MEMORIAL UNIVERSITY

Annual Report

2010-2011

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

MEMORIAL
UNIVERSITY

Board of Regents

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Chairperson's Message

October 31, 2011

Honourable Joan Burke
Minister of Advanced Education and Skills
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister Burke:

I am pleased to submit the 2010-11 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2010 to March 31, 2011.

This is the third and final performance-based report to be presented under the Memorial University Pension Plan's activity plan for 2008-2011. This document sets forth in clear language how the University has addressed the mission and objectives that were outlined in the plan.

My signature below is on behalf of the Board of Regents and is indicative of our accountability for the actual results reported.

Respectfully submitted,

Robert E. Simmonds

Robert E. Simmonds, QC
Chair, Board of Regents

Annual Report of
The Memorial University Pension Plan

April 1, 2010 to March 31, 2011

Department of Human Resources
Memorial University of Newfoundland
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MEMORIAL UNIVERSITY PENSION PLAN OVERVIEW

The three-year Activity Plan prepared for the Memorial University Pension Plan (the “Plan”) in 2008 set out the Plan’s objectives for the period April 1, 2008 to March 31, 2011. This Annual Report will discuss the outcome of those objectives for the period April 1, 2010 to March 31, 2011 and provide additional information on the operation of the Plan for the year then ended. As this is the final activity report in the current planning cycle, details of the successful achievement of the mission will also be discussed.

Mission

By 2011, the Memorial University Pension Plan will have ensured the provision of secure, affordable and competitive retirement incomes for employees of Memorial University of Newfoundland (the University).

Vision

The vision of the Memorial University Pension plan is of participating employees who are responsibly preparing for retirement and of retired employees, or their survivors, who receive secure retirement incomes.

Department of Human Resources

Our Purpose ...

The Department of Human Resources is dedicated to supporting the University’s commitment to excellence in teaching, research and scholarship, and service to the general public. Our goal is to establish and sustain Memorial University‘s reputation as an employer of choice, and to maintain a workplace culture in which all employees feel valued and able to contribute their personal best to the achievement of the University’s mandate.

Our Strategies ...

We will demonstrate human resources leadership by....

- Developing and implementing high quality programs and services that are responsive to the challenging needs of our evolving workplace, and which support the university’s strategic framework;
- Acting as a strong, influential advocate for employees and fairness within the University workplace;
- Developing and promoting the adoption of progressive best practices in all areas of human resource management and organizational development;
- Developing and sustaining meaningful partnerships that are supportive of the diverse needs of the University community.

Our Values ...

We will place a high value on the following in the pursuit of our goals and strategies

- Leadership - Managers who are highly effective teachers, coaches, and motivators of people;
- Integrity - High standards of personal integrity, and respect for the capabilities and views of others;
- Client Focus - Seeking to always understand our clients' needs, circumstances and point of view;
- Quality Focus - High standards of quality and an ongoing focus on innovation and continuous improvement.

Mandate

The mandate of the Board of Regents of Memorial University, acting as the trustee for the Pension Plan, is set out in the *Memorial University Pensions Act*. In its role, the Board is responsible for the administration of the Fund, including:

- Collecting and depositing employee and employer contributions into the Fund;
- Investing funds in accordance with the Act;
- Paying pensions to eligible retired employees or their beneficiaries;
- Keeping complete books of account detailing all transactions of the Fund.

Plan Design

The Plan is a contributory defined-benefit pension plan, established in 1950 under statute of the provincial legislature. It is designed to provide retirement benefits to full-time permanent employees and qualifying contractual employees of the University. In addition, employees of certain separately incorporated entities of the University are eligible to participate in the Plan. Benefits, which are integrated with the Canada Pension Plan, are based upon employees' years of pensionable service, best five-year average pensionable salary and a 2 per cent accrual factor.

Authority and Administration

The Plan operates under authority of the *Memorial University Pensions Act*, which prescribes the Board of Regents of the University as trustee. To assist with its responsibilities as trustee, the Board has established a University Pensions Committee to provide advice on matters relating to the Plan. This advisory committee, which has representation from across the entire University community, operates under terms of reference set out by the Board. The actual administration of the Plan is carried out by the University's Department of Human Resources.

