

**DALHOUSIE RETIREES' TRUST FUND  
ANNUAL REPORT to RETIREES  
for the year ended June 30, 2011**

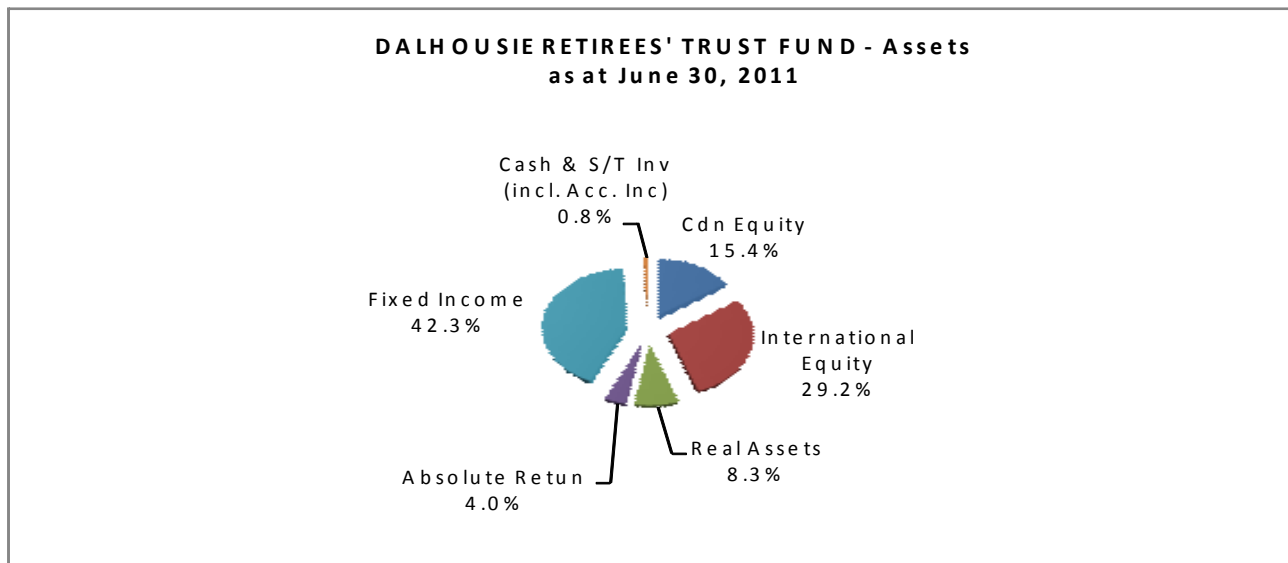
**Introduction:**

The benefits of the Dalhousie University Staff Pension Plan are supported by two Funds. The monthly pension obligations for the retired members of the Plan are funded by the invested assets of the Dalhousie Retirees' Trust Fund (RTF). For the year ended June 30, 2011, the RTF held assets valued at \$308.1 million to provide for future pension benefits. The RTF made \$25.5 million in benefit payments during the year.

A group of appointed Trustees provide oversight of the RTF. The RTF Trustees conduct five regular meetings per year to provide strategic guidance and policy directives for RTF investments, and to review the performance and operations of the investments. The prime 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 operates a diversified portfolio with exposures to various asset classes including Canadian and international stocks, Canadian bonds and mortgages, and alternative asset classes. Consequently, the RTF is not overly dependent upon one investment market or asset class to generate earnings. The Fund's alternative investments include domestic and non-domestic real estate, infrastructure and absolute return strategies. The policy targets are 40% equities, 15% alternatives, and 45% fixed income. The RTF's asset allocation as at the most recent fiscal year end, June 30, 2011, is illustrated in the following chart.



The RTF Trustees engage multiple external investment management firms to invest the Fund's assets. These firms each have specific investment mandates within certain asset classes and provide different but yet complementary

investment philosophies and styles. Collectively these manager assignments are administered to conform to the Fund's investment asset mix policy. This multiple manager structure provides the RTF with another level of diversification.

The RTF grew from \$279.9 million to \$308.1 million over the fiscal year ending June 30, 2011, an increase of \$28.2 million. 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, 2011  
(millions)**

Funding for new pensioners	\$ 16.5
Investment Returns	38.7
Benefits Paid	(25.5)
Fund Expenses	( 1.5)
Net Change	\$ 28.2

**Investment Returns:**

The world's investment markets continued for the second year to yield robust returns after the deep downside in 2008 and 2009. The Canadian equity market generated 20.9% while U.S. and international markets were up 30.7% and 13.3% respectively for the year. The Fund's investments performed well relative to their specific benchmarks with the exception of its international equities (non North American). The Fund's value-tilted international equities lagged the markets for the past year which were led by growth-oriented securities, but still produced returns in excess of 16%. Over longer periods, the Fund's international equities have outperformed the international benchmark by over 4% per annum.

