

UBC STAFF PENSION PLAN

ANNUAL REPORT 2018



THE UNIVERSITY OF BRITISH COLUMBIA

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Message from the Chair and Executive Director



It has been another successful year for the UBC Staff Pension Plan (the Plan). Our primary focus continues to be **benefit security** and ensuring the Plan remains **sustainable** on a long term basis.

It is with these priorities in mind that we completed an **asset mix review** in 2018. The purpose of the review was to determine what changes, if any, could be made to the Plan's long term asset mix to help ensure stable and sustainable pensions, with indexing, for generations to come.

The recommended changes to the Plan's investments were approved by the Board of Governors, and will be implemented beginning in 2019.

The Plan continues to be in a healthy funded position. The Staff Pension Plan (SPP) Board continues to monitor the funded status of the Plan and the risks inherent in a Target Benefit Plan through the Funding Policy.

The University contribution rate increased to 9.4% of pensionable earnings on October 1, 2018. This increase was the final step of the increase announced in the fall of 2017. The increase in the employer contribution rate assists the Board in achieving its objective of ensuring the Plan is financially sustainable for the long term.

This past year we said goodbye to three SPP Board members who completed their terms in December 2018 – Brian Evans, Karen Ranalletta, and Peter Smailes. We are grateful for their contributions and service to the SPP Board. This year we welcome Shannon Dunn and Christie Stephenson as newly elected board members, and Yale Loh as an appointed board member.

We are pleased with what we've accomplished this past year and will continue to focus on ensuring the Plan is managed in the best interests of all the Plan members.

Orla Cousineau
Executive Director

Barry Gros
Independent Chair

A sustainable pension plan for the long term

ASSET MIX REVIEW

In 2018, the SPP Board reviewed the Plan's investment policy and long-term asset mix to determine which types of investments provide the best balance of potential returns and benefit sustainability.

The Board asked the Plan's Actuary and asset consultant to work with UBC IMANT and carry out an asset mix review to determine what changes could be made to the Plan's long term asset mix to better meet the Plan's objectives:

- Firstly, the **benefit security** of the basic pensions;
- Secondly, to maximize the **indexing** (cost of living

adjustments) that can be paid to our retired members; and

- Thirdly, to hold a margin or buffer against future economic and demographic changes, consistent with the Plan's Funding Policy (i.e. Plan's Benefits/Funding Test) and the funding requirements under the Pension Benefits Standards Act.

The SPP Board and the UBC Board of Governors have approved the changes to the Plan's long term asset mix, and these will be implemented beginning in 2019.

The table below illustrates the prior and new asset mix policy, and highlights the changes.

	2018 Target Policy Mix (%)	2019 Target Policy Mix (%)	
Total Fixed Income	45	35	Canadian long term bonds are being reduced, real return bonds are being eliminated and Canadian mortgages are being added as a new asset class
Total Public Equities	25	30	Canadian equities are being reduced, while global and emerging market equities are being increased
Total Alternatives	30	35	Adding global private debt as a new asset class
Total	100	100	

Key features of the SPP design are its target benefit nature and its funding policy. As both employee and employer contributions to the Plan are fixed, the Plan's Funding Policy states that the inflation adjustments (indexing) and the basic pension benefit are subject to the Plan's ability to pay. Benefits are adjusted depending on whether the Plan is over- or underfunded. The funded status of the Plan will be determined in the next actuarial valuation as of December 31, 2019.

Membership highlights



8,171 ACTIVE MEMBERS
average age 45.3 years

2,398 RETIRED MEMBERS
average age 71.9 years

2,676 DEFERRED MEMBERS
average age 47.6 years

TOTAL PLAN MEMBERSHIP BY STATUS

6% INCREASE

GROWTH IN MEMBERSHIP

1123
ENROLMENTS

193
RETIRING MEMBERS



MEMBERS IN 2018

63.2
AVERAGE AGE OF RETIRING MEMBERS

16.4
AVERAGE YEARS OF SERVICE FOR RETIRING MEMBERS



3 ACTIVE MEMBERS

1 RETIRED MEMBERS

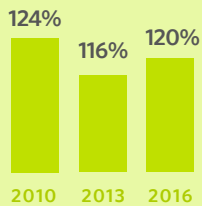
RATIO OF ACTIVE TO RETIRED MEMBERS

Plan and financial highlights

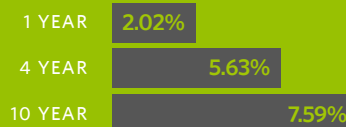
\$1.70B Unaudited Market Value of the Fund at year-end



