

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

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

June 2012

Mr. Chair, Members of the Board of Governors:

Summary

The University Endowments and the two Dalhousie pension funds had a combined asset value of \$1.2 billion at March 31, 2012, a slight increase of \$44 million in spite of payouts of \$18.1 million by the Endowments to support the University's programs and \$27.3 million from the pension funds to deal with pension obligations.

The Endowments earned a return of 3.6% for the year, while the Pension Trust Fund (PTF) and the Retirees' Trust Fund (RTF) earned one-year returns of 4.0% and 4.5% respectively. This represents very strong returns given the quarter that ended September 30, 2011 was weak with the Funds incurring declines of 4.7% to 5.7%. The Canadian equity market declined 12% during that quarter, while US equities declined 12% to 20%, and international equities retreated 16%.

Twenty-two years ago, after detailed endowment management and spending policy reviews, the Board adopted a total rate of return (TROR) approach. Chart 1 illustrates that over the last seventeen years since the TROR approach was fully implemented, the Endowment Funds have met the return objective (as depicted by the horizontal axis). The bars depict the Funds' returns versus the objectives on a quarterly basis. The Endowments return objective is the spend rate plus administrative fees plus inflation. Over this time, the Funds' annualized objective was 7.9% as compared to an annualized objective of 7.4%. Another important Endowment objective is the preservation of the real economic value of the capital. Chart 2 shows that after the total rate of return approach was adopted in 1990, the market value of the endowments in aggregate has stayed ahead of the indexed values on a fairly consistent basis. However, a number of new endowments received during the market slumps post-2003 still lag behind their fully indexed values for inflation targets.

Chart 1

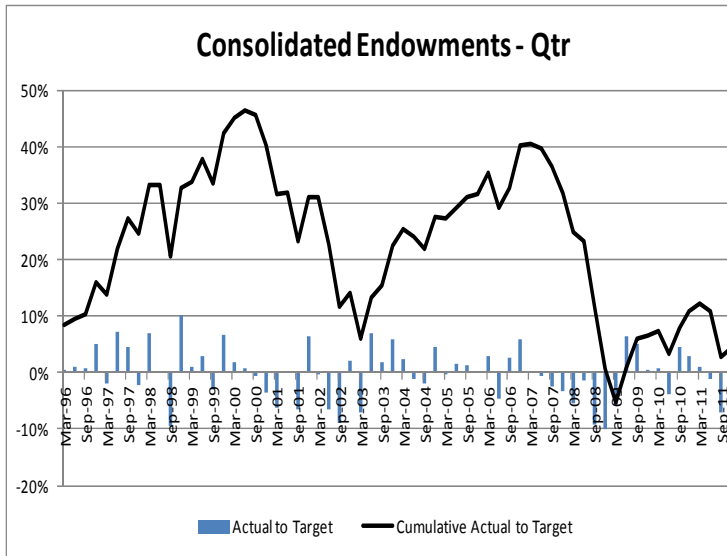
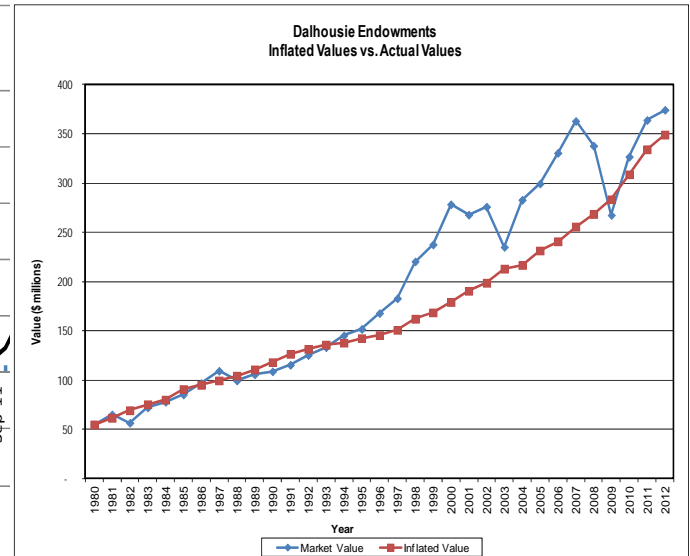


