

**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 2014

Mr. Chair, Members of the Board of Governors:

Summary

The University Endowments had a market value of \$478.2 million as at March 31, 2014, while the two Dalhousie pension funds had a combined asset value of \$1.0 billion. In aggregate the endowment and pension funds increased \$191.2 million over last year. This growth was after the payouts of \$20.9 million by the Endowments to support the University's programs and \$36.7 million from the pension funds to deal with pension obligations.

The Endowments earned a return of 17.9% for the year, while the Pension Trust Fund (PTF) and the Retirees' Trust Fund (RTF) earned one-year returns of 15.8% and 13.5% respectively. After a first quarter that provided modest returns for the Funds, the remainder of the year yielded exceptionally robust returns, fuelled by surging gains in the public equity markets.

Dalhousie turned to a total rate of return (TROR) approach for its endowment funds twenty-four years ago in 1990. The primary objective of this approach is to preserve the real purchasing power of the gifted capital. Chart 1 illustrates that over the last nineteen 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 8.6% as compared to an annualized objective of 7.4%. As stated earlier, 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.

Chart 1

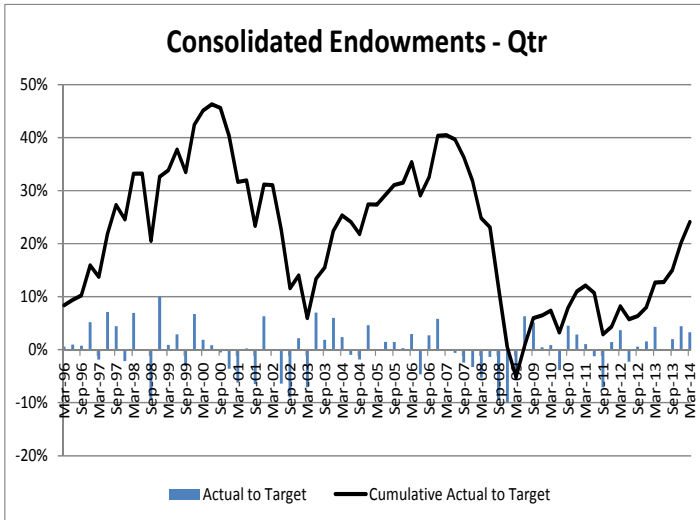
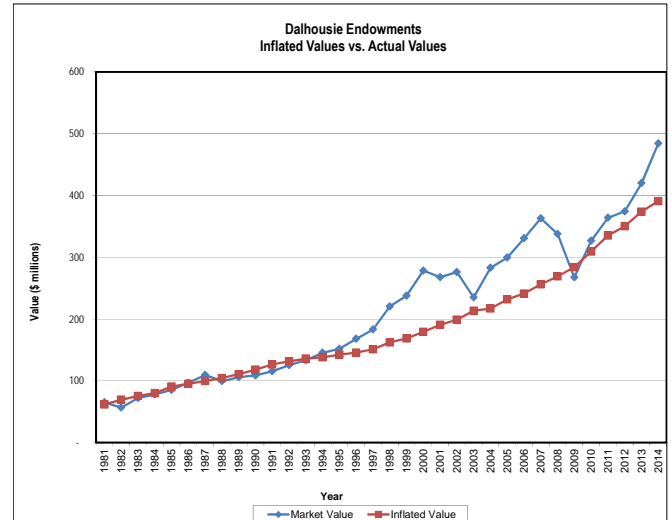


Chart 2



Likewise, the University's two pension funds have also met and exceeded their respective return targets over the last eighteen years to the Funds' most recent June 30, 2013 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 6.87% 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 7.7%, while the RTF has achieved a net annualized return of 7.6%. 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

