

**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 2015*

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

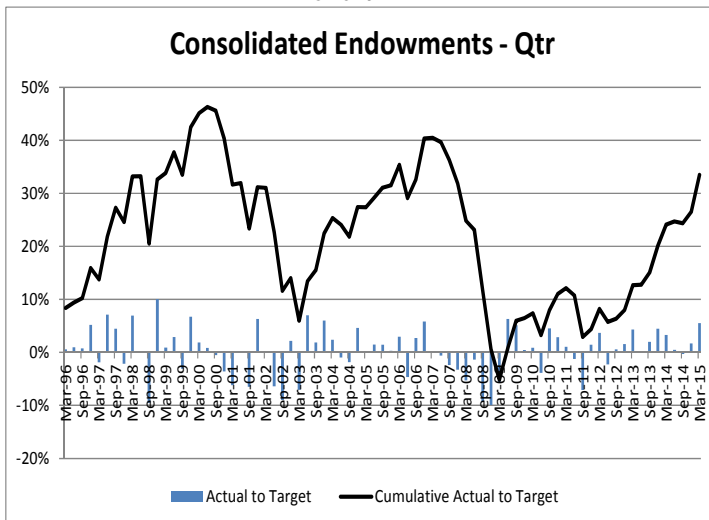
Summary

The University endowments contributed \$18.6 million in student financial assistance and academic support in 2014/15. The endowments achieved a 14% investment return for the year, and received \$9.5 million in new gifts. As at March 31, 2015, the endowments had reached a value of \$534.4 million.

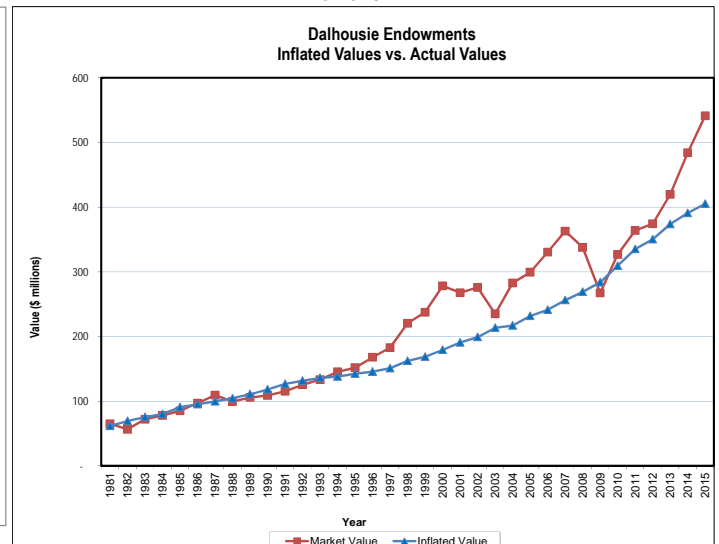
Dalhousie commenced a transition to a total rate of return (TROR) approach for managing its endowment fund investments in 1990. This approach is followed in conjunction with a banded inflation spending model to provide stable and sustainable spending levels, while preserving the real purchasing power of the gifted capital. Chart 1 illustrates that over the last twenty years since the TROR approach was fully implemented, the endowment funds have achieved sustainable spending as the return objective (as depicted by the horizontal axis) has been met. The bars depict the Funds' returns versus the objectives on a quarterly basis. The endowment return objective is the spend rate plus administrative fees plus inflation. Since 1995 when TROR was fully implemented, the Funds' annualized return was 8.8% as compared to an annualized objective of 7.3%.