Chart 2



Likewise, the University's two pension funds have also met and exceeded their respective return targets over the last fifteen years. Charts 3 and 4 show that the PTF and the RTF experienced slumps in the 2000's, but came out of the period ahead of the actuarial going concern return targets, which were 7.00% and 5.05% for the PTF and RTF respectively. Since 1996 when the Plan was in surplus and the last pension surplus use agreement was implemented, the PTF's annualized return net of expenses has been 7.8%, while the RTF has achieved a net annualized return of 7.7%. However, the Plan is currently in a deficit position. Improving mortality rates, lower interest rates, and use of previous surpluses for benefit enhancements, contribution holidays and surplus distributions have contributed to the deficit.

Chart 3

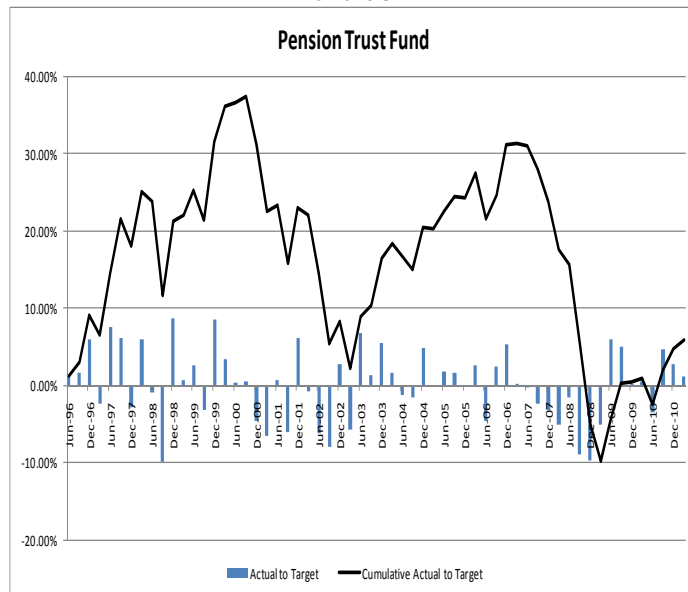
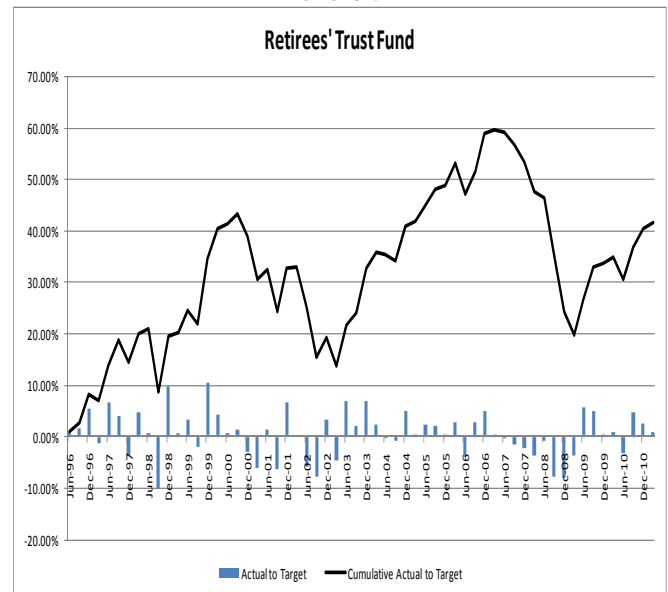