Investments

The Memorial University Pension Fund (the Fund) is currently managed by six external investment management firms under various individual mandates. The over-riding objective of the Fund's investment policy is to maintain predictable and stable benefit costs and contributions over the long term. A policy asset mix has been established which is expected to achieve this objective at a reasonable and acceptable level of risk. The nominal annual return of the policy asset mix is expected to be 6.8% within a range of +/- 9.25%.

Policy Asset Mix

(Table 1)

Asset Class	Proportion of Asset Class in Policy Asset Mix
Canadian Equity	25%
U.S. Equity	21%
International Equity	10%
Fixed Income	25%
Cash /Short term	3%
Real Estate	8%
Mortgages	8%

The implementation of the investment policy and the associated policy asset mix is achieved through the following benchmark distributions to external investment management firms:

Investment Manager Benchmark Distribution

(Table 2)

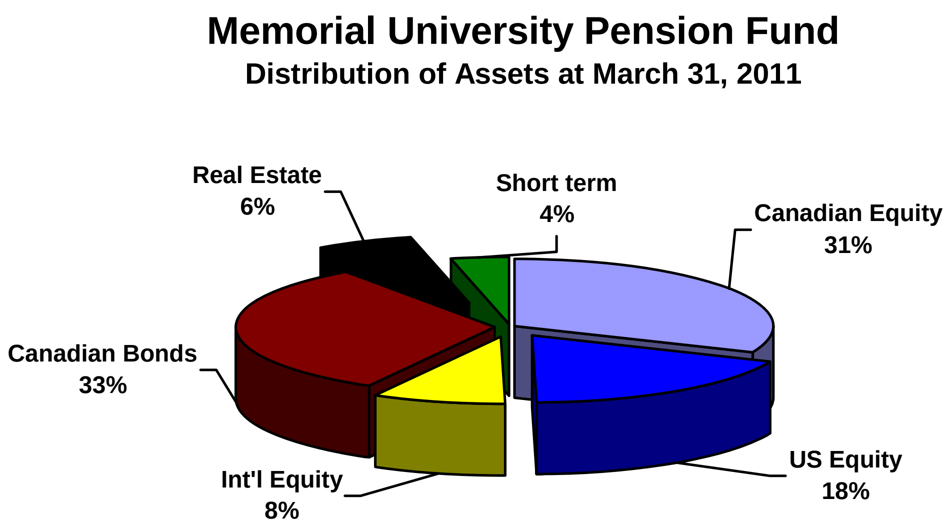
Manager	Mandate	Allocation
Jarislowsky Fraser Limited	Canadian Balanced	20.25%
Greystone Managed Investments Inc.	Canadian Balanced	20.25%
Greystone Managed Investments Inc.	Real Estate	4.8%
Greystone Managed Investments Inc.	Mortgages	8%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%
Alliance Capital Management Canada Inc.	US Equity	21%
Aberdeen Asset Management	International Equity	10%
Grenier-Pacaud Management Associates	Real Estate	3.2%

Implementation of the benchmark distribution continued in 2010-11 with the Greystone real estate mandate becoming fully invested in July 2010 and the initial Greiner Pacaud Management (GPM) mandate being substantially complete at the end of the year. Roycom Inc, who had been appointed to manage 1.6% of the Fund, was not in a position to close its real estate fund by March 31, 2011 and consequently the subscription agreement with them expired. It was not renewed and their allocation has been transferred to GPM. Funding of the new GPM mandate will begin in the next fiscal year.

Greystone Managed Investments Inc. has been selected as the Fund's mortgage manager and it is anticipated that funding the mortgage mandate will commence during the 2011-2012 fiscal year

The relative distribution of assets across the entire Pension Fund, as at March 31, 2011, is illustrated in the following chart:

