

**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 2011

Mr. Chair, Members of the Board of Governors:

Summary

The one-year period that ended March 31, 2011 was one in which each of the Endowment Funds, the Pension Trust Fund (PTF) and the Retirees' Trust Fund (RTF) achieved healthy investment returns. Despite a downturn during the first three months of this one-year period in which equity markets slumped 5% to 11% and the Funds declined by approximately 1.8%, the Endowments earned a return of 13.4% for the year, while the Pension Trust Fund (PTF) and the Retirees' Trust Fund (RTF) earned one-year returns of 11.8% and 10.8% respectively. The Funds had a combined asset value of \$1.1 billion at March 31, 2011, an increase of \$111.3 million.

In the July 2007 to February 2009 timeframe, the Endowment Funds and the combined pension funds incurred investment losses of -24% and -20% due to the extreme weaknesses of the equity markets. Since March 2009, the Funds' investment returns have offset these losses and each Fund's return since June 2007 is now positive. The 2000 to 2010 decade was the worst decade for financial markets since the Great Depression. Annualized returns from international equities as measured by the MSCI EAFE were only 0.3% for the decade, while U.S. equities managed only 1.4% for the same period. Canadian equities were better at 6.6%, but still far below expectations for an equity market. Two massive market slumps, the tech bubble of 2001-02 and then the real estate and financial meltdown of 2007-09 were responsible for the decade's meagre returns. The Dalhousie Funds were hurt by these declines, but each Fund has a long-term focus with set objectives to attain over the longer term. Charts 1 and 2 illustrate that the Endowment Funds have held up reasonably well over the long-term despite the dismal markets of the 21st century's first decade.

Chart 1 illustrates that over the last fifteen years, the Endowment Funds have met the return objective (as depicted by the line). The bars depict the Funds' returns versus the objectives on a quarterly basis (as depicted by the line). The Endowments return objective is the spend rate plus administrative fees plus inflation. Over this time, the Funds' annualized objective was 7.5%. 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, a number of new endowments received during the market crash still lag behind their fully indexed for inflation targets

Chart 1

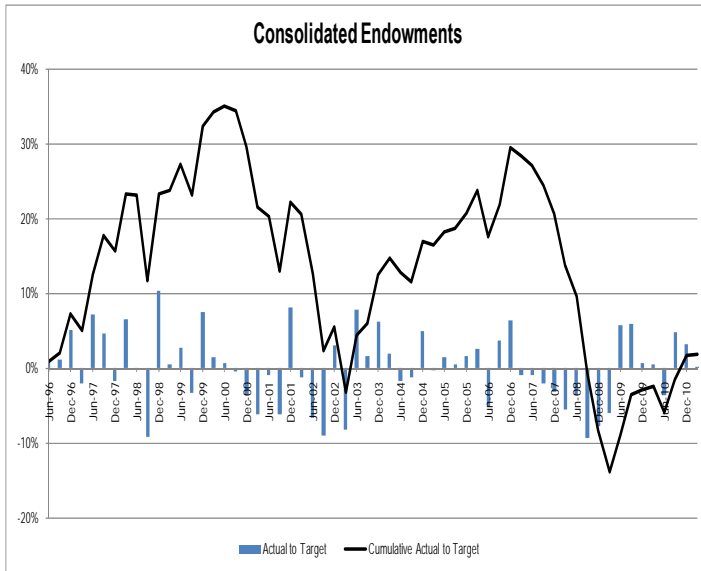
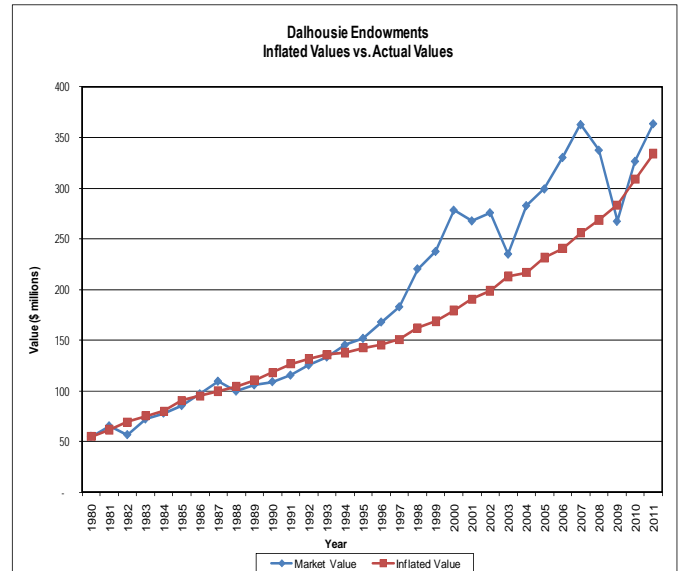


