DALHOUSIE UNIVERSITY

2015

DALHOUSIE UNIVERSITY
PENSION PLAN
ANNUAL REPORT

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Introduction

The 2015 Dalhousie University Pension Plan Annual Report provides members with an overview of the Plan's membership and governance, and information on the funded status of the Plan based on the most recent actuarial valuation as of March 31, 2014 and investment fund performance.

MESSAGE TO DALHOUSIE UNIVERSITY STAFF PENSION PLAN MEMBERS

Your pension from the Dalhousie University Staff Pension Plan ("the Plan") can be one of your most important financial assets in retirement, which makes the security of your pension and the financial health of the Plan important issues. We hope this report provides you with a better understanding of how the Plan is managed, as well as its current financial status.

The Plan's financial health is shaped by the environment in which it operates, affected by factors such as investment market cycles, the life expectancy of Plan members and many others. The latest actuarial valuation of the Plan (as of March 31, 2014) identified a $68 million deficit. An extrapolation of that valuation to June 30, 2015 indicated that this deficit had declined to $40 million. Another year of solid investment returns along with ongoing contribution funding from employees and the University were countered with growth in the Plan's liabilities, which limited the reduction in the deficit. The Plan's liabilities continue to grow at a significant rate as a result of increased life expectancies and an aging population. These challenges are also being faced by other defined benefit plans in Canada and abroad. Details of the financial status of the Plan and the most recent valuation results (as of March 31, 2014) are included in this report (pages 6-8).

The collective objective of Plan members, trustees and the sponsor is to work together to create and maintain a Plan that supports the needs of our community. A Joint Committee, comprised of representatives of the University and of Dalhousie's employee groups, was established in 2014 to evaluate and propose improvements to the Plan's structure. The work of the Joint Committee is continuing.

Ian C. Nason
Vice President, Finance and Administration

About the Pension Plan

Your pension from the Plan is an important component along with the income you may receive from the Canada Pension Plan, Old Age Security and other personal savings, to fund your retirement.

The Dalhousie University Plan is a defined benefit (DB) Plan. This means that at retirement, you receive a monthly pension from the Plan that is determined in advance based on a set formula.

Your pension is guaranteed to you for your lifetime, and depending on your marital status and the option you select at retirement, your spouse could also receive pension payments from the Plan after your death.

CONTRIBUTIONS

Every pay day, members contribute a percentage of their earnings into the Plan. Currently, members contribute 4.65% of pensionable earnings up to $5,000, plus 6.15% of pensionable earnings above $5,000. As of July 1, 2012, members started making supplementary contributions of 2% of their earnings.

Dalhousie University contributed 12.59% of pensionable earnings to June 30, 2015, which is funded primarily by the operating budget. The contributions from both the members and the University, together with the investment returns thereon, provide the pension benefits promised by the Plan to all members and their beneficiaries. Dalhousie University's contributions may vary, depending on the level of the pension fund's assets, plan demographics, and on economic conditions.

Calculating your pension

The pension formula is important to understand as it lets you know how your benefits are calculated. To determine your annual pension, the formula uses your years of service and the average of your best three years of earnings in the following calculation:

The average of your best three years of earnings (maximum of $140,945 in 2015)

x

years of service in the Plan (maximum of 35 years)

x

2%

WHAT THE WORDS MEAN

Going-concern
When a plan's funding status is evaluated assuming that the plan will be maintained indefinitely. Also known as long-term basis.

Solvency
The provincial pension regulator requires a plan's funding status to also be evaluated assuming the plan will be terminated (or be "wound up") on the day of the valuation. Also known as short-term basis.

Funded status
The degree to which a plan's liabilities are funded (plan assets ÷ plan liabilities).

Plan documents

For more information about the Plan, visit the Dalhousie University pension website at **www.dal.ca/pension**.

Governance and administration

Dalhousie University has a structure in place for the governance and administration of the Plan that consists of the Board of Governors, the Pension Advisory Committee and Fund Trustees. The Plan is unique in that it is comprised of two trust funds – the Pension Trust Fund (PTF) and Retirees' Trust Fund (RTF). Here is a summary of the responsibilities of each.

The Board of Governors – Plan Sponsor and Administrator

- Acts as the Administrator of the Plan
- Monitors the investment of the Plan assets
- Amends Plan rules subsequent to PAC recommendations
- Collects and deposits member contributions and contributions from the employer
- Maintains all necessary administrative records
- Provides members with information on the Plan
- Issues annual pension statements to Plan members
- Pays pension benefits

Pension Advisory Committee (PAC)

- Considers matters relating to pension benefits and the administration of the Plan
- Makes recommendations respecting the administration of the Plan and Plan design
- Seeks to promote awareness and understanding of the Plan among its members

PTF/RTF Trustees

- Implement investment policies to align with the Plan's obligations
- Oversee fund investment management
- Retain investment managers
- Present financial statements of the pension funds' assets

PAC ACTIVITIES – 2014/2015

The PAC met three times between July 1, 2014 and June 30, 2015 to report on and discuss a number of pension topics. Some of the topics addressed include:

- Reviewing the new *Pension Benefits Act* legislation,
- Discussion about updating the Plan's interest crediting rates,
- Reviewing the March 31, 2014 valuation results, and
- Receiving updates on Plan assets and liabilities, including reports on asset and liability growth throughout the year.