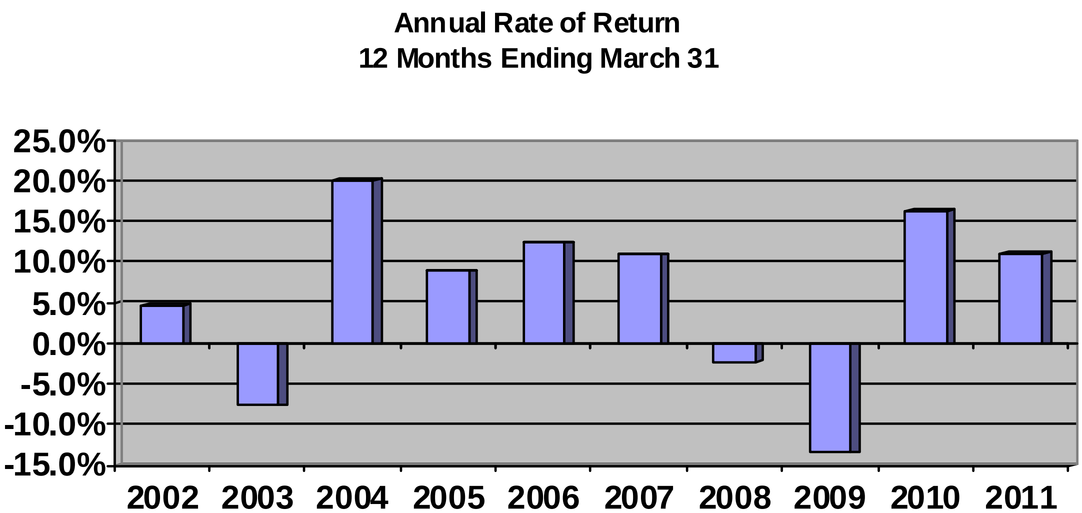
(Figure 1)



Investment Performance

The Fund posted strong performance figures for the year ended March 31, 2011 achieving an overall annual return of 11.13%. This ranked in the 33rd percentile as compared with other Canadian pension funds (1st percentile being the top performer and 100th being the worst). Net Assets Available for Benefits increased by approximately $99.9 million – up from $727.6 million at March 31, 2010 to $827.5 million at March 31, 2011.

(Figure 2)



(10 year annualized return: 5.6%)

Actuarial Valuation

The Plan is being funded in accordance with the March 31, 2010 actuarial valuation, however, another valuation was performed by the University's actuary, Eckler Limited (Eckler) at March 31, 2011 for internal management purposes. While valuations are generally required at least once every three years, annual valuations of the Plan have been performed in each of the years 2006 through 2011. These valuations were requested by the provincial Office of the Superintendent of Pensions as a condition of granting a solvency funding exemption under the *Pension Benefits Act, 1997*, *Regulations*, to December 31, 2010. The University has requested that this exemption be extended.

In addition to reporting on the solvency position of the Plan, an actuarial valuation is performed to determine the ability of the Plan to meet its obligations or "pension promises", on a going-concern basis. It is also used to project the cost of benefits that will accrue to active plan members in the years following the valuation. The results of the March 31, 2011 actuarial valuation together with comparative figures at the last valuation date, March 31, 2010 are highlighted in the following table.

(Table 3)

Actuarial Balance Sheet				
	March 31, 2011 ($ Millions)		**March 31, 2010 ($ Millions)**	
	Going-Concern [1]	**Solvency** [2]	**Going-Concern**	**Solvency**
Actuarial Value of Assets	791.4	891.3	743.4	830.1
Actuarial Liabilities	1,108.9	1,170.6	1,035.9	1,105.2
Deficit	(317.5)	(279.3)	(292.5)	(275.1)

[1] The going concern deficit, as at March 31, 2011, includes an unfunded liability of approximately $77.4 million associated with the introduction of indexing in July 2004. Due to the nature of the amortization method the present value of this liability has increased from the prior year. A financing plan is in place to amortize this amount over a remaining period of 33.25 years.

[2] Solvency assets include the present value of five years worth of going concern special payments (2011 – $100.3 million, 2010 - $87.0 million)

In accordance with the *Pension Benefits Act, 1997* (the PBA), the University, as employer, is required to liquidate going-concern deficiencies within 15 years of the valuation date. The total going-concern deficiency at March 31, 2011 was calculated by Eckler to be $317.5 million. Of this amount, approximately $77.4 million is in respect of past service costs associated with the introduction of indexing in 2004. By special provision of the PBA, the University and employees are financing the indexing liability over a remaining period of 33.25 years through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). The balance, namely $240.1 million ($317.5 - $77.4), would be liquidated by the University through special payments of 7.7% of payroll over not less than 15 years, if funding were based on the 2011 valuation. The special payment required for 2011-2012 would be $20.6 million.

