a place of mind
THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN
2012 Year in Review

Contents

About This Report

This report provides a summary of the major highlights and events that occurred over the course of 2012 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 UBC 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.

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 SPP Board's approval and 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 next Actuarial Valuation will commence on December 31, 2013, making 2014 a valuation year.

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 ($975.2M as at December 31, 2012) 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.

2012 in Summary

It was another exciting year for the UBC Staff Pension Plan (SPP) in 2012. There was progress made in the Plan's governance and investments, changes in the membership of the SPP Board and Pension Administration Office (PAO) staff, and the introduction of a new Pension Benefit Standards Act affecting pension plans in British Columbia.

Below is a summary of the major events that occurred over the course of 2012:

Progress in Plan Governance
The year 2012 was the Plan's first year under the new governance policy, which was approved on February 2, 2012 (see February 2012 *SPP Update* newsletter for more information). The Plan Administrator on behalf of the SPP Board is now reporting to the UBC Board of Governors three times a year. The SPP Board will complete an annual governance report for each calendar year and present the report to the Board of Governors in March/April of the following year. These reports are available on the Plan's website in the Plan Governance section.

Asset Liability Study
In 2012, the Plan's investment consultant, PBI Actuarial Consultants (PBI) Ltd., completed an asset liability study on the SPP. The asset liability study looked at the results of the last Actuarial Valuation as at December 31, 2010 and the Plan's assets. PBI used the results of the study to review and determine if the Plan's asset mix policy had the correct risk versus reward balance. Based on the results of the study, PBI recommended changes to the asset mix policy. The SPP Board approved the recommended changes to the asset mix policy and the changes have been submitted to the UBC Board of Governors for their review and approval. For more information on the proposed asset mix policy, please see the following newsletters, which are available from the Plan's website.

November 2012 *SPP Update*
February 2013 *SPP Update*

New Pension Benefits Standards Act (PBSA)
The B.C. Government introduced a new PBSA that received royal assent on May 31, 2012 and it is anticipated it will become law by January 1, 2014. The new act introduces provisions for a new class of pension plan called Target Benefit Plan. The SPP should meet all of the design features of a Target Benefit Plan. With the introduction of the new PBSA, the SPP will be easier to manage and be sustainable over the long-term because the new rules will provide for the Plan's design.

The Plan is implementing a communication strategy in 2013 to educate and prepare the membership for when the Plan officially becomes a Target Benefit Plan. This includes education around key aspects of how the SPP works as a Target Benefit Plan.

For more information on the new PBSA, please refer to the November 2012 issue of the *SPP Update* available from the Plan's website.

2012 in Summary cont'd

CUPE 116 Hourly Employees
In November of 2012, the University agreed to changes to the Collective Agreement with the Canadian Union of Public Employees (CUPE) Local 116 to close the CUPE 116 Hourly Pension Plan effective March 31, 2013 and allow eligible employees to join the SPP effective April 1, 2013. Amendment No. 6 makes the required changes to the SPP to permit implementation of the negotiated changes.

SPP Board Membership
On February 2, 2012, the UBC Board of Governors appointed Harry Satanove as the Independent Non-Voting Chair of the SPP Board. Mr. Satanove is the first person appointed to the newly created position of Independent Non-Voting Chair. His term of appointment is from February 2, 2012 to December 31, 2013. Mr. Satanove is an actuary and a Chartered Financial Analyst, and owns a pension and investment consulting company.

The UBC Board of Governors also appointed Debbie Wilson as a Director. Ms. Wilson's term is from February 2, 2012 to December 31, 2015. She is also an actuary and is the Director of Pensions and Benefits at Simon Fraser University.

At the end of 2012, the UBC Board of Governors appointed Mike Leslie as a Director for a four-year term beginning January 1, 2013. Mr. Leslie replaces Ms. Susan Claybo who completed her four-year term on the Board at the end of 2012. Mr. Leslie is the Executive Director of Investments for the UBC Faculty Pension Plan.