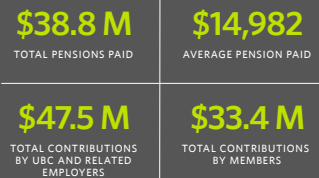
POSITIVE CASH FLOW



FUNDED STATUS OF THE PLAN
(AT DECEMBER 31)
ACTUARIAL VALUATIONS



NET RATE OF RETURN ENDING
DECEMBER 31, 2018 (NET OF
INVESTMENT AND OPERATING FEES)



IN 2018

Investments

HIGHLIGHTS

The Plan's investment assets increased from **\$1.62 billion as of December 31, 2017** to **\$1.70 billion as of December 31, 2018**. This growth in assets was a result of both positive cash flows to the Plan and investment performance.

The UBC Staff Pension Plan's investment portfolio **earned 2.2%** net of investment fees in 2018, matching its policy benchmark.

2018 resulted in the worst year of global equity market returns since the financial crisis, as investor uncertainty grew over global economic slowdown, rising interest rates, trade tensions, and falling oil prices. Returns by asset class are as follows:

The public equities portfolio returned -2.9%, ahead of its benchmark of -5.1%. Canadian equities returned -8.3% while global and emerging market equities returned 0.8% and -3.0% respectively.

The fixed income portfolio which includes investments in long-term bonds, real return bonds and infrastructure debt returned 1.0%.

The Plan's alternative investments including real estate, infrastructure equity and private equity returned 11.6% in aggregate.

During 2018, the SPP Board and UBC Investment Management Trust (IMANT) Inc. worked with the Plan's actuary and asset consultant to complete the Sustainability Study. An updated asset mix for the portfolio was subsequently approved by the UBC Board of Governors, effective January 2019.



INVESTMENT OVERVIEW

The UBC Board of Governors is responsible for overall management of the Plan and has delegated to the SPP Board various responsibilities including day-to-day administration and recommending an investment policy for the UBC Board of Governors Finance Committee's approval.

The Plan is invested to provide stable lifetime retirement pensions in accordance with the Statement of Policies and Procedures (SIPP) approved by the SPP Board and UBC Board of Governors Finance Committee. The SIPP outlines the investment strategy and overall framework for managing plan assets, which IMANT is responsible for implementing. IMANT is governed by its board of directors, who are appointed by the UBC Board of Governors.

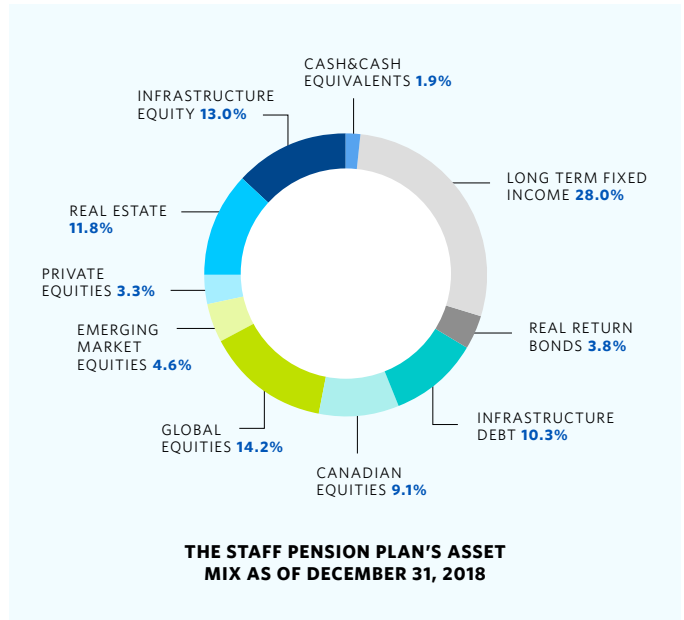
IMANT follows a manager of managers approach by hiring top tier investment management talent from around the world to manage strategies in accordance with the Plan's long-term asset mix. The performance of each investment manager is measured against a benchmark with the objective of meeting or exceeding those returns over time. In addition, the total Plan's performance is evaluated using the weighted average rate of return of the market indices from those asset classes.

INVESTMENT STRATEGY

The Plan's long-term asset mix policy includes allocations to fixed income, public equities and alternative asset classes such as infrastructure equity, real estate and private equity. A large allocation is to long-term bonds, which provides a good match to the liabilities of the Plan's basic benefit payments to members. Allocations to public equities and alternatives are expected to provide higher long term returns but may lead to higher volatility. Real assets such as infrastructure and real estate provide steady cash flows that are well suited to meet the long-term financial objectives of the Plan. These assets also provide inflation protection and insulate the Plan from the volatility typically observed in public markets.

