

Financial Statements of

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

December 31, 2015

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
December 31, 2015

Table of contents

Independent Auditor's Report.....	1-2
Statement of financial position	3
Statement of changes in net assets available for benefits	4
Notes to the financial statements	5-20



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Independent Auditor's Report

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

We have audited the accompanying fund financial statements of The University of British Columbia Staff Pension Plan (the "Plan"), which comprise the statement of financial position as at December 31, 2015 and the statement of changes in net assets available for benefits for the year then ended, and the notes to the fund financial statements. The fund financial statements have been prepared by management of the Plan based on the financial reporting provisions of Section 47(2) of the regulations to the Pension Benefits Standards Act S.B.C. 2012 and a supplementary letter issued by the Financial Institutions Commission of British Columbia to the Plan dated April 11, 2016 ("financial reporting framework").

Management's Responsibility for the Fund Financial Statements

Management is responsible for the preparation and fair presentation of these fund 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 fund financial statements in the circumstance, and for such internal control as management determines is necessary to enable the preparation of fund 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 fund 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 fund financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the fund financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the fund 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 fund 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 fund 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 fund financial statements present fairly, in all material respects, the financial position of The University of British Columbia Staff Pension Plan as at December 31, 2015, 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 fund financial statements, which describes the basis of accounting. The fund financial statements are prepared to assist the Plan to comply with the financial reporting requirements of Section 47(2) of the regulations to the Pension Benefits Standards Act S.B.C. 2012 and the supplementary letter issued by the Financial Institutions Commission of British Columbia to the Plan dated April 11, 2016. As a result, the fund financial statements may not be suitable for another purpose. Our report is intended solely for the Pension Board of the Plan and the Financial Institutions Commission of British Columbia and should not be distributed to or used by parties other than the Pension Board of the Plan and the Financial Institutions Commission of British Columbia.

Deloitte LLP

Chartered Professional Accountants
June 21, 2016
Vancouver, British Columbia

THE UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN
Statement of financial position

December 31, 2015

(Expressed in thousands of dollars)

	2015	2014
ASSETS		
Investments (Note 4)		
Short-term notes	\$ 1,124	\$ 3,073
Bonds	419,537	354,653
Mortgages	20,788	70,467
Equities	487,347	546,747
Real estate	120,998	102,583
Infrastructure	301,018	187,918
	1,350,812	1,265,441
Cash (Note 4)	18,908	9,527
Investment income receivable	729	725
	1,370,449	1,275,693
Contributions receivable		
University	144	213
Members	100	159
	244	372
	1,370,693	1,276,065

LIABILITIES

Derivative investments, net (Note 4)	4,043	119
Benefits payable	383	443
Accounts payable and accrued liabilities	961	878
	5,387	1,440
NET ASSETS AVAILABLE FOR BENEFITS	\$ 1,365,306	\$ 1,274,625

COMMITMENTS (Note 9)

APPROVED ON BEHALF OF THE BOARD



Chair



Board member

The accompanying notes to the fund financial statements are an integral part of this financial statement.

THE UNIVERSITY OF BRITISH COLUMBIA

STAFF PENSION PLAN

Statement of changes in net assets available for benefits

Year ended December 31, 2015

(Expressed in thousands of dollars)

	2015	2014
INCREASE IN NET ASSETS		
Members' required contributions	\$ 28,313	\$ 27,699
University's required contributions	37,863	36,844
Transfers from other plans for buyback	31	38
	66,207	64,581
Investment income (Note 5)	57,752	60,998
Changes in fair value of investments (Note 6)	16,241	93,394
	140,200	218,973
DECREASE IN NET ASSETS		
Payments to or on behalf of members		
Pensions to retired members	30,363	27,601
Members' accounts transferred or refunded	11,885	8,013
Death benefits	703	1,741
	42,951	37,355
Operations		
Administrative expenses (Note 7)	1,734	1,813
Investment		
Consulting fees	129	180
Management fees (Note 8)	4,705	3,486
	49,519	42,834
NET INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	90,681	176,139
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,274,625	1,098,486
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 1,365,306	\$ 1,274,625

The accompanying notes to the fund financial statements are an integral part of this financial statement.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(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 pension 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 and hourly-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.