The Plan also held elections for two Elected Director positions on the SPP Board in the fall of 2012. Five candidates participated in the election, and Alan Marchant and Dave Lance were both re-elected by the membership to serve four-year terms beginning January 1, 2013. The election had a voting rate of 17.4%, which according to UBC Election Services, is a good participation rate for the pension plan when compared to other UBC elections.

Pension Administration Office
Two areas of focus for the PAO in 2012 were succession and space planning.

Wendy Brooks has worked on the development and programming of the Plan's Pension Administration systems since 1994 and will retire from UBC with more than 26 years of service in June of 2013. The PAO hired Andrea Gesner in August 2012 as IT Manager to assume Ms. Brooks' role after she retires.

The PAO also started recruiting for a Senior Financial Officer as part of the succession plan for Debbie Ma. Ms. Ma has been the Senior Financial Officer for the PAO since 1993 and will retire with more than 35 years of service in July of 2013.

In November of 2012, the PAO moved from the General Services Administration Building to the Donald Rix Building. The Plan's membership has grown 60% since 2001 and the larger office space allows both the Staff and Faculty Pension Plans to expand operations and services to meet the needs of their growing memberships. The SPP shares an office and several staff with the UBC Faculty Pension Plan.

Membership and Financial Highlights

MEMBERSHIP HIGHLIGHTS

as at December 31, 2012

3.2%

Over the past 5 years, total membership has grown on average 3.2% annually.

Average age
44.7 yrs

6,706 Active Members

3.4% increase from 2011

36 yrs

The average age of new enrollees in the Plan is 36 years.

Average age
71.7 yrs

1,753 Retired Members

6.2% increase from 2011

65 yrs

In 2012, 21% of members retiring and starting a pension from the Plan were age 65.

Average age
46.6 yrs

1,566 Deferred Members

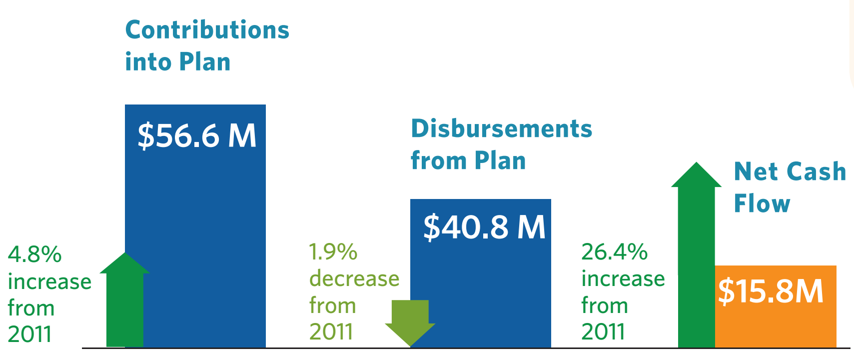
9.4% decrease from 2011

FINANCIAL HIGHLIGHTS

as at December 31, 2012

$975.2M

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 2012 illustrates that since 2001 total membership has grown by 60%. 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 Staff Pension Plan 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 2012

Membership	**1971	**1981	1991	2001	2011	2012
Active	*1006	2272	3002	4327	6484	6706
Deferred			765	890	1728	1566
Retired	0	298	710	1057	1650	1753
Total	**1006**	**2570**	**4477**	**6274**	**9862**	**10025**

