

Financial Statements of

**DALHOUSIE RETIREES'
TRUST FUND**

Year ended June 30, 2015



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INDEPENDENT AUDITORS' REPORT

To the Trustees of the **Dalhousie Retirees' Trust Fund**

We have audited the accompanying financial statements of the **Dalhousie Retirees' Trust Fund**, which comprise the statement of net assets available for benefits as at June 30, 2015, and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management in accordance with the reporting provisions of the Trust Agreement in note 2 to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Trust Agreement, as described in note 2 to the financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements present fairly, in all material respects, the net assets available for benefits of the **Dalhousie Retirees' Trust Fund** as at June 30, 2015, and the changes in its net assets available for benefits for the year then ended in accordance with the financial reporting provisions of the Trust Agreement in note 2 to the financial statements.

Basis of accounting and restriction on use

Without modifying our opinion, we draw attention to Notes 1 and 2 to the financial statements, which describe the basis of accounting. The financial statements are prepared to assist the Trustees of the **Dalhousie Retirees' Trust Fund** and Dalhousie University. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Trustees of the **Dalhousie Retirees' Trust Fund** and Dalhousie University and should not be used by parties other than the Trustees of the **Dalhousie Retirees' Trust Fund** and Dalhousie University.

Comparative information

The financial statements of the **Dalhousie Retirees' Trust Fund** for the year ended June 30, 2014 was audited by another auditor who expressed an unqualified opinion on this financial statement on October 9, 2014.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Halifax, Canada
October 8, 2015
Chartered Accountants

DALHOUSIE RETIREES' TRUST FUND

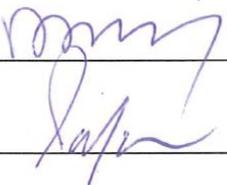
Statement of Net Assets Available for Benefits

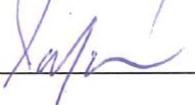
As at June 30, 2015, with comparative information for 2014
(In thousands of dollars)

	2015	2014
Assets:		
Investments (note 3):		
Canadian equities	\$ 66,954	\$ 62,223
U. S. equities	79,070	61,446
Non-North American equities	74,778	64,022
Total equities	220,802	187,691
Private equity	7,402	-
Real assets	53,609	40,975
Absolute return	19,690	16,991
Total alternatives	80,701	57,966
Bonds and long-term notes	132,998	143,094
Mortgages	20,050	20,071
Total fixed income	153,048	163,165
Cash and short-term investments	2,935	7,535
Total investments	457,486	416,357
Accrued income receivable	140	118
Total assets	457,626	416,475
Less liabilities:		
Benefits payable	380	361
Due to Dalhousie University	2,989	-
Accrued expenses	217	212
	3,586	573
Net assets available for benefits	\$ 454,040	\$ 415,902

See accompanying notes to financial statements.

On behalf of the Trustees:





DALHOUSIE RETIREES' TRUST FUND

Statement of Changes in Net Assets Available for Benefits

Year ended June 30, 2015, with comparative information for 2014
(In thousands of dollars)

	2015	2014
Additions:		
Capital transferred from the Dalhousie Pension Trust Fund for retirement benefits (note 2(d))	\$ 38,214	\$ 32,134
Additions from investments:		
Current period change in fair value of investments	22,072	44,767
Income from investments (note 4)	13,159	10,736
	<u>35,231</u>	<u>55,503</u>
Interest income (note 2(c))	38	12
Total additions	<u>73,483</u>	<u>87,649</u>
Deductions:		
Administrative expenses (notes 5 & 8)	2,167	1,969
Pension benefits	33,178	30,194
Total deductions	<u>35,345</u>	<u>32,163</u>
Increase in net assets for the year	<u>38,138</u>	<u>55,486</u>
Net assets available for benefits, beginning of year	415,902	360,416
Net assets available for benefits, end of year	<u>\$ 454,040</u>	<u>\$ 415,902</u>

See accompanying notes to financial statements.