The other principle 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*

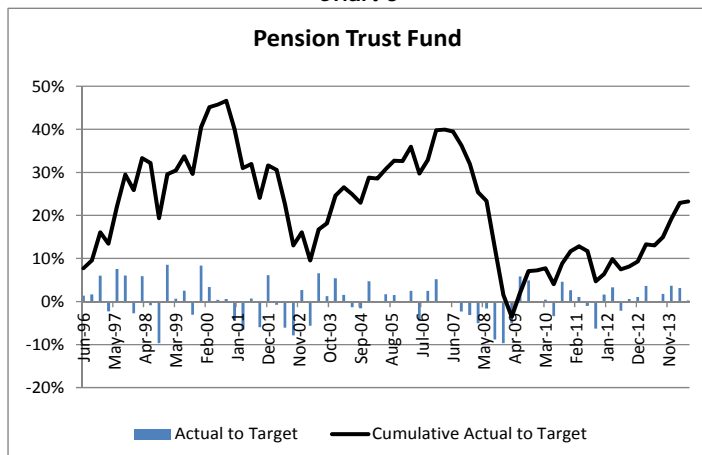


*Chart 2*

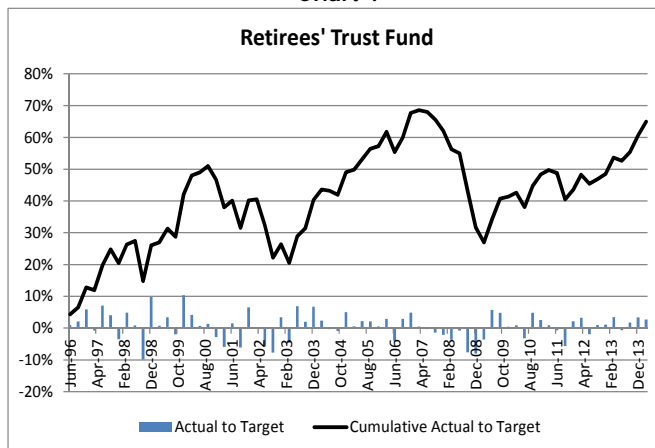


The Pension Trust Fund (“PTF”) and the Retirees’ Trust Fund (“RTF”) in aggregate supply the assets to fund the obligations of the Dalhousie University Staff Pension Plan. As Charts 3 and 4 illustrate, the two funds have each met and exceeded their respective return targets over the last nineteen years to the Funds’ most recent June 30, 2014 fiscal year-end, despite volatility of the markets. The PTF had an annualized net return of 8.1% as compared to the actuarial target of 6.8% over this 19-year period. Likewise, the RTF was ahead of its 5.05% objective with a 7.9% annualized net return. Despite each fund exceeding its respective return targets, the Plan is currently in a deficit position. Improving mortality rates have increased the plan liabilities significantly, and use of previous surpluses for benefit enhancements, contribution holidays and surplus distributions have also contributed to the deficit.

