

Financial Statements of

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

December 31, 2012

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
December 31, 2012

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Independent Auditor's Report

To the Board of Directors of
The University of British Columbia Staff Pension Plan

We have audited the accompanying financial statements of The University of British Columbia Staff Pension Plan, which comprise the statement of financial position as at December 31, 2012 and the statement of changes in net assets available for benefits for the year 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; this includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstance, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of The University of British Columbia Staff Pension Plan as at December 31, 2012 and the changes in its net assets available for benefits for the year 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 LLP

Chartered Accountants
June 25, 2013
Vancouver, British Columbia

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

Statement of financial position

December 31, 2012

(Expressed in thousands of dollars)

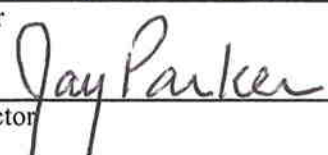
	2012	2011
ASSETS		
Investments (Note 4)		
Short-term notes	\$ 5,346	\$ 4,774
Derivative-related, net	-	709
Bonds	325,804	301,835
Mortgages	48,709	43,081
Equities	446,923	422,638
Real estate	91,733	62,128
Infrastructure	52,734	34,805
	971,249	869,970
Cash	10,112	8,301
Investment income receivable	454	166
	981,815	878,437
Contributions receivable		
University	268	157
Members	205	93
	473	250
Accounts receivable	-	202
	982,288	878,889
LIABILITIES		
Derivative investments, net	141	-
Benefits payable	1,166	3,029
Accounts payable and accrued liabilities	1,130	1,447
	2,437	4,476
NET ASSETS AVAILABLE FOR BENEFITS	\$ 979,851	\$ 874,413

COMMITMENTS (Note 9)

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS



Chair



Director

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN

Statement of changes in net assets available for benefits

Year ended December 31, 2012

(Expressed in thousands of dollars)

	2012	2011
INCREASE IN NET ASSETS		
Members' required contributions	\$ 24,296	\$ 23,112
University's required contributions	32,329	30,814
Transfers from other plans for buyback	136	29
Members' additional voluntary contributions	17	19
	56,778	53,974
Investment income (Note 5)	40,072	33,433
Changes in fair value of investments (Note 6)	47,454	9,896
	144,304	97,303
DECREASE IN NET ASSETS		
Payments to or on behalf of members		
Pensions to retired members	23,008	21,080
Members' accounts transferred or refunded	11,222	16,792
Death benefits	607	630
	34,837	38,502
Operations		
Administrative expenses (Note 7)	1,652	1,756
Investment		
Consulting fees	322	445
Management fees (Note 8)	2,055	2,029
	38,866	42,732
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	105,438	54,571
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	874,413	819,842
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 979,851	\$ 874,413

See accompanying notes to the financial statements.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(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

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

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

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 Plan's 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.

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 UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

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 fair 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 using a yield equivalent to the prevailing rate of return on mortgages of similar type and term.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Investments (continued)*

(iii) Private equities

Private equity investments are stated at values reported in their respective audited 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 - foreign currency forward contracts

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

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Revenue recognition*

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 as follows:

- (i) Interest income is recognized in the period earned.
- (ii) Dividend income is recognized on the ex-dividend date.
- (iii) Income from investments in trusts and limited partnerships is recognized on an accrual basis when earned.
- (iv) Pooled fund income is recognized on the date of distribution by the funds.

(d) *Members' accounts transferred or refunded*

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

(e) *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 2012 and 2011 were primarily securities issued by either Canadian chartered banks or the Bank of Canada that mature at various dates in the next fiscal year.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(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).