Chart 2



Likewise, the University's two pension funds have also met and exceeded their respective return targets over the last fifteen years. 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. However, the Plan is currently in a deficit position. Improving mortality rates, lower interest rates, and use of previous surpluses for benefit enhancements, contribution holidays and surplus distributions have contributed to the deficit.

Chart 3

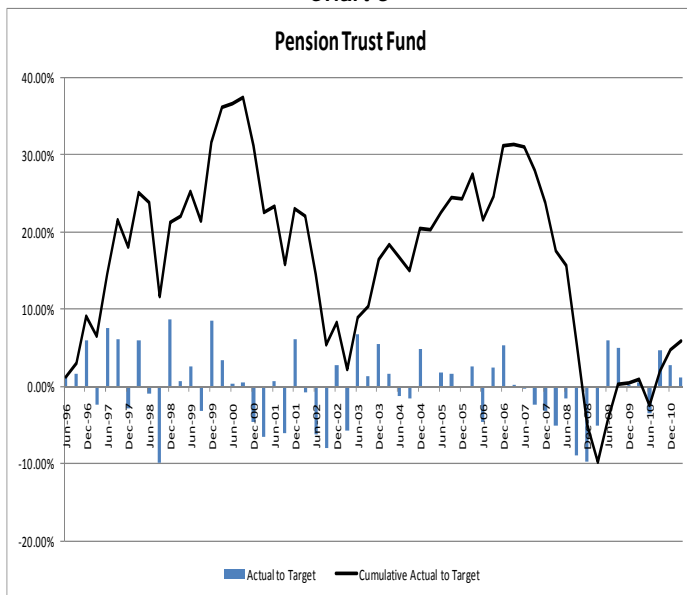
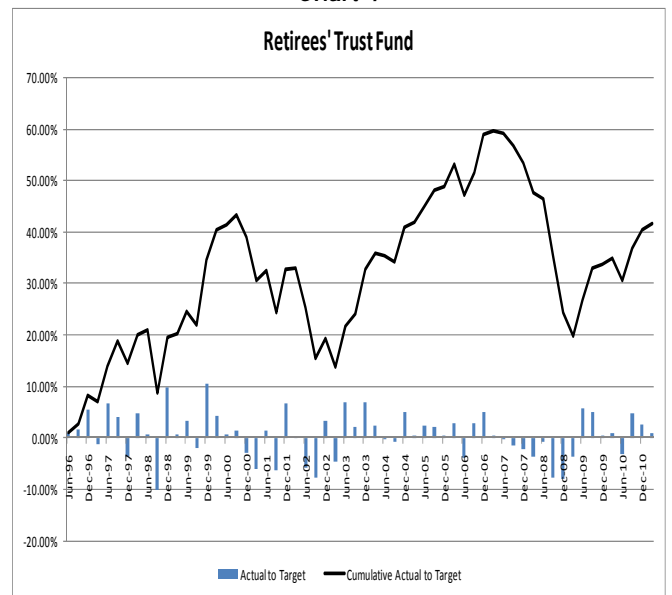