*Chart 3*



*Chart 4*

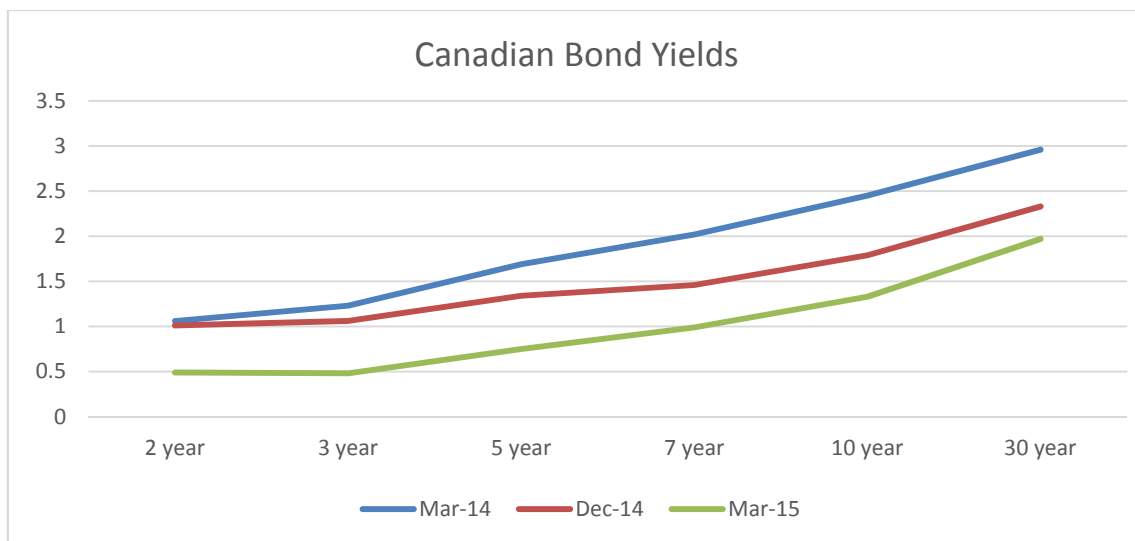


Each Fund’s primary return objective is defined by its funding requirement – currently the endowment has a 4.95% real return targets, while the PTF and RTF have targets of 6.00% and 5.05% respectively. Consequently, each Fund has had its own distinct set of investment objectives that have resulted in different asset mix policies for each Fund, and consequently different return results. With the growth of the RTF assets, its asset mix policy has drifted closer to that of the PTF to where they match today. However, the RTF’s new allocation to private investments will require some time to grow, thus return results will continue to differ from the PTF for a while.

The asset mix return benchmarks serve as secondary reference points. As equity markets enjoyed strong rallies for the past year, the Endowment Funds, with a slightly larger equity market exposure, led the funds with a 14.0% return. The PTF followed with a 13.3% return, while the RTF, which is still in transition from a more conservative allocation, had a 11.5% return. 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 7.1% to 7.5% range, and each has exceeded its respective 10-year return benchmark. Appendix A summarizes each Fund’s investment objectives and related investment structure.

Market Overview

The central banks of the major economies continued with very accommodative monetary policies and debt purchases during the year. In Canada, the central bank moved early in 2015 to decrease the bank rate in anticipation of economic weakness due to lower oil and commodity prices. This had a reaction across the entire Canadian yield curve as the following chart demonstrates. The largest impact was felt on the long end of the curve where yields dropped to 2%, and as a result, long bonds generated an astounding 19.7% return for the year. Over the last four years, the duration of the broad Canadian bond market has moved from 6.1 years to 7.5 years. Canadian inflation was 1.2% for the 12-month period that ended March 31, 2015. However, government bonds with less than 7 years to maturity are yielding less than inflation, or in other words providing negative real returns



The energy and material sectors in aggregate represent over 30% of the Canadian equity market. Both sectors had weak years with negative returns, and contributed to lowering the return of the broad Canadian market. In addition, the rapid rise of Valeant Pharmaceuticals added to the concentration of Canada's stock market. Valeant had a 72% return that contributed 1.8% to the market's overall return. The U.S. equity market continued its strong run, with positive rolling year-over-year returns now reaching 65 months. International equities also had a third consecutive strong year. The Canadian dollar continued to weaken against the U.S. dollar, falling from \$USD 0.90 to \$USD 0.79. This drop significantly boosted U.S. equity returns in Canadian dollars. 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.

<i>Annualized returns as of March 31, 2015</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	6.9%	11.4%	9.6 %	4.4 %	7.4%
U.S. -S&P 500, CAD	29.4%	30.8%	25.6%	22.0%	8.6%
U.S. -S&P 500, USD	12.7%	17.2%	16.1%	14.2%	8.0%
EAFE - CAD	13.7%	20.4%	18.0%	12.3%	5.4%
EAFE - local currency	17.7%	16.6%	16.6 %	11.0 %	6.2%
Canada Bonds - DEX	10.2 %	5.4 %	5.1 %	6.3 %	5.6 %
<i>CPI</i>	<i>1.2%</i>	<i>1.4%</i>	<i>1.2 %</i>	<i>1.4 %</i>	<i>1.8 %</i>

#### 2014/15 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 Trustees of the PTF and RTF completed asset-liability studies. Results of the studies were discussed in detail in April 2014, followed the approval of asset mix revisions in May 2014. The RTF policy reduced the fixed income allocation, and added an allocation to private equity, along with increased allocations to real assets. The RTF will carry an overweight to

public equities while commitments and called capital for private investments evolve. The PTF made a slight reduction to fixed income, accompanied by an increase to real assets.