During the year ended March 31, 2011, the University made a special payment into the Fund of $4,745,000. This was a partial payment against the total required special payment $17,748,000 identified in the March 31, 2010 valuation. The remaining $13,003,000 is expected to be paid early in the 2011-2012 fiscal year.

Current Service Cost

Current service cost is the basis upon which the Plan's contribution rate for both employees and the University is determined. The March 31, 2010 valuation revealed that the current service cost for both active participating members and the University had increased by 0.1%. An increase in the contribution rate of 0.1% was implemented on April 1, 2011. In addition, the March 31, 2011 valuation showed that a further contribution rate increase of 0.2% would be required if the Plan were to be funded in accordance with that valuation.

(Table 4)

Rate Structure	Old Rate up to March 31, 2011	New Rate Beginning April 1, 2011
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.8%	9.9%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.0%	8.1%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.8%	9.9%

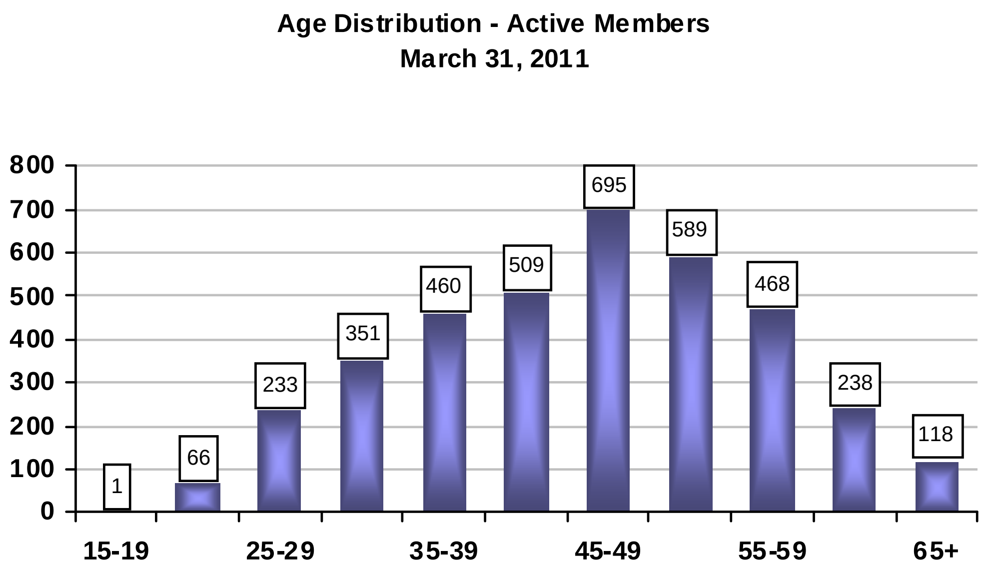
Plan Membership Statistics

(Table 5)

	March 31				
	2011	2010	2009	2008	2007
Active Members	3,728	3,636	3,496	3,368	3,203
Retirees (incl. survivors)	1,463	1,392	1,340	1,294	1,231
Deferred Pensioners	238	206	199	163	149
Average Age at Retirement	60.56	60.43	60.39	60.47	60.46

(Figure 3)

(Figure 4)



MISSION

The Plan was successful in the achievement of its mission of ensuring the provision of secure, affordable, and competitive retirement incomes for employees of the university through responsible stewardship of the pension fund, additional special payments from the university and annual indexing adjustments to pensions in pay.

By 2011, the Memorial University Pension Plan will have ensured the provision of secure, affordable and competitive retirement incomes for employees of Memorial University of Newfoundland (the University).

Measure: Secure retirement incomes

The following highlights the retirement incomes paid over the 2007-08 and 2008-11 planning periods in the successful achievement of the mission.