Chart 4



The different policy allocations to fixed income accounted for the various return results of the Funds; the RTF with the more conservative structure with the largest policy allocation to fixed income had the lowest return for the year. The RTF's more

conservative structure also contributed to it having the highest annualized return among the Dalhousie Funds for the past 10 years – the worst decade on record for equity returns. The Funds are structured to have better preservation characteristics in down markets which often results in the Funds lagging strong market rallies. The more important required funding return objectives were exceeded in the past year, but were short of these objectives given the weak markets in the past decade. The Endowments strive to earn a real return of 5.3%, the PTF has an actuarial return objective of 6.25% pre-retirement and 4.55% post-retirement, and the RTF a 5.05% return objective. 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

Following a two plus year period when the world's major equity markets experienced their most severe declines in over seven decades, these same markets as at March 31, 2011 produced two consecutive years of positive returns. The Canadian and U.S. equity markets have rebounded from the 2007-2009 slump and are now in positive territory when measured in local currency terms. International equity markets still have some ways to go to complete recovery. There is still concern whether there is sufficient economic strength to continue the recovery as the central banks reduce quantitative easing and begin to increase interest rates and governments shut down stimulus spending programs. In addition, there is still uncertainty and fear over the sovereign debt of a number of countries, and this has added to the price volatility experienced and that still exists. The following table illustrates the rebounds of various markets over the last 2 years to March 31, 2011, but hides the volatility and investor nervousness that exists in the markets.

<i>Annualized returns as of March 31, 2011</i>	1 year	2 years	3 years	4 years	10 years
Canada -TSX	20.4%	30.8%	5.0%	4.7%	8.8%
U.S. -S&P 500, <i>CAD</i>	10.9%	15.5%	0.4%	-3.8%	-1.6%
U.S. -S&P 500, <i>USD</i>	15.6%	31.6%	2.4%	0.5%	3.3%
EAFE - <i>CAD</i>	5.9%	14.6%	-4.8%	-7.0%	0.4%
EAFE - <i>local currency</i>	1.5%	21.2%	-2.5%	-5.7%	1.2%
Canada Bonds - DEX	5.1%	5.1%	5.1%	5.2%	6.2%
<i>CPI</i>	3.3%	2.3%	2.0%	1.8%	2.1%

The table shows the strength gained by the Canadian dollar during the past few years as substantial 30%+ returns in the U.S. have been reduced to 15% in Canadian dollars, and 21% returns generated by foreign markets were reduced to less than 15% when converted back to Canadian dollars. The Canadian dollar was worth only \$0.9846 U.S. at the beginning of the year, but traded at \$1.0290 on March 31, 2011. The Dalhousie Funds hedge a portion of their foreign currency exposures, thus they did not bear the full effect of the Canadian dollar appreciation. Over time the currency hedges have the benefit of stabilizing returns.

2010/11 Committee & Trustee Activity

The Committee and trustees met five times during the 2010/11 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 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 made some revisions to their respective allocations and structures during the past year. Since March 31, 2010, the following additions were made to each of the Endowments, PTF and RTF:

- Funding of a public infrastructure securities mandate (Lazard Asset Management);
- Subscriptions to a private infrastructure fund (J.P. Morgan);
- Subscriptions to a private maritime shipping fund (J.P. Morgan);
- Funding of two global macro multi-strategy funds (Brevan Howard, BlueCrest)
- Subscriptions to a private Canadian real estate fund (GPM).

The commitments to infrastructure, maritime shipping and real estate are part of each Fund's policy allocation to real assets, while the two global macro multi-strategy funds fill the Fund's allocation targets to absolute return strategies along with the existing Crestline hedge fund-of-funds.

The Endowments and the PTF also have made three additional private equity subscriptions (Commonfund – international private equity; venture capital; JP Morgan – North American private equity) with a fourth subscription (JP Morgan – Asia private equity) completed in early June 2011..

