

**DALHOUSIE UNIVERSITY  
INVESTMENT COMMITTEE  
PENSION TRUST FUND and RETIREES' TRUST FUND TRUSTEES**

**INTERIM REPORT TO BOARD OF GOVERNORS  
Endowment Funds  
Pension Trust Fund  
Retirees' Trust Fund**

*February 2012*

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*Mr. Chair, Members of the Board of Governors:*

Summary

The financial markets had a good start to the 2011 calendar year despite the upheavals caused by the earthquake/tsunami devastation in Japan, and the Arab Spring in the Middle East. Although these events caused disruption to the markets, they were short lived and the equity markets yielded strong returns for the first quarter. This enthusiasm was muted in the second quarter as concerns on the strength and sustainability of economic recovery arose. The U.S. budget impasse with the resulting credit rating downgrade, along with the European debt crisis generated large selloffs in the equity markets as investors exited equities and pursued the "safety" of U.S Treasuries and Canadian bonds. Equity markets have rebounded a bit in the last calendar quarter, but not sufficiently to offset the declines experienced from the previous two quarters. Canadian and international equity markets fell by 13% for the last nine months of the year, while US equities experienced a more muted decline of 3.6%. Bonds did very well as long bonds increased by almost 20%, leading the broad bond universe's 10% return. During the same nine-month period, the endowments had an investment loss of 1.8%, while the Pension Funds had a small increase of 0.6%.

During the last financial crisis of 2007-2009, the Endowment Funds dropped by 24% and Pension Funds fell 20%. Since that time the Funds have recovered their losses and achieved some growth; the Endowment Funds have had a 34.5% return for a net growth of 2.2% over the 2007 peak, while the Pension Funds have had a net growth of 5.4% after generating a 31.8% return. Over this period Canadian equity prices are still 21% below their 2008 peak, US and German equities are 28% below their 2007 peaks, and UK equity prices remain 18% below their previous high. The Japanese Nikkei index remains 54% below its 2007 level. So although these markets have made it difficult for investors achieve their respective investment objectives, the Funds have held up reasonably well in these trying circumstances.

It is recognized that financial markets will go through cycles where there will be times where performance will be below target, although the first 11 years of the 21st century have been particularly difficult. As a result of the cycles, investment policies and strategies are created with a long-term time horizon. Over the long-term each of the Dalhousie Funds has met their objectives. Charts 1 and 2 present the performance of the Endowment Funds over the past 15 years. Chart 1 demonstrates that the Endowments' return objective has been met. The bars depict the Funds' returns versus the objectives (as depicted by the horizontal axis) on a quarterly basis, while the cumulative excess returns (as depicted by the line) have been positive,

adding 12.1% above the target. The Endowments' return objective is the spend rate (set at 4.75% for new endowments) plus administrative fees plus inflation. Another important Endowment objective is the preservation of the real economic value of the capital. In 1990, the University adopted the total rate of return approach to managing the endowments and to preserve the real value of the capital. Chart 2 shows that since 1980, a full decade prior to the implementation of the total rate of return approach, the market value of the endowments in aggregate has stayed ahead of the indexed values on a fairly consistent basis, ending the 2011 fiscal year with a market value of \$364 million as compared to the \$334 million index target. However, a number of new endowments received during the market crash still lag behind their fully indexed for inflation targets.