Pensions paid	2007-08	$32,490,000
	2008-09	$34,868,000
	2009-10	$37,276,000
	2010-11	$39,326,000

Indicator:

<u>Reduced unfunded liability</u>

While unfunded liabilities will vary from one actuarial valuation to the next, the following details special payments made by the university against unfunded liabilities in each of the years shown:

Special payments made by university	2007-08	$6,745,000
	2008-09	$4,300,000
	2009-10	$4,854,000
	2010-11	$17,748,000*

*$4,745,000 received plus $13,003,000 recorded as “Due from Memorial” at March 31, 2011 and subsequently received April, 2011.

OUTCOME OF OBJECTIVES 2010-11

The two primary issues and related objectives identified in the 2008-11 Activity Plan of the Plan are set out below:

Issue One: Responsible stewardship in the collection, investment and disbursement of the Fund

The Board of Regents, as trustee of the Fund, is responsible to ensure that funding objectives for the Plan are met and that contributions are invested in a prudent and timely manner. It must further ensure that the Plan is administered in accordance with the *Memorial University Pensions Act* and other governing legislation.

In 2010-11, the Board of Regents ensured that the funding objectives of the plan were met and that contributions were invested in a timely and prudent manner in accordance with all governing legislation. In doing so, they successfully achieved their objective as outlined in the 2008-11 activity plan.

Objective: The Memorial University Pension Plan will have collected and invested responsibly the contributions received from the Plan's eligible members and the Board, as well as awarded monies to eligible retired members or their survivors and paid associated administrative expenses.

Measure: Collected and invested all contributions, awarded all eligible pension benefits and paid administrative expenses.

The following details the Plan's successful achievement of the indicators, and therefore the objective presented in the activity plan.

Indicators:

Contributions are collected and invested

During the 2010-11 fiscal year, the Plan collected a total of $64,977,000 in contributions, representing amounts paid by the University and its employees and funds transferred from other employers' plans.

All contributions are paid into the Pension Fund for investment by external investment managers. Summary information on the Plan's investment structure and performance has been included in this Report under the "Investments" section.

Eligible retired members/survivors are receiving pension benefits

The Plan paid out a total of $39,326,000 in benefits to eligible retired employees or their beneficiaries in 2010-11.

Administrative expenses are paid

During 2010-11, the Plan paid a total in $2,965,000 in administrative expenses.

Issue Two: Unfunded Liability

The Plan, as a registered pension plan, must comply with the funding requirements of the Newfoundland and Labrador PBA. When the Plan experiences funding deficiencies, as measured by periodic actuarial valuations, the University must make additional special payments into the Plan. The PBA requires that going-concern deficiencies be amortized over a period not greater than 15 years, while solvency deficiencies must be paid over not more than 5 years. By special provision of the PBA, the University was exempt from the solvency funding requirements to December 31, 2010 and it has requested that this exemption be extended. In the absence of an exemption the University would be required to fund the solvency deficiency, effective January 1, 2011. The special payment due in respect of the period January 1, 2011 to March 31, 2011 is $13.0 million and has been reflected in the Plan's financial statements as "Due from Memorial University." In addition the University is amortizing past service costs associated with indexing, introduced in 2004, over a remaining period of 33.25 years in accordance with the PBA.

Objective: Memorial University will make annual special payments of 2.16% of pensionable payroll toward the going concern unfunded liability, in addition to the 1.2% indexing payment.

Measure: Unfunded liability reduced.

The going-concern unfunded liability, at March 31, 2010, was $292.5 million, of which $73.9 million was attributable to indexing. The indexing liability is being financed by ongoing contributions from the University and employees at a combined rate of 1.2% of pensionable payroll. The balance, namely $218.6 million is to be amortized by the University over a 15 year period with annual special payments of 7.1% of pensionable payroll. For additional information on the special payment, please see the detail under the indicator below.

As annual valuations are performed for funding purposes, the figures representing the Plan's unfunded liability and the University's requisite special payments will be updated and reflected in future Annual Reports.

The following describes the Plan's successful achievement of the indicators, and therefore, the objective presented in the activity plan.

Indicator:

Annual payment of 1.2% of pensionable payroll and special payment of $17.748 million

By special provision of the PBA, the University and employees are financing the indexing liability through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). This annual payment was submitted in 2010-11.