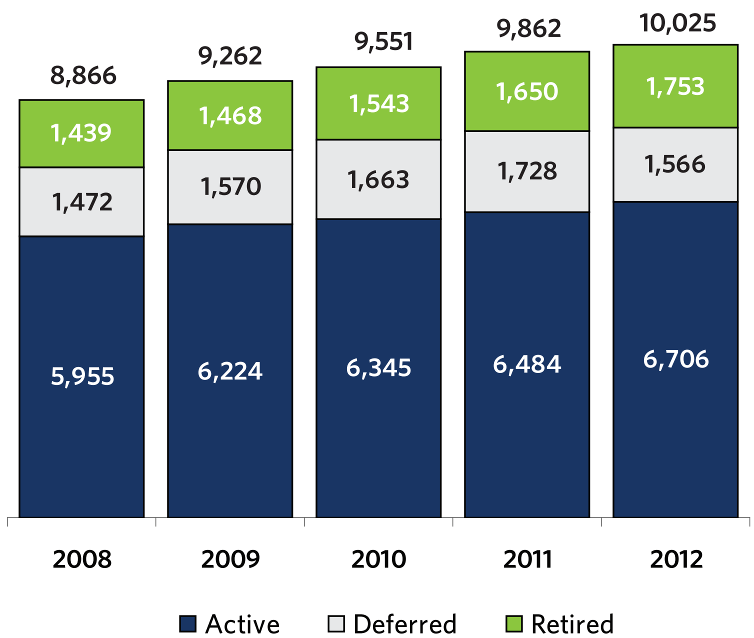
* There were 1006 individuals as at December 31, 1971 who were part of a prior UBC pension plan. These individuals became members of the SPP when the Plan was established in 1972.

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

Membership Statistics cont'd

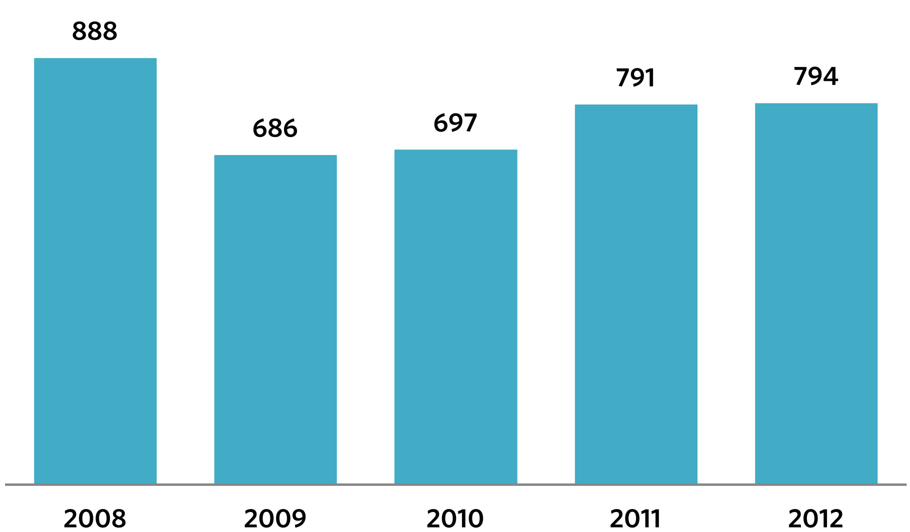
Number of Members as at December 31

The following graph shows the numbers of members in the Plan at year-end for the last five years. In 2012, Active and Retired members grew by 3.4% and 6.2% respectively. Deferred members decreased by 9.4%.