The following is a summary of the inputs used as of December 31, 2012 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	\$ 10,112	\$ -	\$ -	\$ 10,112
Short-term notes	-	5,346	-	5,346
Derivative-related, net	-	(141)	-	(141)
Bonds	-	325,804	-	325,804
Mortgages	-	48,709	-	48,709
Equities				
Canadian equities	55,364	95,400	-	150,764
US equities	-	85,446	-	85,446
Foreign equities (i)	-	131,362	2,174	133,536
Hedge funds (ii)	-	-	9,369	9,369
Private equities (iii)	-	-	67,808	67,808
Real estate (iv)	-	-	91,733	91,733
Infrastructure (v)	-	-	52,734	52,734
Total investments	\$ 65,476	\$ 691,926	\$ 223,818	\$ 981,220

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements (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 table provides the changes during the year ended December 31, 2012 for financial instruments for which Level 3 inputs were used in determining fair value:

	Foreign equities	Hedge funds	Private equities	Real estate	Infrastructure	Total
Balance, January 1, 2012	\$ 3,164	\$ 31,125	\$ 64,964	\$ 62,128	\$ 34,805	\$ 196,186
Purchases	-	8	4,052	37,357	17,386	58,803
Sales	-	(22,698)	(8,389)	(11,965)	(2,230)	(45,282)
Realized (losses) gains	(609)	636	3,409	5,568	1,639	10,643
Net transfers into and/or out of Level 3	(966)	(1)	(768)	(3,537)	(768)	(6,040)
Change in unrealized appreciation	585	299	4,540	2,182	1,902	9,508
Balance, December 31, 2012	\$ 2,174	\$ 9,369	\$ 67,808	\$ 91,733	\$ 52,734	\$ 223,818

THE UNIVERSITY OF BRITISH COLUMBIA
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Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

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
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
Balance, December 31, 2011	\$ 3,164	\$ 31,125	\$ 64,964	\$ 62,128	\$ 34,805	\$ 196,186

There were no transfers between Level 1 and Level 2 during the years ended December 31, 2012 and 2011.

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.

(ii) Hedge funds

The Plan has investments in four (2011 - four) hedge funds with three (2011 - 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.

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Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements (continued)

(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:

	2012	2011
Canada	68%	65%
United States	19%	22%
United Kingdom	3%	3%
Europe	5%	6%
Asia	5%	4%
	100%	100%

5. INVESTMENT INCOME

	2012	2011
Interest income	\$ 1,034	\$ 2,892
Dividend income	2,693	1,013
Real estate income	3,343	863
Infrastructure income	845	696
Pooled fund income		
Equities	7,176	8,019
Bonds	21,326	19,950
Mortgages	3,460	-
Real estate	195	-
	\$ 40,072	\$ 33,433

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

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2012		2011	
Realized gains on investments	\$	12,163	\$	7,214
Change in unrealized gains on investments		35,291		2,682
	\$	47,454	\$	9,896

7. ADMINISTRATIVE EXPENSES

	2012		2011	
Salaries and administrative costs	\$	1,237	\$	1,024
Other		124		215
Actuarial services		118		348
Audit		32		40
Custodian		141		129
	\$	1,652	\$	1,756

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, 2012, which are included in management fees, totaled \$588 (2011 - \$530).

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:

	2012		2011		2012		2011					
	€	€	US\$	US\$	Cdn\$	Cdn\$	Cdn\$	Cdn\$				
Real estate	€	-	€	476	\$	-	\$	65	\$	15,880	\$	8,041
Infrastructure		1,231		-		39		-		23,783		-
Private equities		-		-		8,372		11,351		2,849		3,398
Hedge funds		-		-		967		967		-		-
	€	1,231	€	476	\$	9,378	\$	12,383	\$	42,512	\$	11,439

At December 31, 2012, the total commitment in Canadian dollars was \$53,641 (2011 - \$25,979).

THE UNIVERSITY OF BRITISH COLUMBIA

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Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

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 29 investment managers (2011 - 25) across 45 mandates (2011 - 42).