The U.S. equity compositions of the funds were reviewed during the past year to determine ways to optimize their risk-adjusted returns. After reviewing a series of model runs, it was decided that it would be beneficial to slightly reduce the large cap and small cap allocations, and redeploy these amounts to a new blended small-mid cap (SMID) strategy. The mid cap allocation was left unchanged. Staff is identifying SMID investment strategies that will complement the current strategies, with a final decision to be made later in 2015.

Absolute return strategies were also reviewed in past year. These strategies were originally added to generate 6% real returns on a consistent basis, exhibiting low volatility and little or no correlation with the public equity markets. Over the last few years, the low interest rate environment, where real rates on treasury bills are negative, has presented severe challenges to these strategies providing 6% real returns. The review concluded that a scenario where treasury bills could contribute their historical 1.5% real return will not return soon, thus the Funds decided to exit these strategies. Notices to redeem were filed, and the Funds are now in the process of exiting this asset class.

At the request of the Board, the Investment Committee met and had discussions on a number of occasions with a campus group proposing that Dalhousie divest from 200 publicly-listed companies with significant oil and/or coal reserves as identified by Carbon Tracker. The Committee shares the concerns associated with climate change, and agrees that significant and meaningful actions need to occur to reduce carbon emissions. However, the Committee did not agree that divestment will achieve the desired objective of reducing emissions. The committee noted, as has the United Nations since, that the major petroleum organizations with their large financial and technical resources need to be an active part of the solution. The Committee was of the opinion that ongoing engagement and collaboration with industry in all sectors is required to arrive at meaningful results.

In addition the Board accepted the Committee's recommendations to report annually on publicly traded securities and investigate potential investment vehicles to provide environmentally sustainable fund options to future donors. The publication of publicly traded securities will occur later this month and the Investment Committee has identified an investment product that is fossil fuel free and will be available for investment in the endowment fund as and when requested by donors.

The members of the Investment Committee and Trustees for the past year are listed on the last page of this report. George McLellan stepped down from the Committee and the Trustees late in the year after being appointed the deputy Minister of Finance for Nova Scotia. The Committee and the Trustees are very thankful to George for serving as Chair the last number of years, providing sound and valuable leadership. This is my last term as an Investment Committee Member and PTF, RTF Trustee. I wish to thank the other Committee members and the Trustees, as well as all staff, for their support during my term as Chair, and for their valued contributions during this past busy and successful year.

Respectfully submitted,



Jay Abbass  
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. The endowment spending policy is reviewed frequently to ensure that spending is kept at a sustainable level to enable preservation of the real economic value of the corpus and to provide an intergenerational equality balance. Dalhousie uses a banded inflation model that commences spending at a target percentage of market value and increases spending at the rate of inflation so long as the spending remains within a band percentage of market value. In 2013, the policy was revised to reduce the target spending from 4.75% to 4.25%, and the upper band was lowered to 5.00% from the previous 5.75%. The lower band remained unchanged at 3.75%. To ease in the transition to lower spending, the 2014/15 spending allocations in nominal dollars were frozen to the 2013/14 allocations, and will be kept at these levels for each endowment until 4.25% is reached. When each endowment reaches 4.25%, inflationary increases for those endowments will resume. For the 2014/15 fiscal year, total endowment program spending along with investment and administrative expenses was \$20.2 million. There was an additional \$1.7 million of spending support from externally-held endowments and related contributions. Over the past year, the Endowment investments increased from \$478.2 million to \$534.4 million. The year-over-year change consisted of \$9.5 million in gifts and \$1.4 million in net transfers for designated purposes. Another \$66.3 million was generated by the year's 14.0% investment return. \$21.0 million was set aside for spending allocation withdrawals.

