



2011 ENDOWMENT REPORT
UBC INVESTMENT MANAGEMENT TRUST INC.

2011

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, 2011.

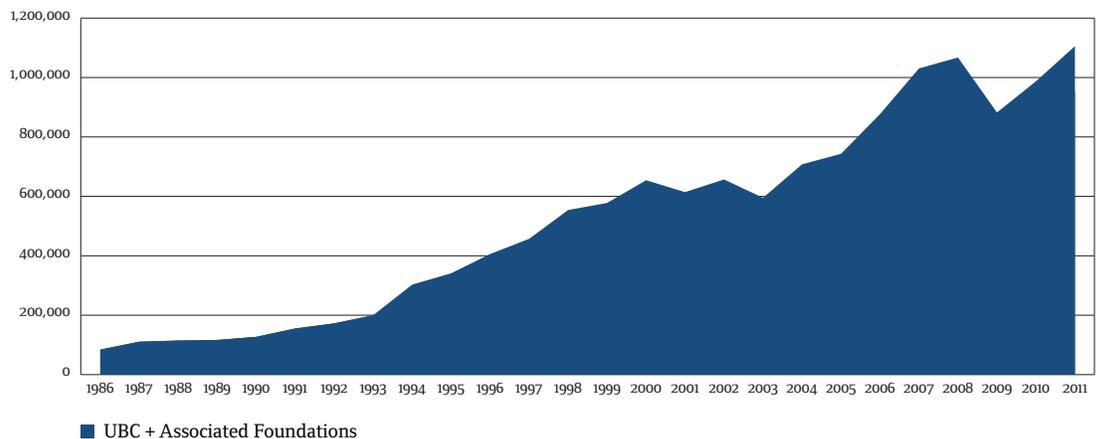
The market value of the Endowment Fund directly managed by UBC Investment Management Trust Inc. (IMANT) at March 31, 2011 was \$950 million.

For the year ended March 31, 2011 the Endowment Fund earned a total net return of 10.8%.

Including an additional \$155 million historically held at related foundations, the total value of UBC’s Endowment now exceeds \$1.1 billion, thanks to 100 years of generous donor philanthropy, sustainable land development and attentive investments.

ENDOWMENT FUND GROWTH

\$ Market Value, March 31





ORGANIZATIONAL UPDATE

I joined IMANT as President and Chief Executive Officer at the end of April 2011, after serving on the Board and as a special advisor to the Board in 2010–11.

I look forward to an interesting and rewarding time at IMANT. With the work completed in 2010–11 and the enhanced policy framework, we plan to expand on the success of the past year.

To our Board, we would like to express our thanks for their efforts and thoughtful insights over the past year and for their 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 2011



IMANT DIRECTORS

Sarah Boatman

Director, Business Development & Strategy, Microsoft Games Studios

Paul Haggis

Corporate Director

Maureen Howe

Chair, Finance Committee, UBC Board of Governors

Alice Laberge

Corporate Director, UBC Board of Governors

Tracey McVicar

Managing Director, CAI Capital Management

Pierre Ouillet

Vice President, Finance, Resources & Operations, University of British Columbia

Dale Parker

Corporate Director

Peter W. Webster

Chair, IMANT Board, Corporate Director

Cheryl Yaremko

Chief Accounting 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 for the Endowment Fund, Staff Pension Plan, and other University-related assets (Working Capital and other funds).

Today, IMANT is responsible for \$2.3 billion of assets under management, invested using a manager-of-managers approach.

IMANT’s Board of Directors includes seven independent Directors and three UBC-related Directors. One of the independent Director positions is currently vacant.

2010-11 IN REVIEW

2010–11 was a productive year for IMANT. The organization undertook and completed a strategic review of the Endowment investment strategy. A new investment policy, new asset mix and new benchmark portfolio were approved by the IMANT Board of Directors and the UBC Board of Governors in fall 2010.

The transition to the new long-term asset mix is anticipated to occur over the next two to three years as some current allocations are redeemed and allocations to other asset classes are increased.

The new asset mix retains a 20% investment in fixed income. Public equity increases to 55% of the portfolio, while alternative investments are reduced to 25% due to the elimination of hedge funds and a reallocation of some Private Equity funds towards infrastructure. This rebalancing of the portfolio is expected to increase its transparency and liquidity, and reduce its volatility while maintaining long-term returns in line with the University's expectations.

Within public equity, the allocation to Canadian and Emerging Markets equities increases, while US and European, Australian and Far Eastern (EAFE) equity allocations are reduced.

The increased allocation to Canadian and Emerging Markets equities relates to the expectation that emerging markets (including China, India, Russia and Brazil) will be one of the better performing asset classes over the next few years, as these economies continue their expansion and development. As a major supplier of the commodities and resources these economies require for their development, Canada's economy and markets should also continue to do well. At the same time, US and Europe will be constrained by overall debt levels and the unwinding of fiscal stimulus packages.

In addition to the asset mix work completed in late 2010, IMANT and UBC have placed considerable focus on better defining their investment values and beliefs and incorporating them into the investment policy of the Fund. The values and beliefs apply at the total Fund level as well as within individual asset classes.

The values and beliefs include an enhanced emphasis on risk management, transparency of investments, use of active management only where it can be shown to add value, and recognition of the long-term nature of the Endowment.

In addition, for real estate and infrastructure investments, the ability to co-invest and partner with larger institutional funds (BCIMC, CPPIB, OMERS) was stressed. This will allow for reduced fees and the ability to access the resources and due diligence process of these larger funds.