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

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

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

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 47(2) of the regulations to the Pension Benefits Standards Act S.B.C. 2012 and a supplementary letter issued by the Financial Institutions Commission of British Columbia to the Plan dated April 11, 2016. 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 CPA Canada Handbook, Canadian accounting standards for pension plans (the "Handbook"), 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.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) *Use of estimates*

The preparation of fund 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 fund 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 level 3 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 price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Investments (continued)*

(ii) Pooled funds

Bonds and equities

Pooled fund net asset 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 net asset 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.

(iii) Private equities

Private equity investments are held through limited partnership units investing in private equity assets. The fair value of limited partnership units are based on net asset values reported in their respective audited financial statements. Fair values of the underlying assets are based on valuation methods which 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 values of the shares, investment trust units and limited partnership units are based on the net asset values reported in their respective audited financial statements. Fair values of the underlying real estate assets are based on the most recent external manager appraisals of the properties such as commercial, industrial and residential properties. A combination of internal and external appraisals are used.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Investments (continued)*

(v) Infrastructure

Infrastructure investments are held through limited partnership units investing in infrastructure assets, and in a pooled fund investing in publicly traded equities. The fair values of limited partnership units are based on the net asset values reported in their respective audited financial statements. Fair values of the underlying assets are based on the most recent external managers' valuations 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 are valued based on market closing forward rates from independent sources.

(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 an accrual basis.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Foreign currency translation*

Transactions denominated in foreign currencies are translated at the rates of exchange at the date of the transaction. 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.

4. INVESTMENTS

(a) *Short-term notes*

Investments in short-term notes are 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 – Levels disclosure*

Part IV of the Handbook 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 UNIVERSITY OF BRITISH COLUMBIA
STAFF PENSION PLAN**

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements – Levels disclosure (continued)

The following is a summary of the inputs used as of December 31, 2015 in valuing the Plan's cash, investments and derivative financial instruments:

	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	\$ 18,908	\$ -	\$ -	\$ 18,908
Short-term notes	-	1,124	-	1,124
Derivative investments, net	-	(4,043)	-	(4,043)
Bonds	-	419,537	-	419,537
Mortgages	-	20,788	-	20,788
Equities				
Canadian equities	63,894	102,369	-	166,263
US equities	-	78,369	-	78,369
Foreign equities (i)	-	183,457	424	183,881
Hedge funds (ii)	-	-	2,257	2,257
Private equities (iii)	-	-	56,577	56,577
Real estate (iv)	-	-	120,998	120,998
Infrastructure (v)	-	68,741	232,277	301,018
Total investments	\$ 82,802	\$ 870,342	\$ 412,533	\$ 1,365,677

The following is a summary of the inputs used as of December 31, 2014 in valuing the Plan's cash, investments and derivative financial instruments:

	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	\$ 9,527	\$ -	\$ -	\$ 9,527
Short-term notes	-	3,073	-	3,073
Derivative investments, net	-	(119)	-	(119)
Bonds	-	354,653	-	354,653
Mortgages	-	70,467	-	70,467
Equities				
Canadian equities	67,497	150,439	-	217,936
US equities	-	76,325	-	76,325
Foreign equities (i)	-	185,766	357	186,123
Hedge funds (ii)	-	-	3,003	3,003
Private equities (iii)	-	-	63,360	63,360
Real estate (iv)	-	-	102,583	102,583
Infrastructure (v)	-	63,148	124,770	187,918
Total investments	\$ 77,024	\$ 903,752	\$ 294,073	\$ 1,274,849

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

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements – Levels disclosure (continued)

The following table provides the changes during the year ended December 31, 2015 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, 2015	\$ 357	\$ 3,003	\$ 63,360	\$ 102,583	\$ 124,770	\$ 294,073
Purchases	-	-	3,812	17,075	82,739	103,626
Sales	(2)	(404)	(11,628)	(5,334)	(1,205)	(18,573)
Realized gains	-	209	3,401	3,004	4,529	11,143
Unrealized gain (loss)	69	(551)	(2,368)	3,670	21,444	22,264
Balance, December 31, 2015	\$ 424	\$ 2,257	\$ 56,577	\$ 120,998	\$ 232,277	\$ 412,533