New Enrollments as at December 31

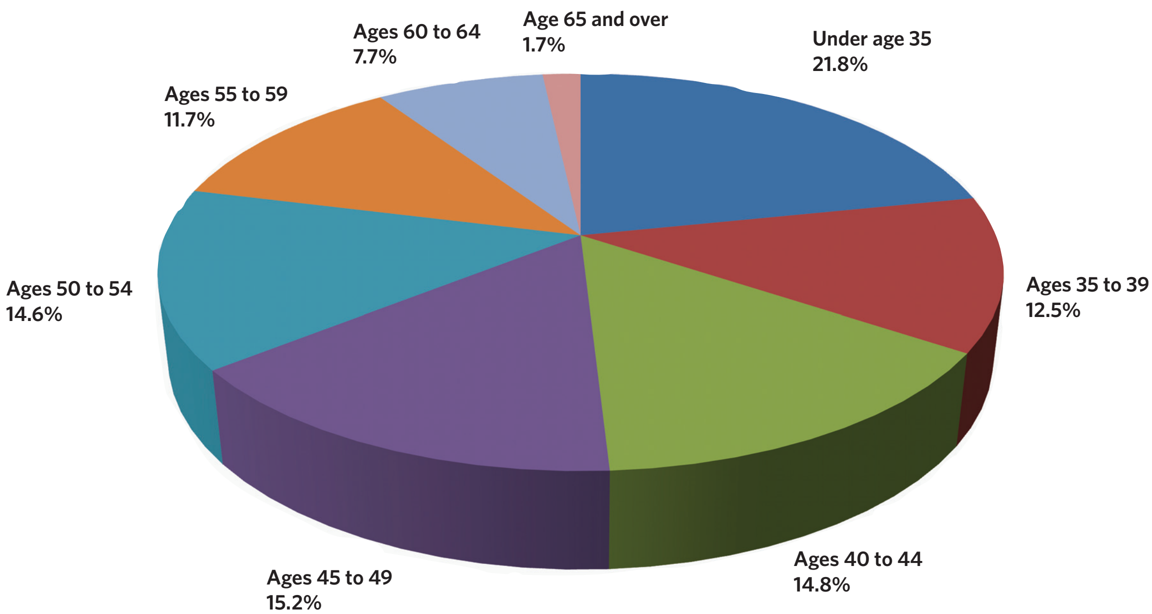
There were 794 new enrollments into the Plan in 2012, which was an increase of 0.4% from 2011.



Membership Statistics cont'd

Age Profile of Active Members

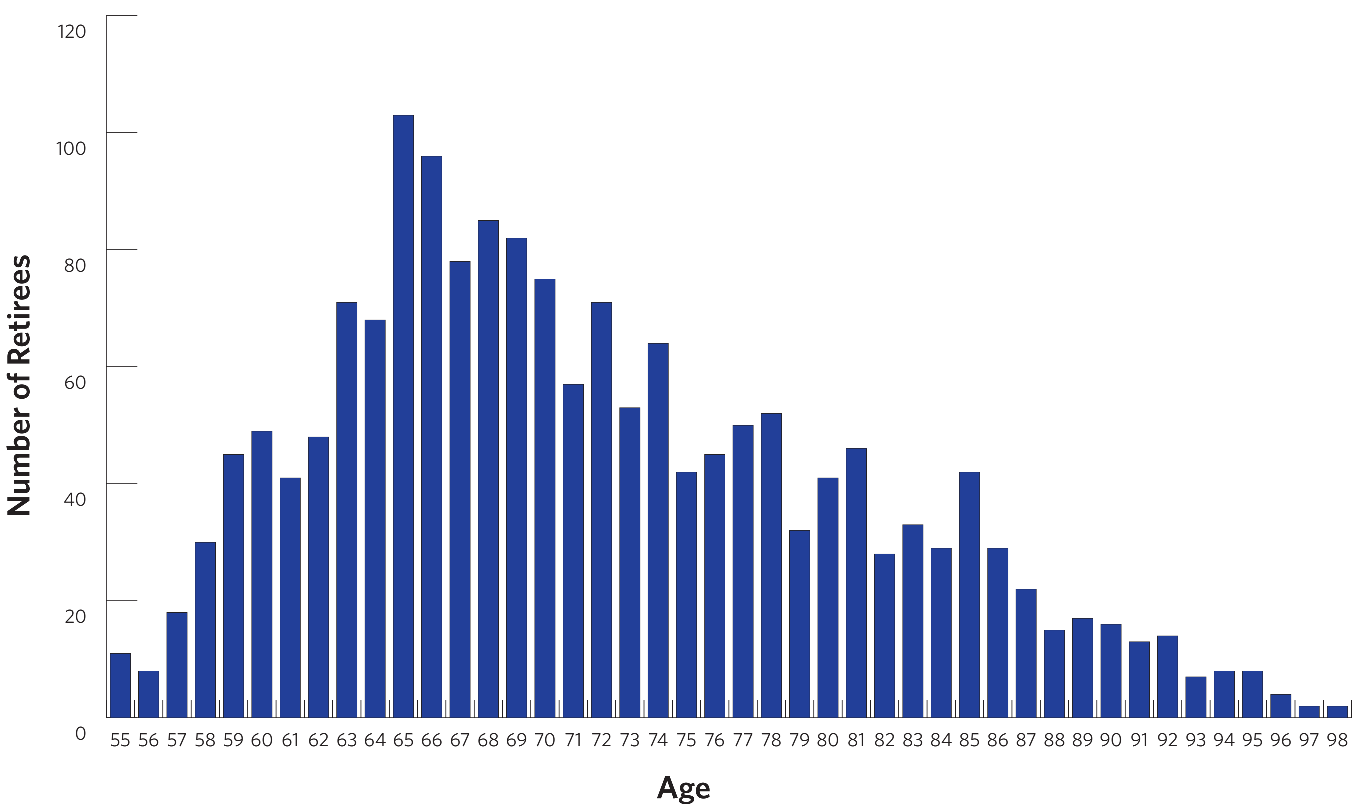
Active members are members who are making contributions into the Plan. The average age of Active members in 2012 was 44.7 years, with a median age of 45.0 years. The financial health of a pension plan, like the UBC Staff Pension Plan, is somewhat dependent on there being new members entering the Plan to help finance the pension benefits of retiring members.



