributions, bringing down the asset class weight to 5.2% versus the long term policy weight of 5%. This will allow capacity for new commitments to be made in future years. In real estate, $15 million commitments were made each to a U.S. based real estate mezzanine debt fund and a Canadian value added fund. Actual investments now account for 8.0% of the portfolio (11.3% including outstanding commitments) versus the long term policy weight of 12.5%.

In the infrastructure equity portfolio, $30 million was funded into a publicly listed global infrastructure fund. At the end of 2014, actual investments to infrastructure equity totaled 7.0% of the portfolio (13.3% including

Investment Review cont'd

outstanding commitments) versus the long term policy weight of 12.5%.

During the year, redemptions from hedge fund of funds continued with $1 million in proceeds received by the Fund. Approximately 0.2% of the total Fund remains in this asset category.

It should be noted that during the year the Fund's currency hedging policy was changed. Under this new policy, foreign real estate and infrastructure investments are fully hedged (100%) and foreign equity investments are not hedged.

Performance of the Fund

For the year ending December 31, 2014, the Staff Pension Plan portfolio returned 14.3% net of external investment management fees. This return compares favorably to the long term discount rate of 6.2% determined by the Plan Actuary for the Fund. The long term discount rate is the expected long term return on pension plan assets and is used to convert future pension payments into present day dollars.

Fund Return versus Investment Policy Benchmark

	1 Year	2 Year	4 Year	10 Year
Fund Return	14.3%	12.0%	9.7%	6.2%
Investment Policy Benchmark	13.9%	10.7%	8.9%	6.4%
Value Added	0.4%	1.3%	0.8%	-0.1%

Note: Numbers may not add due to rounding.
Returns are presented net of external investment management fees starting January 2010.

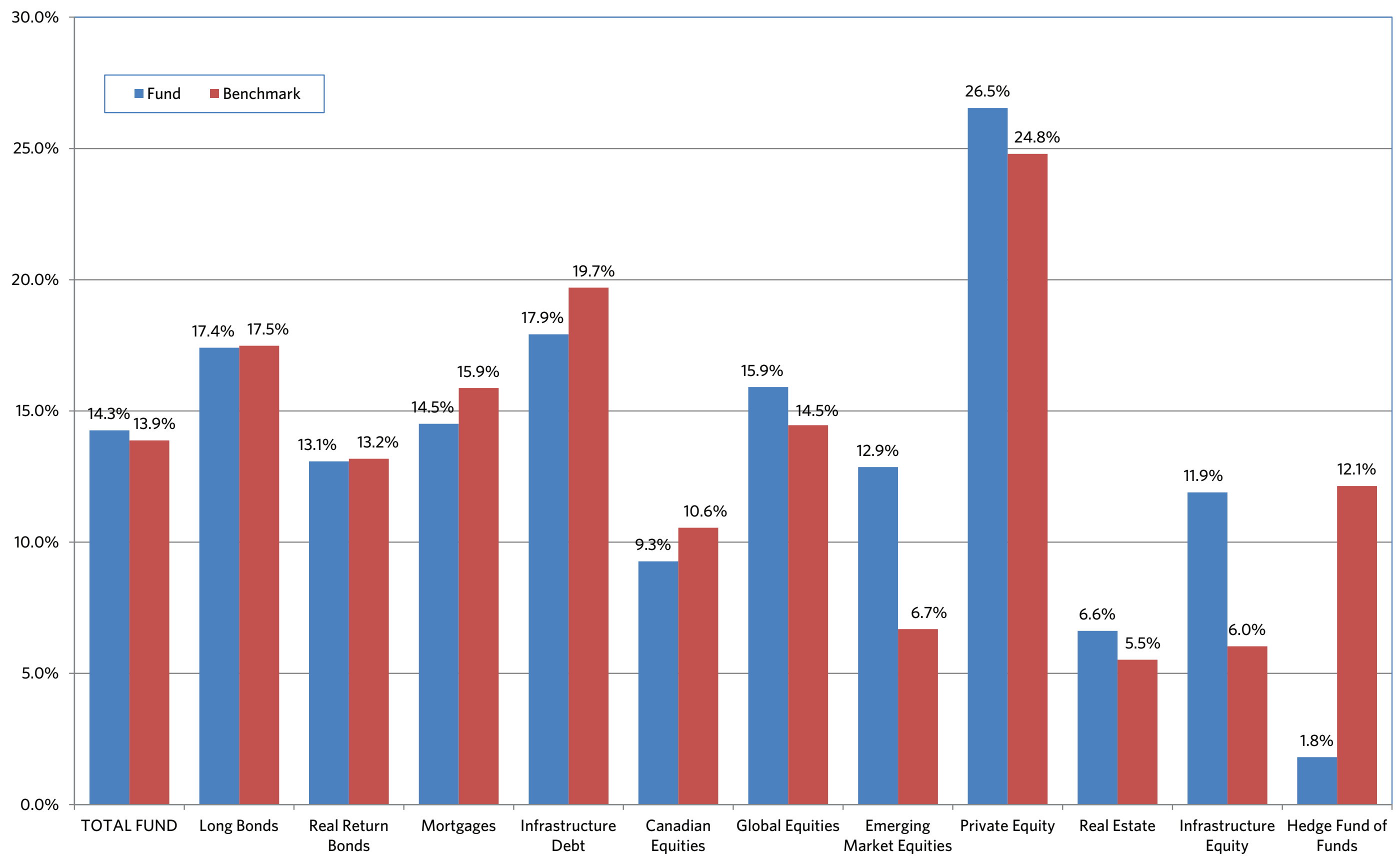
The table above shows the Fund return against the policy benchmark return for one-year to ten-year periods ending December 31, 2014. The policy benchmark portfolio serves as a proxy for a passively invested portfolio and is made up of asset class benchmarks, weighted by their long term policy weights (or transition policy weights during the transition period). For example, for Canadian equities, the commonly quoted public market index S&P/TSX Composite index is used. For alternative investments, where investable indices are not available, other industry indices or combinations of relevant public indices may be used for the asset class benchmarks (e.g. MSCI World + 2% for private equity).