The following table provides the changes during the year ended December 31, 2014 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, 2014	\$ 334	\$ 4,988	\$ 68,217	\$ 96,548	\$ 108,174	\$ 278,261
Purchases	-	2	1,910	18,166	13,787	33,865
Sales	(5)	(2,023)	(17,413)	(10,797)	(4,027)	(34,265)
Realized (losses) gains	(1)	495	6,670	(2,122)	(138)	4,904
Unrealized gain (loss)	29	(459)	3,976	788	6,974	11,308
Balance, December 31, 2014	\$ 357	\$ 3,003	\$ 63,360	\$ 102,583	\$ 124,770	\$ 294,073

The total unrealized and realized gains (losses) recognized during the year related to Level 3 investments was \$33,407 (2014 - \$16,212). There were no transfers between Level 1 and Level 2 during the years ended December 31, 2015 and 2014.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(b) Fair value measurements – Levels disclosure (continued)

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 three (2014 - three) hedge funds with three (2014 - three) 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 and a pooled fund investing in publicly traded equities. These investments are primarily in Canada, the United States, Australia and Europe.

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

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

4. INVESTMENTS (Continued)

(c) Geographical allocation

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

	2015	2014
Canada	67%	69%
United States	16%	15%
United Kingdom	3%	3%
Europe	9%	7%
Asia	5%	6%
	100%	100%

5. INVESTMENT INCOME

	2015	2014
Interest income	\$ 3,766	\$ 819
Dividend income	5,327	2,739
Real estate income	2,913	2,337
Infrastructure income	14,413	8,597
Pooled fund distributions		
Equities	18,986	19,246
Bonds	9,995	22,100
Mortgages	1,990	3,037
Real estate	362	2,123
	\$ 57,752	\$ 60,998

6. CHANGES IN FAIR VALUE OF INVESTMENTS

	2015	2014
Realized gains on investments	\$ 44,978	\$ 9,908
Change in unrealized gains on investments	(28,737)	83,486
	\$ 16,241	\$ 93,394

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

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

7. ADMINISTRATIVE EXPENSES

	2015	2014
Salaries and administrative costs	\$ 1,246	\$ 1,302
Custodian	194	151
Actuarial services	87	175
Other	165	134
Audit	42	51
	\$ 1,734	\$ 1,813

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, 2015, which are included in management fees, totaled \$811 (2014 - \$753).

9. COMMITMENTS

(a) Investments

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

	2015	2014	2015	2014	2015	2014
	€	€	US\$	US\$	Cdn\$	Cdn\$
Real estate	€ -	€ -	\$ 48,074	\$ 22,934	\$ 15,083	\$ 19,782
Infrastructure equity	525	726	39	39	53,236	77,892
Infrastructure debt	-	-	16,579	-	4,564	77,892
Private equities	-	-	-	19,758	-	72
	€ 525	€ 726	\$ 64,692	\$ 42,731	\$ 72,883	\$ 175,638

As at December 31, 2015, the total commitment in Canadian dollars was \$163,538 (2014 - \$148,337).

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

9. COMMITMENTS (Continued)

(b) Leases

The Plan has entered into an operating lease for office premises. As of December 31, 2015, the future minimum lease payments are due as follows:

	\$
2016	72
2017	72
2018	75
2019	75
2020	75
Thereafter	137
	<hr/> 506

10. FINANCIAL INSTRUMENTS

The fair values of the Plan's cash, investment income receivable, contributions 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 and derivative 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 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 36 investment managers (2014 - 33) across 55 mandates (2014 - 50).

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

The Pension Board oversees the management of the Plan with a focus on 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 pooled investment fund is governed by the manager's own investment policy for the pooled fund. IMANT staff are 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, management expects most annual returns to be within a +/-9% (2014 - +/-9%) range of an expected long-term return of roughly +/-6% (2014 - +6%) (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:

	2015	2014
Short term notes	+/- 2%	+/- 2%
Bonds	+/- 8%	+/- 8%
Mortgages	+/- 9.5%	+/- 9.5%
Canadian equities	+/- 19%	+/- 19%
US equities	+/- 17%	+/- 17%
Foreign equities	+/- 17%	+/- 17%
Private equities	+/- 20%	+/- 20%
Real estate	+/- 13.5%	+/- 13.5%
Infrastructure	+/- 9.5%	+/- 9.5%
Hedge funds	+/- 11%	+/- 11%