PAC Members – 2014/2015

Members

- Ian Blair (NSGEU 77)
- Brian Bowdridge (NSGEU 99)
- Sarah Bradley (DFA)
- Level Chan (Board)
- Choi Chua (NSGEU 77)
- Katherine Frank (Board, Chair)
- Robert Jack (Board)
- Ian Nason (Board)
- Jasmine Walsh (Board)
- Faye Woodman (DFA)

Observers/Alternates

- Carl Baillie (DPMG – Non-voting , Alternate)
- Randy Barkhouse (ADRP – Observer)
- Corrine Carey (NSGEU – Observer)
- Lee Crowell (Board, Alternate)
- Paul Huber (ADRP – Observer, Alternate)
- Shannon Langton (NSGEU 77, Alternate)
- Chris Patterson (Secretary)
- Margie Publicover (DPMG – Non-voting)
- Carolyn Savoy (ADRP – Observer, Alternate) November 5, 2014
- Colin Spinney (Board, Alternate)

PTF/RTF TRUSTEE ACTIVITIES – 2014/2015

The PTF and RTF Trustees met five times from July 1, 2014 to June 30, 2015 to:

- Review investment policies and governance processes,
- Monitor investment strategies and performance, and
- Review and consider discretionary indexation.

PTF/RTF Trustees – 2014/2015

- Jay Abbass (Chair)
- David Cameron (RTF only)
- Paul Conrod
- Richard Florizone
- Iraj Fooladi
- Ian Nason
- Ron Pink
- Rob Sobey

Actuarial status of the Plan

The actuarial valuation as of March 31, 2014 reported the funded status of the Plan based on the Plan's assets and liabilities.

WHAT IS AN ACTUARIAL VALUATION?

To determine the Plan's financial health, an actuarial valuation of the Plan is performed at least once every three years. An actuarial valuation helps determine if we are on track to having enough money to pay out all the benefits to members. Since no one can precisely predict all the factors that will affect the Plan, we rely on the best estimates from the valuation to determine what, if any, steps need to be taken to bring the Plan back to financial health.

The valuation looks at how much money there is in the Plan (the Plan's assets) and how much money the Plan needs to pay out the benefits promised (the Plan's liabilities) in two ways – the going-concern (long-term) basis and the solvency (short-term) basis. If the funded status on a solvency basis falls below 85%, the Plan is required to complete an actuarial valuation annually until the funded status meets or exceeds 85%.

RESULTS OF THE VALUATION

The most recent valuation as of March 31, 2014 showed that the Plan had a deficit on both a short-term and a long-term basis.

The following table shows the results of the March 31, 2014 valuation.

	Pension Trust Fund ($ millions)		Retirees' Trust Fund ($ millions)		Total Plan ($ millions)	
	Going-concern (long-term)	Solvency (short-term)	Going-concern (long-term)	Solvency (short-term)	Going-concern (long-term)	Solvency (short-term)
Value of assets	591,162	590,412	412,657	412,657	1,003,819	1,003,069
Liabilities	(691,916)	(770,311)	(380,182)	(386,585)	(1,072,098)	(1,156,896)
Deficit	(100,754)	(179,899)	32,475	26,072	(68,279)	(153,827)
Funding ratio	85%	77%	109%	107%	94%	87%

The funded status tells us if the Plan has enough assets to cover all its liabilities. Financial markets enabled strong returns by the Plan's two funds, providing progress to both the Plan's going concern and solvency funded status. This progress was slowed somewhat by growing liabilities, propelled primarily by improving life expectancies.

HIGHLIGHTS AS OF JUNE 30, 2015

During non-actuarial valuation years, our actuaries are asked to extrapolate on the Plan's liabilities and funded status as of each June 30th, which is the fiscal year-end for the Plan and its two funds. The actuarial extrapolation to June 30, 2015 indicated:

- The value of the Plan's assets increased by $120 million from March 31, 2014 to $1,123 million as of June 30, 2015.
- The Plan's liabilities increased by $91 million from March 31, 2014 to $1,163 million as of June 30, 2015. As a result, the Plan remained in a deficit position.
- On a going-concern (long-term) basis – which assumes the Plan will be maintained indefinitely, the Plan had a deficit of $68 million and a funded status of 94% as of March 31, 2014. This going-concern measure determines the ongoing funding requirement (i.e. the contributions required annually). The extrapolation to June 30, 2015 indicated a $40 million deficit, meaning that close to 97% of the Plan's liabilities were funded.
- On a solvency (short-term) basis – which assesses the Plan as if it were to be terminated or wound up on the day of the valuation. The Plan had a deficit of $154 million and a funded status of 87% as of March 31, 2014.

The last valuation from March 31, 2014 reported that the Plan was 87% funded on a solvency (short-term) basis. Because the funded status of the Plan is greater than 85%, the Plan is not required to file annual actuarial valuations for another three years, with the next valuation not due until March 31, 2017.

As the Plan has a deficit, the University is required to make special additional contribution payments to eliminate the deficit. The University continues to make special payments that equal 3.44% of payroll.

A WORD ABOUT INDEXATION

The Dalhousie University Pension Plan has an indexation provision, which means monthly pension payments may be increased to keep pace with inflation. However, indexation is not an automatic benefit; it depends on the financial status and investment performance of the RTF.