Membership Statistics cont'd

Age Profile of Retirees

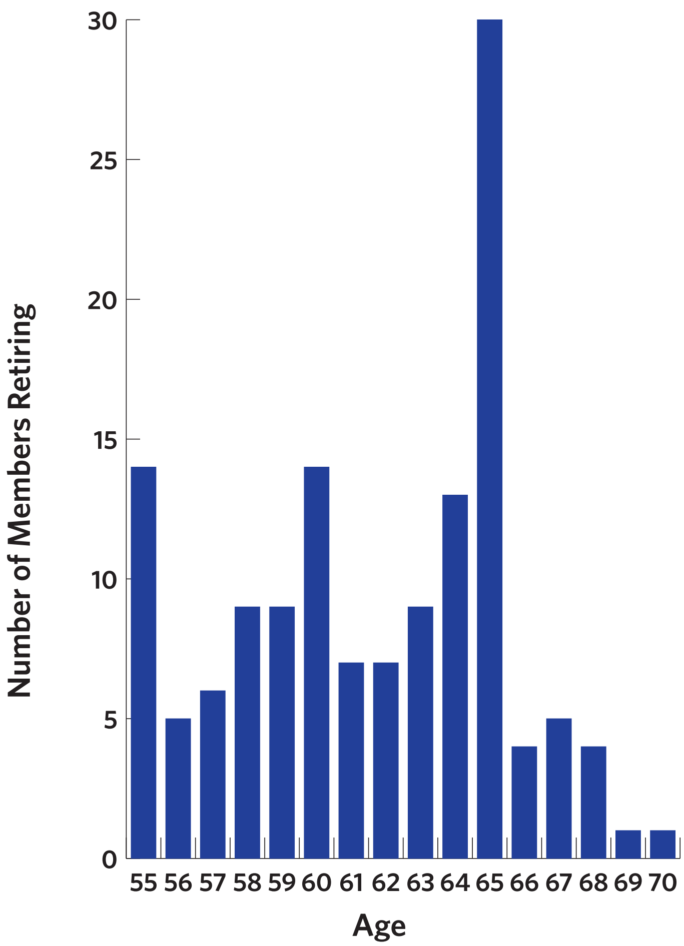
The following graph, *Age Profile of Retirees*, illustrates the age distribution of the Plan's Retired members. These members are receiving a pension from the Plan. Since members age 55 and over must elect a pension option from the Plan (unless they qualify for a small pension lump sump payout), we will 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