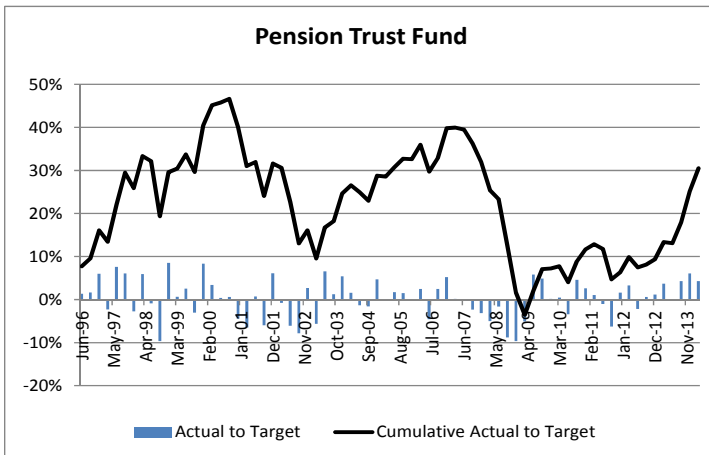
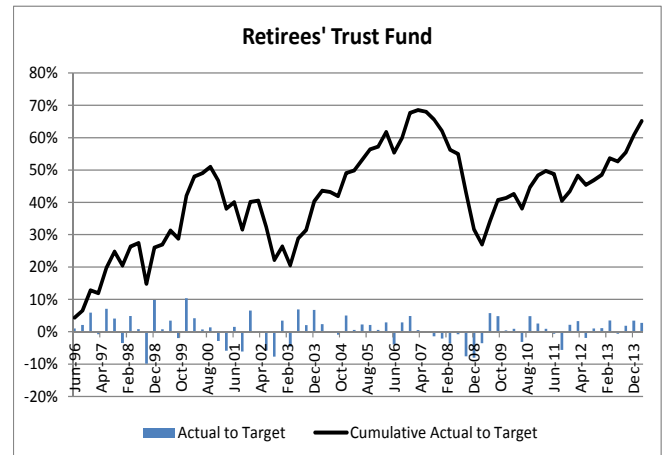


Chart 4



Each Fund's primary return objective is defined by its funding requirement - the returns required to meet each Fund's respective obligations. Consequently, each Fund has its own distinct set of investment objectives that have resulted in different asset mix policies for each Fund. As a result, the Funds' returns will differ from one another. 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' 17.9% 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. However, the annualized returns for the past ten years for all three Funds are within a tight 6.9% to 7.0% range. The Funds are structured to have better preservation characteristics in down markets which often results in the Funds lagging strong market rallies. Appendix A summarizes each Fund's investment objectives and related

investment structure. The Committee and Trustees commend staff for the ongoing achievement of specified investment objectives.

Market Overview

The central banks of the major economies maintained very accommodative monetary policies during the year. However, the mere mention that the U.S. Fed would start tapering its bond purchases in its quantitative easing strategy caused a brief period of panic and a bond selloff. However, the panic quickly subsided and was followed by a rally in the bond market led by corporate and long bonds. In Canada, 91-day treasury bills had a 1% return while inflation came in at 1.5%. Over the last five years the annualized T-bill returns have been negative in real terms with a 0.8% return while inflation was 1.5%. After a weak start, the Canadian equity market rebounded over the last nine months to March 31, 2014 to produce a 16% 1-year return. Two of the three Canadian market's largest sectors, financials and energy, helped carry the market, while continuing weak commodity prices dragged the materials sector down. The consumer sectors also enjoyed strong years.

Continuing improvements in the U.S. economy and the low rate environment provided support to the U.S. equity markets which responded with a 21.8% return. All sectors contributed to this strong positive return. The U.S. equity market also generated positive year-over-year returns for 53 consecutive months as at March 31, 2014. The U.S. dollar appreciation against the Canadian dollar provided a substantial added boost to unhedged Canadian investors in the U.S. market. Other international equity markets in aggregate yielded a 15.4% return that converted to a 27.5% return when converted to Canadian dollars.

<i>Annualized returns as of March 31, 2014</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	16.0%	10.9%	3.6%	7.5%	8.1%
U.S. -S&P 500, <i>CAD</i>	32.2%	23.8%	19.6%	17.3%	5.6%
U.S. -S&P 500, <i>USD</i>	21.8%	17.8%	14.7%	14.9%	7.4%
EAFE - <i>CAD</i>	27.5%	20.2%	11.8%	10.3%	4.7%
EAFE - <i>local currency</i>	15.4%	16.1%	8.9%	7.0%	5.6%
Canada Bonds - DEX	0.8%	2.7%	5.0%	5.0%	5.1%
<i>CPI</i>	1.5%	1.3%	1.5%	1.9%	1.9%

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.