Financial markets go through periods of both positive and negative returns, which in turn impact the investment performance of the fund. Although the fund is expected to realize positive growth from the markets over time, there will be periods of volatility and asset value declines. The RTF experienced such a decline in 2008/2009, which left it with a shortfall from its return target. The Plan's indexation provision requires this shortfall to be fully recovered before the excess return formula may generate additional indexation. Indexation also may be granted at the discretion of the RTF Trustees at times when the RTF is in a surplus position. The RTF Trustees consider a number of factors, including longer life expectancies and potential market declines. Life expectancies of Plan members have been increasing and are projected to continue to do so. Therefore, the RTF Trustees must carefully consider the use of the surplus to catch up on past missed indexation.

The actuarial valuation as of March 31, 2014 identified a surplus that was generated by the Fund's strong investment returns over the preceding year. In November 2014, the Trustees allocated approximately $12 million of the surplus to catch up on indexation that had been missed in the period from 2003 to 2011. As strong investment returns continued over the 2014/15 fiscal year, the Trustees decided to use the remaining $4.2 million of eligible March 31, 2014 surplus to provide a catch up of 1.6017% of the 3.0981% that was missed on January 1, 2012.

Plan membership and funding

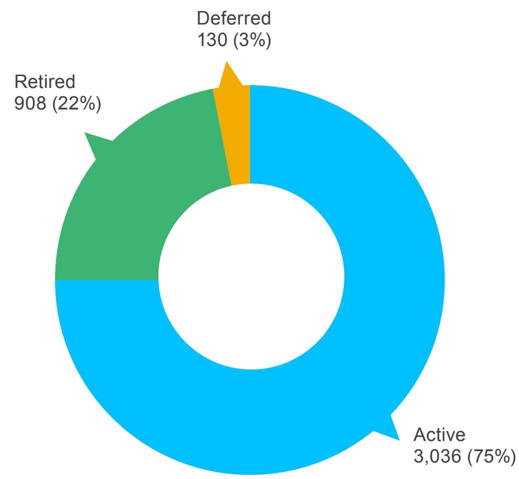
PLAN MEMBERSHIP

Each Plan member belongs to one of three categories of Plan membership:

1. **Active** – members who are currently employed by Dalhousie University and are making their regular contributions to the Plan.
2. **Deferred** – members who are no longer employed by Dalhousie University but have left the pension benefits they have earned while employed at Dalhousie University in the Plan until they retire.
3. **Retired** – members who are receiving a pension from the Dalhousie University Plan. This category includes survivors of former Dalhousie University employees.

Here's a snapshot of membership in the Plan as of the most recent valuation from March 31, 2014.

2014 membership (as of March 31, 2014)



Active membership details

	As of March 31, 2014
Average age	48.4
Average credited service	11.6
Average pensionable salary	$77,971
Average accumulated contributions	$78,177

Retired membership details

	As of March 31, 2014
Average age	72.8
Average annual lifetime pension	$33,467

PLAN FUNDING

When the valuation shows a Plan deficit, Dalhousie University must adjust its level of contributions to the Plan. For the last number of years, Dalhousie University has been paying contributions in the form of:

1. Regular contributions towards the cost of the benefits that active members accrue in each year, and
2. Special payments to fund the deficit in the Plan.

The following table shows Dalhousie University's contributions to the Plan during the fiscal year July 1, 2014 to June 30, 2015.

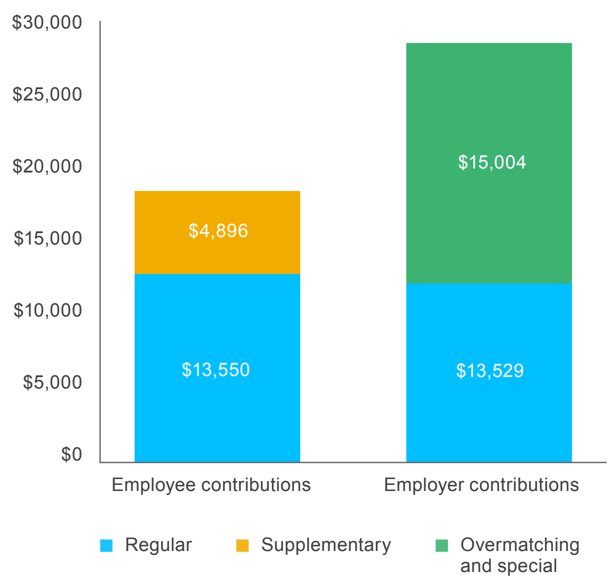
	July 1, 2014 to June 30, 2014
Regular matching and over-matching contributions	9.15%
Special payments	3.44%
Total	12.59%

As the Plan continues to have a solvency deficit, as of the last valuation on March 31, 2014, Dalhousie University's annual special payments will remain at 3.44% of pension payroll.

The graph to the right shows the total contributions made to the Plan from July 1, 2014 to June 30, 2015.

A number of Canadian defined benefit plans have had to deal with increasing costs. Some plans have increased contributions, addressed benefit design, or both. In 2012, Dalhousie employee contributions increased by 2%, with a corresponding salary increase of 2% to offset the contribution increase.

