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

Overall Metrics:

	UBC	
Metrics	**2012/13**	**2013/14***
Credit Rating (Moody's)	Aa1	Aa1
Credit Rating (Standard and Poor's)	AA+	AA+
External Debt Service Ratio	1.58%	1.43%
External + Internal Debt Service Ratio	2.75%	2.84%
Staff Pension Plan Benefit Funding – Going concern basis Funded Ratio	112%	116%
Liquidity Fund and Core Working Capital Fund Balance at the lowest point	$340M	available mid-May

**Note: 2013/14 data is preliminary*

	UBC					
Metrics	**2012/13**			**2013/14**		
	Actual Return	**Required Return**	**Variance**	**Actual Return**	**Required Return**	**Variance**
Endowment Earnings	10.9%	5.1%	5.8%	14.9%	5.6%	9.3%
Endowment Earnings, 4 year average	9.6%	6.2%	3.4%	9.8%	6.2%	3.6%

Explanation of the Results and Next Steps:

Credit Rating: Moody's ratings rationale: Reflects a consistently solid operating performance, a large endowment and a modest debt burden. The ratings also take into account the strong market position of UBC, supported by robust student demand and extensive research activities.

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: Ratings reflect strong student demand and strong reputation, good modified accrual surpluses, and moderate, stable external debt burden. 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 2011 was 5.08% (2010 4.52%).

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 2.84%. That is just over half of the 5.5% ceiling, and significantly below the sector average of 5.08%, 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 are required to return an amount so as to preserve capital buying power. The long term, required fiscal return is 6.1% and is based on earning returns that equal inflation (1.0% in 2012/13 and an estimated 2% on average) while compensating the funds for a 3.5% payout ratio and 0.65% administration cost. The required return is based upon a 10 year cycle.

Earnings will be driven by overall market behaviour and corresponding market volatility. The performance of a money manager is more accurately judged relative to pier benchmarks rather than return targets and the term for comparison is more accurately reflected in long term performance rather than single years. UBC's endowment returns are measured against industry returns by means of the Investment Policy Benchmark as follows:

	1 Yr	**4 Yr**	**10 Yr**
Required Return	5.1%	6.2%	7.3%
Actual Returns	10.9%	9.6%	6.1%
Inv. Policy Bench.	10.6%	10.0%	6.5%
Value Added	**0.3%**	**-0.4%**	**-0.4%**