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

Notes to the Financial Statements

Year ended December 31, 2015

(Expressed in thousands of dollars)

11. RISK MANAGEMENT (Continued)

(a) Price risk (continued)

	Market value at December 31, 2015	Percentage of investments	Market value at December 31, 2014	Percentage of investments
Short-term notes	\$ 1,124	1%	\$ 3,073	1%
Bonds	419,537	31%	354,653	28%
Mortgages	20,788	1%	70,467	5%
Canadian equities	166,263	12%	217,936	17%
US equities	78,369	6%	76,325	6%
Foreign equities	183,881	13%	187,451	14%
Private equities	56,577	4%	63,360	5%
Real estate	120,998	9%	101,255	8%
Infrastructure	301,018	22%	187,917	15%
Hedge funds	2,257	1%	3,004	1%
	\$ 1,350,812	100%	\$ 1,265,441	100%

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

	2015	2014
	Potential change in price	Impact on overall Plan's net assets (+/-)
Short-term notes	+/- 2%	\$ 23
Bonds	+/- 8%	33,563
Mortgages	+/- 9.5%	1,975
Canadian equities	+/- 19%	31,642
US equities	+/- 17%	13,323
Foreign equities	+/- 17%	31,260
Private equities	+/- 20%	11,261
Real estate	+/- 13.5%	16,335
Infrastructure	+/- 9.5%	28,597
Hedge funds	+/- 11%	248

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(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 14.0 years (2014 - 13.4 years). Therefore, if long-term interest rates increased by 1%, the bond portfolio would fall in value by approximately 14% (2014 - 13%).

The impact on the value of the Plan's investments from an increase in interest rates will be partially or fully mitigated by the decrease in the value of the Plan's pension obligation.

(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 100% exposure in non-Canadian real estate and infrastructure investments. In 2014, the Plan hedged approximately 50% of all non-Canadian investments. 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 100% hedging target. This program includes hedging of U.S. dollar, Euro, Japanese Yen and Pound Sterling investments. As of December 31, 2015, roughly 34% (2014 - 30%) of the Plan's assets were invested outside of Canada, and 20% (2014 - 13%) of this exposure was hedged. U.S. dollar exposure accounts for 16% (2014 - 15%) of the non-Canadian investment while EAFE currencies account for 17% (2014 - 16%) of the exposure. A 10% strengthening/weakening of the Canadian dollar versus the U.S. dollar at December 31, 2015 would have decreased/increased the U.S. dollar exposure by roughly \$21,862 (2014 - \$19,135). This amount would be reduced by non-Canadian real estate and infrastructure investments hedged 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, 2015

(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 cash, investment income receivable, contributions 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 \$461,330 (2014 - \$439,445). The Plan manages the risk by limiting the credit exposure allowed by the investment 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 and mortgages as of December 31, 2015 held in the Plan are as follows:

	2015	2014
AAA	21%	24%
AA	21%	18%
A	26%	27%
BBB	11%	19%
Mortgages	9%	12%
Unrated	12%	0%

(e) Liquidity risk

Liquidity risk for the Plan refers to the likelihood of any potential loss from a large percentage of requests for redemptions by Plan members. The percentage of the Plan's assets representing amounts that terminated Members could withdraw on short notice is roughly 8.0% (2014 - 7.0%).

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.

THE UNIVERSITY OF BRITISH COLUMBIA STAFF PENSION PLAN

Notes to the Financial Statements

Year ended December 31, 2015

(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 foreign currency forward contracts as well as cash calls related to the private equity, real estate and infrastructure investments. The sources of funding for these settlements are from the liquid portion of the Plan, the public market securities, as well as capital distributions related to private equity, real estate and infrastructure investments.

Investments in infrastructure, real estate, private equity and hedge funds have more restrictive liquidity constraints than public securities and may require continuing investment commitments. Infrastructure, real estate and private equity investments are mostly made through limited partnership agreements typically with contractual 10 year terms. Investments in the infrastructure, real estate and private equity limited partnerships 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 defines its capital as the net assets available for benefits. The Plan's objectives when managing capital are to safeguard its 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.

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.