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 1

Year ended June 30, 2015
(In thousands of dollars)

1. Description of plan:

The Dalhousie Retirees' Trust Fund (the "Fund") is one of two funds, the Dalhousie Pension Trust Fund being the other, that constitute the assets of the Dalhousie University Staff Pension Plan (the "Plan"). The Plan is a contributory defined benefit pension plan covering employees of Dalhousie University (the "University"). Under the Plan, contributions are made by the employees and the University. The Plan is registered under the Pension Benefits Act of Nova Scotia and is registered with the Canada Revenue Agency. The University is the Administrator of the Plan.

(a) Funding policy:

The University is required to meet the cost of all benefits not met by required contributions of members. The determination of the value of these benefits is made on the basis of an actuarial valuation.

(b) Current service pension:

The current service pension provides for a pension of 2% of the average best three years of pensionable salary received by the member multiplied by the number of years of participation in the plan up to a maximum of 35 years.

(c) Survivor's pension:

The normal form of pension payable to members with spouses includes a 66.67% survivor pension in respect of credited service up to June 30, 2004 with a minimum guarantee of 60 monthly payments. For credited service after June 30, 2004, the pension is paid for the member's life with a minimum guarantee of 84 monthly payments, which can be actuarially converted to provide for a survivor's pension.

(d) Income taxes:

The Dalhousie Retirees' Trust Fund is a Registered Pension Trust as defined in the Income Tax Act and is not subject to income taxes.

2. Basis of presentation and summary of significant accounting policies:

These financial statements have been prepared on a going concern basis and in accordance with the financial reporting requirements prescribed by the Dalhousie Retirees' Trust Fund Trust Agreement. The basis of accounting used in these financial statements materially differs from Canadian accounting standards for pension plans in Section 4600, Pension Plans, in Part IV of the CPA Canada Handbook because it excludes the Plan's pension obligations and related disclosures, as well as certain financial instrument disclosures. Consequently, these pension fund financial statements do not purport to show the adequacy of the Plan's assets to meet its pension obligations. These financial statements present the information of the Fund as a separate reporting entity independent of the sponsor and participants of the Plan.

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 2

Year ended June 30, 2015
(In thousands of dollars)

2. Basis of presentation and summary of significant accounting policies (continued):

Summary of significant accounting policies:

(a) The accompanying financial statements have been prepared on an accrual basis and present the net assets available for benefits and changes in net assets available for benefits.

(b) Investments:

(i) Valuation of investments:

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices. Short-term notes and Treasury Bills maturing within a year are stated at cost, which together with accrued interest approximates fair value given the short-term nature of these investments. The fair value of other investments is based on closing market quotations as at June 30. Where quoted prices are not available, estimated fair values are calculated using market comparable companies or securities and recent transaction multiples.

(ii) Investment transactions:

Investment transactions are recorded on the trade date.

(iii) Index linked mortgages:

The interest rate is adjusted annually according to the change in the Consumer Price Index. In 2015, mortgage payments reduced the principal on a book value basis by \$1,267 (2014 - \$1,198). The cumulative decrease to date totals \$15,007.

(iv) Income from investments:

Income from investments includes interest income and dividend income. Income from securities directly held is recorded on an accrual basis. For certain private investments, income is recorded when received. Income from other fund investments is recognized upon the receipt of those funds' statements in which income declarations have been made.

(v) Current period change in fair value of investments:

Current period change in fair value of investments includes all net realized and unrealized capital gains.

Gains or losses on sale or maturity of investments, based on the difference between average costs and proceeds, net of any selling expenses, are recorded at the time of disposition of the investment.

(vi) Foreign currency exchange contracts:

Future foreign currency exchange contracts are entered into to manage foreign currency exposures. These contracts are not designated and documented as hedging relationships in accordance with Part II of the CPA Canada Handbook Accounting Section 3856: Financial Instruments, and, accordingly, are measured at fair value.