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

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>	
		<i>March 31, 2015</i>	<i>March 31, 2014</i>
Burgundy Asset Management	Canadian Equities	\$ 47.0	\$ 46.8
Montrusco Bolton	Canadian Equities – dividend growth	20.1	20.2
Fiera Capital Management	Canadian Equities – market neutral	18.7	16.5
Ashford Capital Management	US Equities	24.4	21.8
Wedge Capital Management L.L.P.	US Equities – Large Cap	55.0	47.3
State Street Global Asset Management	US Equities – Mid Cap Index	27.7	23.4
Sprucegrove Investment Management	Non-North American Equities	69.7	65.0
First Eagle	Non-North American Equities	20.5	18.3
CIBC Global Asset Management	Canadian Bond – Index	37.4	34.0
Addenda Capital Inc.	Canadian Bonds - active	22.2	20.4
BlackRock Asset Management	Canadian Bonds - active	26.4	23.8
Canso Investment Counsel	Canadian Bonds - active	23.8	21.5
Commonfund Capital	Private Equity	37.9	29.6
JP Morgan	Private Equity	15.3	11.0
Pantheon	Private Equity	5.1	6.7
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	11.7	9.9
Brevan Howard	Global Macro	5.8	4.8
BlueCrest Capital	Global Macro	5.2	4.8
Lazard Asset Management	Infrastructure securities	6.5	6.2
JP Morgan	Infrastructure & Shipping	9.2	7.3
CBRE Clarion	Global Real Estate Securities	17.6	14.8
GPM	Canadian Real Estate	11.9	11.2
Canadian Urban	Canadian Real Estate	8.2	7.5
	General*	7.1	5.4
<b>TOTAL ASSETS</b>		<b>\$534.4</b>	<b>\$478.2</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, 2015</i>		<i>March 31, 2014</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	7.5%	7.1%	7.1%	6.5%
4 Years	11.4%	10.0%	11.3%	9.2%
3 Years	14.2%	12.6%	10.6%	8.9%
2 Years	15.9%	14.2%	14.3%	12.2%
1 Year	14.0%	13.3%	17.9%	15.1%

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

**DALHOUSIE UNIVERSITY**  
*Pension Trust Fund*

The Pension Trust Fund's fiscal year commences on July 1<sup>st</sup>. For the first nine months of this fiscal year, the Pension Trust Fund's assets increased by \$56.2 million to \$665.5 million. The Fund's 11.2% investment return over this period provided \$65.7 million of growth. The Fund received \$35.1 million in new contributions, while disbursing \$41.8 million in various benefit payments and \$2.8 million in expenses.

