



2012 ENDOWMENT REPORT
UBC INVESTMENT MANAGEMENT TRUST INC.

2012

MESSAGE FROM
JAI PARIHAR,
PRESIDENT AND CEO

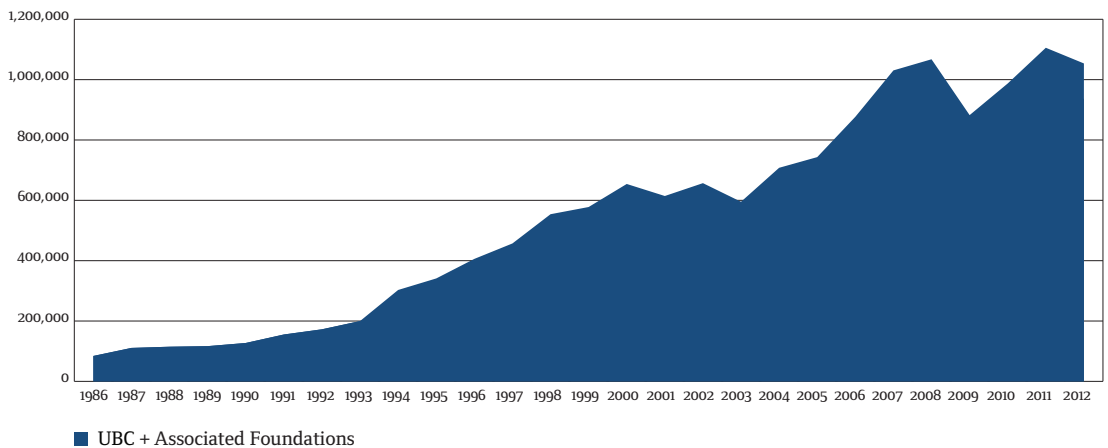
We are pleased to present this update on the performance of the UBC Endowment Fund for the fiscal year ended March 31, 2012.

For the year ended March 31, 2012 the Endowment Fund earned a total net return of 3.1%, 150 basis points ahead of the benchmark portfolio return of 1.6% for the year.

The market value of the Endowment Fund directly managed by UBC Investment Management Trust Inc. (IMANT) at March 31, 2012 was \$937 million. Including an additional \$117 million historically held at related foundations, the total value of UBC’s Endowment exceeds \$1.05 billion, thanks to 100 years of generous donor philanthropy and attentive investments.

ENDOWMENT FUND GROWTH

\$ Market Value, March 31





ORGANIZATIONAL UPDATE

It has been a busy and productive year since I joined IMANT as President and Chief Executive Officer, with many objectives accomplished and a new set established for the coming year. We are pleased to welcome Maciek Kon as Director of Quantitative Analysis & Strategic Research to enhance our overall portfolio monitoring and risk management capabilities.

During the year, we also welcomed five new and talented directors to our Board, appointed a new Chair and were sad to see two of our directors complete their terms. To our Board, past and present, I would like to express my thanks for their efforts, thoughtful insights and continued support.

To the UBC community, we look forward to continuing to serve you and welcome any questions or issues you would like to discuss.

Sincerely,

Jai Parihar
President and Chief Executive Officer, IMANT

July 2012

IMANT DIRECTORS

Ken Bancroft
President, Pathfinder Asset Management

Larry Blain
Chair, Partnerships BC

Sarah Boatman
Director, Business Development & Strategy, Microsoft Studios, Vancouver

Martin Glynn
Corporate Director

Paul Haggis
Corporate Director

Maureen Howe
Chair, Finance Committee, UBC Board of Governors

Brian Kenning
Corporate Director

Alice Laberge
Corporate Director, UBC Board of Governors

Pierre Ouillet
Vice President, Finance, Resources & Operations, UBC

Dale Parker
Board Chair

Jay Parker
Executive Director, UBC Staff Pension Board

Cheryl Yaremko
Acting Chief Financial Officer, BC Hydro



ABOUT IMANT

IMANT was established as a wholly owned subsidiary of UBC in 2003 to provide comprehensive portfolio management services and related advice to UBC for the Endowment Fund and other University related assets (Staff Pension Plan, Working Capital and other funds).

Today, IMANT is responsible for \$2.5 billion of assets under management invested using a manager of manager approach.

IMANT's Board of Directors includes eight unrelated Directors and four UBC related Directors.

2011/12 IN REVIEW & ACTIVITY

The transition to the investment policy, asset mix and benchmark portfolio approved by the IMANT Board of Directors and by the UBC Board of Governors in late 2010 continued in fiscal 2011/12.

During the past year significant progress was made in moving to the new asset mix:

- additional allocations were made to infrastructure assets
- the allocation to Emerging Markets was initiated with an investment in an enhanced index fund
- redemptions from hedge fund of funds continued, as this allocation in its current form is eliminated.