2012 Retirements by Age

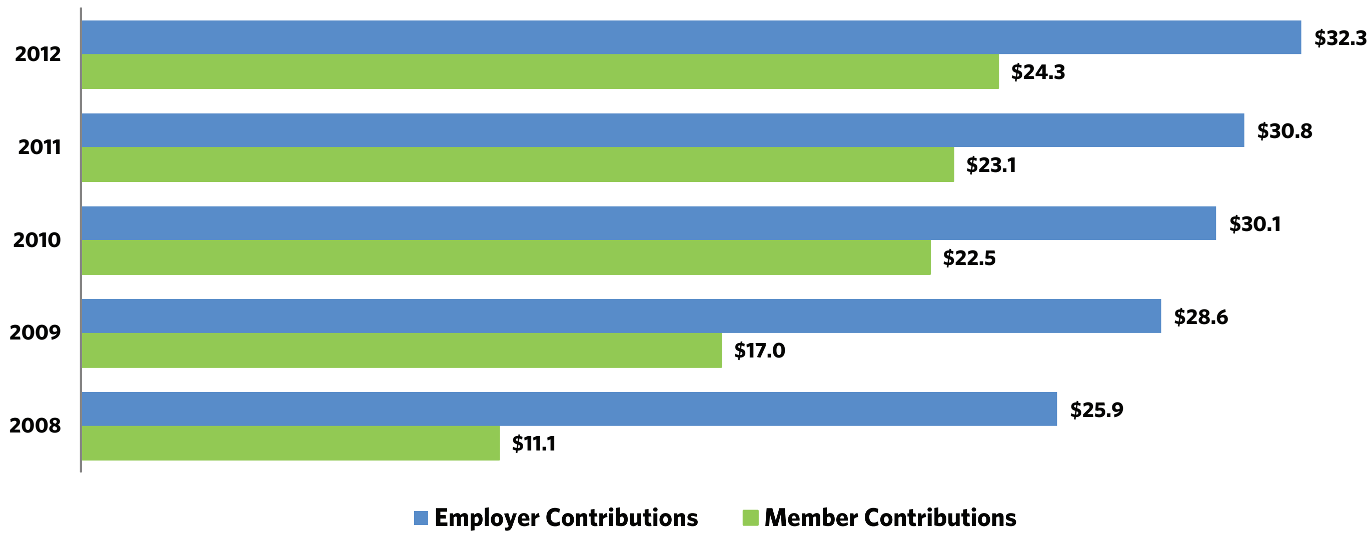
The graph below illustrates that, in 2012, the greatest number of retirements (21%) occurred at the normal retirement age of 65. These retirees took a Monthly Lifetime Pension or Monthly Lifetime Pension with a Lump Sum as their retirement option.



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
2008	$1,428,815	0.17%	$2,360,553	0.29%
2009	$1,452,994	0.21%	$2,000,265	0.30%
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%

- The fee percentages for operating and investment expenses are calculated based on average market value.
- The investment expenses do not include fees that are deducted directly from the funds by some of the Plan's investment managers.

Investment Review

The following ***2012 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

Most global equity markets exceeded expectations and performed very well in 2012 by delivering double digit returns in spite of headlines of the European sovereign debt crisis, a slowing Chinese economy, and the U.S. "fiscal cliff." The Canadian equities market had more modest returns at 7.2%, with the materials, information technology and energy sectors resulting in negative returns. Investor confidence was boosted by evidence that European policymakers were committed to the survival of the Euro and the Euro zone, signs of improvement in the U.S. economy, and ongoing stimulus from central banks around the world. Market perception seems to reflect that economic indicators have stopped deteriorating and may even be showing signs of improvement.

Index Returns to December 31, 2012 (Canadian Dollars)

Asset Class	Index	1 Year	2 Year	4 Year	10 Year
Cash	DEX 91 Day T-Bills	1.0%	1.0%	0.8%	2.3%
Universe Bonds	DEX Universe Bond	3.6%	6.6%	6.3%	6.0%
Long Bonds	DEX Long Bond	5.2%	11.5%	10.2%	8.4%
Real Return Bonds	DEX Real Return Bond	2.9%	10.3%	11.5%	8.9%
Mortgages	DEX Mortgage	4.9%	4.9%	6.2%	6.2%
Canadian Equities	S&P/TSX	7.2%	-1.1%	11.7%	9.2%
U.S. Equities	S&P 500	13.5%	8.9%	8.9%	2.3%
International Equities	MSCI EAFE	14.8%	1.5%	4.6%	3.3%
Emerging Market Equities	MSCI Emerging	15.7%	-1.8%	13.7%	11.3%
Private Equity	Cambridge Assoc. Private Equity	7.8%	11.6%	6.2%	8.5%
Real Estate	IPD Canada	14.1%	14.8%	9.9%	11.7%
Hedge Fund of Funds	HFRI FOF: Conservative	1.9%	0.2%	-1.4%	-1.8%

