



6328 Memorial Road  
Vancouver, B.C. Canada V6T 1Z2

Telephone (604) 822-8300  
Fax (604) 822-5055

**Professor Stephen J. Toope**  
*President and Vice-Chancellor*

## **UBC and the Global Financial Turmoil**

**Letter to the UBC Community** November 26, 2008

**From Stephen J. Toope**  
**President and Vice-Chancellor**

No one is immune to the spreading effects of extreme volatility in financial markets that began in September and now threatens all the world's economies.

Understandably, many members of our community are concerned about the impact on UBC and want to know what actions are being taken to uphold the mission of the university in these turbulent times.

What needs to be stated at the outset is that with government grants and tuition comprising most of our operating budget, Canada's second largest university endowment, and a unique form of discretionary income from campus community development on endowment land set aside for that purpose, the university is in a relatively enviable position to weather this volatile period. UBC's own financial position is solid, although we are not insulated from the recent global economic downturn.

It is important to keep a Canadian perspective in mind, particularly with respect to news reports from the U.S.A. In that country, private universities especially rely much more on endowment income for basic operations. Therefore the pain of a falling equities market is being felt more quickly, and substantially more sharply, among those institutions.

Government grants and tuition represent just over 94 percent of UBC's operating budget for both campuses. Although there is certainly a risk that the current economic downturn will affect government support for

higher education, to date there has been no signal of any reductions. Working with sister institutions, UBC will advocate forcefully for the need to invest in higher education precisely at a time when economic transformation is required. It is worth remembering that student numbers have tended to increase during past recessions, as many people understand the value of upgrading their education when the employment market is particularly tough.

Nonetheless, UBC's participation in the financial markets – historically beneficial in strengthening the academic mission of the university – does touch our community in three direct ways.

UBC's largest pool of funds in financial markets is the Endowment. The revenue earned from these investments provides a margin of excellence that allows UBC to financially support students, attract top professors and match government and other research contributions. The Endowment is invested through UBC Investment Management Trust (IMANT) in a diversified manner to achieve stable returns and manage risk over a long term horizon, and reserves are accumulated to account for inevitable years of losses.

However, despite careful stewardship, we fully expect that this fiscal year will show a substantial loss in our Endowment, as will be the case for most if not all endowments at other institutions.

What are the immediate and longer-term effects that flow from negative returns from the Endowment? The longer term is very difficult to assess at this point, and there will be some immediate, short-term unwelcome effects (such as this year's shortfall in the Hampton Fund). Nonetheless, I am confident that, with clear thinking, UBC has the ability to mitigate many of these effects at least over the next year (such as investing part of our one-time operating surplus to top-up the Hampton Fund). I have shared this assessment with the Board of Governors' Finance Committee.

The two major beneficiaries of Endowment income are student financial assistance and endowed chairs and professorships. We are looking closely at the Endowment spending rate, currently five percent, to determine if it is sustainable in this market. We now expect we will need to recommend a lowering of the spend rate, which would reduce the Endowment's contribution to student financial assistance in the form of scholarships, fellowships and bursaries at both campuses (\$9.6 million in 2007/08). Our students should know that our

commitment to deliver support is unwavering, even though managing this decline will be a considerable challenge.

A reduction in the spend rate for endowed chairs and professorships will also require a skilful and flexible response to address the approximately \$15.5 million in revenues generated from endowments that annually support a portion of the salaries of 130 professors (among more than 2,500 full time faculty members). The contribution of the Endowment towards faculty salaries is very valuable but relatively modest in the context of an annual general purpose operating budget of over \$750 million, and so the risk is manageable at this point. That said, in the longer term we will need to be resourceful with solutions and vigilant in managing the compounding effects of reductions in Endowment value and a lower spend rate.

The next largest pool of funds is the university's working capital portfolio of short-term funds – research grants, fees, and so on – that UBC has collected but not yet spent. These are invested in low risk instruments such as money market funds that provide correspondingly low returns. The university anticipates that this working capital pool will continue to generate modest income for UBC, notwithstanding the university's previous write-down of approximately \$38 million of Asset Backed Commercial Paper in the working capital portfolio as a result of well publicized losses arising from the sub-prime mortgage crisis.

Finally, the university is at times a borrower in the capital markets through the issuance of debentures or "bonds". This borrowing ensures that we can continue to build student residences and other needed infrastructure that serve the university now and can be paid off in the coming decades. UBC's ability to borrow money is directly related to our credit rating. I am pleased to say that UBC still has the highest credit rating of any Canadian university and therefore the lowest cost of borrowing.

For faculty and staff, there will naturally be concerns about the state of their pension funds. These funds are held in trust and are owned by the plans' beneficiaries. The pension boards are in communication with their members at this time, but it is worth noting here that the UBC Staff Pension Plan was in surplus at the end of last year. Indeed, the plan asked for and received authorization to allow extra accumulation in the plan, so it is well-positioned to weather the current storm, barring total collapse of the markets. If the markets do not recover over the next several years problems may arise with the Staff Pension

Plan, but overall its surplus and ability to smooth ups and down over several years mean that its prospects are reasonably positive.

The Faculty Pension Plan similarly benefits from years of prudent investment strategies. Nevertheless, current market turmoil is having significant effects partly because, as a defined contribution plan, there is no smoothing effect (as with, for example, the Staff Pension Plan or Endowment). Thus, although the performance of equities has historically recovered after down markets, the impact on participants will be felt immediately. This will certainly be stressful for many participants, especially those wanting to retire in the near future. The university will plan to accommodate a larger number of professors who may wish to stay on after age 65, hoping that their pension assets will recover value over the next few years.

Finally, what is UBC doing about the situation?

In addition to measures described above, we are pursuing a number of strategies. UBC academic and administrative units have worked over the past two budget seasons to dramatically reduce a structural deficit at UBC Vancouver; their effective efforts are proving to be extremely helpful at this time. UBC Treasury and UBC IMANT continue to closely monitor the financial situation and its effects on the university; they are reporting to the Executive and Board of Governors with increased frequency.

The normal tri-annual university review of the Endowment's spending rate is nearing completion. It is likely that the Board will decide upon a reduction in the spending rate after receipt of this review in January, 2009. We will be encouraging units to reduce their commitments against endowments and to use reserves available to bridge endowment commitments that extend projected revenue streams.

In short, the current financial situation merits our close attention and nimble action, even though past prudent financial management has positioned UBC relatively well to cope with the present downturn. As the situation in the world economy evolves, I promise to keep you informed as to the effects on UBC. But for now, rest assured that your university can face a troubling immediate future with reasonable confidence. I am committed to promoting innovative responses that will see us emerge from these difficult times poised to take advantage of a relatively strong financial position.