Chart 4



The Funds each have their own distinct investment objectives that have resulted in different asset mix policies for each Fund. Consequently, the Funds' returns will differ from one another. The RTF has a more conservative structure with the largest policy allocation to fixed income. As Canadian bonds outperformed the majority of the equity markets for the past year, the RTF's 4.5% return led the other Funds. The RTF's more conservative structure also contributed to it having the highest annualized return among the Dalhousie Funds for the past 10 years – a decade where equity returns generated record declines. The Funds are structured to have better preservation characteristics in down markets which often results in the

Funds lagging strong market rallies. Each of the Funds was short of their more important required funding return objectives given the weak markets over the past decade. The Endowments strive to earn a real return of 5.45%, the PTF has an actuarial return objective of 6.25% pre-retirement and 4.55% post-retirement, and the RTF a 5.05% real 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

Natural disasters and a variety of political events had investors entering and exiting the financial markets on numerous occasions during the 12 months that ended March 31, 2012. A number of major equity markets saw declines in six months and gains in the other six months. For the last half of the year, the focus has been on the European Union and the fiscal difficulties faced by a number of its members. Equity markets dropped as various crises were identified, then rallied when it appeared that agreements on fiscal measures had been reached, only to see the markets fall again when government turnover from elections in a number of European states raised concern on whether these agreements will be maintained. There was also concern on the slowing economic growth rate in China and other emerging economies. As a result, declines in the materials and energy resource sectors of Canada's market led to a total market return of -9.8%. Although the growth rate in China has been slowing down, it is still in excess of 8% and on a base that has grown significantly the past decade.

The U.S. economy, which was a concern for a number of market participants just one year ago, showed signs of improvement to which the U.S. equity markets responded positively. Although most corporate balance sheets are healthy, concerns over consumer and government debt levels have been limiting price appreciation in the equity markets. This nervousness pushed bond markets up as interest rates reached historic lows. However, with interest rates at these levels the prospects for positive bond returns in the near future are limited.

<i>Annualized returns as of March 31, 2012</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	-9.8%	4.2%	15.6%	1.1%	7.2%
U.S. -S&P 500, <i>CAD</i>	11.5%	11.2%	14.2%	3.1%	-0.6%
U.S. -S&P 500, <i>USD</i>	8.5%	12.0%	23.4%	3.9%	4.1%
EAFE - <i>CAD</i>	-3.2%	1.2%	8.3%	-4.4%	0.8%
EAFE - <i>local currency</i>	-4.1%	-1.4%	12.1%	-2.9%	1.6%
Canada Bonds - DEX	9.8%	7.4%	6.6%	6.2%	6.6%
<i>CPI</i>	1.9%	2.6%	2.2%	2.0%	2.1%

The apprehension of government finances and economic growth prospects also generated volatility with currency exchange rates. The Canadian dollar experienced declines with weaknesses in commodity prices, but experienced rallies during the year when investors sought the safety of Canadian bonds. For the year the Canadian dollar declined against the U.S. dollar (-3.6%), the UK pound (-2.7%) and Japanese yen (-5.4%), while it appreciated 2.7% versus the Euro. Consequently, unhedged Canadian investors gained on their non-Canadian investments. As a portion of the Dalhousie Funds' foreign currency exposures are hedged, the Funds did not participate in the full effect of the Canadian dollar depreciation. The currency hedges in place for the Dalhousie Funds have the objective of stabilizing the Funds' returns over time.

2011/12 Committee & Trustee Activity

The Committee and trustees met a number of times over the past 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 Funds made some revisions to their respective allocations and structures during the past year. Since March 31, 2011, the following revisions were made to the Funds:

- Subscriptions to a private equity fund (J.P. Morgan, Endowments & PTF only);
- Canadian equity revisions – increase value strategy allocation (Burgundy), add equity income (Montrusco Bolton) and market neutral (Fiera Capital) by eliminating a growth strategy and the passive indexing mandate. These modifications are intended to provide improved downside protection while enhancing long-term returns.
- Fixed income revisions – passive indexing was reduced and new allocations were made to active core plus (BlackRock) and active corporate credit (Canso).