Chart 1

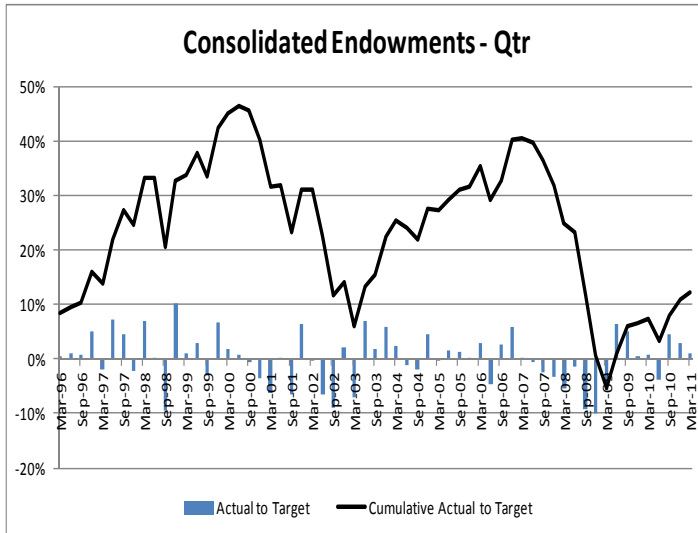
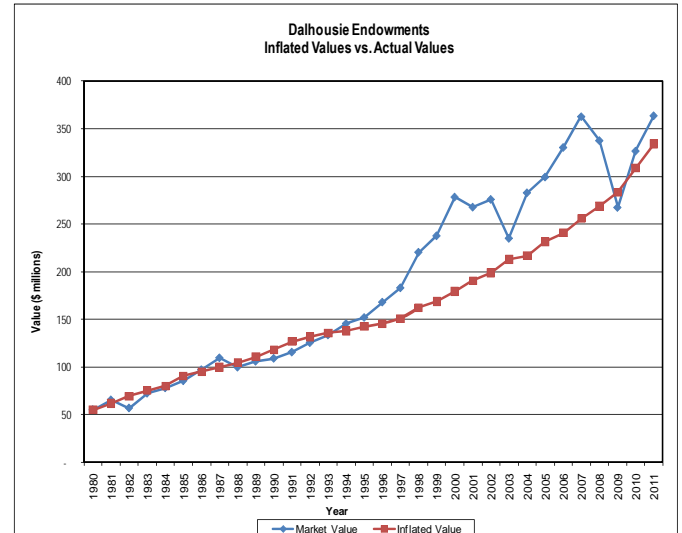


Chart 2



The University's two pension funds have also met and exceeded their respective return targets over the last sixteen years despite the challenging markets of the 2000s. Although the University Pension Plan is currently in a deficit position, Charts 3 and 4 show that the PTF and the RTF remained ahead of the actuarial going concern return targets despite the market slumps experienced in the 2000's. The PTF's 7.8% net annualized return over this 16-year period since the last pension surplus use agreement exceeded its target of 7.0%. The RTF had an annualized 7.7% annualized return as compared to its 5.05% target. (Note: The RTF's actual actuarial target is 4.7%, but the 5.05% is set as the target as it is the hurdle rate after which returns may be used for indexation purposes.) Improving mortality rates, historically low interest rates, and use of previous surpluses for benefit enhancements, employee and employer contribution holidays and surplus distributions have contributed to the current deficit.

Chart 3

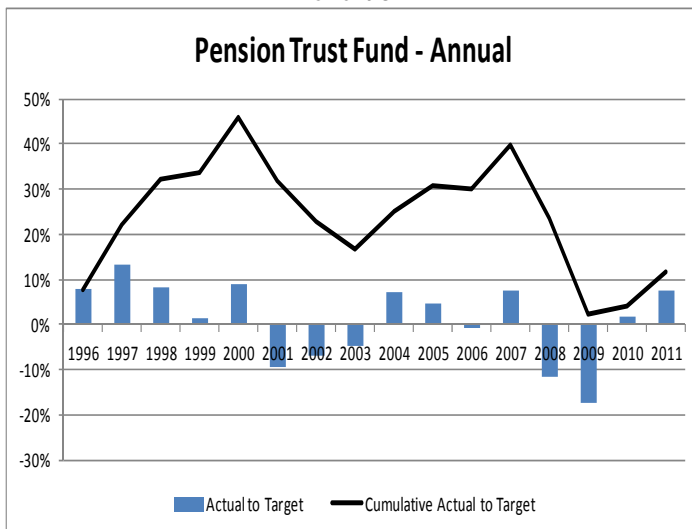
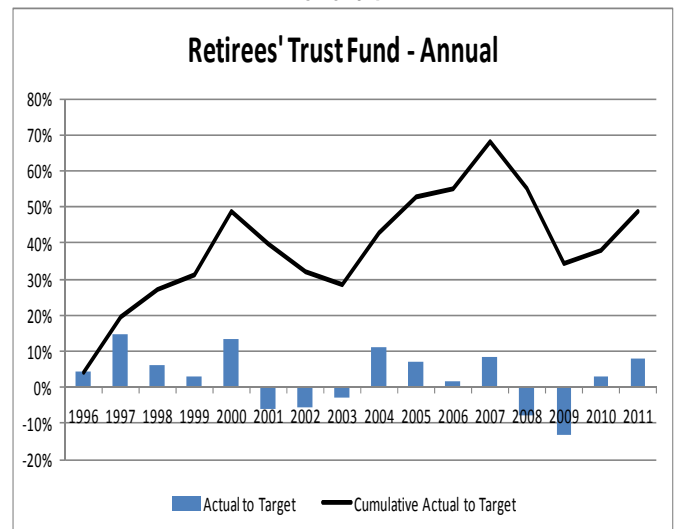


