

**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 2013*

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

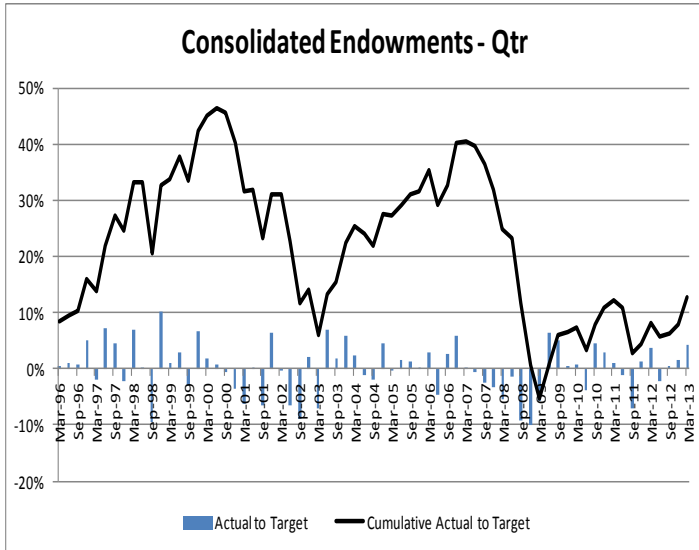
Summary

The University Endowments and the two Dalhousie pension funds had a combined asset value of \$1.3 billion at March 31, 2013, an increase of \$120 million over last year. This growth was after the payouts of \$19.2 million by the Endowments to support the University's programs and \$37.7 million from the pension funds to deal with pension obligations.

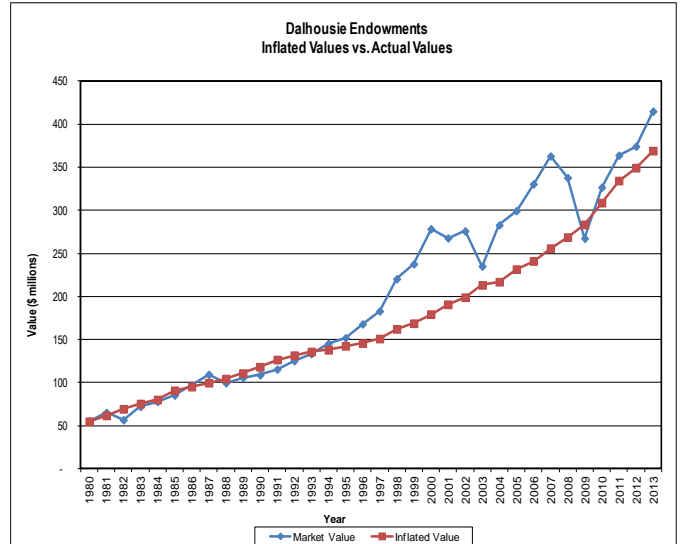
The Endowments earned a return of 10.8% for the year, while the Pension Trust Fund (PTF) and the Retirees' Trust Fund (RTF) earned one-year returns of 10.3% and 9.5% respectively. Approximately half of these strong returns came in the last quarter that ended March 31, 2013 when a number of equity markets enjoyed strong rallies. The Canadian equity market increased 3.3% during that quarter, while US equities gained an impressive 14%, and international equities expanded by over 7%.

Twenty-three years ago the Board adopted a total rate of return (TROR) approach for its endowment funds after detailed endowment management and spending policy reviews. Chart 1 illustrates that over the last eighteen 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 return was 8.1% 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, some new endowments received during the market slumps post-2003 still lag behind their fully indexed values for inflation targets.