Early in 2011, the Funds completed reviews of their fixed income structures. A large component the Funds' fixed income structures had been allocated to a passive Canadian bond index strategy. Given that interest rates are currently at historical lows, there was concern that the Funds could still experience a period of low yields and, more importantly, will eventually be exposed to a rising rate environment. Each Fund's fixed income objectives were reviewed and ranked. The ranked objectives served as the basis for defining the needs and sensitivities of each Fund, and served as a reference in the selection of appropriate strategies. A core plus strategy with BlackRock was selected along with a smaller allocation to active corporate credit with Canso Investment. The BlackRock allocation permits the manager to actively deploy and allocate to a number of strategies such as duration, yield curve, global and credit depending on varying interest rate and fixed income environment. The new mandate with Canso was finalized and funded during the second quarter of the calendar year and the BlackRock mandate is expected to be finalized in this same quarter as well.

Ron Pink joined each of the PTF Trustees and RTF Trustees in June 2010 and I and the other Trustees have valued his input and contributions. The current members of the Investment Committee and Trustees are listed on the last page of this report. I wish to thank the Committee members and the Trustees for their valued contributions and continued support of the investment activities during which has been a busy and successful year.

Respectfully submitted,



Stan Spavold,
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 2010/11 fiscal year was \$16.3 million. There was an additional \$1.1 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 were unchanged from 2009/10 as the year-over-year CPI change was a negative 0.86%. 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 \$326.7 million to \$363.8 million. The year-over-year change consisted of \$15.0 million in gifts and reinvested allocations, plus the \$38.4 million generated by the year's 13.4% investment return, less the \$16.3 million of spending allocation withdrawals.

DALHOUSIE UNIVERSITY
ENDOWMENT FUNDS

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>	
		<i>March 31, 2011</i>	<i>March 31, 2010</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 32.6	\$31.1
Burgundy Asset Management	Canadian Equities	26.1	24.8
CIBC Global Asset Management	Canadian Equities – passive index	17.8	15.0
Ashford Capital Management	US Equities	15.9	13.4
Wedge Capital Management L.L.P.	US Equities – Large Cap	31.2	26.9
State Street Global Asset Management	US Equities – Mid Cap Index	15.5	12.7
Sprucegrove Investment Management	Non-North American Equities	47.6	46.9
First Eagle	Non-North American Equities	17.4	15.6
State Street Global Asset Management	Currency hedges	0.4	2.7
CIBC Global Asset Management	Canadian Bond – Index	62.7	69.6
Addenda Capital Inc.	Canadian Bonds - active	21.1	23.4
Commonfund Capital	Private Equity	15.8	11.7
JP Morgan	Private Equity	4.2	2.7
Pantheon	Private Equity	4.7	3.2
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	7.7	7.6
Brevan Howard	Global Macro	3.9	-
BlueCrest Capital	Global Macro	3.9	-
Lazard Asset Management	Infrastructure securities	9.1	-
ING Clarion	Global Real Estate Securities	11.8	10.5
GPM	Canadian Real Estate	5.5	1.5
Canadian Urban	Canadian Real Estate	5.3	4.0
	General*	3.6	3.4
TOTAL ASSETS		\$363.8	\$326.7

* 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, 2011</i>		<i>March 31, 2010</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	5.8%	4.8%	4.2%	2.8%
4 Years	1.3%	1.5%	0.9%	1.6%
3 Years	3.5%	2.4%	-2.5%	-1.3%
2 Years	17.1%	15.8%	-1.1%	-1.1%
1 Year	13.4%	10.0%	20.8%	21.9%

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

DALHOUSIE UNIVERSITY
Pension Trust Fund

After the first nine months of the Pension Trust Fund's fiscal year that commenced July 1, 2010, the Fund's asset value grew from \$393.3 million to \$454.1 million, an increase of \$60.8 million. The Fund's 13.9% investment return over this period accounted for \$54.6 million of this increase. The Fund also received \$29.6 million in new contributions, disbursed \$21.3 million in various benefit payments and paid \$2.1 million in expenses.