INVESTMENT POLICY PORTFOLIO

ASSET CLASS	BENCHMARK	POLICY TO DECEMBER 2010	NEW INVESTMENT POLICY	⁽¹⁾ ASSET MIX AT MARCH 31 2011
Cash	DEX 91-Day T-Bill	% 2.0	% 2.0	% 0.4
Bonds	DEX Universe Bond	18.0	18.0	18.3
Total Fixed Income		20.0	20.0	18.7
Canadian Equity	S&P/TSX Composite	15.0	22.5	22.6
U.S. Equity	S&P 500 TR (Cdn)	15.0	11.25	14.1
EAFE Equity	MSCI EAFE Net (Cdn)	15.0	11.25	13.9
Emerging Market Equity	MSCI Emerging (Cdn)	0.0	10.0	0.4
Total Public Equity		45.0	55.0	51.0
Hedge Funds	HFRI Fund of Funds Conservative (Cdn)	12.5	0.0	6.5
Private Equity ⁽²⁾	MSCI World Net (Cdn)+2%	12.5	10.0	13.2
Real Estate ⁽²⁾	IPD Canada	⁽³⁾ 10.0	10.0	7.3
Infrastructure ⁽²⁾	30% DEX RRB/70% MSCI World Net (Cdn)	0.0	5.0	3.3
Total Alternatives		35.0	25.0	30.3
Total Fund		% 100.0	% 100.0	% 100.0

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

(2) The returns and benchmarks of these assets are lagged 3 months to correspond to reporting periods for the managers.

(3) Includes investments in infrastructure assets.

FUND INVESTMENT PERFORMANCE IN FISCAL 2010-11

The Endowment Fund return of 10.8% was 1.4% ahead of the benchmark portfolio return of 9.4% for the year. Over a four year period, the Fund lags the benchmark portfolio by 1.3% and over 10 years the Fund is ahead of the benchmark by 0.2%.

	1 YEAR	4 YEAR	10 YEAR
Actual returns	10.8 %	-0.6 %	4.0 %
Investment policy benchmark	9.5 %	0.7 %	3.8 %
Value added	1.4 %	-1.3 %	0.2 %

For the Endowment to be sustainable and grow in line with inflation, the long-term returns must equal or exceed the sum of the annual University spend rate of 3.5%, the administrative charge of 0.65% and the annual Canadian Price Index.

While this objective was met in 2010-11, the four and 10-year numbers are below the required return. This relative underperformance is driven by two factors: the exceptional market downturn of 2008; and the Canadian dollar appreciation which has negatively impacted the performance of non-Canadian equity, real estate or private equity investments expressed in Canadian dollars.

	1 YEAR	4 YEAR	10 YEAR
Actual returns	10.8 %	-0.6 %	4.0 %
UBC's required return	7.7 %	7.1 %	8.2 %

The severity of the 2008 market collapse means that we are still in the worst investment decade in recent history. That is why, like many other institutions, UBC's 10 year return of 4% is below expectations for meeting the spend rate of 3.5% and keeping pace with inflation (3.3% in 2010-11).

PERFORMANCE BY ASSET CLASS

Financial markets continued to rebound from the lows of fiscal 2008 with strong positive numbers from the major equity markets. Non-Canadian investment returns were again tempered by the appreciation of the Canadian dollar. The Endowment Fund does have a currency hedging policy that sees 50% of the non-Canadian investments hedged back to Canadian dollars to decrease the volatility of potential currency swings. Roughly 50% of the Fund was invested in non-Canadian assets at March 31st, 2011.

Over fiscal 2010-11 the Canadian fixed income market remained a solid performer, particularly for Long and Real

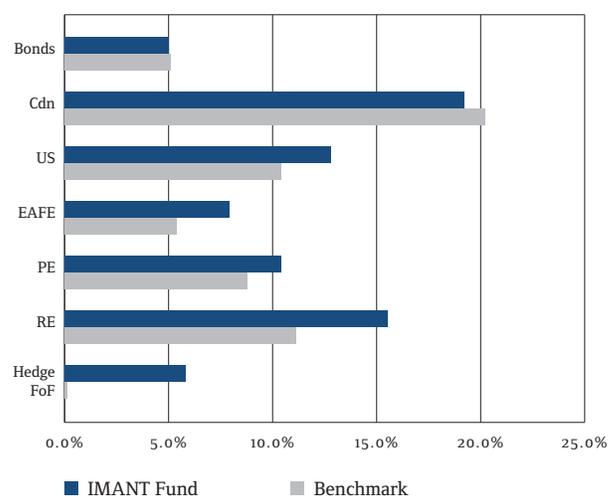
Return bonds. With the credit markets improving and liquidity returning, private equity and real estate investments also showed strong rebounds over the year.

Total Fund performance was enhanced by the US allocation which includes an S&P 400 Mid-Cap investment and the value orientated EAFE equity managers. Across all the alternative investments, private equity, real estate and hedge fund of funds, returns relative to their benchmarks were strongly positive. In the case of the private equity and real estate, valuations reflect the improvements in those markets from the lows experienced in 2008 and 2009. The returns for these asset classes generally lag the public markets as managers are somewhat slower to write down their investments but also slower to write them up.

The Fund's fixed income managers slightly underperformed the benchmark while the Canadian equity managers trailed their benchmark for the year.

ONE YEAR PERFORMANCE

to March 31, 2011



2010-11 INVESTMENT ACTIVITY

Our focus this year was to better define the investment values and beliefs of UBC and IMANT, to subsequently review the investment policy and to enhance specific asset class investment strategies including types of managers, passive versus active strategies, geographic focus and some rationalization of the number of manager relationships.

This strategic work occupied much of the fiscal year, and as a result the number of manager changes and new investment allocations in 2010-11 was limited. These changes were implemented: hedge fund redemptions, one new real estate commitment, two direct co-investment infrastructure deals as well as the transition of two mandates for Canadian Equity.