**Chart 1**

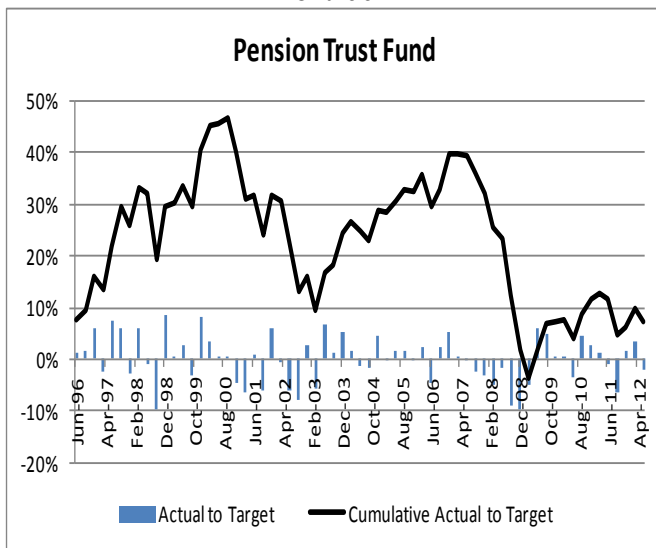


**Chart 2**

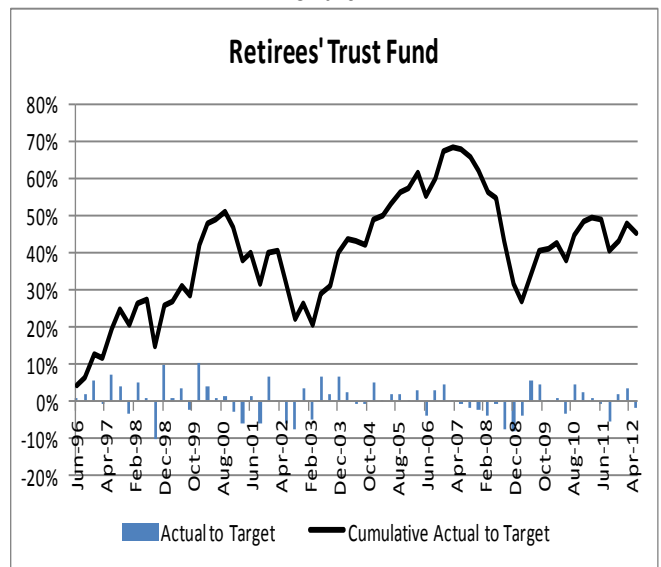


Likewise, the University's two pension funds have also met and exceeded their respective return targets over the last sixteen years to the Funds' most recent June 30, 2012 fiscal year-end. Charts 3 and 4 show that the PTF and the RTF experienced slumps in the 2000's, but came out of the period ahead 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 7.3%, while the RTF has achieved a net annualized return of 7.5%. However, the Plan is currently in a deficit position. Improving mortality 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. Each Fund's primary return objective is defined by its funding requirement - the returns required to meet each Fund's respective obligations. The asset mix return benchmarks serve as secondary reference points. The RTF has a more conservative structure with the largest policy allocation to fixed income. As equity markets enjoyed strong rallies for the past year, the Endowment Funds' 10.8% return led the other Funds. The RTF's more conservative structure with a higher fixed income allocation contributed to it having the lowest return for the past year,

but also yielded the highest annualized return among the Dalhousie Funds for the past 10 years – a decade where equity returns generated record declines and bond markets enjoyed strong returns as interest rates declined. The Funds are structured to have better preservation characteristics in down markets which often results in the Funds lagging strong market rallies.

The Endowments have a real return objective of 5.45% for their funding objective. Over the past ten years the Endowments have attained a 6.0% annualized real return as investment returns were 7.8% annualized, while inflation had a 1.8% annualized rate. The PTF has an actuarial return objective of 6.25% pre-retirement and 4.55% post-retirement for its funding requirement. The PTF has earned approximately 7.2% net of expenses over the past ten years. The RTF's funding objective is a 5.05% annualized real return, and its 10-year annualized real return net of expenses is approximately 5.8%. 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

Investor concerns with the fiscal challenges and legislative impasse in the U.S. as well as the financial challenges in southern Europe that were evident in first quarter of the University's fiscal year seemed to disappear as the U.S. and international equity markets enjoyed strong rallies for the remaining nine months. The Canadian equity market returns were more subdued as weak commodity prices led to weak returns in the energy and materials sectors which are dominant pieces of the Canadian market. In the Canadian fixed income market, yield declines in the long end and the tightening of credit spreads were the dominant contributors to bond returns.

The U.S. economy showed some signs of improvement in housing activity and employment to which the U.S. equity markets responded positively. However, there will be concerns on whether this can be maintained given the lack of progress on government debt levels and if economic activity can be sustained once quantitative easing is reduced and removed. Japan is also attempting to inflate its economy with low interest rates which also help in depreciating the yen. This very low level of interest rates around the globe will at some point have to cease, leading to interest rate increases that will limit the prospects for positive bond returns.