DALHOUSIE UNIVERSITY
PENSION TRUST FUND

<i>Manager</i>	<i>Asset Class</i>	<i>Market Value (\$ Millions)</i>		
		<i>March 31, 2011</i>	<i>June 30, 2010*</i>	<i>March 31, 2010</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 32.2	\$ 25.5	\$ 27.4
Burgundy Asset Management	Canadian Equities	33.0	26.2	27.3
CIBC Global Asset Management	Canadian Equities	22.3	18.2	19.3
Ashford Capital Management	US Equities	20.9	21.6	22.1
Wedge Capital Management L.L.P.	US Equities – Large Cap	35.8	20.4	22.0
State Street Global Asset Management	US Equities – Mid Cap	14.5	7.4	7.9
Sprucegrove Investment Management	Non-North American Equities	53.2	56.1	59.3
First Eagle	Non-North American Equities	7.2	11.1	11.1
State Street Global Asset Management	Currency hedges	0.4	-0.8	2.4
CIBC Global Asset Management	Canadian Bond - Index	101.3	109.2	106.0
Addenda Capital Inc.	Canadian Bonds - active	34.7	36.1	35.4
Commonfund Capital	Private Equity	12.4	5.1	4.0
JP Morgan	Private Equity	5.5	4.2	3.6
Pantheon Ventures Ltd.	Private Equity	4.8	3.2	3.3
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	9.6	9.8	9.4
Brevan Howard	Global Macro	4.8	-	-
BlueCrest Capital	Global Macro	4.8	-	-
Lazard Asset Management	Infrastructure securities	11.3	-	-
ING Clarion	Global Public R.E.	14.7	12.5	13.0
GPM	Canadian Real Estate	7.2	3.4	2.0
Canadian Urban	Canadian Real Estate	7.0	5.3	5.2
	Cash in Bank & Other	16.6	21.2	19.8
TOTAL ASSETS		\$454.2	\$395.7	\$400.5

PENSION TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 31, 2011</i>		<i>June 30, 2010*</i>		<i>March 31, 2010</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	5.9%	4.9%	4.0%	2.7%	4.4%	3.1%
4 Years	1.5%	1.6%	1.5%	1.6%	1.2%	1.8%
3 Years	3.4%	2.6%	-2.8%	-2.4%	-1.7%	-0.8%
2 Years	15.7%	14.6%	-1.6%	-2.6%	-0.6%	-0.7%
1 Year	11.8%	9.4%	9.2%	7.4%	19.8%	20.1%

*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

During the July 1, 2010 to March 31, 2011 period, the Retirees' Trust Fund's assets increased by \$30.1 million to \$310.0 million. During this first nine months of the Fund's fiscal year, the Fund received \$14.0 million in transfers for new retirees from the Pension Trust Fund and the 12.9% investment return grew assets by another \$36.4 million. The Fund made \$19.1 million in benefit payments and incurred \$1.2 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, 2011</i>	<i>June 30, 2010*</i>	<i>March 31, 2010</i>
Greystone Managed Investments Inc.	Canadian Equities	\$ 21.1	\$ 22.1	\$ 23.7
Burgundy Asset Management	Canadian Equities	16.3	13.2	13.7
CIBC Global Asset Management	Canadian Equities	13.5	12.5	13.2
Ashford Capital Management	US Equities	11.7	9.0	10.2
Wedge Capital Management L.L.P.	US Equities – Large Cap	24.2	19.6	21.0
State Street Global Asset Management	US Equities – Mid Cap	11.3	8.7	8.4
Sprucegrove Investment Management	Non-North American Equities	36.4	38.2	40.4
First Eagle	Non-North American Equities	7.1	6.4	6.4
State Street Global Asset Management	Currency hedges	0.3	-0.6	1.6
CIBC Global Asset Management	Canadian Bond - Index	89.6	90.8	90.0
Addenda Capital Inc	Canadian Bonds - active	26.9	29.5	28.9
Crestline Investors, Inc.	Absolute Return – Hedge Fund of Funds	5.4	13.5	5.3
Brevan Howard	Global Macro	3.5	5.5	-
BlueCrest Capital	Global Macro	3.5	-	-
Lazard Asset Management	Infrastructure securities	8.2	-	-
First National	Index Linked Mortgages	12.8	-	14.0
ING Clarion	Global Public Real Estate	8.5	7.2	7.5
GPM	Canadian Real Estate	4.3	2.1	1.2
Canadian Urban	Canadian Real Estate	4.2	3.1	3.1
	Cash in Bank	2.2	1.8	2.4
TOTAL ASSETS		\$311.0	\$282.6	\$291.0