Total expected contributions ($ millions)
July 1, 2014 to June 30, 2015



Investments

FINANCIAL MARKETS JULY 1, 2014 TO JUNE 30, 2015

For the one-year period that ended June 30, 2015, U.S. and international markets delivered solid returns of 7.4% and 11.8% respectively as measured in their own respective currencies. However, signs of slowing global economic growth weakened the demand for energy and raw material products. The Canadian stock market, of which 60% is represented by energy and resource stocks, declined by 1.2% for the 12-month period that ended June 30, 2015. The Canadian dollar also declined. The silver lining in the Canadian dollar weakness is that it boosted the returns on foreign securities for Canadian investors as the following table demonstrates:

Market returns for the one-year period ending June 30, 2015

Canada (TSX)	U.S. (S&P 500) *CAD*	U.S. (S&P 500) *USD*	International (EAFE – *CAD*)	International (EAFE – *local*)	Canadian Bonds (TMX)	Canadian CPI
-1.2%	25.9%	7.4%	12.2%	11.8%	6.3%	1.0%

With the drag of commodity weakness on Canadian economic growth, the Canadian consumer price index increased only slightly by 1.0%. With low inflation and signals of an easing monetary policy by the central bank, Canadian interest rates declined, resulting in a 6.3% return by the broad Canadian bond market.

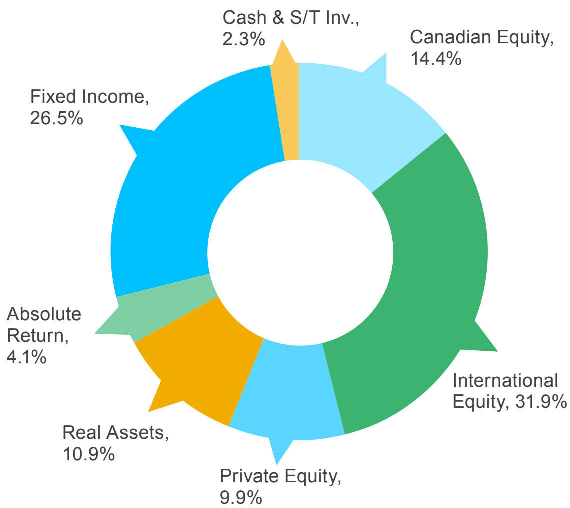
ASSET MIX

Without question, one of the most important parts of a successful investment strategy is the asset mix and the distribution of assets among multiple asset classes. In addition, multiple external investment managers are used within each asset class to provide additional diversification. As noted in the *Governance and administration* section of this report, reviewing the asset mix policies to ensure that they meet acceptable levels of risk and the Plan's objectives are the Trustees' responsibilities. Given this strategic importance, the asset mixes are reviewed on an annual basis.

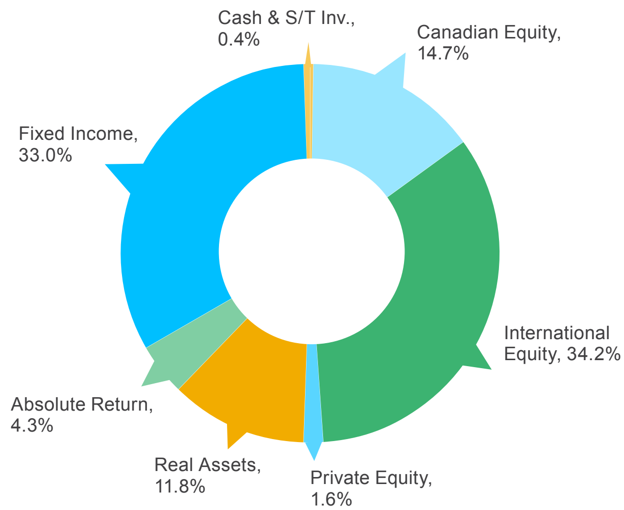
As reported last year, the Trustees of each the PTF and RTF decided to amend the asset mix of their respective funds. For the RTF, fixed income will decline from 45% to 30%, while 12.5% will be allocated to private equity over time, and real assets will increase from 10% to 17.5%. The targeted allocation for public equities will remain at 40%, but will be allowed to rise until private placement subscriptions in the real assets and private equity areas can be closed and capital called for those commitments. In the PTF, the fixed income allocation will be reduced from 35% to 30%. This 5% fixed income reduction will be used to increase the real asset allocation to 15%. Both the PTF and RTF also decided to exit their respective absolute return strategies, and in the upcoming year, will begin re-allocating these funds to real assets and private equity to the target levels noted above.

The following diagrams illustrate how the Plan's assets under the PTF and RTF were distributed as of June 30, 2015.

PTF asset mix as of June 30, 2015



RTF asset mix as of June 30, 2015



BREAKDOWN BY INVESTMENT TYPE

The tables below show how assets in the PTF and RTF were invested as of June 30, 2015 compared to the previous year.

Pension Trust Fund

Asset class	Market value ($ millions) 2015	2014
Equities		
Canadian Equities	96.5	94.0
U.S. Equities	118.8	89.0
Non-North American Equities	95.0	92.5
Alternatives		
Private Equity	66.2	43.4
Absolute Return	27.2	23.6
Real Assets	73.0	64.9
Fixed income		
Canadian Bonds	168.4	165.3
Private Debt	8.7	7.8
Cash & equivalents	15.7	28.8
Total assets	669.5	609.3

