

DALHOUSIE RETIREES' TRUST FUND ANNUAL REPORT to RETIREES for the year ended June 30, 2019

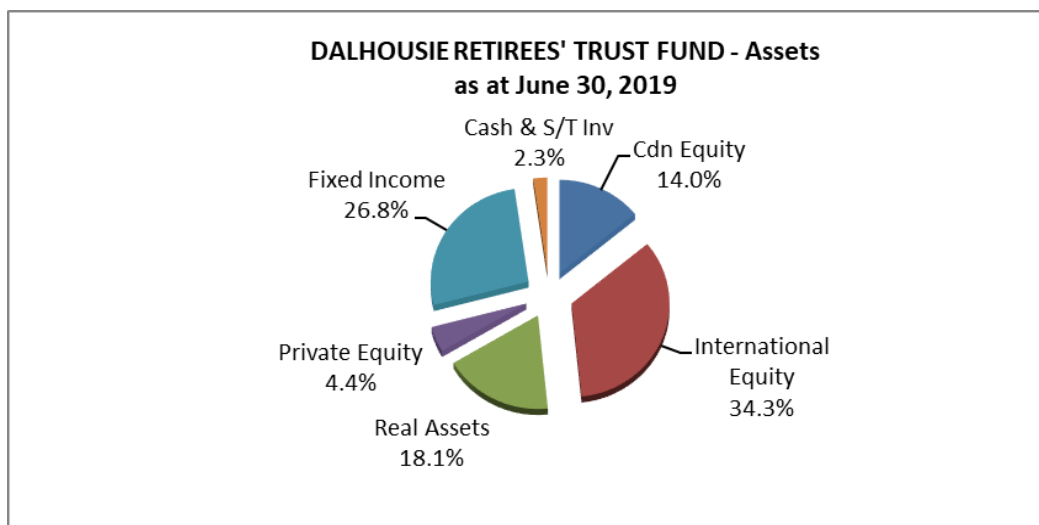
Introduction:

The Dalhousie Retirees' Trust Fund ("RTF") is one of two funds that support the benefits of the Dalhousie University Staff pension Plan, the other being the Pension Trust Fund which holds assets to fund the pension benefits earned and accumulated by members during their working careers. Monthly pension payments to the retired members of the Dalhousie University Staff Pension Plan are funded by assets held by the RTF, which were valued at \$664.9 million as at June 30, 2019. The RTF made \$49.4 million in member benefit payments during the year.

The RTF is governed by a group of appointed Trustees. The RTF Trustees hold regular meetings to provide strategic guidance and policy directives for RTF investments, and to review the performance and operations of the investments. The primary objective of the Trustees is to secure the promised pension benefit and with the benefit secured, provide indexation to the extent that investment performance permits. As a group, the Trustees take a long-term view when establishing policy and strategy to enable the RTF to achieve its' financial and Plan benefit objectives.

Fund Structure:

The RTF trustees have maintained allocations to multiple asset classes including Canadian and international stocks, Canadian bonds and mortgages, and alternative asset classes to provide a diversified portfolio that is not overly reliant on any one sector of the financial markets. The alternative asset class includes real assets (domestic and non-domestic real estate, infrastructure) and private equity strategies. The RTF's current asset mix policy has established allocation targets of 40% publicly-listed equities, 30% alternatives, and 30% fixed income, although the actual mix will vary within prescribed ranges. The targeted allocation for public equities is stated as 40%, but will be allowed to hover higher until private placement equity subscriptions in the real assets and private equity areas can be closed and capital called for those commitments. The RTF's asset allocation as at the most recent fiscal year end, June 30, 2019, is illustrated in the following chart.



To achieve further diversification, the RTF Trustees engage multiple external investment management firms to invest the Fund's assets. Specific investment mandates within certain asset classes are assigned to each firm to provide different yet complementary investment philosophies and styles. Collectively these manager assignments are administered to conform to the Fund's investment asset mix policy.

As noted earlier, the RTF's net assets were valued at \$664.9 million as at June 30, 2019, an increase of \$50.9 million from June 30, 2018. This increase, as depicted in the following table, was the result of fund inflows for new retirees and investment gains, less pension payments and fund expenses incurred during the year.

Changes in Net Assets Available for Benefits
For the year ended June 30, 2019
(millions)

Funding for new pensioners	\$ 66.0
Investment Returns	37.7
Benefits Paid	(49.4)
Fund Expenses	(3.4)
Net Change	\$ 50.9

Investment Returns:

Despite a few declines during the year, the U.S. equity markets continued a strong run for an amazing tenth consecutive year. The U.S equity market once again led global markets with 1-year and 10-year returns of 10% and 16%. The global equity markets were led by large "growth" companies in the technology and consumer sectors. The earnings growth for many of these companies did not keep pace with the growth in their respective stock prices, thus became expensive. These are companies to which the RTF has little exposure. The Canadian dollar strengthened somewhat against its U.S. dollar counterpart, thus the U.S. equity returns decreased slightly for the Canadian investor when converted to Canadian dollars. The Canadian dollar held its own against most other currencies, thus there was little currency impact on investment returns from international equities. The decline in interest rates led to a surprising 1-year return of 7.4% from the broad Canadian bond market. The long bond market had a very strong return of 11.4% for the year.