2013/14 Committee & Trustee Activity

The Committee and trustees meet a number of times during 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 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 variations of market conditions, and as such, the investment policy benchmark is another important measure.

The endowment spending and asset mix policies were reviewed by the Committee that led to its recommendation to the Board that the target spending rate be reduced from 4.75% to 4.25%. The endowment asset mix was left unchanged. The Committee and Trustees also reviewed and amended the composition targets for U.S. equities and the currency hedging targets and ranges. A governance review was also completed. This examined the segregation of duties and responsibilities, and assessed how well these roles were defined. The objectives and principles behind the investment policies were also revisited. The Trustees also commenced asset-liability studies for the PTF and RTF once the results of the March 31, 2013 actuarial valuation were available. Results of the studies were discussed in April 2014 with asset mix revisions being approved in May 2014

For a number of years the Committee has been examining and discussing the evolution of various responsible practices including ethical investing, socially responsible investing (SRI), use of exclusionary screens, composition of investable SRI indices and investment funds, use of environmental, social and governance metrics (ESG), United Nations Principles for Responsible Investing, use and impact of engagement, and roles and duties of fiduciaries. In February 2013, the Committee decided to pursue ESG, and in November 2013 ESG principles were incorporated in the University's investment policies. The principles are based on the belief that over the long term, companies that exhibit responsible corporate behavior with respect to environmental, social and governance (ESG) factors will have a positive impact on long-term financial performance. The assessment of ESG factors along with the assessment of the business, management and financial metrics will enhance the identification of good investment opportunities and to help mitigate risk to the Endowment Funds. The policies also provide that:

- The Endowment Funds will encourage its external investment managers to develop and enhance their ESG assessment capabilities. The Administration will include ESG assessment progress and capabilities in each investment manager's annual review.
- The Endowment Funds will include ESG assessment capabilities when evaluating investment managers for new mandates.
- Investment managers are to report quarterly on any environmental, social and governance (ESG) risks they have discovered in their portfolio. This report shall also include information on any ESG issues that have been identified and discussed with the management of any of the companies that are in the portfolio or information on ESG issues that are made available through industry publications or events.
- The Investment Committee or Administration will require the Investment Managers to provide periodically a summary of how proxies have been voted. This report shall also disclose any ESG issues that may have arisen and how this ESG issue has impacted positively or negatively the exercise of any proxy vote.

Reviews and discussions with the Funds' investment managers since the incorporation of the ESG principles have indicated that managers are developing and expanding their internal ESG capabilities in the areas of assessment, proxy execution and engagement. Many firms are also utilizing external services to complement ESG assessments and proxy reviews.

The members of the Investment Committee and Trustees for the past year are listed on the last page of this report. Tom Traves retired as President of the University and his role with Investment Committee and the PTF/RTF Trustees in June 2013. Chris Smith's term with the Board, the Committee and Trustees comes to an end on June 30, 2014. Both Tom and Chris have been respected and reliable Members and Trustees, and their contributions have been sincerely valued. 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 Endowment Funds provide annual funding to the operating budget to support academic chairs and salaries, fellowships, scholarships, student bursaries, library enhancement, research, equipment and facilities. For the 2013/14 fiscal year, total endowment program spending along with investment and administrative expenses was \$18.5 million. There was an additional \$1.2 million of spending support from externally-held endowments and related contributions. The University's endowment spending policy is subject to frequent review. A 2013 review's modelling and projections indicated a strong possibility of continuing low economic growth with associated low interest rates and investment returns. As a result, the Board amended the University's endowment banded inflation spending policy at its June 2013 meeting. The target spending rate for the banded inflation approach was reduced from 4.75% to 4.25%, and the upper band was reduced from 5.75% to 5.00%. The lower band remained unchanged at 3.75%. To ease in the transition to lower spending, 2013/14 spending allocations were frozen to the 2012/13 allocations. Spending allocations for 2014/15 will be reduced by 5% and held at that dollar level until the effective spending reaches 4.25%. Over the past year, the Endowment investments increased from \$415.0 million to \$478.2 million. The year-over-year change consisted of \$12.3 million in gifts less \$1.3 million net transfers for designated purposes, plus \$73.1 million generated by the year's 17.9% investment return, less the \$20.9 million of spending allocation withdrawals.