Note: Cambridge Assoc. Private Equity returns are shown to September 30, 2012.

Bond yields dropped slightly relative to 2011 year-end levels with bond returns ranging from 3% to 5%, unlike their double digit returns in 2011 and 2010. While record low interest rates provide a challenge for pension plans, they provide stimulation for other parts of the economy in terms of lowering borrowing costs and improving corporate profit margins for companies.

In alternatives, private equity managers are cautiously making strategic exits for their underlying portfolio companies, which has slowed down the pace of distributions and reduced return expectations. With low interest rates and the proliferation of real estate income trusts, commercial real estate pricing has soared, but assets remain popular with investors in the current low yielding environment. Infrastructure investments also face heightened competition amongst institutional investors.

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 2011 and December 2012 along with the long term policy asset mix.

Transition to the Long Term Policy as at December 31, 2012

Asset Mix	December 2011	December 2012	Long Term Policy
Cash and Net Currency Forwards	1.5%	1.3%	1.0%
Universe Bonds	2.3%	0.0%	0.0%
Long Bonds	26.5%	25.4%	24.0%
Real Return Bonds	5.8%	4.7%	5.0%
Mortgages	4.9%	5.0%	5.0%
Infrastructure Debt	0.0%	4.6%	10.0%
Total Fixed Income	**41.0%**	**40.9%**	**45.0%**
Canadian Equities	15.1%	15.6%	15.0%
Global Equities (including U.S., International, Emerging)	22.5%	22.5%	15.0%
Total Equities	**37.5%**	**38.1%**	**30.0%**
Private Equity	7.2%	6.6%	5.0%
Real Estate	6.9%	9.3%	8.0%
Infrastructure Equity	3.9%	4.2%	12.0%
Hedge Funds	3.6%	1.0%	0.0%
Total Alternatives	**21.5%**	**21.1%**	**25.0%**
Total	**100.0%**	**100.0%**	**100.0%**

The long term asset mix policy was adopted in January 2011 to strengthen the security of the basic pension benefit by reducing investment risk, increasing the stability of investment income and reducing the effects of rising liabilities from falling interest rates. In these low return-high volatility environments, it is especially important to maintain a long term investment perspective and follow an investment policy that is tailored to the objectives and liabilities of the Plan.

The SPP continued its multi-year transition to its long term investment policy in 2012. In fixed income, two investment managers were hired for the long term infrastructure debt allocation. This 10% allocation is now fully committed and will be invested over time by the managers as opportunities arise. Long bonds as well as global equities will remain overweight to policy weights to fund future infrastructure debt and equity investments.

While absolute returns for the portfolio are important, UBC IMANT is also exploring investment strategies to reduce risk in the portfolio. In the prior year, an allocation was made to a Canadian Equities manager focused on dividend paying stocks. A continuation to this strategy in 2012 was an allocation of one-third of global equities to a low volatility manager. These strategies are expected to reduce the volatility of the equity portfolio over the longer term and are characterized by protection of the portfolio during down markets and underperformance during strong up markets.

Investment Review cont'd

In alternative investments, a $30 million investment was made to a Canadian core real estate fund, which will serve as a core holding in the real estate portfolio. A $15 million commitment was also made to a real estate manager specializing in seniors' housing and manufactured home parks to take advantage of a growing demand in those real estate segments. At the end of 2012, the SPP was fully invested in real estate.