Chart 4



The different policy allocations to fixed income account for the various return results of the Funds; the RTF with the more conservative structure with the largest policy allocation to fixed income had the highest return for the year. The RTF's more conservative structure also contributed to it having the highest annualized return among the Dalhousie Funds for the past 10 years – the worst decade on record for equity returns. The Funds are structured to have better preservation characteristics in down markets which often results in the Funds lagging strong market rallies. Although the Funds met and exceeded their policy benchmark returns, the more important required funding return objectives of the Endowments and the PTF were missed given the weak markets in the past decade. The RTF's 10-year return slightly exceeded its target. The Endowments strive to earn a real return of 5.3%, the PTF has an actuarial return objective of 6.25% pre-retirement and 4.55% post-retirement, and the RTF a 5.05% return objective. It is these return objectives that must be met over time if the University's programs and its pension obligations are to be fully funded. Appendix A summarizes each Fund's investment objectives and related investment structure.

## Market Overview

As mentioned previously, 2011 started with strong markets, but these markets were severely shaken later in year with the U.S. budget impasse and the European debt crisis. The markets did rebound somewhat in the last quarter of 2011 and 2012 has started relatively well, but both the markets and economic growth of the developed economies remain fragile. In response to this fragility, many central banks have kept their administered rates extremely low and have been intervening in the markets to help keep long bond rates low as well. Long Government of Canada bonds started 2011 with a yield of 3.5%. This yield approach 3.8% by March 2011, but subsequently retreated in response to the debt crisis and ended the year at 2.5%. Central banks appear to remain cautious, and many believe that the low rate environment will continue through to 2014. Long bond yields dipped below the rate of inflation during 2011, and it is unclear how long the fear of uncertainty will cause investors to accept negative real rates of return. Until there is resolution of the European debt crisis and sustainability of the European Union is assured, volatility in the financial markets can be expected to continue. The following table illustrates that a number of markets had started to rebound after the 2007-2008 financial crisis, only to hit the 2011 crisis.

<i>Annualized returns as of December 31, 2011</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	-8.7%	3.6%	13.2%	- 0.7%	7.0%
U.S. -S&P 500, <i>CAD</i>	4.6%	6.8%	7.2%	- 0.9%	- 1.6%
U.S. -S&P 500, <i>USD</i>	2.1%	8.4%	14.1%	- 1.6%	2.9%
EAFE - <i>CAD</i>	- 10.0%	- 4.1%	1.2%	- 7.7%	0.0%
EAFE - <i>local currency</i>	- 12.2%	- 4.0%	4.7%	- 9.0%	0.8%
Canada Bonds - DEX	9.7%	8.2%	7.3%	7.0%	6.5%
<i>CPI</i>	2.3%	2.3%	2.0%	1.8%	2.1%

The table also illustrates the volatility of foreign currency exchange rates. The Canadian dollar gained strength against foreign currencies over the last 10 years, but in the past year has depreciated against the U.S. dollar. In this century, the Canadian dollar went from US\$ 0.6202 in January 2002 to US\$ 1.0852 in 2007, and ended 2011 at US\$ 0.9833. The Dalhousie Funds hedge a portion of their foreign currency exposures with the objective of stabilizing returns over time.