<i>Annualized returns as of March 31, 2013</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	6.1%	-2.1%	4.9%	13.2%	10.0%
U.S. –S&P 500, CAD	16.0%	13.7%	12.8%	14.7%	4.6%
U.S. –S&P 500, USD	14.0%	11.2%	12.7%	21.0%	8.5%
EAFE - CAD	13.3%	4.7%	5.1%	9.6%	5.7%
EAFE – local currency	16.7%	5.8%	4.3%	13.2%	7.6%
Canada Bonds - DEX	4.5%	7.1%	6.4%	6.1%	6.1%
<i>CPI</i>	1.0%	1.5%	2.1%	1.9%	1.8%

In this environment of weak commodity prices, tepid economic growth and the use of variations of quantitative easing by other countries, the Canadian dollar experienced declines against the U.S. dollar and the Australian and New Zealand dollars, but appreciated against the yen, U.K. pound and the Euro. As a portion of the Dalhousie Funds' foreign currency exposures are hedged, the impact of these currency swings were muted. The currency hedges in place for the Dalhousie Funds have the objective of stabilizing the Funds' returns over time.

## 2012/13 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 to a lesser extent, 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' investment allocations and structures were relatively stable during the past year, following a year in which a number of substantial modifications were made with Canadian equities and fixed income strategies. The only major modification in the past year was the addition of private debt. This strategy provides an exposure to a portfolio of primarily amortizing loans with floating rates. This provides the Funds with cash flow as well as protection against the impact of higher interest rates should they rise.

The prior year's annual reviews of the Funds' respective asset mix policies indicated that comprehensive reviews were required. An asset-liability study with detailed simulation modelling for the Endowments early in 2013 and has led to a recommended change to the spending level. Studies for the PTF and the RTF will commence once the March 31, 2013 actuarial valuation is available.

The members of the Investment Committee and Trustees for the past year are listed on the last page of this report. Stan Spavold stepped down in March 2013 after providing valuable service for the past seven years for which the University and fellow Trustees appreciated. I also wish to thank the Committee members and the Trustees for their valued contributions and continued support of the investment activities during this past busy and successful year.

Respectfully submitted,



George McLellan  
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 2012/13 fiscal year was \$16.6 million. There was an additional \$1.3 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 increased by 3.17%, the year-over-year CPI change. 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 \$374.3 million to \$415.0 million. The year-over-year change consisted of \$19.9 million in gifts and reinvested allocations, plus \$40.0 million generated by the year's 10.8% investment return, less the \$19.2 million of spending allocation withdrawals.

**DALHOUSIE UNIVERSITY**  
**ENDOWMENT FUNDS**

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>	
		<i>March 31, 2013</i>	<i>March 31, 2012</i>
Burgundy Asset Management	Canadian Equities	\$ 37.0	\$ 26.4
Greystone Managed Investments Inc.	Canadian Equities	-	25.2
Montrusco Bolton	Canadian Equities – dividend growth	14.0	-
Fiera Capital Management	Canadian Equities – market neutral	14.6	15.0
Ashford Capital Management	US Equities	15.8	15.0
Wedge Capital Management L.L.P.	US Equities – Large Cap	38.2	34.4
State Street Global Asset Management	US Equities – Mid Cap Index	19.1	16.2
Sprucegrove Investment Management	Non-North American Equities	53.9	48.0
First Eagle	Non-North American Equities	17.5	16.2
State Street Global Asset Management	Currency hedges	0.9	0.1
CIBC Global Asset Management	Canadian Bond – Index	32.3	33.1
Addenda Capital Inc.	Canadian Bonds - active	20.1	19.6
BlackRock Asset Management	Canadian Bonds - active	23.4	22.2
Canso Investment Counsel	Canadian Bonds - active	19.1	13.4
Commonfund Capital	Private Equity	23.5	20.6
JP Morgan	Private Equity	7.7	6.2
Pantheon	Private Equity	5.8	5.1
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	8.2	7.8
Brevan Howard	Global Macro	4.5	4.2
BlueCrest Capital	Global Macro	4.5	4.2
Lazard Asset Management	Infrastructure securities	4.8	9.1
JP Morgan	Infrastructure & Shipping	5.4	0.3
CBRE Clarion	Global Real Estate Securities	13.7	12.6
GPM	Canadian Real Estate	9.6	7.5
Canadian Urban	Canadian Real Estate	6.9	6.5
	General*	14.5	5.4
<b>TOTAL ASSETS</b>		<b>\$415.0</b>	<b>\$374.3</b>