DALHOUSIE UNIVERSITY
ENDOWMENT FUNDS

Manager	Asset Class	Market Value (\$ Millions)	
		March 31, 2014	March 31, 2013
Burgundy Asset Management	Canadian Equities	\$ 46.8	\$ 37.0
Montrusco Bolton	Canadian Equities – dividend growth	20.2	14.0
Fiera Capital Management	Canadian Equities – market neutral	16.5	14.6
Ashford Capital Management	US Equities	21.8	15.8
Wedge Capital Management L.L.P.	US Equities – Large Cap	47.3	38.2
State Street Global Asset Management	US Equities – Mid Cap Index	23.4	19.1
Sprucegrove Investment Management	Non-North American Equities	65.0	53.9
First Eagle	Non-North American Equities	18.3	17.5
State Street Global Asset Management	Currency hedges	0.6	0.9
CIBC Global Asset Management	Canadian Bond – Index	34.0	32.3
Addenda Capital Inc.	Canadian Bonds - active	20.4	20.1
BlackRock Asset Management	Canadian Bonds - active	23.8	23.4
Canso Investment Counsel	Canadian Bonds - active	21.5	19.1
Commonfund Capital	Private Equity	29.6	23.5
JP Morgan	Private Equity	11.0	7.7
Pantheon	Private Equity	6.7	5.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	9.9	8.2
Brevan Howard	Global Macro	4.8	4.5
BlueCrest Capital	Global Macro	4.8	4.5
Lazard Asset Management	Infrastructure securities	6.2	4.8
JP Morgan	Infrastructure & Shipping	7.3	5.4
CBRE Clarion	Global Real Estate Securities	14.8	13.7
GPM	Canadian Real Estate	11.2	9.6
Canadian Urban	Canadian Real Estate	7.5	6.9
	General*	4.8	14.5
TOTAL ASSETS		\$478.2	\$415.0

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

ENDOWMENT FUND PERFORMANCE

	Annualized Returns to			
	March 31, 2014		March 31, 2013	
	Fund	Benchmark**	Fund	Benchmark**
10 Years	7.1%	6.5%	7.8%	7.5%
4 Years	11.3%	9.2%	12.0%	10.7%
3 Years	10.6%	8.9%	9.2%	7.3%
2 Years	14.3%	12.2%	7.2%	5.9%
1 Year	17.9%	15.1%	10.8%	9.4%

** 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 \$522.4 million to \$591.8 million, an increase of \$69.4 million, over the first nine months of its fiscal year which commenced July 1, 2013. The Fund's 14.2% investment return over this period provided \$73.2 million of growth. The Fund received \$33.0 million in new contributions, while disbursing \$34.2 million in various benefit payments and \$2.6 million in expenses.