The annual reviews of the Funds' respective asset mix policies indicated that comprehensive reviews are due, thus new asset-liability studies and asset mix modelling will be undertaken in the upcoming year.

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,



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. Total endowment program spending along with investment and administrative expenses for the 2011/12 fiscal year was \$18.1 million. There was an additional \$1.2 million of spending support from externally-held endowments and related contributions. Under the University's 'banded-inflation' spending policy, spending allocations for fully-indexed endowments were unchanged from 2009/10 as the year-over-year CPI change was a negative 0.86%. 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 past year, the Endowment investments increased from \$363.8 million to \$374.3 million. The year-over-year change consisted of \$9.1 million in gifts and reinvested allocations, plus the \$19.5 million generated by the year's 3.6% investment return, less the \$18.1 million of spending allocation withdrawals.

DALHOUSIE UNIVERSITY ENDOWMENT FUNDS

Manager	Asset Class	Market Value (\$ Millions)	
		March 31, 2012	March 31, 2011
Greystone Managed Investments Inc.	Canadian Equities	\$ 25.2	\$ 32.6
Burgundy Asset Management	Canadian Equities	26.4	26.1
CIBC Global Asset Management	Canadian Equities – passive index	-	17.8
Fiera Capital Management	Canadian Equities – market neutral	15.0	-
Ashford Capital Management	US Equities	15.0	15.9
Wedge Capital Management L.L.P.	US Equities – Large Cap	34.4	31.2
State Street Global Asset Management	US Equities – Mid Cap Index	16.2	15.5
Sprucegrove Investment Management	Non-North American Equities	48.0	47.6
First Eagle	Non-North American Equities	16.2	17.4
State Street Global Asset Management	Currency hedges	0.1	0.4
CIBC Global Asset Management	Canadian Bond – Index	33.1	62.7
Addenda Capital Inc.	Canadian Bonds - active	19.6	21.1
BlackRock Asset Management	Canadian Bonds - active	22.2	-
Canso Investment Counsel	Canadian Bonds - active	13.4	-
Commonfund Capital	Private Equity	20.6	15.8
JP Morgan	Private Equity	6.2	4.2
Pantheon	Private Equity	5.1	4.7
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	7.8	7.7
Brevan Howard	Global Macro	4.2	3.9
BlueCrest Capital	Global Macro	4.2	3.9
Lazard Asset Management	Infrastructure securities	9.1	9.1
JP Morgan	Infrastructure & Shipping	0.3	-
CBRE Clarion	Global Real Estate Securities	12.6	11.8
GPM	Canadian Real Estate	7.5	5.5
Canadian Urban	Canadian Real Estate	6.5	5.3
	General*	5.4	3.6
TOTAL ASSETS		\$374.3	\$363.8

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

ENDOWMENT FUND PERFORMANCE

	Annualized Returns to			
	March 31, 2011		March 31, 2011	
	Fund	Benchmark**	Fund	Benchmark**
10 Years	5.4%	4.9%	5.8%	4.8%
4 Years	3.5%	2.5%	1.3%	1.4%
3 Years	12.4%	11.2%	3.5%	2.4%
2 Years	8.4%	6.2%	17.1%	15.7%
1 Year	3.6%	2.6%	13.4%	10.0%

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

DALHOUSIE UNIVERSITY
Pension Trust Fund

After the first nine months of the Pension Trust Fund's fiscal year that commenced July 1, 2011, the Fund's asset value grew from \$462.6 million to \$475.4 million, an increase of \$12.8 million. The Fund's 3.4% investment return over this period provided \$13.5 million of growth. The Fund received \$28.5 million in new contributions, while disbursing \$27.2 million in various benefit payments and \$2.0 million in expenses.