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

**ENDOWMENT FUND PERFORMANCE**

	<i>Annualized Returns to</i>			
	<i>March 31, 2013</i>		<i>March 31, 2012</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	7.8%	7.5%	5.4%	4.9%
4 Years	12.0%	10.7%	3.5%	2.5%
3 Years	9.2%	7.3%	12.4%	11.2%
2 Years	7.2%	5.9%	8.4%	6.2%
1 Year	10.8%	9.4%	3.6%	2.6%

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

**DALHOUSIE UNIVERSITY**  
**Pension Trust Fund**

The Pension Trust Fund's asset value grew from \$475.7 million to \$512.4 million, an increase of \$36.7 million, over the first nine months of its fiscal year which commenced July 1, 2012. The Fund's 10.9% investment return over this period provided \$48.1 million of growth. The Fund received \$29.5 million in new contributions, while disbursing \$38.5 million in various benefit payments and \$2.4 million in expenses.

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

Manager	Asset Class	Market Value (\$ Millions)		
		March 31, 2013	June 30, 2012*	March 31, 2012
Burgundy Asset Management	Canadian Equities	\$ 44.3	\$ 37.2	\$ 30.5
Greystone Managed Investments Inc.	Canadian Equities	-	-	26.3
Montrusco Bolton	Canadian Equities	16.8	14.5	-
Fiera Capital Management	Canadian Equities	18.5	18.2	19.0
Ashford Capital Management	US Equities	22.1	19.8	20.6
Wedge Capital Management L.L.P.	US Equities – Large Cap	40.6	35.2	36.6
State Street Global Asset Management	US Equities – Mid Cap	18.2	14.7	15.2
Sprucegrove Investment Management	NNA Equities	59.7	51.0	52.9
First Eagle	NNA Equities	14.2	12.4	12.8
State Street Global Asset Management	Currency hedges	1.0	0.4	0.1
CIBC Global Asset Management	Canadian Bond - Index	56.7	58.5	57.2
Addenda Capital Inc.	Canadian Bonds - active	32.2	37.2	36.5
BlackRock Asset Management	Canadian Bonds – active	40.6	39.0	37.8
Canso Investment Counsel	Canadian Bonds – active	31.4	22.2	21.8
Commonfund Capital	Private Equity	17.8	13.7	12.1
JP Morgan	Private Equity	9.1	8.1	7.6
Pantheon Ventures Ltd.	Private Equity	5.8	5.5	5.2
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	10.2	9.8	9.6
Brevan Howard	Global Macro	5.6	5.3	5.3
BlueCrest Capital	Global Macro	5.6	5.4	5.3
Lazard Asset Management	Infrastructure securities	6.7	5.4	11.2
JP Morgan	Infrastructure & Shipping	6.5	6.0	0.4
CBRE Clarion	Global Public R.E.	18.9	16.3	15.7
GPM	Canadian Real Estate	12.5	10.1	9.9
Canadian Urban	Canadian Real Estate	9.1	8.8	8.6
	Cash in Bank & Other	8.3	21.0	17.2
<b>TOTAL ASSETS</b>		<b>\$512.4</b>	<b>\$475.7</b>	<b>\$475.4</b>

**PENSION TRUST FUND PERFORMANCE**

	Annualized Returns to					
	March 31, 2013		June 30, 2012*		March 31, 2012	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	7.7%	7.4%	6.0%	5.6%	5.6%	5.0%
4 Years	11.4%	10.3%	3.4%	2.3%	3.6%	2.8%
3 Years	8.7%	7.2%	8.8%	7.5%	11.7%	10.8%
2 Years	7.1%	6.1%	8.6%	7.5%	7.9%	6.5%
1 Year	10.3%	8.6%	2.9%	2.3%	4.0%	3.7%

\*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, 2012. For the first nine months of its fiscal year, the Retirees' Trust Fund's assets increased by \$46.8 million to \$364.9 million. The Fund received \$32.5 million in transfers for new retirees from the Pension Trust Fund and the 10.1% investment return added another \$37.3 million to assets. The Fund made \$21.4 million in benefit payments and incurred \$1.6 million in expenses during the period.