DALHOUSIE UNIVERSITY
PENSION TRUST FUND

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2014</i>	<i>June 30, 2013*</i>	<i>March 31, 2013</i>
Burgundy Asset Management	Canadian Equities	\$ 54.4	\$ 44.9	\$ 44.3
Montrusco Bolton	Canadian Equities	20.1	16.5	16.8
Fiera Capital Management	Canadian Equities	20.3	18.6	18.5
Ashford Capital Management	US Equities	28.9	25.0	22.1
Wedge Capital Management L.L.P.	US Equities – Large Cap	50.4	43.8	40.6
State Street Global Asset Management	US Equities – Mid Cap	21.9	18.0	18.2
Sprucegrove Investment Management	NNA Equities	72.1	58.5	59.7
First Eagle	NNA Equities	17.2	14.4	14.2
State Street Global Asset Management	Currency hedges	0.7	(1.6)	1.0
CIBC Global Asset Management	Canadian Bond - Index	57.2	55.4	56.7
Addenda Capital Inc.	Canadian Bonds - active	32.7	31.5	32.2
BlackRock Asset Management	Canadian Bonds – active	41.3	39.8	40.6
Canso Investment Counsel	Canadian Bonds – active	33.3	31.4	31.4
Commonfund Capital	Private Equity	24.7	19.1	17.8
JP Morgan	Private Equity	12.2	9.6	9.1
Pantheon Ventures Ltd.	Private Equity	6.8	6.0	5.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	11.8	10.7	10.2
Brevan Howard	Global Macro	5.9	5.8	5.6
BlueCrest Capital	Global Macro	6.0	5.7	5.6
Lazard Asset Management	Infrastructure securities	8.5	6.9	6.7
JP Morgan	Infrastructure & Shipping	8.8	6.7	6.5
CBRE Clarion	Global Public R.E.	21.2	18.9	18.9
GPM	Canadian Real Estate	14.7	12.6	12.5
Canadian Urban	Canadian Real Estate	9.9	9.6	9.1
	Cash in Bank & Other	10.8	14.6	8.3
<i>TOTAL ASSETS</i>		<i>\$591.8</i>	<i>\$522.4</i>	<i>\$512.4</i>

PENSION TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 31, 2014</i>		<i>June 30, 2013*</i>		<i>March 31, 2013</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	6.9%	6.2%	7.0%	6.6%	7.7%	7.4%
4 Years	10.4%	8.5%	9.7%	8.5%	11.4%	10.3%
3 Years	10.0%	8.2%	9.9%	9.0%	8.7%	7.2%
2 Years	13.0%	10.6%	7.6%	6.3%	7.1%	6.1%
1 Year	15.8%	12.6%	12.5%	12.0%	10.3%	8.6%

*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 commences on July 1st. For the first nine months of this fiscal year, the Retirees' Trust Fund's assets increased by \$51.0 million to \$413.5 million. The Fund received \$29.4 million in transfers for new retirees from the Pension Trust Fund and the 12.7% investment return added another \$45.7 million to assets. The Fund made \$22.5 million in benefit payments and incurred \$1.6 million in expenses during the period.

DALHOUSIE UNIVERSITY
RETIRES' TRUST FUND

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2014</i>	<i>June 30, 2013*</i>	<i>March 31, 2013</i>
Burgundy Asset Management	Canadian Equities	\$ 37.8	\$ 31.2	\$ 30.8
Montrusco Bolton	Canadian Equities	13.3	11.0	11.1
Fiera Capital	Canadian Equities	11.7	10.7	10.7
Ashford Capital Management	US Equities	17.3	15.5	13.8
Wedge Capital Management L.L.P.	US Equities – Large Cap	33.2	29.4	28.7
State Street Global Asset Management	US Equities – Mid Cap	17.6	14.0	14.1
Sprucegrove Investment Management	Non-North American Equities	49.5	40.2	41.5
First Eagle	Non-North American Equities	11.0	9.2	9.0
State Street Global Asset Management	Currency hedges	0.5	(1.1)	0.7
CIBC Global Asset Management	Canadian Bond - Index	46.9	45.4	46.4
Addenda Capital Inc	Canadian Bonds - active	34.2	33.0	30.3
BlackRock Asset Management	Canadian Bonds - active	34.8	33.5	34.2
Canso Investment Counsel	Canadian Bonds - active	36.8	31.5	31.5
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	8.4	7.6	7.3
Brevan Howard	Global Macro	4.3	4.2	4.1
BlueCrest Capital	Global Macro	4.4	4.1	4.1
Lazard Asset Management	Infrastructure securities	6.2	5.0	4.9
JP Morgan	Infrastructure & Shipping	6.3	4.9	4.7
First National	Index Linked Mortgages	9.1	10.1	10.8
CBRE Clarion	Global Public Real Estate	12.1	10.8	10.8
GPM	Canadian Real Estate	9.3	7.9	7.9
Canadian Urban	Canadian Real Estate	5.9	5.7	5.4
	Cash in Bank	2.9	(1.3)	2.1
TOTAL ASSETS		\$413.5	\$362.5	\$364.9