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

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2015</i>	<i>June 30, 2014*</i>	<i>March 31, 2014</i>
Burgundy Asset Management	Canadian Equities	\$ 53.1	\$ 54.9	\$ 54.4
Montrusco Bolton	Canadian Equities	20.7	21.3	20.1
Fiera Capital Management	Canadian Equities	23.1	20.9	20.3
Ashford Capital Management	US Equities	33.4	27.0	28.9
Wedge Capital Management L.L.P.	US Equities – Large Cap	60.9	48.9	50.4
State Street Global Asset Management	US Equities – Mid Cap	27.3	22.0	21.9
Sprucegrove Investment Management	NNA Equities	76.8	70.3	72.1
First Eagle	NNA Equities	19.8	17.2	17.2
CIBC Global Asset Management	Canadian Bond - Index	62.2	58.4	57.2
Addenda Capital Inc.	Canadian Bonds - active	34.5	33.3	32.7
BlackRock Asset Management	Canadian Bonds – active	45.8	42.2	41.3
Canso Investment Counsel	Canadian Bonds – active	37.2	34.4	33.3
Commonfund Capital	Private Equity	34.1	25.0	24.7
JP Morgan	Private Equity	16.4	12.0	12.2
Pantheon Ventures Ltd.	Private Equity	5.2	6.4	6.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	13.9	11.6	11.8
Brevan Howard	Global Macro	7.2	5.8	5.9
BlueCrest Capital	Global Macro	6.4	5.8	6.0
Lazard Asset Management	Infrastructure securities	10.3	9.0	8.5
JP Morgan	Infrastructure & Shipping	11.2	8.6	8.8
CBRE Clarion	Global Public R.E.	28.0	22.1	21.2
GPM	Canadian Real Estate	15.6	14.9	14.7
Canadian Urban	Canadian Real Estate	10.8	10.4	9.9
	Cash in Bank & Other	11.6	26.9	11.5
<b>TOTAL ASSETS</b>		<b>\$665.5</b>	<b>\$609.3</b>	<b>\$591.8</b>

**PENSION TRUST FUND PERFORMANCE**

	<i>Annualized Returns to</i>					
	<i>March 31, 2015</i>		<i>June 30, 2014*</i>		<i>March 31, 2014</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	7.2%	6.8%	7.0%	6.5%	6.9%	6.2%
4 Years	10.8%	9.5%	11.4%	10.2%	10.4%	8.5%
3 Years	13.1%	11.5%	10.4%	9.3%	10.0%	8.2%
2 Years	14.5%	12.9%	14.4%	13.0%	13.0%	10.6%
1 Year	13.3%	12.9%	16.3%	16.1%	15.8%	12.6%

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

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

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

The Retirees' Trust Fund's asset value grew from \$416.5 million to \$469.9 million, an increase of \$53.4 million, over the first nine months of its fiscal year which commenced on July 1, 2014. The Fund received \$36.2 million in transfers for new retirees from the Pension Trust Fund and the 9.3% investment return added another \$43.7 million to assets. The Fund made \$24.7 million in benefit payments and incurred \$1.8 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, 2015</i>	<i>June 30, 2014*</i>	<i>March 31, 2014</i>
Burgundy Asset Management	Canadian Equities	\$ 40.7	\$ 39.6	\$ 37.8
Montrusco Bolton	Canadian Equities	13.8	14.1	13.3
Fiera Capital	Canadian Equities	13.3	12.1	11.7
Ashford Capital Management	US Equities	20.5	16.2	17.3
Wedge Capital Management L.L.P.	US Equities – Large Cap	42.8	33.6	33.2
State Street Global Asset Management	US Equities – Mid Cap	22.6	17.7	17.6
Sprucegrove Investment Management	Non-North American Equities	54.9	49.7	49.5
First Eagle	Non-North American Equities	17.2	10.9	11.0
CIBC Global Asset Management	Canadian Bond - Index	40.9	44.3	46.9
Addenda Capital Inc	Canadian Bonds - active	33.1	34.9	34.2
BlackRock Asset Management	Canadian Bonds - active	38.6	35.5	34.8
Canso Investment Counsel	Canadian Bonds - active	41.2	38.1	36.8
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	9.9	8.2	8.4
Brevan Howard	Global Macro	5.3	4.2	4.3
BlueCrest Capital	Global Macro	4.7	4.2	4.4
Lazard Asset Management	Infrastructure securities	13.2	6.6	6.2
JP Morgan	Infrastructure & Shipping	8.0	6.2	6.3
First National	Index Linked Mortgages	7.7	8.7	9.1
CBRE Clarion	Global Public Real Estate	18.5	12.6	12.1
GPM	Canadian Real Estate	9.9	9.4	9.3
Canadian Urban	Canadian Real Estate	6.4	6.2	5.9
	Cash in Bank & Other	6.7	3.5	3.4
<b>TOTAL ASSETS</b>		<b>\$469.9</b>	<b>\$416.5</b>	<b>\$413.5</b>