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.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(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% (2011 - +/- 9%) range of an expected long-term return of roughly +6% (2011 - +7%) (i.e. results ranging from -3% to + 15%). This is based on a PBI Actuarial Consultants Liability Study which was completed in 2012. 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:

	2012	2011
Bonds	+/- 8%	+/- 8%
Mortgages	+/- 9.5%	+/- 4%
Canadian equities	+/- 19%	+/- 20%
US equities	+/- 17%	+/- 17%
Foreign equities	+/- 17%	+/- 17%
Private equities	+/- 20%	+/- 20%
Real estate	+/- 13.5%	+/- 12%
Infrastructure	+/- 9.5%	+/- 13.6%
Hedge funds	+/- 11%	+/- 11%

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Notes to the Financial Statements

Year ended December 31, 2012

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(a) Price risk (continued)

	Market value at December 31, 2012	Percentage of investments	Market value at December 31, 2011	Percentage of investments
Securities				
Short-term notes	\$ 5,346	1	\$ 4,774	1
Canadian bonds	325,804	34	301,835	35
Mortgages	48,709	5	43,081	5
Canadian equities	150,764	15	130,512	15
US equities	85,446	9	105,397	12
Foreign equities	133,536	14	90,640	10
Private equities	67,808	7	64,964	7
Real estate	91,733	9	62,128	7
Infrastructure	52,734	5	34,805	4
Hedge funds	9,369	1	31,125	4
	\$ 971,249	100	\$ 869,261	100

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(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:

	2012		2011	
	Potential change in price	Impact on overall Plan's net assets (+/-)	Potential change in price	Impact on overall Plan's net assets (+/-)
Short-term notes	+/- 2%	\$ 107	+/- 2%	\$ 95
Bonds	+/- 8%	26,064	+/- 8%	24,147
Mortgages	+/- 9.5%	4,627	+/- 4%	1,723
Canadian equities	+/- 19%	28,645	+/- 20%	26,102
US equities	+/- 17%	14,526	+/- 17%	17,917
Foreign equities	+/- 17%	22,701	+/- 17%	15,409
Private equities	+/- 20%	13,562	+/- 20%	12,993
Real estate	+/- 13.5%	12,384	+/- 12%	7,455
Infrastructure	+/- 9.5%	5,010	+/- 13.6%	4,734
Hedge funds	+/- 11%	1,031	+/- 11%	3,424

(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 13.7 years (2011 - 13.3 years). Therefore, if interest rates increased by 1%, the bond portfolio would fall in value by approximately 14% (2011 - 13%).

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.

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(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(c) *Foreign currency risk*

Foreign currency risk is the risk that the value of non-Canadian investments, reported in Canadian dollars, will decrease because of unfavorable changes in foreign 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 monthly foreign 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, 2012, roughly 32% (2011 - 35%) of the Plan's assets were invested outside of Canada, and 44% (2011 - 48%) of this exposure was hedged. U.S. dollar exposure accounts for 19% (2011 - 22%) of the non-Canadian investment while EAFE currencies account for 13% (2011 - 13%) of the exposure. A 10% strengthening/weakening of the Canadian dollar versus the U.S. dollar at December 31, 2012 would have decreased/increased the U.S. dollar exposure by roughly \$18,652 (2011 - \$19,326). This amount would be reduced by roughly half through the currency hedging program. This assumes that all other variables remain constant.

(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, investment income receivable, short-term notes, bonds and mortgages are subject to credit risk. The maximum exposure to credit risk on these instruments is their carrying value of \$390,425 (2011 - \$358,157). 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".

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11. RISK MANAGEMENT (Continued)

(d) Credit risk (continued)

The overall credit ratings as a percentage of the total bonds and mortgages as of December 31, 2012 held in the Plan are as follows:

	2012	2011
AAA	30%	37%
AA	22%	23%
A	30%	24%
BBB	5%	5%
BB	0%	1%
Mortgages	13%	10%

(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 Members that could withdraw their funds on short notice is roughly 6.9% (2011 - 7.4%).

All of the Plan's benefits payable, 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.

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 foreign currency forward contracts 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.

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11. RISK MANAGEMENT (Continued)

(e) *Liquidity risk (continued)*

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.