SUSTAINABILITY

GOAL 1: ENSURE UBC'S ECONOMIC SUSTAINABILITY BY ALIGNING RESOURCES WITH THE UNIVERSITY VISION AND DEPLOYING THEM IN A SUSTAINABLE AND EFFECTIVE MANNER

Objective: Economic Sustainability

Purpose: UBC recognizes that to meet society's needs without compromising those of future generations requires the best efforts of the brightest minds in every field—economic, environmental, and social. The ability of UBC to meet its financial obligations will ensure the resilience of the University and its ability to serve for generations to come.

Description: The following metrics provide a measure of the financial well-being of UBC: credit rating, debt service ratio, staff pension plan funded ratio, working capital fund balance, and endowment earnings. More detailed descriptions are provided in the "explanation of results" that follows.

Overall Metrics:

	UBC		
Metrics	**2012/13**	**2013/14**	**2014/15**
Credit Rating (Moody's)	Aa1	Aa1	Aa1
Credit Rating (Standard and Poor's)	AA+	AA+	AA+
External Debt Service Ratio	1.52%	1.29%	1.25%
External + Internal Debt Service Ratio	2.67%	2.66%	2.74%
Staff Pension Plan Benefit Funding – Going concern basis Funded Ratio (Dec)	112%	117%	124%
Liquidity Fund and Core Working Capital Fund Balance at the lowest point (Jul/Aug)	$383M	$340M	$290M

	UBC								
Metrics	**2012/13**			**2013/14**			**2014/15**		
	Actual Return	**Required Return**	**Variance**	**Actual Return**	**Required Return**	**Variance**	**Actual Return**	**Required Return**	**Variance**
Endowment Earnings	10.9%	5.1%	5.8%	15.6%	5.7%	9.9%	13.7%	5.4%	8.3%
Endowment Earnings, 4 year average	9.6%	6.2%	3.4%	10.0%	6.2%	3.8%	10.7%	5.6%	5.1%

Explanation of the Results and Next Steps:

Credit Rating: Moody's ratings rationale: Rating reflects robust student demand, strong academic reputation, extensive research activities, consistent track record of positive operating surpluses, low debt, a large endowment and solid liquidity. Identified constraints are the stability of government grants and provincial caps on tuition fee increases for domestic students.

Moody's Ratings:

Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.

Standard and Poor's rationale: Rating reflects the high likelihood that the provincial government would support the university in the event of financial distress, strong enrollment demand, status as a flagship research institution in Canada, a large endowment and adequate budgetary performance. . Possible reductions in provincial funding and erosion of unrestricted financial resources through internal financing of capital projects, constrain the rating assessment.

Standard and Poor's Rating:

'AAA' Extremely strong capacity to meet financial commitments. Highest Rating

'AA' Very strong capacity to meet financial commitments.

'A' Strong capacity to meet financial commitments but somewhat susceptible to adverse economic conditions and changes in circumstances.

Debt Service Ratios: The debt service ratio reflects the affordability of the university's annual long term borrowing commitments. The calculation, for any 12 month period, is (debt service payments (interest and principal))/(total consolidated revenues). The lower the ratio, the greater the institution's flexibility in allocating its resources.

External debt servicing encompasses principal and interest payments made to support outstanding debentures, CMHC loans and provincial government loans. External + Internal debt servicing further takes into account internal working capital used to finance UBC's major capital projects.

University policy requires that the debt service ratio remains below 5.5%. The median of Aaa/Aa1 US Schools in 2013 was 3.55% (2012 3.45%).

The overall debt service ratio for UBC continues to be very manageable. Even if UBC were to externally refinance all of its internal loans, currently financed from working capital, the debt service ratio would be 2.98%. That is just over half of the 5.5% ceiling, and below the sector average of 3.55%, allowing UBC the financial flexibility to further increase borrowing.

Although government borrowing restrictions have prevented UBC's ability to borrow externally, UBC has maintained a healthy construction schedule by means of an internal loan program. As a result, borrowings have increased over recent years but UBC's revenues have increased apace so as to afford sufficient latitude to continue with capital development and yet maintain a healthy debt service ratio.

Staff Pension Plan Going concern basis Funded Ratio: The Funded Position of the Staff Pension Plan (SPP) is determined as the market value of the Plan's assets divided by the Plan's unbiased liabilities. It illustrates the Plan's financial position with the assumption that the Plan will continue indefinitely into the future.

The discount rate used to determine the unbiased liabilities is a key assumption and small changes to the assumption can cause a large change in the position. The discount rate used for 2010 and 2011 was 6.5%. Effective July 1, 2012 the discount rate was changed to 6.0%.

The current funded position indicates that the SPP continues to be adequately funded to support the basic benefit however, the Plan continues to experience the negative results of extremely low interest rates and modest investment returns.

Endowment Earnings: UBC's endowments strive to earn a return that will achieve intergenerational equity by maintaining the purchasing power of endowment capital over time. The long term expected return, net of external management fees for the current investment policy asset mix is 7.0%. This asset mix is required to support a 6.2% payout which is based on a 3.5% spend rate, 0.65% administration costs and inflation modelled at 2%.

Earnings will be driven by overall market behaviour and corresponding market volatility. The performance of a money manager is more accurately judged relative to peer benchmarks rather than return targets and the term for comparison is more accurately reflected in long term performance rather than single years. For the 1, 4 and 10 years ending March 31, 2015, UBC's endowment returns can be measured against the Investment Policy Benchmark as follows:

	1 Yr	4 Yr	10 Yr
Required Return	5.4%	5.6%	6.8%*
Actual Returns	13.7%	10.7%	6.6%
Inv. Policy Bench.	13.9%	10.2%	6.7%
Value Added	**-0.2%**	**0.5%**	**-0.1%**

Source: IMANT's 2015 Annual Report

**Incorporates higher spend rate of 5% prior to 2010/11*