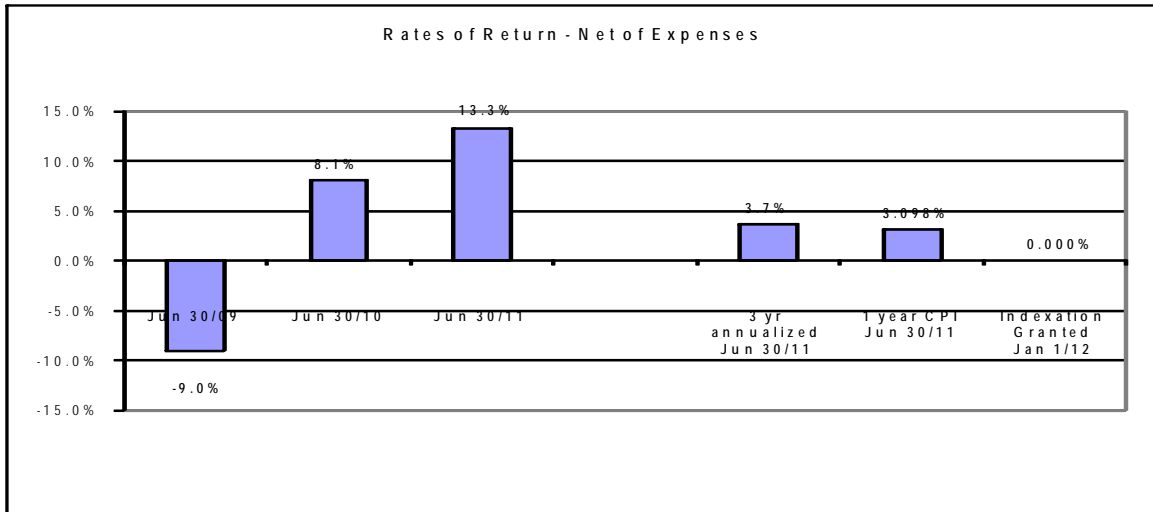
The Canadian dollar appreciated against its U.S. counterpart, decreasing the returns of U.S. equities to 18.7%. Conversely, the Canadian dollar depreciated against a basket of other international currencies over the year, thereby increasing international equity returns to 18.4% in Canadian dollar terms. The RTF hedges a portion of its' U.S. and international currency exposures, between 25% and 65% of the exposure depending on the currency manager's outlook on each currency's fundamentals, thus muting some of the currency swing impact on the non-Canadian equity returns. The RTF's returns (before expenses) and policy benchmark objectives (financial market index returns weighted per the RTF's policy allocation) for periods ended June 30, 2011 were:

	<u>Annualized Returns (before fees) as at June 30, 2011</u>				
	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>10 Years</u>
RTF	13.7%	11.1%	4.1%	2.3%	6.1%
Passive Benchmark	12.9%	10.1%	2.4%	1.2%	4.7%

The RTF has outperformed its benchmark of 4.7% for the last 10-year period.

**Indexation:**

The Dalhousie Pension Plan has an indexation provision. Indexation can be provided each January 1<sup>st</sup> to eligible retirees (those who retired prior to January 1 of the previous year) 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 30. As the following chart illustrates, the RTF had a net 3-year annualized return of 3.7% as of June 30, 2011.



CPI for the year ended June 30, 2011 was 3.098%. As the Fund's 3-year annualized did not exceed the 5.05% hurdle, there was no indexation granted to eligible retirees in January 2012. Full indexation has not been possible in seven of the years since January 2003 due to insufficient 3-year returns. Over the last ten years, the world's equity markets have experienced two major downturns. While Canadian equities and bonds were still able to generate annualized returns of 8.1% and 6.4% over the decade, U.S. and international equity markets lagged significantly with returns of -1.8% and 1.0% per year respectively. Despite the weak financial markets of the past decade, the RTF was able to index pensions for 6.8% of the 21.4% inflation that occurred. The Dalhousie University Staff Pension Plan does allow for discretionary use of surplus by the Trustees to provide catch-up on missed indexation when the Fund is in a surplus position and the Trustees last provided a small amount of catch-up in October 2008. The Trustees reviewed the status of the Fund late in 2011 to determine whether any catch-up was advisable at this time. A number of funding measures were considered by the Trustees in their deliberations. Not all measures indicated the Fund's liabilities to be fully funded, and those that showed surpluses, the amounts were relatively small. The Trustees deemed it prudent to hold off on any catch-up until the RTF's funded positions improve. The Fund must also cover an accumulated shortfall of 13.1% before the Plan's indexation formula yields any new indexation.

The RTF's final audited financial statements for June 30, 2011 can be accessed at the University's Financial Services website. 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 Lee Crowell, Director Employee Benefits at (902) 494-1121.

The current Trustees serving on the RTF are as follows:

- |                             |            |             |
|-----------------------------|------------|-------------|
| S. Spavold ( <i>Chair</i> ) | D. Cameron | G. McLellan |
| R. Pink                     | P. Conrod  | C. Smith    |
| K. Burt                     | I. Fooladi | T. Traves   |

Yours truly,

Stan Spavold, Chair