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 3

Year ended June 30, 2015

(In thousands of dollars)

2. Basis of presentation and summary of significant accounting policies (continued):

(vii) Alternative investments:

Alternative investments include real estate investments, infrastructure, and absolute return strategies that include exposure to fund of funds with situation specific strategies such as equity long/short, event driven and arbitrage opportunities.

(c) Interfund accounts:

The interfund balance between the Dalhousie Retirees' Trust Fund and the University and/or the Dalhousie Pension Trust Fund attracts or pays interest at prime less 2%.

(d) Transfers from Dalhousie Pension Trust Fund:

When an employee retires, the actuarial value of retirement benefits is transferred from the Dalhousie Pension Trust Fund and is recorded on the effective date of retirement.

(e) Foreign currency translation:

The fair values of foreign currency denominated investments included in the statement of net assets available for benefits are translated into Canadian dollars at year-end rates of exchange. Gains and losses arising from translations are included in the current period change in fair value of investments.

Foreign currency denominated transactions are translated into Canadian dollars at the rates of exchange on the dates of the related transactions.

(f) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

3. Investments:

	2015	2014
<u>Canadian Equities Mandates:</u>		
Burgundy Asset Management - Canadian equities	\$ 24,033	\$ 24,981
Burgundy Focus Canadian Equity Fund	15,968	14,525
Montrusco Bolton Equity Income Trust Fund	13,495	14,146
Fiera North American Market Neutral Fund	13,766	12,063
<u>U.S. Equities Mandates:</u>		
Ashford Capital Management - U.S. small cap equities	20,783	16,194
Wedge Capital Management - U.S. large cap equities	42,626	33,601
State Street S&P MidCap Index Fund	22,060	17,698
<u>Non-North American Equities Mandates:</u>		
Sprucegrove Special International Pooled Fund	53,850	49,663
First Eagle International Value Fund	17,031	10,948

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 4

Year ended June 30, 2015

(In thousands of dollars)

3. Investments (continued):

Private Capital Mandates:

F&C European Capital Partners II L.P.	5,438	-
Commonfund Capital Partners L.P.	1,964	-

Hedge / Absolute Return Funds Mandates:

Crestline Offshore Fund Ltd. - absolute return fund of funds	9,749	8,240
Brevan Howard Multi-Strategy Fund Ltd. - global macro fund	5,096	4,199
BlueCrest Capital International Ltd. - global macro fund	4,785	4,224

Real Estate and Infrastructure Mandates:

CU Real Property (6) Limited Partnership - Canadian real estate	6,622	6,218
GPM Real Property (11) & (12) Ltd - Canadian real estate	9,877	9,400
CBRE Clarion Securities - global real estate	16,945	12,601
Lazard Global Listed Infrastructure (Canada) Fund	12,653	6,608
JP Morgan Global Maritime Investment Fund	1,894	1,069
JP Morgan Infrastructure Investments Fund	5,785	5,145

Fixed Income Mandates:

CIBC Pooled Canadian Bond Index Fund	35,671	44,275
Addenda Capital Bond Fund	30,884	34,863
Canso Broad Corporate Fund	26,875	26,632
BlackRock CorePlus Universe Bond Fund	37,724	35,481
Canso Private Loan Fund	12,735	11,366
First National Financial – index linked mortgages	7,315	8,705

Other:

State Street Global Advisors, Ltd. - currency hedging	(115)	942
RBC Investor Services - cash and notes	1,851	1,894
Bank of Nova Scotia - bank account	126	676

Total investments	\$ 457,486	\$ 416,357
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4. Income from investments:

	2015	2014
Canadian equities	\$ 2,431	\$ 1,774
U.S. equities	954	1,049
Non-North American equities	1,425	1,189
Real estate and infrastructure	1,911	1,514
Fixed income	6,361	5,153
Short-term and cash	77	57
Total income from investments	\$ 13,159	\$ 10,736