RETIRES' TRUST FUND PERFORMANCE

	<i>Annualized Returns to</i>					
	<i>March 2011</i>		<i>June 30, 2010*</i>		<i>March 31, 2010</i>	
	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>	<i>Fund</i>	<i>Benchmark**</i>
10 Years	6.3%	5.1%	4.6%	3.1%	5.0%	3.4%
4 Years	2.4%	2.3%	2.4%	2.6%	2.2%	2.4%
3 Years	4.0%	3.0%	-1.2%	-0.8%	-0.3%	0.2%
2 Years	14.5%	12.8%	-0.4%	-0.9%	0.8%	0.3%
1 Year	10.8%	8.6%	8.5%	7.4%	18.4%	17.1%

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

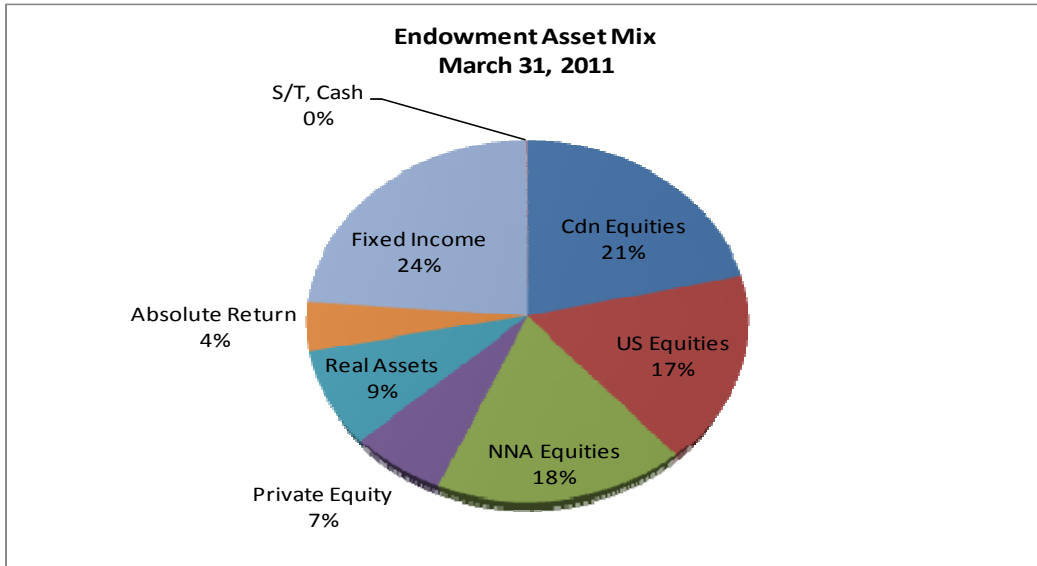
** The benchmark is the index return of the Fund asset allocation