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

Manager	Asset Class	Market Value (\$ Millions)		
		March 31, 2013	June 30, 2012*	March 31, 2012
Burgundy Asset Management	Canadian Equities	\$ 30.8	\$ 21.8	\$ 16.5
Greystone Managed Investments Inc.	Canadian Equities	-	-	17.7
Montrusco Bolton	Canadian Equities	11.1	8.7	-
Fiera Capital	Canadian Equities	10.7	10.5	11.0
Ashford Capital Management	US Equities	13.8	12.0	12.5
Wedge Capital Management L.L.P.	US Equities – Large Cap	28.7	25.3	26.3
State Street Global Asset Management	US Equities – Mid Cap	14.1	11.5	11.8
Sprucegrove Investment Management	Non-North American Equities	41.5	35.4	36.7
First Eagle	Non-North American Equities	9.0	7.2	7.4
State Street Global Asset Management	Currency hedges	0.7	0.3	-
CIBC Global Asset Management	Canadian Bond - Index	46.4	50.5	49.4
Addenda Capital Inc	Canadian Bonds - active	30.3	29.4	28.9
BlackRock Asset Management	Canadian Bonds - active	34.2	30.8	29.8
Canso Investment Counsel	Canadian Bonds - active	31.5	19.1	18.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	7.3	5.5	5.4
Brevan Howard	Global Macro	4.1	3.9	3.9
BlueCrest Capital	Global Macro	4.1	3.9	3.9
Lazard Asset Management	Infrastructure securities	4.9	4.0	8.1
JP Morgan	Infrastructure & Shipping	4.7	4.3	0.3
First National	Index Linked Mortgages	10.8	11.7	11.9
CBRE Clarion	Global Public Real Estate	10.8	9.3	9.0
GPM	Canadian Real Estate	7.9	6.2	6.0
Canadian Urban	Canadian Real Estate	5.4	5.2	5.1
	Cash in Bank	2.1	1.6	2.6
<b>TOTAL ASSETS</b>		<b>\$364.9</b>	<b>\$318.1</b>	<b>\$323.0</b>

**RETIRES' TRUST FUND PERFORMANCE**

	Annualized Returns to					
	March 2013		June 30, 2012*		March 31, 2012	
	Fund	Benchmark**	Fund	Benchmark**	Fund	Benchmark**
10 Years	8.1%	7.6%	6.4%	6.0%	6.0%	5.3%
4 Years	10.7%	9.4%	3.9%	3.1%	4.1%	3.4%
3 Years	8.2%	7.0%	8.4%	7.4%	11.1%	10.0%
2 Years	7.0%	6.2%	8.3%	7.3%	7.6%	6.6%
1 Year	9.5%	7.8%	3.2%	3.5%	4.5%	4.7%

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

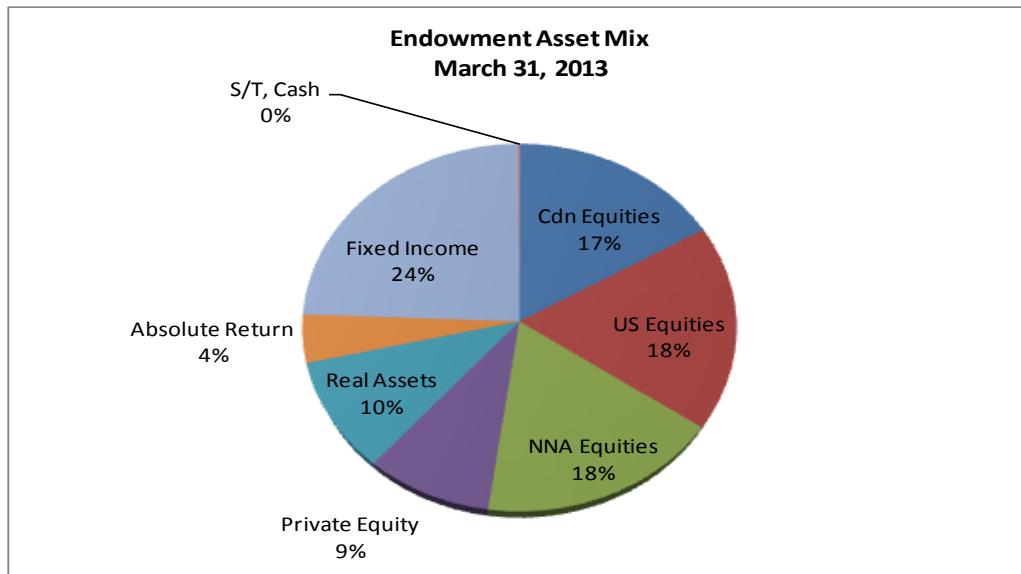
\*\* The benchmark is the index return of the Fund asset allocation