## Committee & Trustee Activity

The Committee and Trustees meet numerous times throughout each year to provide oversight on the strategic direction of the Funds. The Committee and Trustees review investment performance each quarter, using a number of measures including

each Fund's return requirement, investment policy benchmark, and peer universe comparisons. Each Fund's specific return requirement is obviously the most important measure over time. However, each Fund's investments are subject to the swings of the markets, and as such, the investment policy benchmark is another important measure. Performance relative to other funds in so-called "peer universes" is more of a curious look, but not particularly relevant. Breakpoints can vary greatly among different universes, and the pay-out obligations, treatment of expenses, funding requirements and risk tolerances of other funds in the universes vary immensely from those of the Dalhousie Funds, thus limiting the usefulness of such return comparisons. The Committee and Trustees also reviewed and updated a number of the Funds' investment policies, including detailed reviews of the asset mix policies, and made minor revisions to the Funds' currency hedging policies. The Committee and Trustees also receive regular updates and joint reports on the Funds' investment managers from staff and the consultant. Staff and the consultant monitor each manager's monthly investment activity and performance, receive monthly compliance sign-offs, as well as collect monthly updates of each manager's business activities. Formal annual review meetings are also scheduled with the managers, with the results of these meetings reported back to the Trustees and Committee.

The Funds had a number of changes during 2011. Early in 2011, the Funds completed reviews of their fixed income structures. A large component of the Funds' passive Canadian bond index exposures were shifted to active strategies. This was in response to the current interest rate environment where rates are at historical lows. A core plus strategy with BlackRock was selected along with a smaller allocation to active corporate credit with Canso Investment. The BlackRock allocation permits the manager to actively deploy and allocate to a number of strategies such as duration, yield curve, global and credit depending on varying interest rate and fixed income environment. The new mandate with Canso was finalized and funded during the second quarter of the calendar year and the BlackRock mandate was finalized later in the year. These strategies were added with the objective of extracting extra returns should low interest rates continue for a while, and to mitigate any capital depreciation when interest rates eventually rise. A new market neutral strategy was selected to replace a passive Canadian equity strategy that had been funded on a temporary basis. This market neutral strategy is intended to improve the capital preservation characteristics of the Canadian equity component. Additional subscriptions were made to private real estate and to private equity as well.

The current members of the Investment Committee and Trustees are listed on the last page of this report. I wish to thank the Committee members and the Trustees for their valued contributions and continued support of the investment activities during which has been a busy and successful year.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Stan Spavold".

Stan Spavold,  
Chair, Investment Committee

## DALHOUSIE UNIVERSITY

### Endowment Funds

Dalhousie University's operating budget receives annual funding from the Endowment Funds to support academic chairs and salaries, fellowships, scholarships, student bursaries, library enhancement, research, equipment and facilities. The 2011/12 budget for endowment program spending plus administrative expenses is \$17.3 million. Spending support from externally-held endowments and other contributions are projected to provide an additional \$0.9 million. Under the University's 'banded-inflation' spending policy, spending allocations for fully-indexed endowments increased by 1.9%, the 1-year CPI rate, from the 2010/11 spending allocation. Spending allocations for underwater endowments (capital market value < original gifts fully indexed) have been placed on reduced spending schedules to permit some spending while accelerating the recovery to index targets. Endowments whose market values dropped below their original donated gifts (capital impaired) had their spending suspended for the year. Over the nine months, the Endowment investments increased from \$363.8 million to \$364.1 million. The receipt of new gifts and reinvested allocations increased the assets by \$11.4 million. The 1.8% investment loss decreased the assets by \$2.6 million, and another \$8.5 million of spending allocation withdrawals were made.