With a view to reduce overall Fund volatility and enhance income, particularly given the continued low interest rate environment, an allocation to a Canadian Equity Dividend fund was also made during the year.

Current projects include a manager search for the balance of the Emerging Markets allocation (roughly 7% of the Fund), the active review of a number of infrastructure opportunities and real estate investment, and the search for a Global or EAFE low volatility equity manager in order to further reduce volatility while maintaining or enhancing returns.

INVESTMENT POLICY PORTFOLIO

ASSET CLASS	BENCHMARK	INVESTMENT POLICY	⁽¹⁾ ASSET MIX AT MARCH 31 2012
Cash	DEX 91-Day T-Bill	% 2.0	% 0.7
Bonds	DEX Universe Bond	18.0	20.4
Total Fixed Income		20.0	21.1
Canadian Equity	S&P/TSX Composite	22.5	23.7
US Equity	S&P 500 TR (Cdn)	11.25	13.2
EAFE Equity	MSCI EAFE Net (Cdn)	11.25	12.7
Emerging Market Equity	MSCI Emerging (Cdn)	10.0	3.4
Total Public Equity		55.0	53.0
Private Equity ⁽²⁾	MSCI World Net (Cdn)+2%	10.0	13.2
Real Estate ⁽²⁾	IPD Canada	10.0	7.1
Infrastructure ⁽²⁾	30% DEX RRB/70% MSCI World Net (Cdn)	5.0	3.8
Hedge Funds	HFRI Fund of Funds Conservative (Cdn)	0.0	1.8
Total Alternatives		25.0	25.9
Total Fund		% 100.0	% 100.0

(1) The transition to the new long-term investment policy mix is anticipated to occur over the next one to two years.

(2) The returns are lagged three months to correspond to reporting periods for the managers.

FUND INVESTMENT PERFORMANCE IN FISCAL 2011/12

The Endowment return of 3.1% was 150 basis points ahead of the benchmark portfolio return of 1.6% for the year. Over the four-year period the Fund lags the benchmark portfolio by 70 basis points and over 10 years the Fund is ahead of the benchmark by 20 basis points.

For the endowment to be sustainable and achieve inter-generational equity, the long-term returns must equal or exceed the sum of the annual University spend rate of 3.5%, the annual change in Canadian Price Index and the

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Actual returns	3.1%	6.9%	9.2%	0.7%	3.9%
Investment policy benchmark	1.6%	5.5%	9.8%	1.4%	3.7%
Value added	1.5%	1.4%	-0.6%	-0.7%	0.2%

administrative charge (0.65%). In this context, the long-term expected return for the investment policy asset mix currently sits at 7.1%. Despite not meeting this objective in 2011/12, the solid performance of the previous two years (10.8% and 13.8%) yields a three-year average of 9.2%.

However, the four and ten year numbers are still below the required return. This relative underperformance is driven by two factors: the exceptional market downturn of 2008/09 (-20.9%) and the Canadian dollar appreciation which has negatively impacted the performance of non-Canadian equity, real estate and private equity investments expressed in Canadian dollars over the past 10 years.

	1 YEAR	2 YEAR	3 YEAR	4 YEAR	10 YEAR
Actual returns	3.1%	6.9%	9.2%	0.7%	3.9%
UBC's required return ⁽¹⁾	6.1%	7.0%	6.6%	6.8%	7.9%

(1) For 2011/12 3.5% + 1.9% + 0.65%

PERFORMANCE BY ASSET CLASS

The past fiscal year again saw wide swings and variances across markets. Unlike the past few years, the US had one of the best performing equity markets, while recent strong performers, Canada and Emerging markets, saw much weaker returns. The first six months of the fiscal year were particularly weak for most equity markets followed by strong rebounds, particularly in the US. The Canadian fixed income market continued to generate very strong returns as interest rates decreased even further with no immediate expectation for rates to rise significantly in the near term. Like the equity markets in general the Canadian dollar relative to other currencies was also fairly volatile during the year, depreciating relative to the US dollar and Japanese yen but appreciating relative to the euro. The Endowment Fund has a currency hedging policy that sees 50% of the non-Canadian investments hedged back to Canadian dollars to decrease the volatility of currency swings (roughly 50% is invested in non-Canadian assets at March 31).

The chart highlights the Fund's performance by individual asset class relative to the Board approved benchmarks.

Relative to their benchmarks the private equity and infrastructure investments showed the greatest positive outperformance while real estate (primarily non-Canadian real estate) was the largest negative contributor to performance. It should be noted that for the private equity,

real estate and infrastructure investments, the returns and their benchmarks are lagged three months to reflect the timing of when the quarterly investment results are received from the managers. The Canadian and EAFE equity managers also added value to return relative to the benchmark while the US allocations underperformed primarily driven by the S&P 400 Mid-Cap investment which lagged the broader S&P 500 return.

ONE YEAR PERFORMANCE

to March 31, 2012