For the one-year period ending December 31, 2014, the SPP portfolio returned 14.3% versus its policy benchmark return of 13.9%, an outperformance of 0.4%. Over a four-year period, the Fund outperformed the benchmark portfolio by 0.8%. Over a ten-year period, the Fund underperformed the benchmark portfolio by 0.1%.

The outperformance for the year came from a variety of sources. Passive investments in U.S. mid and large-cap indexes performed strongly in 2014 as well as the SPP's low volatility manager against the global benchmark. The SPP's emerging market fundamental manager also performed well during the year against the benchmark. However, this was offset by disappointing results from Canadian equity and international equity managers due to significant exposure to the Energy & Materials sectors. In alternative investments, real estate and infrastructure equity investments outperformed the asset class benchmark with steady cash flows and were boosted by foreign currency appreciation against the Canadian dollar. The following graph shows the one-year asset class returns versus benchmarks.

Investment Review cont'd

One-Year Asset Class Returns versus Benchmarks



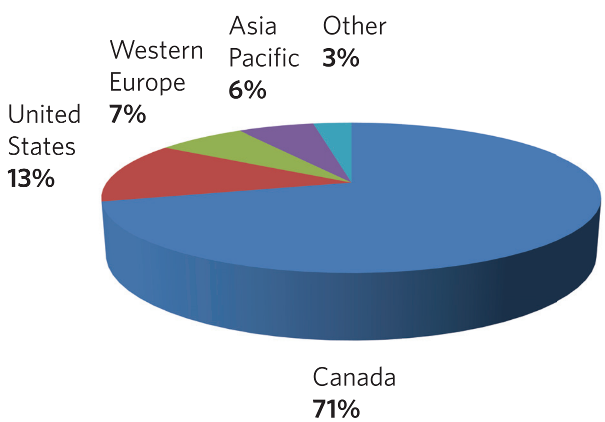
Notes: Global Equities combines U.S. equities, International equities and Global equities and are compared to the MSCI World Index Net (CAD). Asset class benchmarks presented: Long Bonds: FTSE TMX Long Bond Index; Real Return Bonds: FTSE TMX Real Return Bond Index; Mortgages: 65%/35% FTSE TMX Long/ Mid Federal Government Index + 1.35%; Infrastructure Debt: FTSE TMX Long Federal Government Index + 1.9%; Canadian Equities: S&P/TSX Composite Index; Global Equities: MSCI World Net Index (CAD) since April 2013; Private Equity: MSCI World Net Index (CAD) +2.0% (lagged 3 months); Real Estate: CPI + 4.0% since April 2013 (previously IPD Canada lagged 3 months); Infrastructure Equity: CPI + 4.5% (previously 30% FTSE TMX Real Return Bond/70% MSCI World Index Net (CAD) (lagged 3 months); Hedge Fund of Funds: HFRI Fund of Funds: Conservative Index (CAD).

Investment Review cont'd

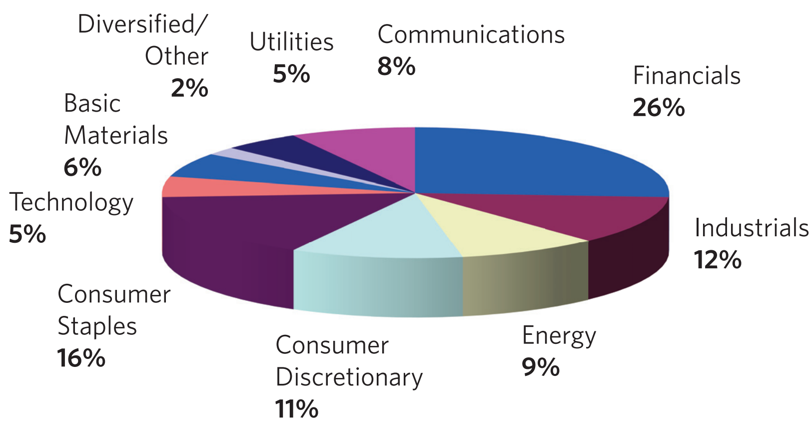
Portfolio Breakdown by Geography, Sector, and Credit Ratings

As part of UBC IMANT's risk assessment and management of the SPP portfolio, information on underlying holdings in external manager pooled funds is collected and aggregated to provide a more thorough picture of portfolio exposures and to confirm that portfolio risk characteristics are in line with the investment policy. Exposures in the SPP's equity and fixed income portfolio as at December 31, 2014 are provided below for information.

Entire Portfolio by Geographic Region



Public Equity Exposure by Sector



Fixed Income Exposure by Credit Rating

Credit Rating	
AAA	24%
AA	20%
A	24%
BBB	6%
Other (unrated, mortgages and infrastructure debt)	26%

Fixed Income Exposure by Borrower