### DALHOUSIE UNIVERSITY ENDOWMENT FUNDS

Manager	Asset Class	Market Value (\$ Millions)	
		December 31, 2011	March 31, 2011
Greystone Managed Investments Inc.	Canadian Equities	\$ 26.6	\$ 32.6
Burgundy Asset Management	Canadian Equities	25.1	26.1
CIBC Global Asset Management	Canadian Equities – passive index	15.4	17.8
Ashford Capital Management	US Equities	15.7	15.9
Wedge Capital Management L.L.P.	US Equities – Large Cap	30.7	31.2
State Street Global Asset Management	US Equities – Mid Cap Index	14.5	15.5
Sprucegrove Investment Management	Non-North American Equities	44.2	47.6
First Eagle	Non-North American Equities	16.9	17.4
State Street Global Asset Management	Currency hedges	0.8	0.4
CIBC Global Asset Management	Canadian Bond – Index	33.2	62.7
Addenda Capital Inc.	Canadian Bonds - active	22.5	21.1
BlackRock Asset Management	Canadian Bonds - active	22.2	-
Canso Investment Counsel	Canadian Bonds - active	12.8	-
Commonfund Capital	Private Equity	19.7	15.8
JP Morgan	Private Equity	6.2	4.2
Pantheon	Private Equity	4.8	4.7
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	7.7	7.7
Brevan Howard	Global Macro	4.2	3.9
BlueCrest Capital	Global Macro	4.2	3.9
Lazard Asset Management	Infrastructure securities	8.7	9.1
JP Morgan	Global Maritime & Infrastructure	0.2	
CBRE Clarion	Global Real Estate Securities	11.4	11.8
GPM	Canadian Real Estate	6.6	5.5
Canadian Urban	Canadian Real Estate	6.5	5.3
	General*	3.3	3.6
<b>TOTAL ASSETS</b>		<b>\$364.1</b>	<b>\$363.8</b>

\* Includes other funds invested in a manner as specified by donor and cash in-transit.

### ENDOWMENT FUND PERFORMANCE

	Annualized Returns to			
	December 31, 2011		March 31, 2011	
	Fund	Benchmark**	Fund	Benchmark**
10 Years	5.1%	4.4%	5.8%	4.8%
4 Years	1.2%	0.4%	1.3%	1.4%
3 Years	8.8%	8.0%	3.5%	2.4%
2 Years	6.8%	4.5%	17.1%	15.7%
1 Year	1.3%	- 0.2%	13.4%	10.0%

\*\* The benchmark is the index return of the Fund asset allocation.

**DALHOUSIE UNIVERSITY**  
*Pension Trust Fund*

After the first six months of the Pension Trust Fund's fiscal year that commenced July 1, 2011, the Fund's asset value declined from \$462.6 million to \$450.4 million, a decrease of \$12.2 million. The Fund's -1.6% investment return over this period accounted for \$7.1 million of the decline. The Fund also disbursed \$23.3 million in various benefit payments and paid \$0.7 million in expenses. These outflows were offset somewhat by the receipt of \$18.9 million in new contributions.

**DALHOUSIE UNIVERSITY**  
**PENSION TRUST FUND**

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>December 31, 2011</i>	<i>June 30, 2011*</i>	<i>March 31, 2011</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 25.0	\$ 30.7	\$ 32.2
Burgundy Asset Management	Canadian Equities	29.1	33.1	33.0
CIBC Global Asset Management	Canadian Equities	19.3	21.1	22.3
Ashford Capital Management	US Equities	19.1	20.5	20.9
Wedge Capital Management L.L.P.	US Equities – Large Cap	32.7	36.4	35.8
State Street Global Asset Management	US Equities – Mid Cap	13.6	14.3	14.5
Sprucegrove Investment Management	Non-North American Equities	48.6	54.1	53.2
First Eagle	Non-North American Equities	12.0	12.6	7.2
State Street Global Asset Management	Currency hedges	0.9	0.7	0.4
CIBC Global Asset Management	Canadian Bond - Index	57.2	91.5	101.3
Addenda Capital Inc.	Canadian Bonds - active	36.3	35.5	34.7
BlackRock Asset Management	Canadian Bonds - active	37.7	-	-
Canso Investment Counsel	Canadian Bonds - active	20.8	20.3	-
Commonfund Capital	Private Equity	10.7	8.4	12.4
JP Morgan	Private Equity	7.6	6.2	5.5
Pantheon Ventures Ltd.	Private Equity	4.9	5.2	4.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	9.6	9.4	9.6
Brevan Howard	Global Macro	5.3	4.8	4.8
BlueCrest Capital	Global Macro	5.3	4.8	4.8
Lazard Asset Management	Infrastructure securities	10.6	11.3	11.3
JP Morgan	Global Maritime	0.3	-	-
CBRE Clarion	Global Public R.E.	14.3	15.2	14.7
GPM	Canadian Real Estate	8.7	7.5	7.2
Canadian Urban	Canadian Real Estate	8.6	7.0	7.0
	Cash in Bank & Other	12.2	12.0	16.6
<b>TOTAL ASSETS</b>		<b>\$450.4</b>	<b>\$462.6</b>	<b>\$454.2</b>