**APPENDIX A**  
**Investment Objectives & Asset Mix**

**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**

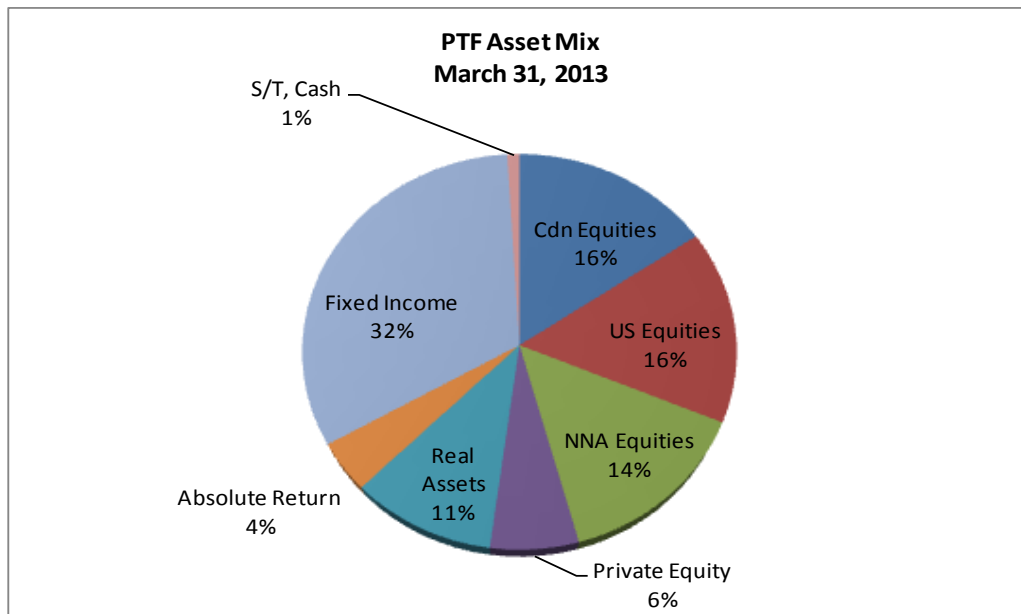
**Target: CPI + 5.3%**



**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%**

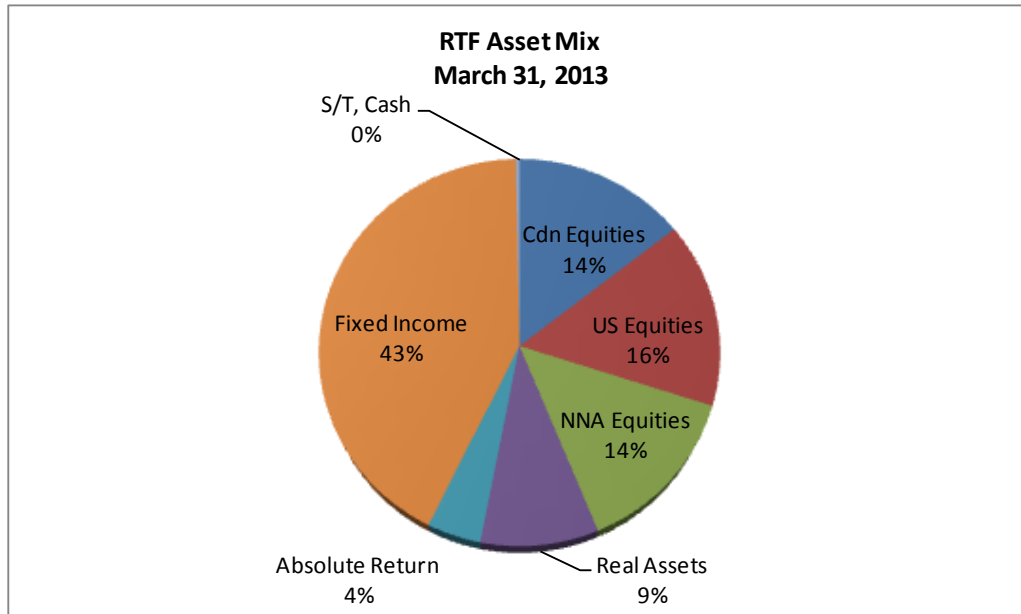




**Retirees' Trust Fund Objectives:**

- **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  
2012-13**

		<u>Investment Committee</u>	<u>Pension Trust Fund</u>	<u>Retirees' Trust Fund</u>
Mr. George McLellan (Chair)	Board Nominee	√	√	√
Mr. Jim Spatz, Q.C. (ex officio)	Board Nominee	√		
Mr. Stan Spavold	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 (in association with Segal Rogerscasey Canada)