The RTF's returns (before expenses) and policy benchmark objectives (financial market index returns weighted per the RTF's policy allocation) for periods that ended June 30, 2019 were:

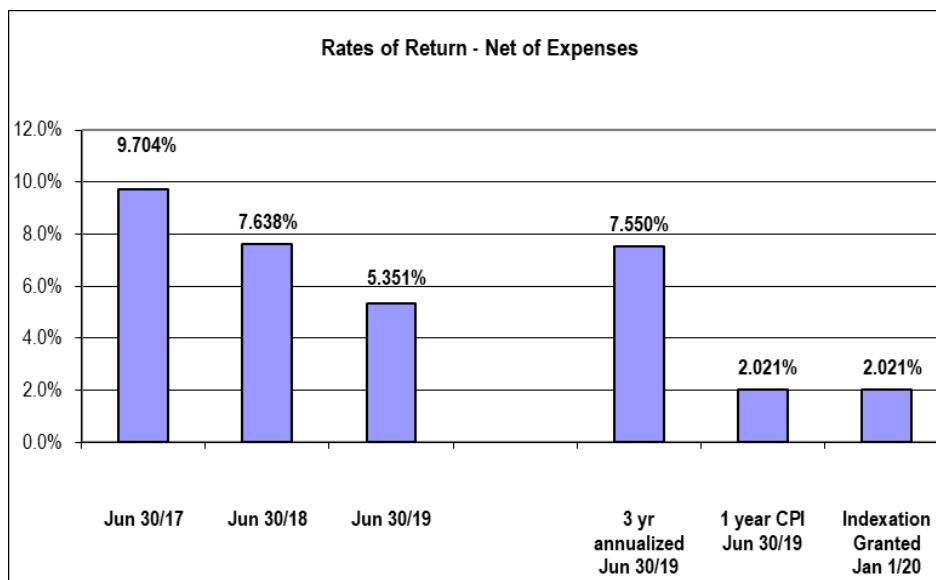
	<u>Annualized Returns (before fees) as at June 30, 2019</u>				
	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>10 Years</u>
RTF	5.9%	7.0%	8.1%	6.6%	8.5%
Passive Benchmark	6.9%	7.1%	8.2%	6.8%	8.0%

Although the RTF's absolute returns have exceeded the Fund's funding requirement, the RTF underperformed its asset benchmark in the past year that had a spillover effect out on annualized returns over the past four years. The continued strength of large technology and consumer companies, long maturity bonds where the RTF has less exposure, and a strong year for private investments contributed to the RTF's underperformance. The RTF's asset mix policy also increased its allocation to private investments a couple of years ago, and as these require time to both subscribe and have capital deployed, it is anticipated that actual returns may lag behind the benchmark until actual funding of the private investments is closer to target.

Indexation:

a) Annual Indexation

The Dalhousie University Staff Pension Plan has an “excess interest” indexation provision that can increase pensions each January 1st for eligible retirees (those who retired prior to January 1 of the previous year). “Excess interest” may be available should the RTF’s 3-year annualized return net of expenses for the 3-year period ended the previous June 30 exceed a threshold of 5.05%. The maximum allowable indexation is the 1-year Canadian Consumer Price (CPI) Index change as of each June 30th. Should the RTF’s 3-year annualized return fall short of the 5.05% threshold in any given year, this shortfall must be recovered in subsequent years before any future indexation may be granted by this “excess interest” provision. Currently there is no accumulated shortfall for annual indexation determination purposes.



The RTF’s 3-year return net of expenses at June 30, 2019 was 7.550% providing an “excess interest” of 2.500%. CPI for the year ended June 30, 2019 was 2.021%. Thus indexation for those pensioners who are eligible for indexation at January 1, 2020 will be for the full CPI of 2.021%.

b) Catch-up Indexation

The Plan also gives the Trustees the discretion to use up to one-half of any surplus that an actuarial valuation may have identified in the Fund to catch up on any indexation missed in previous years. The actuarial valuation at March 31, 2018 identified a surplus of \$25.3 million. Since the release of the valuation results, the markets weakened and eroded much of the surplus. The Trustees determined that using any of the previously calculated surplus risked putting the RTF into a deficit, thus the Trustees decided not to provide any catch up indexation. There is approximately 7.9% of indexation that was missed over the 2012 to 2018 period. Should a subsequent actuarial valuation identify a surplus in the RTF, the Trustees may be able to grant some additional catch-up.

The RTF's final audited financial statements for June 30, 2019 can be accessed at the University's Pension website <https://cdn.dal.ca/content/dam/dalhousie/pdf/dept/treasury-investments/Reports/2019%20RTF%20FS%20FINAL.pdf>

Questions relating to the Fund's investments may be directed to Colin Spinney at (902) 494-8821, while benefit-related queries can be directed to Laurie Creelman, Senior Pension Advisor at (902) 494-1120.

The current Trustees serving on the RTF are as follows:

Robert Richardson (*Chair*)
Level Chan
Aubrey Palmeter

David Cameron
Greg Hebb
Ron Pink

Paul Conrod
Ian Nason

Yours truly,

Robert Richardson

Robert Richardson, Chair