**PENSION TRUST FUND PERFORMANCE**

	<i>Annualized Returns to</i>					
	<i>December 31, 2011</i>		<i>June 30, 2011*</i>		<i>March 31, 2011</i>	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	5.2%	4.6%	5.7%	4.7%	5.9%	4.9%
4 Years	1.4%	1.0%	1.3%	1.2%	1.5%	1.6%
3 Years	8.6%	8.1%	3.6%	2.3%	3.4%	2.6%
2 Years	6.4%	5.1%	11.9%	10.1%	15.7%	14.6%
1 Year	1.8%	1.4%	14.6%	12.8%	11.8%	9.4%

\*June 30 is the fiscal year end of the Pension Trust Fund

\*\* The benchmark is the index return of the Fund asset allocation

**DALHOUSIE UNIVERSITY**  
**Retirees' Trust Fund**

The Retirees' Trust Fund's assets decreased by \$0.7 million to \$310.7 million over the July 1, 2011 to December 31, 2011 period. During this first six months of the Fund's fiscal year, the Fund received \$18.3 million in transfers for new retirees from the Pension Trust Fund while the -0.9% investment return saw assets decline by \$2.9 million. The Fund made \$15.5 million in benefit payments and incurred \$0.6 million in expenses during the period.

**DALHOUSIE UNIVERSITY**  
**RETIRES' TRUST FUND**

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>December 31, 2011</i>	<i>June 30, 2011*</i>	<i>March 31, 2011</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 16.7	\$19.6	\$ 21.1
Burgundy Asset Management	Canadian Equities	15.7	16.4	16.3
CIBC Global Asset Management	Canadian Equities	11.1	12.2	13.5
Ashford Capital Management	US Equities	11.6	11.4	11.7
Wedge Capital Management L.L.P.	US Equities – Large Cap	23.4	24.2	24.2
State Street Global Asset Management	US Equities – Mid Cap	10.6	11.1	11.3
Sprucegrove Investment Management	Non-North American Equities	33.8	37.0	36.4
First Eagle	Non-North American Equities	6.9	7.2	7.1
State Street Global Asset Management	Currency hedges	0.6	0.5	0.3
CIBC Global Asset Management	Canadian Bond - Index	49.5	74.4	89.6
Addenda Capital Inc	Canadian Bonds - active	28.7	27.5	26.9
BlackRock Asset Management	Canadian Bonds - active	29.8	-	-
Canso Investment Counsel	Canadian Bonds - active	17.9	17.5	-
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	5.4	5.3	5.4
Brevan Howard	Global Macro	3.9	3.5	3.5
BlueCrest Capital	Global Macro	3.9	3.5	3.5
Lazard Asset Management	Infrastructure securities	7.7	8.2	8.2
JP Morgan	Global Maritime & Infrastructure	0.2	-	-
First National	Index Linked Mortgages	12.2	12.5	12.8
CBRE Clarion	Global Public Real Estate	8.2	8.7	8.5
GPM	Canadian Real Estate	5.3	4.5	4.3
Canadian Urban	Canadian Real Estate	5.1	4.2	4.2
	Cash in Bank	2.5	2.0	2.2
<b>TOTAL ASSETS</b>		<b>\$310.7</b>	<b>\$311.4</b>	<b>\$311.0</b>