DALHOUSIE UNIVERSITY
PENSION TRUST FUND

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2012</i>	<i>June 30, 2011*</i>	<i>March 31, 2011</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 26.3	\$ 30.7	\$ 32.2
Burgundy Asset Management	Canadian Equities	30.5	33.1	33.0
CIBC Global Asset Management	Canadian Equities	-	21.1	22.3
Fiera Capital Management	Canadian Equities	19.0	-	-
Ashford Capital Management	US Equities	20.6	20.5	20.9
Wedge Capital Management L.L.P.	US Equities – Large Cap	36.6	36.4	35.8
State Street Global Asset Management	US Equities – Mid Cap	15.2	14.3	14.5
Sprucegrove Investment Management	NNA Equities	52.9	54.1	53.2
First Eagle	NNA Equities	12.8	12.6	7.2
State Street Global Asset Management	Currency hedges	0.1	0.7	0.4
CIBC Global Asset Management	Canadian Bond - Index	57.2	91.5	101.3
Addenda Capital Inc.	Canadian Bonds - active	36.5	35.5	34.7
BlackRock Asset Management	Canadian Bonds – active	37.8	-	-
Canso Investment Counsel	Canadian Bonds – active	21.8	20.3	-
Commonfund Capital	Private Equity	12.1	8.4	12.4
JP Morgan	Private Equity	7.6	6.2	5.5
Pantheon Ventures Ltd.	Private Equity	5.2	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	11.2	11.3	11.3
JP Morgan	Infrastructure & Shipping	0.4	-	-
CBRE Clarion	Global Public R.E.	15.7	15.2	14.7
GPM	Canadian Real Estate	9.9	7.5	7.2
Canadian Urban	Canadian Real Estate	8.6	7.0	7.0
	Cash in Bank & Other	17.2	12.0	16.6
TOTAL ASSETS		\$475.4	\$462.6	\$454.2

PENSION TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 31, 2012</i>		<i>June 30, 2011*</i>		<i>March 31, 2011</i>	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	5.6%	5.0%	5.7%	5.1%	5.9%	4.9%
4 Years	3.6%	2.8%	1.3%	1.2%	1.5%	1.6%
3 Years	11.7%	10.8%	3.6%	2.3%	3.4%	2.6%
2 Years	7.9%	6.5%	11.9%	10.1%	15.7%	14.6%
1 Year	4.0%	3.7%	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 fiscal year commenced on July 31, 2011. For the first nine months of its fiscal year, the Retirees' Trust Fund's assets increased by \$11.6 million to \$323.0 million. The Fund received \$23.2 million in transfers for new retirees from the Pension Trust Fund and the 3.8% investment return grew assets by another \$9.7 million. The Fund made \$20.1 million in benefit payments and incurred \$1.2 million in expenses during the period.

DALHOUSIE UNIVERSITY
RETIRES' TRUST FUND

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2012</i>	<i>June 30, 2011*</i>	<i>March 31, 2011</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 17.7	\$ 19.6	\$ 21.1
Burgundy Asset Management	Canadian Equities	16.5	16.4	16.3
CIBC Global Asset Management	Canadian Equities	-	12.2	13.5
Fiera Capital	Canadian Equities	11.0	-	-
Ashford Capital Management	US Equities	12.5	11.4	11.7
Wedge Capital Management L.L.P.	US Equities – Large Cap	26.3	24.2	24.2
State Street Global Asset Management	US Equities – Mid Cap	11.8	11.1	11.3
Sprucegrove Investment Management	Non-North American Equities	36.7	37.0	36.4
First Eagle	Non-North American Equities	7.4	7.2	7.1
State Street Global Asset Management	Currency hedges	-	0.5	0.3
CIBC Global Asset Management	Canadian Bond - Index	49.4	74.4	89.6
Addenda Capital Inc	Canadian Bonds - active	28.9	27.5	26.9
BlackRock Asset Management	Canadian Bonds - active	29.8	-	-
Canso Investment Counsel	Canadian Bonds - active	18.8	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	8.1	8.2	8.2
JP Morgan	Infrastructure & Shipping	0.3	-	-
First National	Index Linked Mortgages	11.9	12.5	12.8
CBRE Clarion	Global Public Real Estate	9.0	8.7	8.5
GPM	Canadian Real Estate	6.0	4.5	4.3
Canadian Urban	Canadian Real Estate	5.1	4.2	4.2
	Cash in Bank	2.6	2.0	2.2
TOTAL ASSETS		\$323.0	\$311.4	\$311.0