DALHOUSIE RETIREES' TRUST FUND

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Year ended June 30, 2015
(In thousands of dollars)

5. Administrative Expenses:

	2015	2014
Investment management fees	\$ 1,555	\$ 1,360
Investment custodial, performance, consulting fees	255	254
Benefits administration	158	149
Benefits actuarial and consulting fees	149	126
Audit fees	10	3
General administration	40	77
Total administrative expenses	\$ 2,167	\$ 1,969

6. Financial instruments and investment risks:

Financial instruments are utilized to replicate certain market exposures or to assist in the management of investment risks. Investments are primarily exposed to foreign currency, interest rate, market and credit risks. The Fund has set formal policies and procedures that establish an asset mix among equity, fixed income and alternative investments, requires diversification of investments within categories, and limits exposure to individual investments, counterparties and foreign currencies.

(a) Fair value of financial assets and financial liabilities:

The fair values of investments are as described in note 2(b). The fair values of other financial assets and liabilities, being cash and short-term investments, accrued income receivable, due to Dalhousie University, and accrued expenses approximate their carrying values due to the short-term nature of these instruments.

(b) One index linked mortgage has a maturity date later than ten years from June 30, 2015, and twenty-two mature between 2022 and 2024. No other investments have specific maturity dates.

(c) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Fund's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Guidelines, to mitigate the impact of market risk.

(d) Interest rate risk:

The Fund's fixed income investments are subject to the risk of rising interest rates. Should interest rates rise by 1.0%, it is estimated that the broad Canadian fixed income market could depreciate 8.3% in value. For the Fund, this could result in a loss of \$12.7 million, or 2.8% of the total Fund. The Fund seeks to manage this risk by diversifying its exposures to the Canadian fixed income market, by investing a portion in a pooled fund that utilizes broad holdings to replicate the overall Canadian fixed

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 7

Year ended June 30, 2015
(In thousands of dollars)

6. Financial instruments and investment risks (continued):

income market, a portion to a pooled fund strategy that changes the duration of the portfolio to position itself for anticipated interest rate movements, a fund that utilizes multiple strategies and markets to manage return, an allocation of the overall fixed income to Canadian corporate credit fixed income strategies that offer higher yield and that experience interest rate movements that differ from the broad market, and a final portion to floating rate debt.

(e) Credit risk:

Credit risk is the risk of loss in the event the counterparty to a transaction fails to discharge an obligation and causes the other party to incur a loss. Credit risk is mitigated through the management of the Fund assets within generally accepted parameters of safety and prudence, using a diversified investment program. Investments must adhere to specific limitations as outlined in the Fund's Statement of Investment Policies and Guidelines.

(f) Liquidity risk:

Liquidity risk refers to the risk that the Fund does not have sufficient cash to meet its current payment liabilities, including benefit payments, and to acquire investments in a timely and cost-effective manner. The liquidity position of the Fund is monitored regularly with updated cash forecasts to ensure it has sufficient funds to fulfill its obligations.

(g) Other price risk:

Other price risk is the risk that the fair value of an investment will fluctuate because of changes in market prices (other than those arising from foreign currency or interest rate risk), whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. An adverse change of 1% would lead to an approximate \$3.8 million decline in the Fund's overall value. Since all other variables are held constant in assessing price risk sensitivity, it is possible to extrapolate a 1% absolute change in the fair value to any absolute percentage change in fair value.