At the end of 2012, investments to the infrastructure equity asset class totaled 4.2% of the portfolio (7.0% including outstanding commitments). A $30 million commitment was made to a Canadian P3 (public-private partnership) focused infrastructure fund. As additional infrastructure debt and infrastructure equity investments are made, they will be funded by selling global equity investments, which will be reduced to their long term policy weights.

During the year, redemptions from hedge fund of funds continued with $23 million in proceeds received by the Fund. Approximately 1% of the total Fund remains in this asset class, awaiting redemption proceeds.

Performance of the Fund

For the year ending December 31, 2012, the SPP returned 9.7% net of external investment management fees. This return compares favourably to the long term discount rate of 6.0% 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	4 Year	10 Year
Fund Return	9.7%	8.0%	6.4%
Investment Policy Benchmark	10.1%	8.6%	6.4%
Value Added	-0.5%	-0.7%	0.0%

Note: 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, 2012. The policy benchmark portfolio serves as a proxy for a passively invested portfolio and is made up of related 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 year ending December 31, 2012, the SPP returned 9.7% versus its policy benchmark return of 10.1%, an underperformance of -0.5%. Over a four-year period, the Fund underperformed the benchmark portfolio by -0.6%. Over a ten-year period, the Fund returned the same as the benchmark portfolio.

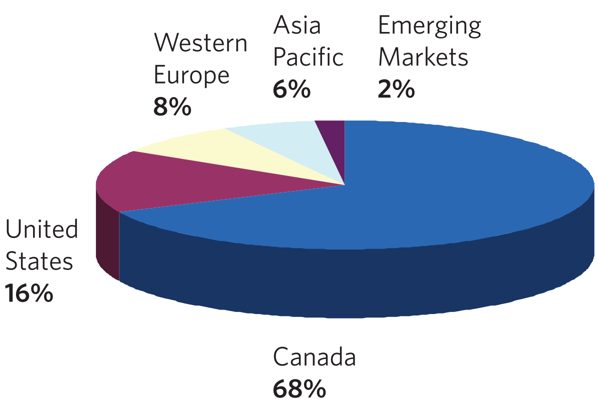
While the underperformance for the year stemmed mainly from the alternatives, outperformance from public equity managers added value to the portfolio. In public equities, Canadian equity value and dividend strategies performed very well against the asset class benchmark. However, this was slightly offset by the new low volatility global equity strategy implemented during the year, which underperformed against very strong up markets.
In alternative investments, long term private equity and infrastructure equity investments could not keep up with the strong public equity market benchmarks for the one-year period, as these funds tend to have more conservative valuations. The ultimate performance and potential of these alternative investments will not be realized until the underlying private companies are sold or until infrastructure projects have completed their construction period to generate stabilized yields.

Investment Review cont'd

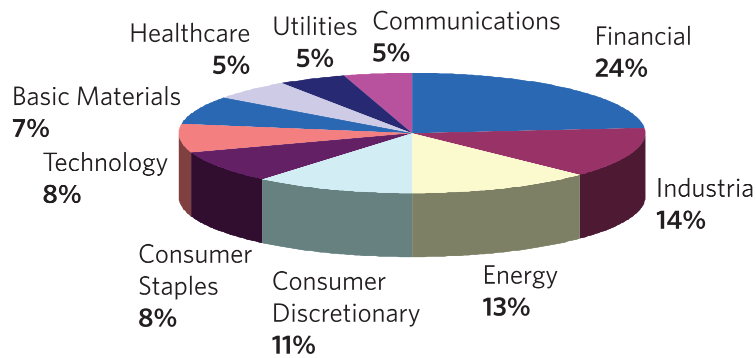
Portfolio Breakdown

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. Below are some of the exposures in the SPP's equity and fixed income portfolio at December 31, 2012, for information.

Entire Portfolio by Geographic Region



Public Equity Exposure by Sector



Fixed Income Exposure by Credit Rating

Credit Rating	
AAA	30%
AA	25%
A	26%
BBB	6%
Other (mortgages/unrated)	13%

Fixed Income Exposure by Borrower