**RETIRES' TRUST FUND PERFORMANCE**

	<i>Annualized Returns to</i>					
	<i>December 31, 2011</i>		<i>June 30, 2011*</i>		<i>March 31, 2011</i>	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	5.7%	5.0%	6.1%	5.0%	6.3%	5.1%
4 Years	2.3%	2.0%	2.3%	2.0%	2.4%	2.3%
3 Years	8.6%	7.9%	4.1%	3.0%	4.0%	3.0%
2 Years	6.3%	5.7%	11.0%	9.3%	14.5%	12.8%
1 Year	2.1%	2.8%	13.7%	11.2%	10.8%	8.6%

\*June 30 is the fiscal year end of the Retirees' Trust Fund

\*\* The benchmark is the index return of the Fund asset allocation

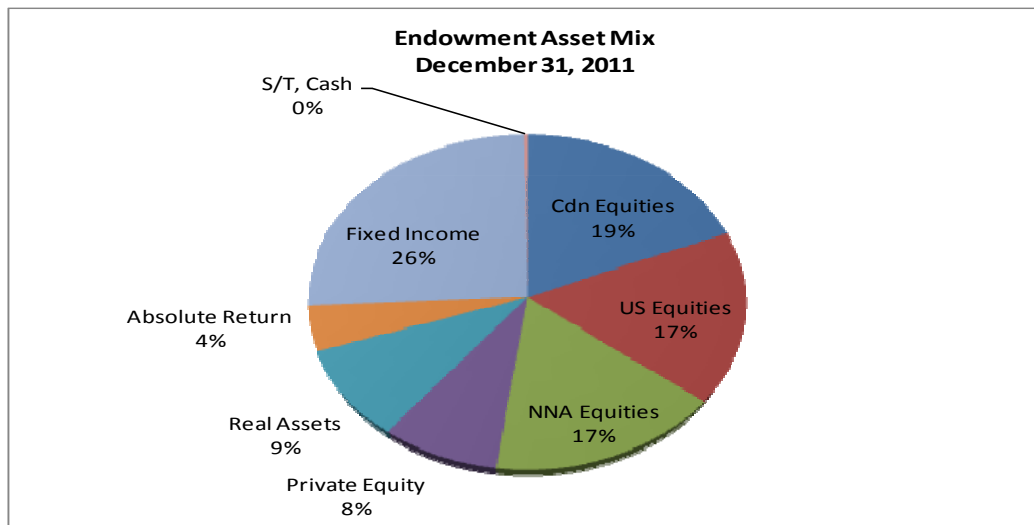
## APPENDIX A Investment Objectives & Asset Mix

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### Endowment Objectives:

- *Maintain and preserve the real economic value of the endowment capital;*
- *Optimize spending levels that achieve objective #1 and that provides for:*
  - ✓ *annual spending stability in real terms*
  - ✓ *minimizes the risk of declines in year-to-year spending levels*
- *Moderate growth (1%) of endowment corpus via capital appreciation once objectives #1 and #2 are satisfied*