(h) Derivative financial instruments:

Derivatives are financial contracts, the value of which are derived from the value of underlying assets or interest rates or exchange rates. Foreign currency risk arises from the Fund's holding of foreign currency-denominated investments. Foreign currency risk is controlled by the Fund's currency hedging policy. The Fund utilizes derivative contracts directly for managing exposure to foreign currency volatility. Pooled funds or fund-of-funds that the Fund invests in may also use derivative contracts to replicate or to reduce the exposure to certain financial markets or specific securities. Derivative contracts, transacted either on a regulated exchange market or in the over-the-counter market directly between two counterparties, include the following:

(i) Future and forward contracts:

Future and forward contracts are contractual obligations either to buy or sell a specified amount of money market securities, bonds, equity indices, commodities or foreign currencies at predetermined future dates and prices. Future contracts are transacted in standardized amounts

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 7

Year ended June 30, 2015
(In thousands of dollars)

6. Financial instruments and investment risks (continued):

on regulated exchanges and are subject to daily cash margining. Forward contracts are customized contracts transacted in the over-the-counter market.

(ii) Option contracts:

Option contracts are agreements in which the right, but not the obligation, is acquired by the option purchaser from the option writer either to buy or sell, on or before a specified date, a predetermined amount of a financial instrument at a stated price.

At June 30, the Fund directly had the following derivative contracts outstanding:

	Notional Amounts		Fair Values	
	2015	2014	2015	2014
Foreign exchange contracts:				
Forwards	\$ 131,549	\$ 114,751	\$ (115)	\$ 942

The foreign currency exposure as at June 30 is summarized as follows (\$ Canadian):

	2015	2014
Through direct investment:		
United States	\$ 72,258	\$ 56,313
Europe, Asia, Far East	8,044	5,849
Through pooled funds:		
United States	51,333	40,576
Europe, Asia, Far East	76,320	60,611
Total	\$ 207,955	\$ 163,349

(i) Fair values:

Canadian accounting standards for pension plans require disclosure of a three-level hierarchy for fair value measurements based on the transparency of inputs to the valuation of an asset or liability as of the financial statement date. The three levels are defined as follows:

Level 1: Fair value is based on quoted market prices in active markets for identical assets or liabilities. Level 1 assets and liabilities generally include equity securities traded in an active exchange market.

Level 2: Fair value is based on observable inputs other than Level 1 prices, such as quoted market prices for similar (but not identical) assets or liabilities in active markets, quoted market prices for identical assets or liabilities in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less

DALHOUSIE RETIREES' TRUST FUND

Notes to Financial Statements, page 8

Year ended June 30, 2015
(In thousands of dollars)

6. Financial instruments and investment risks (continued):

frequently than exchange-traded instruments and derivative contracts whose values are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes mutual and pooled funds, hedge funds, Government of Canada, provincial and other government bonds, Canadian corporate bonds, and certain derivative contracts.

Level 3: Fair value is based on non-observable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This category generally includes private equity investments and securities that have liquidity restrictions.

The following is a summary of the inputs used as of June 30 in valuing the financial assets carried at fair value:

Financial Assets	2015	2014
Level 1		
Equity securities - Canadian	\$ 23,710	\$ 23,549
Equity securities - non-Canadian	79,703	60,862
Cash in bank	126	676
Level 2		
Pooled funds - Canadian equities	43,229	40,734
Pooled funds - non-Canadian equities	105,594	84,917
Pooled funds - fixed income	138,469	149,956
Absolute Return	19,630	16,664
Short-term and other	2,710	5,801
Level 3		
Private equity	7,402	-
Private real assets	24,178	21,832
Private debt	12,735	11,366
	\$ 457,486	\$ 416,357

7. Commitments:

Certain of the alternative investments contain contractual capital commitments. As at June 30, 2015, the Fund had outstanding future commitments of \$0.1 million (2014 - \$0.4 million) in Canadian real estate; US\$3.6 million (2014 - \$0 million) and €5.3 million (2014 - €0 million) in private equity investments; and US\$1.0 million (2014 - \$1.8 million) in private infrastructure.

8. Related party transactions:

During the year, the University provided investment administration, benefit administration, payroll, and accounting services. These recoverable service costs for 2015 were \$264 (2014 - \$263), and were included in administrative expenses for the year. The transactions were in the normal course of operations and were measured at the exchange amount.