Retirees' Trust Fund

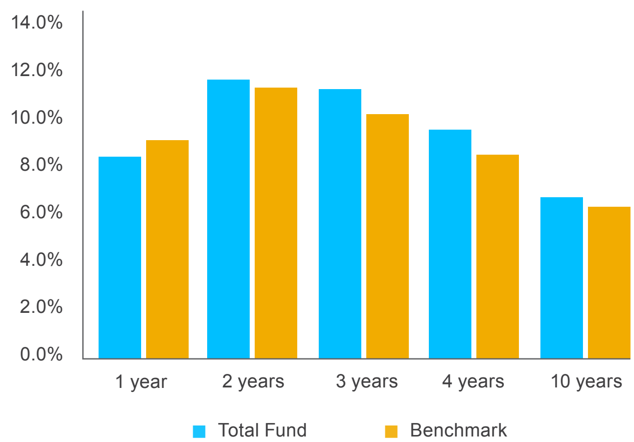
Asset class	Market value ($ millions) 2015	2014
Equities		
Canadian Equities	67.3	62.2
U.S. Equities	85.5	61.4
Non-North American Equities	70.9	64.0
Alternatives		
Private Equity	7.4	–
Absolute Return	19.6	17.0
Real Assets	53.8	41.0
Fixed income		
Canadian Bonds & Mortgages	138.5	151.8
Private Debt	12.7	11.4
Cash & equivalents	1.9	7.7
Total assets	457.6	416.5

INVESTMENT PERFORMANCE

The investment performance of the PTF and RTF is measured against a market index, also known as a benchmark. By comparing the investments to the benchmark, we can determine how well our Plan is being managed. The following graphs show us that our annualized returns relative to the investment benchmark have been consistently strong for both funds. The PTF's return for the year that ended June 30, 2015 was 10.41%, while the RTF achieved a return of 8.16%.

Pension Trust Fund as of June 30, 2015

Retirees' Trust Fund as of June 30, 2015



The Trustees of each fund also focus on the actuarial return targets required to meet the benefit objectives. Dalhousie University's two trust funds have met and exceeded their respective return targets over the last 20 years. The PTF annualized return net of expenses was 8.15% as compared to its actuarial target of 6.82%, while the RTF achieved 7.88% versus its hurdle objective of 5.05%.

The Plan applies interest in determining a number of benefits and accumulations. When determining the interest to be credited on contributions made to the PTF, the Plan text defines interest as the three-year annualized return net of expenses as of June 30. However, new Nova Scotia pension legislation requires the interest crediting rate for the PTF to be based on a 12-month averaging period instead of the three-year annualized rate. As a result, the PTF rate effective October 1, 2015 is 9.8191%, which represents the one-year annualized rate net of expenses. The RTF crediting rate continues to be based on a three-year annualized rate. The RTF rate effective January 1, 2016 is 10.7254%.

For more information and to calculate your pension

If you have questions concerning the Dalhousie University Pension Plan, please contact Human Resources at 902-494-1782 or pensions@dal.ca.

You can also visit the Dalhousie University pension website at www.dal.ca/pension.

There is also an online pension projection tool that you can use to estimate your pension. You can find this tool on the Dalhousie University website at Dial Online – Web for Employees.

Appendix

Audited financial statements of DALHOUSIE UNIVERSITY STAFF PENSION PLAN

Year ended June 30, 2015

INDEPENDENT AUDITORS' REPORT

To the Dalhousie University Audit Committee

We have audited the accompanying financial statements of the Dalhousie University Staff Pension Plan, which comprise the statement of financial position as at June 30, 2015 and the statements of changes in net assets available for benefits, consolidated changes in pension obligations and changes in deficit for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans 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 our 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, we 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Dalhousie University Staff Pension Plan as at June 30, 2015 and the changes in its net assets available for benefits and the changes in pension obligations and changes in deficit for the year then ended in accordance with Canadian accounting standards for pension plans.

Comparative Information

The financial statements of Dalhousie University Staff Pension Plan as at and for the year ended June 30, 2014 are unaudited. Accordingly, we do not express an opinion on them.

KPMG LLP

Chartered Accountants
November 12, 2015
Halifax, Canada

Statement of Financial Position

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

	2015	2014 (unaudited)
Assets:		
Investments (note 6)		
Canadian equities	$ 162,692	$ 156,253
U.S. equities	188,200	149,479
Non-North American equities	175,875	156,090
Total equities	526,767	461,822
Private equity	73,536	43,408
Real assets	126,182	105,758
Absolute return	46,968	39,766
Total alternatives	246,686	188,932
Canadian bonds and long-term notes	314,947	316,177
Mortgages	20,050	20,071
Cash and short-term investments	18,583	36,162
Total investment assets	1,127,033	1,023,164
Receivables:		
Currency hedge	-	2,321
Members' contributions	-	24
University contributions	2,319	2,032
Accrued income receivable	364	322
Total receivables	2,683	4,699
Total assets	1,129,716	1,027,863
Less liabilities:		
Investment liabilities - currency hedge	274	-
Termination withdrawals payable	459	415
Benefits payable	1,777	1,728
Accrued expenses	606	562
Due to Dalhousie University	3,112	-
	6,228	2,705
Net assets available for benefits	$ 1,123,488	$ 1,025,158
Pension obligation and deficit		
Pension obligation	$ 1,163,143	$ 1,087,670
Deficit	(39,655)	(62,512)
Pension obligation and deficit	$ 1,123,488	$ 1,025,158

See accompanying notes to financial statements.