**RETIRES' TRUST FUND PERFORMANCE**

	<i>Annualized Returns to</i>					
	<i>March 2015</i>		<i>June 30, 2014*</i>		<i>March 31, 2014</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	7.1%	6.8%	7.1%	6.5%	7.0%	6.2%
4 Years	9.7%	8.9%	10.6%	9.2%	9.5%	7.8%
3 Years	11.5%	10.4%	9.6%	8.5%	9.1%	7.5%
2 Years	12.5%	11.7%	12.9%	11.1%	11.5%	8.9%
1 Year	11.5%	12.8%	15.0%	14.0%	13.5%	10.1%

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

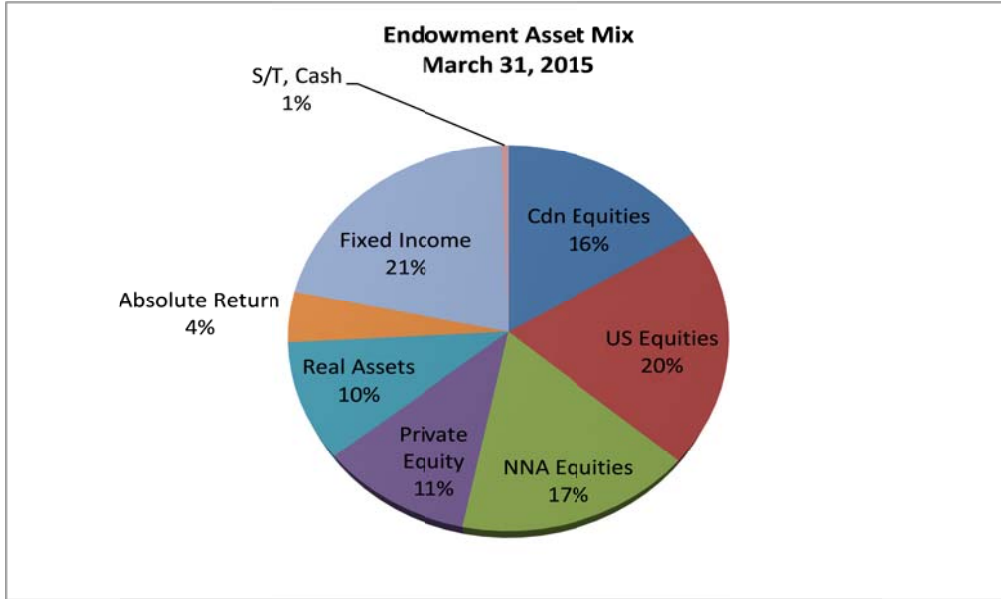
\*\*The benchmark is the index return of the Fund's policy asset allocation