RETIRES' TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 2014</i>		<i>June 30, 2013*</i>		<i>March 31, 2013</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	7.0%	6.2%	7.3%	6.6%	8.1%	7.6%
4 Years	9.5%	7.8%	9.0%	7.6%	10.7%	9.4%
3 Years	9.1%	7.5%	9.2%	7.6%	8.2%	7.0%
2 Years	11.5%	8.9%	7.0%	5.8%	7.0%	6.2%
1 Year	13.5%	10.1%	10.9%	8.2%	9.5%	7.8%

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

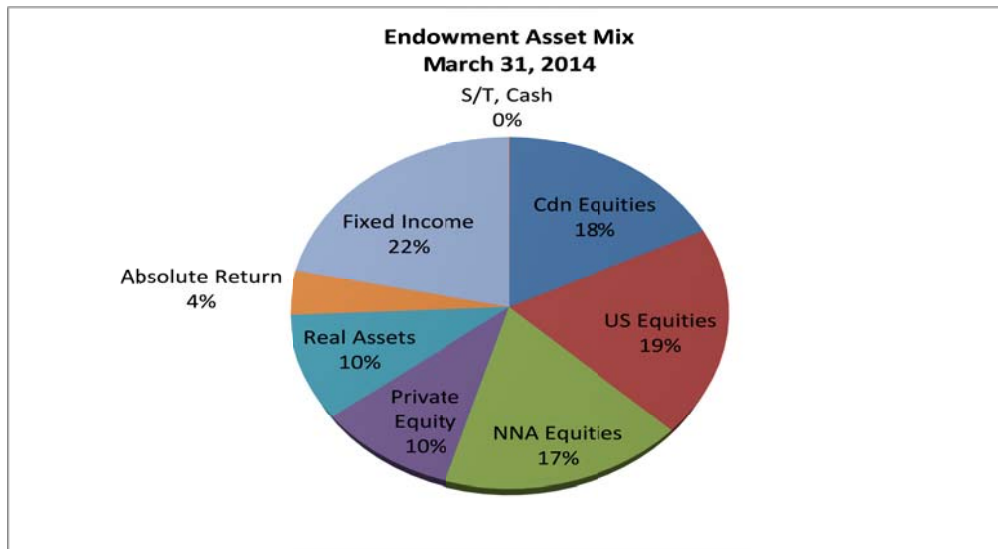
** The benchmark is the index return of the Fund asset allocation