On behalf of the Administrator:

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 (unaudited)
Additions:		
Employees' contributions (note 4)	**$ 18,446**	$ 18,282
Employer's contributions (note 4)	**28,533**	25,400
	46,979	43,682
Additions from investments:		
Current period change in fair value of investments	**68,311**	115,795
Income from investments (note 7)	**28,267**	23,750
	96,577	139,545
Total additions	**143,556**	183,227
Deductions:		
Pension benefits	**33,178**	30,194
Termination withdrawals	**6,261**	4,937
Death benefits	**282**	565
Administrative expenses (note 8)	**5,504**	5,059
	45,226	40,755
Increase in net assets for the year	**98,330**	142,472
Net assets available for benefits, beginning of year	**1,025,158**	882,686
Net assets available for benefits, end of year	**$ 1,123,488**	$ 1,025,158

See accompanying notes to financial statements.

Statement of Changes in Pension Obligation

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

	2015	2014 (unaudited)
Increase in pension obligation:		
Benefits accrued	**$ 39,409**	$ 35,908
Interest accrued on benefits	**60,189**	53,402
Plan Improvements and Indexation	**21,649**	-
Experienced loss	**-**	8,939
Change in actuarial assumptions	**-**	55,622
	121,247	153,871
Decrease in pension obligation:		
Experienced gain	**6,053**	-
Benefits paid	**39,721**	35,696
	45,774	35,696
Net increase in pension obligation	75,473	118,175
Pension obligation, beginning of year	**1,087,670**	969,495
Pension obligation, end of year	**$ 1,163,143**	$ 1,087,670

See accompanying notes to financial statements.

1. Description of plan:

The Dalhousie University Staff Pension 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. Dalhousie University is the Administrator of the Plan. Assets of the Plan are held within two Funds, the Dalhousie Pension Trust Fund and the Dalhousie Retirees’ Trust Fund. Contributions to the Plan are forwarded to the Dalhousie Pension Trust Fund and retirement benefit payments are funded by the Dalhousie Retirees’ Trust Fund.

(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 required contributions 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 2/3% 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) Death benefits before retirement:

A return is made of the member's contributions plus interest, together with any vested entitlement in the University's matching contributions plus interest. For members with spouses, the minimum entitlement for benefits earned after 1987 is 100% of the commuted value of the benefits.

(e) Income taxes:

The Dalhousie University Staff Pension Plan is a Registered Pension Plan as defined in the Income Tax Act and is not subject to income taxes.

(f) Membership eligibility:

All full-time employees and regular part-time employees who commenced employment at Dalhousie University up to June 30, 1996 were eligible to join the Plan upon completion of at least 75 days of employment with the University. After June 30, 1996 membership shall date from the first day of the first full month employed, provided that the employee is then eligible.

1. Description of plan (continued):

Statutory part-time employees may elect to join the Plan following completion of two consecutive calendar years of employment during which, in each of the calendar years, their earnings were at least 35% of the Canada Pension Plan year's maximum pensionable earnings (YMPE), or their hours worked were at least 700.

(g) Termination of membership:

In the event that the member has less than one year of plan membership, the benefit available upon termination of employment is limited to a refund of his or her contributions accumulated with interest. After the employee has completed one year in the Plan, he or she is also entitled to receive the vested portion of the University's basic (matching) contributions made on the member's behalf (also with compounded interest on the same basis as the member's own contributions).

2. Statement of compliance with Canadian accounting standards for pension plans:

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

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

The Plan has adopted Section 4600, Pension Plans, of the CPA Canada Handbook.

Summary of significant accounting policies:

(a) The accompanying financial statements have been prepared on an accrual basis and present the financial position, changes in pension obligation, 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 values of other investments are 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.

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

(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 cost 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 CPA Canada Handbook Section 3856: Financial Instruments, and, accordingly, are measured at fair value.

(vii) Alternative investments include private equity investments, 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 balances between the Plan's Funds and Dalhousie University attract or pay interest at prime less 2%.

(d) 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.

(In thousands of dollars)

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

(e) 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 revenue and expense during the year. Actual results could differ from those estimates.

4. Funding policy:

The Plan requires employees to contribute 4.65% of the first $5,000 of annual salary plus 6.15% of annual salary in excess of $5,000 to maximum pensionable earnings. The University has made annual contributions matching those required from employees. Employees made an additional 2% supplementary contribution of salary to maximum pensionable earnings.

The University is required to fund benefit costs not fully met by the employees' contributions and the University's matching contributions. Pursuant to the March 31, 2014 actuarial valuation, the University has been required to make additional overmatching and deficit reduction contributions of 3.10% and 3.44% of pensionable earnings respectively.

Under the terms of the Plan, employees may be able to make additional voluntary contributions to the Fund and to buy back eligible past service.

Contributions	**2015**	2014 (unaudited)
Employee		
Regular	**$ 13,550**	$ 13,261
Supplemental	**4,396**	4,304
Pension buy-backs, reciprocals & additional voluntary	**500**	717
Total employee contributions	**$ 18,446**	$ 18,282
Employer		
Matching	**$ 13,529**	$ 13,284
Overmatching and deficit reduction	**15,004**	12,116
Total employer contributions	**28,533**	25,400
Total contributions	**$ 46,979**	$ 43,682

The Nova Scotia Pension Benefits Act exempts Nova Scotia universities from solvency funding, thereby limiting funding to that determined by a going concern valuation.