**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*

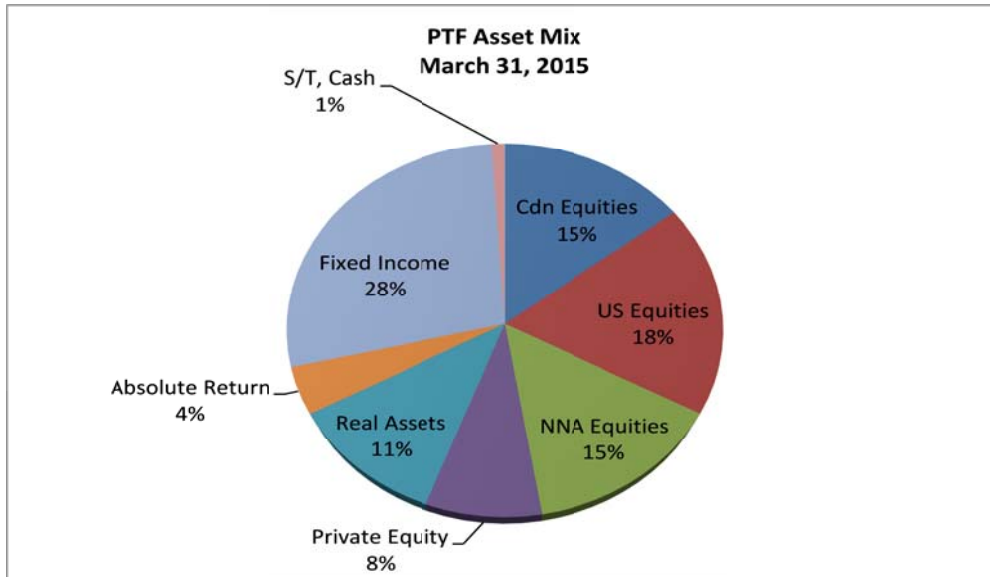
Target: CPI + 4.95%



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%

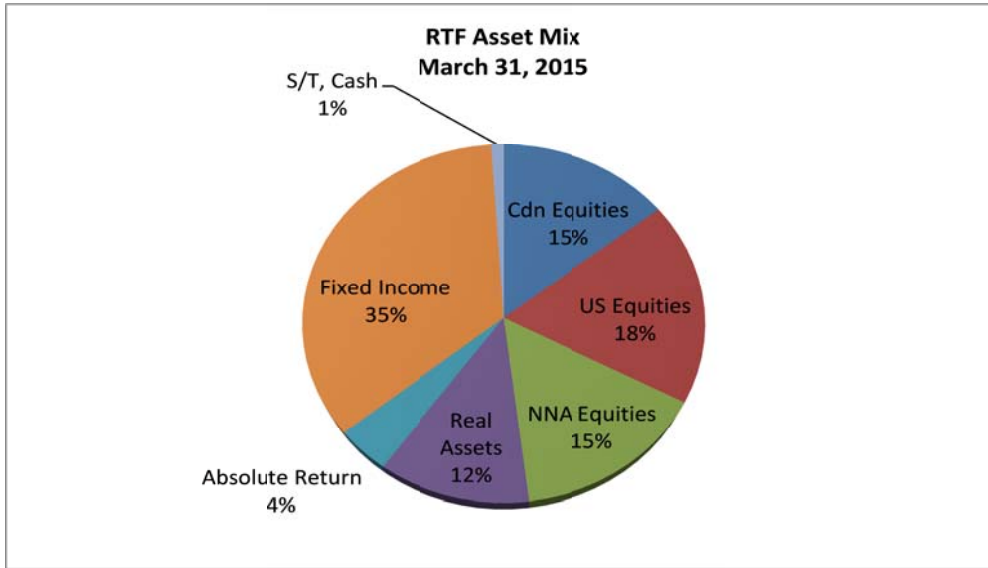




Retirees' Trust Fund Objectives:

- *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  
2014-15**

		<u>Investment Committee</u>	<u>Pension Trust Fund</u>	<u>Retirees' Trust Fund</u>
Mr. Jay Abbass (Chair)	Board Nominee	√	√	√
Mr. Larry Stordy, Q.C. (ex officio)	Board Nominee	√		
Mr. George McLellan ( <i>Apr /14 – Jan/15</i> )	Board Nominee	√	√	√
Mr. Rob Sobey	Board Nominee	√	√	√
Dr. Richard Florizone (ex officio)	Board Nominee	√	√	√
Mr. Paul Conrod	Non-Board, External	√	√	√
Dr. Iraj Fooladi	Senate Nominee	√	√	√
Dr. David Cameron	Non-Board, retiree			√
Mr. Ron Pink, Q.C.	DFA Nominee		√	√
Mr. Ian Nason (Vice-President, Finance & Administration)	Senior Officer for Liaison and Member	√	√	√

Support:

Secretary/Staff:

Mr. Colin Spinney (Treasurer)

Consultant:

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