RETIRES' TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 2012</i>		<i>June 30, 2011*</i>		<i>March 31, 2011</i>	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	6.0%	5.3%	6.1%	5.0%	6.3%	5.1%
4 Years	4.1%	3.4%	2.3%	2.0%	2.4%	2.3%
3 Years	11.1%	10.0%	4.1%	3.0%	4.0%	3.0%
2 Years	7.6%	6.6%	11.0%	9.3%	14.5%	12.8%
1 Year	4.5%	4.7%	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

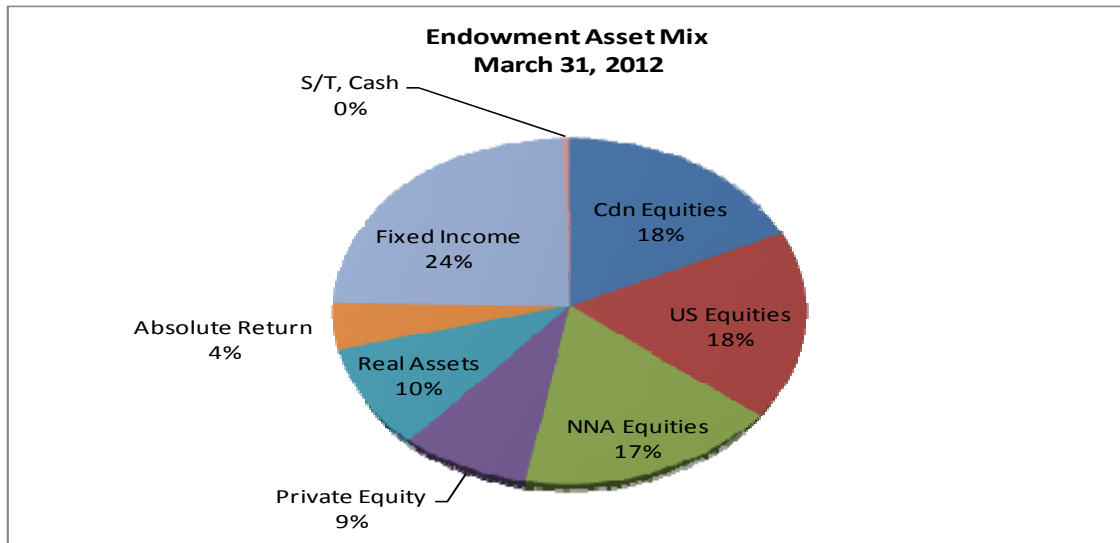
APPENDIX A Investment Objectives & Asset Mix