(In thousands of dollars)

5. Obligations for pension benefits:

An actuarial valuation as of March 31, 2014 was made by Eckler Ltd., a firm of consulting actuaries. The actuarial present value of accrued pension benefits was determined using the projected benefit method prorated on service and the Administrator's best estimate assumptions. The actuary extrapolated the results of the March 31, 2014 valuation to yield the June 30, 2015 and June 30, 2014 results.

The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation and extrapolation were:

	2015	2014 (unaudited)
Asset rate of return	**5.49%**	5.51%
Salary escalation rate	**3.59%**	3.61%
Cost Method	**Projected unit credit method**	Projected unit credit method
Mortality	**2014 Canadian Pension Mortality Table (Public Sector) Projected generationally with CPM improvement scale B**	2014 Canadian Pension Mortality Table (Public Sector) Projected generationally with CPM improvement scale B

6. Investments:

	2015	2014 (unaudited)
Canadian Equities Mandates:		
Burgundy Asset Management - Canadian equities	**$ 68,479**	$ 71,184
Burgundy Focus Canadian Equity Fund	**23,741**	23,181
Montrusco Bolton Equity Income Trust Fund	**33,819**	35,451
Fiera North American Market Neutral Fund	**37,668**	33,009
U.S. Equities Mandates:		
Ashford Capital Management - U.S. small cap equities	**54,198**	43,220
Wedge Capital Management - U.S. large cap equities	**101,314**	82,425
State Street S&P MidCap Index Fund	**48,652**	39,743
Non-North American Equities Mandates:		
Sprucegrove Special International Pooled Fund	**129,171**	119,939
First Eagle International Value Fund	**36,706**	28,103
Private Capital Mandates:		
Commonfund Capital Partners L.P - fund of funds	**38,641**	24,950
JP Morgan Asset Management - fund of funds	**16,518**	12,043
Pantheon Europe Fund V ’A’ - fund of funds	**5,393**	6,415
F&C ECP II L.P.	**13,052**	-

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

6. Investments (continued):

Hedge / Absolute Return Funds Mandates:		
Crestline Offshore Fund Ltd. - absolute return fund of funds	**23,415**	19,791
Brevan Howard Multi-Strategy Fund Ltd. - global macro fund	**12,084**	9,957
BlueCrest Capital International Ltd. - global macro fund	**11,348**	10,017
Real Estate and Infrastructure Mandates:		
CU Real Property (6) Limited Partnership - Canadian real estate	**17,707**	16,626
GPM Real Property (11) & (12) Ltd - Canadian real estate	**25,516**	24,303
CBRE Clarion Securities - global real estate	**42,523**	34,617
Lazard Global Listed Infrastructure (Canada) Fund	**22,543**	15,652
JP Morgan Global Maritime Investment Fund	**4,599**	2,596
JP Morgan Infrastructure Investments Fund	**13,774**	12,250
Fixed Income Mandates:		
CIBC Pooled Canadian Bond Index Fund	**96,784**	102,666
Addenda Capital Bond Fund	**65,101**	68,189
Canso Broad Corporate Fund	**55,171**	53,275
BlackRock CorePlus Universe Bond Fund	**82,535**	77,628
Canso Private Loan Fund	**21,429**	19,125
First National Financial - index linked mortgages	**7,315**	8,705
Other:		
RBC Investor Services - cash and notes	**6,688**	6,842
Bank of Nova Scotia - bank account	**11,149**	21,262
Total investments	**$ 1,127,033**	$ 1,023,164

7. Income from investments:

	2015	2014 (unaudited)
Canadian equities	**$ 5,194**	$ 4,096
U.S. equities	**2,324**	2,555
Non-North American equities	**3,418**	2,920
Private capital and hedge/absolute return funds	**(302)**	(73)
Real estate and infrastructure	**4,627**	3,931
Bonds	**12,900**	10,146
Short-term and cash	**106**	175
Total income from investments	**$ 28,267**	$ 23,750

8. Administrative expenses:

	2015	2014 (unaudited)
Investment management fees	**$ 3,755**	$ 3,331
Investment custodial, performance, consulting fees	**546**	551
Benefits administration	**452**	425
Benefits actuarial and consulting fees	**590**	517
Audit fees	**31**	17
General administration	**130**	218
Total administrative expenses	**$ 5,504**	$ 5,059

9. 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 Funds have set formal policies and procedures that establish an asset mix among equity, fixed income and alternative investments, require diversification of investments within categories, and limit 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 3(b). The fair values of other financial assets and liabilities, being cash and short-term investments, accrued income receivable, due from Dalhousie University, and liabilities approximate their carrying values due to the short-term nature of these instruments.

(b) 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 Funds' policies are to invest in a diversified portfolio of investments, based on criteria established in the Statements of Investment Policies and Guidelines, to mitigate the impact of market risk.

(c) Interest rate risk:

The Funds' 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 Funds, this could result in a loss of $27.8 million, or 2.5% of the total Funds. The Funds seek to manage this risk by diversifying their 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 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 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.

(d) 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 assets within generally accepted parameters of safety and prudence, using a diversified investment program. Investments must adhere to specific limitations as outlined in the Funds' Statements of Investment Policies and Guidelines.

9. Financial instruments and investment risks (continued):

The Funds of the Plan engage in currency forward contracts to manage currency risk. The Funds will be subject to credit risk with respect to the counterparties with which they enter into these currency forward contracts. The Funds' managers seek to minimize this risk by using numerous counterparties, and with assessments and detailed, on-going credit analysis of the counterparties.