**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*

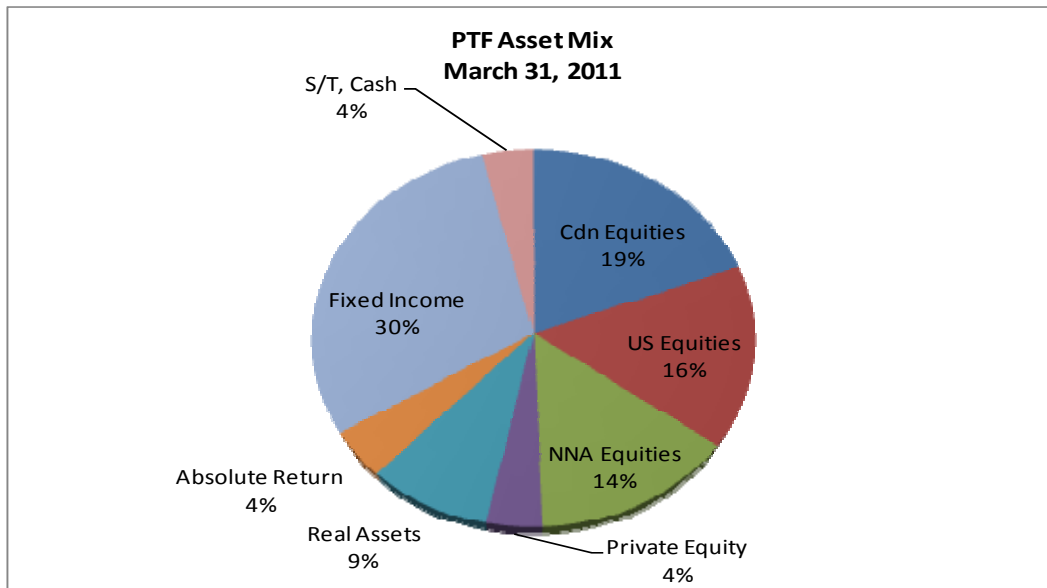
Target: CPI + 5.3%



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.*

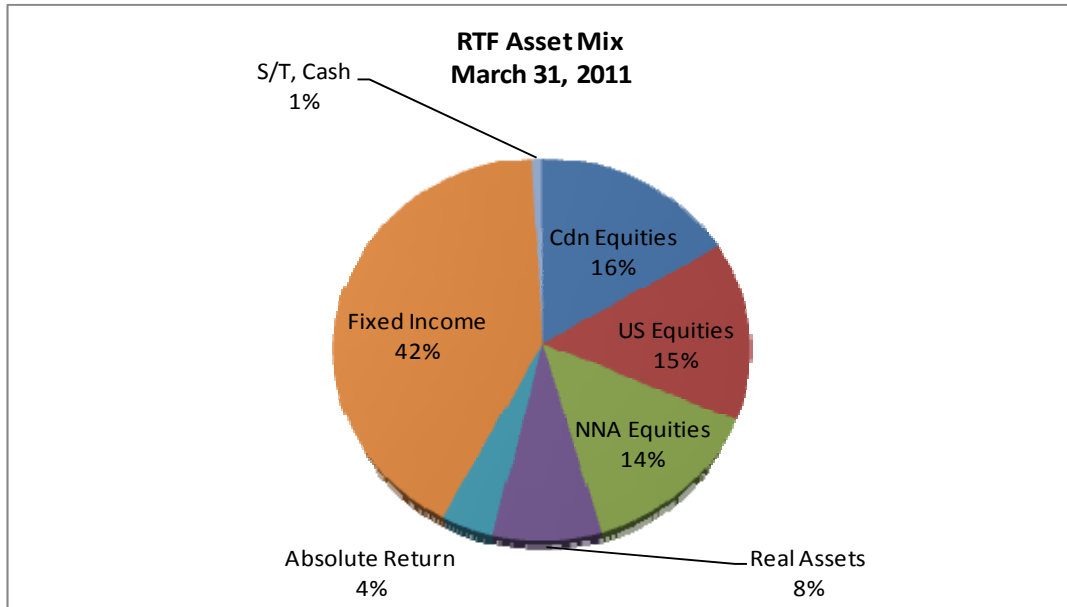
Target: Actuarial Assumption of 6.25%



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
2010-11**

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