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*

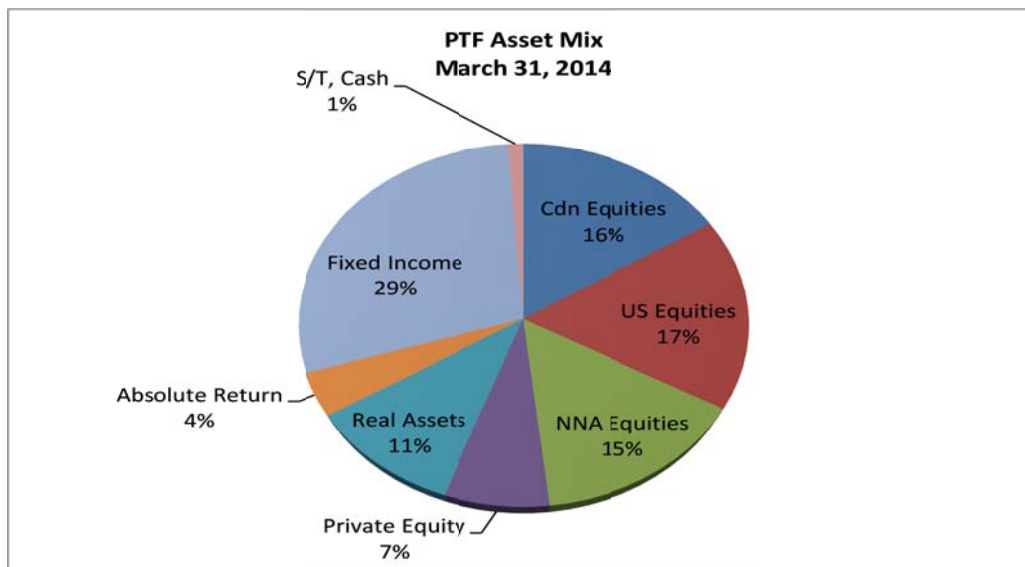
Target: CPI + 4.95%



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.*

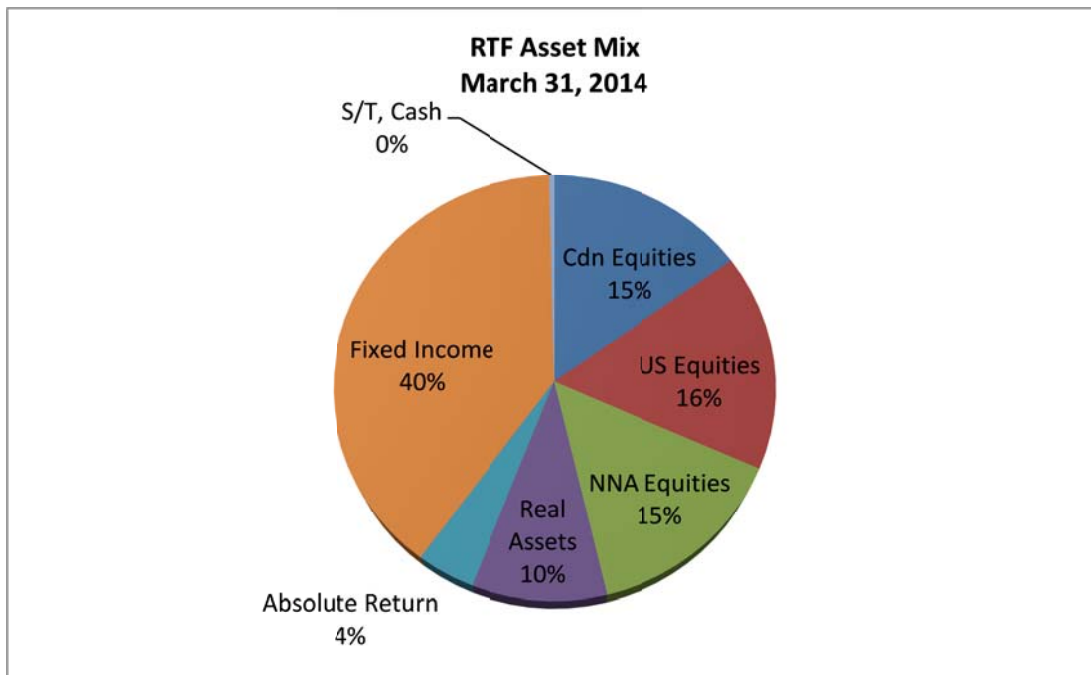
Target: Actuarial Assumption of 6.00%



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
2013-14**

		Investment Committee	Pension Trust Fund	Retirees' Trust Fund
Mr. George McLellan (Chair)	Board Nominee	√	√	√
Mr. Jim Spatz, Q.C. (ex officio)	Board Nominee	√		
Mr. Chris Smith	Board Nominee	√	√	√
Mr. Rob Sobey	Board Nominee	√	√	√
Dr. Tom Traves (ex officio, Apr /13 – Jun /13)	Board Nominee	√	√	√
Dr. Richard Florizone (ex officio, Jul1/13 onward)	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, Apr/13 – Oct/13)	Senior Officer for Liaison and Member	√	√	√
Mr. Ian Nason (Vice-President, Finance & Administration – acting, Nov/13 onward)	Senior Officer for Liaison and Member	√	√	√

Support:

Secretary/Staff:

Mr. Colin Spinney (Treasurer)

Consultant:

Mr. Bob Mitchell (in association with Segal Rogerscasey Canada)