(e) 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 $9.3 million decline in the overall value of the Funds. 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.

(f) Liquidity Risk:

Liquidity risk refers to the risk that the Plan's associated funds do not have sufficient cash to meet their current payment liabilities, including benefit payments, and to acquire investments in a timely and cost-effective manner. The liquidity position of the Funds are monitored regularly with updated cash forecasts to ensure they have sufficient funds to fulfill their obligations.

(g) Derivative financial instruments:

Derivatives are financial contracts, the values of which are derived from the values of underlying assets or interest rates or exchange rates. Foreign currency risk arises from the Funds' holdings of foreign currency-denominated investments. Foreign currency risk is controlled by the Funds' currency hedging policies. The Funds utilize derivative contracts directly for managing exposure to foreign currency volatility. Pooled funds or fund-of-funds that the Funds invest 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:

(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 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.

(In thousands of dollars)

9. Financial instruments and investment risks (continued):

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

	Notional Amounts		Fair Values	
	2015	2014 (unaudited)	**2015**	2014 (unaudited)
Foreign exchange contracts:				
Forward contracts	**$ 313,272**	$ 283,163	**$ (273)**	$ 2,321

These forward contracts have contractual maturities of less than one year.

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

	2015	2014 (unaudited)
Through direct investment:		
United States	**$ 177,249**	$ 143,218
Non-North American	**20,165**	16,335
Through pooled funds:		
United States	**169,031**	131,348
Non-North American	**184,322**	154,457
Total	**$ 550,767**	$ 445,358

The Plan follows a foreign currency hedging strategy. The objective of the strategy is to provide partial protection of the base Canadian dollar value of the non-Canadian dollar denominated assets against a change in the value of the non-base currency. US dollar denominated publicly-traded securities are hedged within a range on 20% - 65% of their value, while the range for publicly-traded securities denominated in other foreign currencies is between 25% - 55% of their value. Foreign currency exposures associated with absolute return strategies are fully hedged. As at June 30, 2015, if the Funds were unhedged and the Canadian dollar appreciated by 10% against all other currencies, the stated value of the assets would decrease by $55.1 million (June 30, 2014 - $44.5 million).

9. Financial instruments and investment risks (continued):

(h) 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. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The inputs or methodology used for valuing investments are not necessarily an indication of the risk associated with investing in those investments. 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 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.

Securities with no readily available market are generally valued according to the market approach, which attempts to apply a fair value standard by referring to meaningful third-party transactions, comparable public market valuations and/or the income approach.

(In thousands of dollars)

9. Financial instruments and investment risks (continued):

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 (unaudited)
Level 1		
Equity securities – Canadian	**$ 67,463**	$ 66,790
Equity securities – non-Canadian	**196,319**	156,248
Cash in bank	**11,149**	21,262
Level 2		
Pooled funds - Canadian equities	**95,228**	91,641
Pooled funds – non-Canadian equities	**237,072**	203,437
Pooled funds - fixed income	**306,906**	310,463
Absolute return	**46,847**	39,766
Short-term & other	**9,420**	15,249
Level 3		
Private equity	**73,604**	43,408
Private real assets	**61,596**	55,775
Private debt	**21,429**	19,125
	$1,127,033	$1,023,164

The following table summarizes the changes in the fair value of the Plan's financial instruments classified as Level 3 investments:

Level 3 Financial Assets	Private Equity	Private Real Assets	Private Debt	**Total**
Fair Value, July 1, 2014	$ 43,408	$ 55,775	$ 19,125	**$ 118,308**
Net realized & unrealized gains	17,992	5,086	660	**23,738**
Purchases, net of redemptions	12,204	735	1,644	**14,583**
Fair Value, June 30, 2015	**$ 73,604**	**$ 61,596**	**$ 21,429**	**$ 156,629**
Fair Value, July 1, 2013	$ 35,020	$ 47,373	$ 17,930	$ 100,323
Net realized & unrealized gains	6,511	6.848	682	14,041
Purchases, net of redemptions	1,877	1,554	513	3,944
Fair Value, June 30, 2014	$ 43,408	$ 55,775	$ 19,125	$ 118,308

9. Financial instruments and investment risks (continued):

Fair values of the level 3 financial assets represent valuations of the Plan's Funds' unit holdings in partnerships, and are provided by the general partners of the funds in which the Plan's Funds participate. Underlying private equity valuations can be based on a combination of factors such as comparable public market valuations, comparable private market transaction multiples, and discounted future expected income and cash flows. Private real asset valuations are provided annually by independent appraisals that focus on comparable properties, current leases, market capitalization rates, and market activity. Private debt loans have been acquired at discounted prices and are primarily carried at cost.

10. Commitments:

Certain of the alternative investments contain contractual capital commitments. At June 30, 2015, the Funds had outstanding future commitments of $0.3 million (2014 - $17.8 million) in Canadian real estate (including a private loan fund in 2014); US$20.6 million (2014 - US$18.3 million) and €13.5 million (2014 - €0.9 million) in private equity investments; and US$2.4 million (2014 - US$4.4 million) in private infrastructure.

11. Related party transactions:

During the year, Dalhousie University provided investment administration, benefit administration, payroll, and accounting services. These recoverable service costs for 2015 were $688 (2014 - $686). The transactions were in the normal course of operations and were measured at the exchange amount.