The SPP has a new asset mix policy effective January 1, 2019 as a result of the recently completed asset mix review that was part of the Sustainability Study. It is anticipated the portfolio will be transitioned to the new asset mix in the next few years as investments are made over time in new asset classes. The changes to the updated asset mix include the following and are shown in the table:

- Fixed income: a 10.0% decrease to Canadian long-term bonds, elimination of the 5% real return bonds allocation and a new 5.0% allocation to Canadian mortgages
- Equities: a 2.5% decrease to Canadian equities, a 5% increase to global equities, and a 2.5% increase to emerging market equities
- Alternative Investments: a new 7.5% allocation to global private debt and a 2.5% decrease to real estate



	Previous Asset Mix	Dec 2018 Asset Mix	Updated Asset Mix
Fixed Income	45%	44%	35%
Cash	1%	2%	1%
Long Bonds	29%	28%	19%
Real Return Bonds	5%	4%	0%
Infrastructure Debt	10%	10%	10%
Mortgages	0%	0%	5%
Equities	25%	28%	30%
Canadian	10%	9%	7.5%
Global	10%	14%	15%
Emerging Markets	5%	5%	7.5%
Alternative Investments	30%	28%	35%
Private Debt	0%	0%	7.5%
Private Equity	5%	3%	5%
Real Estate	12.5%	12%	10%
Infrastructure Equity	12.5%	13%	12.5%

REPORT ON INVESTMENTS

In 2018, the Plan returned 2.2% (net of investment fees), matching its investment policy benchmark. Over the last four years, the annualized return of 5.9% was higher than the policy benchmark return of 5.4%. Over the last ten years, the annualized return of 7.9% was ahead of the policy benchmark return of 7.8%. This ten-year return includes the 2008/09 global financial crisis.

After very strong, double-digit equity market returns in 2017, uncertainty and volatility returned to equity markets during the last quarter of 2018 making 2018 the worst year for global equities since the global financial crisis. December was particularly bad with global equities dropping -7.9% in US Dollar terms. The Plan's equity investments returned -2.9% in 2018 thanks to diversification between Canadian, global and emerging market equities. Over the year, the Plan's Canadian equity managers returned -8.3%, outperforming the S&P/TSX composite index return of -8.9%. In the US, weaker economic growth expectations, a partial government shutdown, along with the Federal Reserve rate hike and trade disputes impacted US equity markets. Meanwhile, the European Central Bank put an end to monetary stimulus and the uncertainty around Brexit intensified. The Plan's global equities managers posted a return of 0.8% which outperformed the MSCI World Index's loss of -0.5%. In

emerging markets, stocks underperformed developed markets primarily due to implications from trade tariffs, a decrease in commodity prices and appreciation in the US dollar. The Plan's emerging market managers realized a return of -3.0%, outperforming the index return of -6.9% due to the protective nature of their strategies.

The combined fixed income portfolio, which includes investments in long-term bonds, real return bonds and infrastructure debt returned 1.0% for the year as interest rate increases negatively impacted the long duration investments in the portfolio. Real estate and infrastructure investments earned 10.6% and 11.7% respectively, both exceeding their benchmarks. Returns in these asset classes were helped by international value-add and opportunistic real estate as well as global infrastructure funds. In this space, competition for high quality real estate and infrastructure investments continues to be high amongst institutional investors, reflecting demand for higher yields and stable cash flows. The Plan's private equity allocation remains underweight at 3.3%. This portion of the portfolio returned 14.3% but underperformed its very strong three-month lagged public market benchmark of 23.6%. External managers have been slow to draw the commitments we have made to private equity investments as they remain cautious of paying high prices.

Learning about your pension benefits

There are many different ways you can learn about your pension benefits such as through our website, newsletter, and information sheets. Attending a workshop or a one-on-one meeting is an easy and effective way to learn about your pension benefits. Whether you are new to UBC, mid-career, or approaching retirement, we have a workshop that applies to you. The following are workshops and meetings offered at all UBC campuses by the Pension Administration Office:

RETIREMENT INFORMATION SESSIONS (RIS)

One-on-one Retirement Information Sessions regarding your Staff Pension Plan benefits can be scheduled at any time with one of our senior administrators. It is recommended that you schedule a RIS if you are nearing retirement. You are encouraged to bring your spouse with you to the session so you both understand your options.

UNDERSTANDING YOUR STAFF PENSION PLAN

Understanding Your Staff Pension Plan is an informative workshop session designed for both potential and current members of the UBC Staff Pension Plan. All ages are welcome to attend. If you are close to retiring, you may want to consider booking a Retirement Information Session rather than attending the workshop, as we'll be able to review your specific situation including pension estimates.