Page 1 of 2

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*

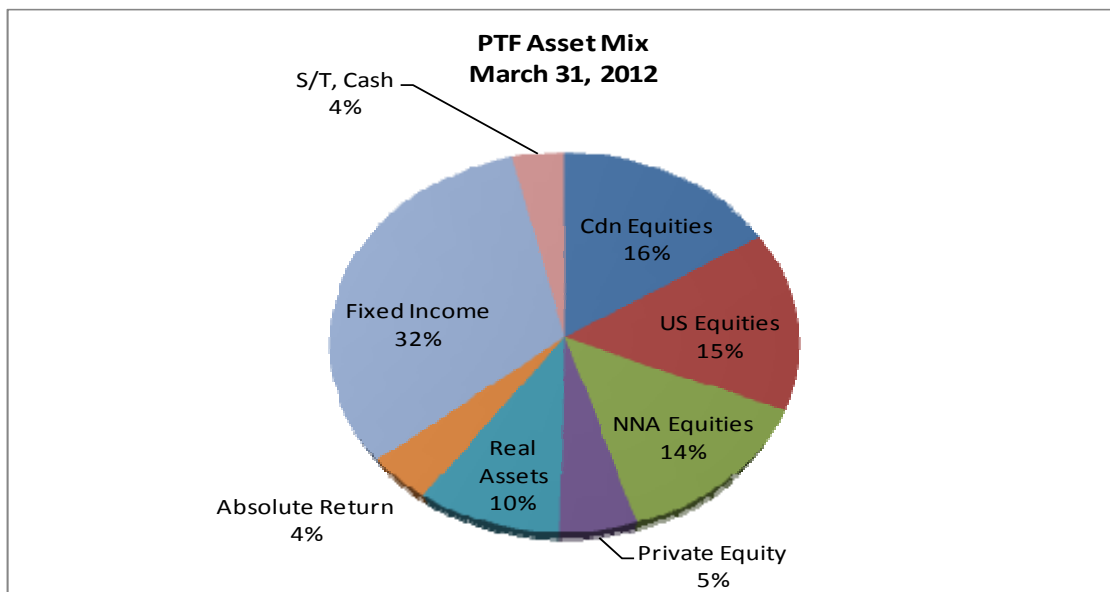
Target: CPI + 5.3%



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.*

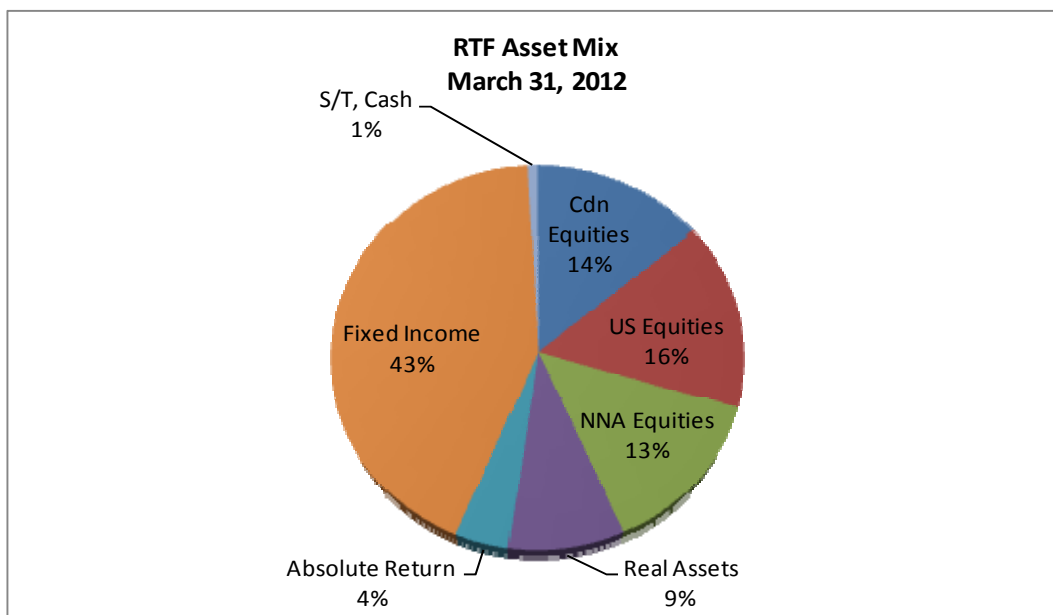
Target: Actuarial Assumption of 6.25%



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 (Segal Rogerscasey Canada)