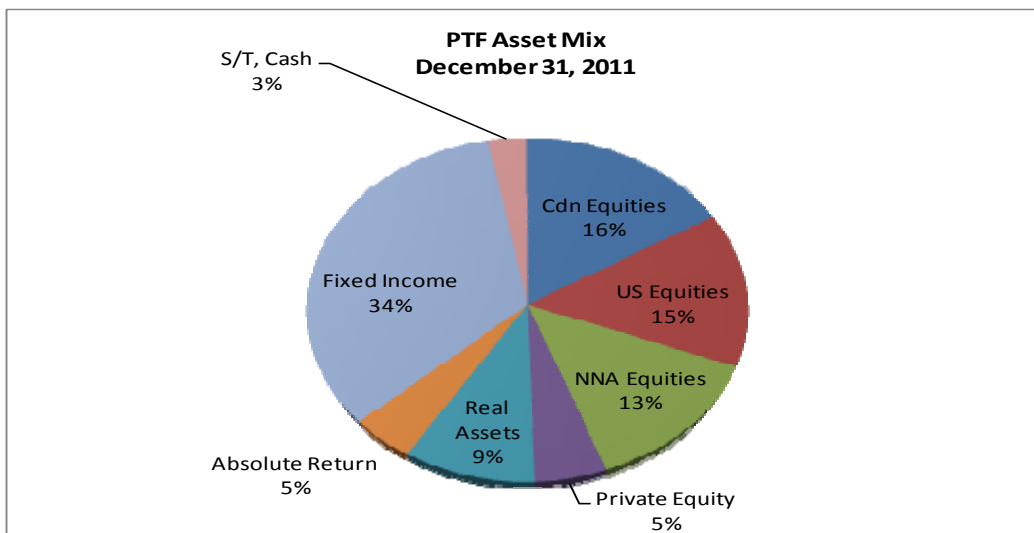
*Target: CPI + 5.3%*



### Pension Trust Fund Objectives:

- *Fully funded obligations - Achieve and maintain a funded ratio of 100%;*
- *Stabilize contribution ratios;*
- *With #1 and #2 satisfied, reduce contribution rates.*

*Target: Actuarial Assumption of 6.25%*

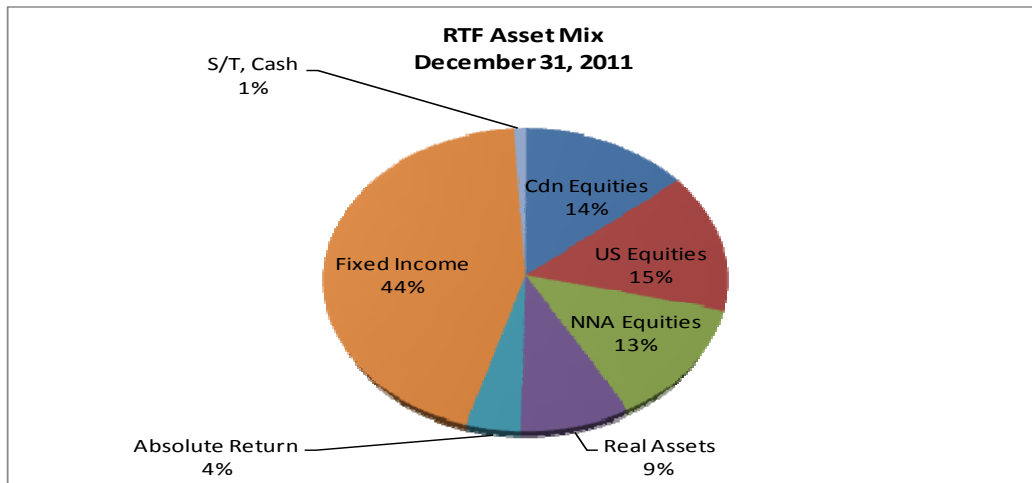




Retirees' Trust Fund Objectives:

- *Meet the current pension promise;*
- *Provide pension indexation – a secondary objective to #1;*
- *Avoid the requirement for supplemental sponsor funding.*

Target: 5.05%



**DALHOUSIE UNIVERSITY  
INVESTMENT COMMITTEE  
TRUSTEES OF THE PENSION & RETIREES' FUNDS  
2011-12**

		<u>Investment Committee</u>	<u>Pension Trust Fund</u>	<u>Retirees' Trust Fund</u>
Mr. Stan Spavold (Chair)	Board Nominee	√	√	√
Mr. Jim Spatz, Q.C. (ex officio)	Board Nominee	√		
Mr. George McLellan	Board Nominee	√	√	√
Mr. Chris Smith	Board Nominee	√	√	√
Dr. Tom Traves (ex officio)	Board Nominee	√	√	√
Mr. Paul Conrod	Non-Board, External	√	√	√
Dr. Iraj Fooladi	Senate Nominee	√	√	√
Dr. David Cameron	Non-Board, retiree			√
Mr. Ron Pink	DFA Nominee		√	√
Mr. Ken Burt (Vice-President, Finance & Administration)	Senior Officer for Liaison and Member	√	√	√

Support:

Staff:	Mr. Ian Nason (Assistant Vice-President, Financial Services)
Secretary/Staff:	Mr. Colin Spinney (Treasurer)
Consultant:	Mr. Bob Mitchell (Rogerscasey Canada, Inc.)