SPP GET EDUCATED SEMINARS

Facilitated by a representative from the Pension Administration Office, **geteducated** seminars are an opportunity for UBC staff to learn more about their Staff Pension Plan and ask pension-related questions in a group setting. Specific topics can be covered if requested in advance. We also may be able to accommodate a variety of group sizes and session times during the day.

To learn more or register for one of the sessions above, please visit our website at staff.pensions.ubc.ca/workshops



MEET THE PENSION LADY: MARGARET LEATHLEY

Margaret has been an employee at UBC for over 32 years and for the last 21 years she has been the Pension Administrator for the UBC Staff Pension Plan. Margaret is deeply passionate about helping members understand how their pension works through the workshops and one-on-one meetings she delivers. Margaret is an active member of the UBC community sitting on various committees such as the UBC 25 year club and Focus on People committee as well as a long-serving past member for the Association of Administrative and Professional Staff at UBC. In her spare time, Margaret volunteers for the Regional Animal Protection Society. She has dedicated countless hours to improve the lives of animals through increasing funding and enhancing animal welfare programs.

IN 2018, WE HELD...



6

GET EDUCATED
SESSIONS



UNDERSTANDING
YOUR STAFF PENSION
PLAN WORKSHOPS

15 1

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202

ONE-ON-ONE
RETIREMENT
INFORMATION
SESSIONS



Accessing myPension information online

myPension is a customized online tool where you can view your personal pension information, beneficiaries, annual pension adjustment and service accruals as well as run your own pension estimates to better understand pension income for retirement planning. You can also update your communication preferences for your annual member statement and Staff Pension Plan Update newsletter. *myPension* is available 24/7.

For details on how to access and use *myPension*, visit staff.pensions.ubc.ca/mypension



DID YOU KNOW?

You can receive your SPP Update newsletter and annual member statement online? Subscribing to an email newsletter and electronic annual statement is not only kinder to the environment, but it also reduces costs for the pension plan. You can opt out of paper statements by signing into *myPension* at staff.pensions.ubc.ca/mypension and selecting the **Communication Preferences** tab within *myPension* to change your preference.

Who we are

SPP BOARD

The SPP Board is comprised of eight board members (four elected by the membership and four appointed by the UBC Board of Governors) and one independent non-voting chair.

APPOINTED NON-VOTING CHAIR

Barry Gros

Retired Actuary

Current Term: January 1, 2018 to December 31, 2021

APPOINTED BOARD MEMBERS

Joanna Carson

Finance Director, UBC Development and Alumni Engagement, External Relations and Governance Portfolios

Current Term: January 1, 2018 to December 31, 2021

Laura O'Neill

BC Government and Service Employees' Union

Current Term: February 15, 2016 to December 31, 2019

Mike Leslie

Executive Director, Investments, UBC Faculty Pension Plan

Current Term: January 1, 2017 - December 31, 2020

Yale Loh

UBC Treasurer

Current Term: March 4, 2019 to December 31, 2022

ELECTED BOARD MEMBERS

Shannon Dunn

Director, Business Operations

AVP Finance & Operations Portfolio, UBC Okanagan

Current Term: January 1, 2019 to December 31, 2022

Alan Marchant

UBC Advancement Services (retired)

Current Term: January 1, 2017 to December 31, 2020

Michal Jaworski

Partner and Co-Chair, Higher Learning Practice Group, Clark Wilson LLP

Current Term: January 1, 2017 to December 31, 2020

Christie Stephenson

Executive Director, Peter P. Dhillon Centre for Business Ethics, UBC Sauder School of Business

Current Term: January 1, 2019 to December 31, 2022

UBC PENSION ADMINISTRATION OFFICE MANAGEMENT AND STAFF

The UBC Pension Administration Office provides day-to-day administration of the SPP including member services and communications.

Orla Cousineau	Executive Director, Pensions
Debbie Wilson	Director, Pensions
Margaret Leathley	Pension Administrator
Anna Ha	Pension Analyst
Betty Jay	Pension Clerk
Carol Brodie	Pension Clerk
Carol Liao	Pension Clerk
Jill Fayant	Pension Clerk
Maricres De Leon	Pension Plan Accountant
GV Fragante	Systems Analyst
Helena Huynh	Systems Analyst
Kathy Pang	Communications Manager
Chelsey Maher	Communications Assistant
Sarah Halvorson	Office Administrator
Shirley Lim	Project Coordinator