During the year ended March 31, 2011, the University made a special payment into the Pension Plan Fund of $4.745 million, thus reducing the unfunded liability identified in the March 31, 2010 actuarial valuation of the Plan that the University was solely responsible to fund. The balance of the required payment of $17.748 million or $13.003 million was accrued in the pension plan's financial statements for receipt in April 2011.

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights

(Table 6)

		March 31	
		2011	**2010**
Net Assets Available for Benefits		827,506,000	737,588,000
One-Year Annual Rate of Return		11.13%	16.66%
Investment Income		44,964,000	13,150,000
Pensions Paid		39,326,000	37,276,000
Current Contributions:	Employee	21,536,000	19,837,000
	Employer	40,148,000	25,498,000 [1]

[1] For 2011, Current Contributions B Employer includes a matching employee amount plus a special payment of $17,748,000 (2010 - $4,854,000) toward the unfunded liability identified in the March 31, 2010 actuarial valuation of the pension plan. In addition, employer contributions includes $855,000 (2010 - $814,000), in respect of the solvency deficiency associated with refunds paid.

Benefit Provisions – Indexing

On July 1, 2010, 1,017 retirees and survivors received a 0.18 per cent indexing adjustment to their pensions. Indexing was introduced under the Plan in July 2004, with yearly adjustments calculated as 60 per cent of the annual change in the consumer price index, as measured by Statistics Canada, to a maximum yearly increase of 1.2 per cent.

Actuarial Valuation of Plan

An actuarial valuation of the Plan was performed as at March 31, 2011. While much of the work related to this valuation was done after the period covered by this Annual Report, the results have been included to outline the actuarial financial position of the Plan at its measurement date.

Communications to Employees

The annual *Report to Plan Members*, a pocket-sized brochure detailing financial and administrative aspects of the Plan, for the year ended December 31, 2010, was provided to active pension plan members in the Spring of 2011. Active plan members also received their annual pension plan statement.

Retirement Planning Seminars

In February and March 2011, the University held full day retirement planning seminars on the St. John's and Corner Brook Campuses. These were attended by approximately 200 employees and their spouses. Topics covered included the Plan, the Canada Pension Plan and Old Age Security Benefits, financial planning and the Memorial University Pensioners' Association.

Statement on Responsible Investing

In March 2011, the University Pensions Committee recommended to the Board of Regents that the Plan's Statement of Investment Policy and Objectives be amended to include the following statement on responsible investing:

The Board and the University Pensions Committee recognize the importance of investment practices that are appropriate from the perspective of environmental stewardship, social responsibility and good corporate governance. Where these factors are material to the overall performance of the Fund, they will be taken into consideration when reviewing the investment policies and practices of the investment managers.

It is expected that this statement will provide the Committee with the authority to conduct further review in this area and, if warranted, lead to a more defined policy with respect to responsible investing.

OPPORTUNITIES AND CHALLENGES

A new Activity Plan for 2011-14 has been developed and outlines the objectives for the next three years. The focus with respect to the Plan will be concentrated in a number of areas including:

- Assessing the March 31, 2011 actuarial valuation;
- Continued monitoring of the investment performance of fund managers and review of the Statement of Investment Policy and Objectives;
- Continued transition of funds into the real estate portfolios;
- Transition of funds into the mortgage portfolio;
- Continued review of responsible investment strategies;
- Review of pensionable service re-purchase provisions;
- Providing retirement planning seminars.

CONCLUSION

The successful achievement of the objectives listed in this report reflects the course of action set out in the Board of Regents' three-year activity plan intended to guide the Plan for the fiscal years 2008-11. A new activity plan for 2011-14 has been tabled and progress toward the achievement of the objectives contained in that document will be reported each fall.

MEMORIAL
UNIVERSITY

The Memorial University Pension Plan

FINANCIAL STATEMENTS

March 31, 2011

Financial Statements

Memorial University of Newfoundland Pension Plan

March 31, 2011

INDEPENDENT AUDITORS' REPORT

To the Board of Regents of
Memorial University of Newfoundland

We have audited the accompanying financial statements of the **Memorial University of Newfoundland Pension Plan**, which comprise the statement of net assets available for benefits as at March 31, 2011 and the statement of changes in net assets available for benefits for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

We believe that the audit evidence we have obtained in our audit 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 net assets available for benefits of the **Memorial University of Newfoundland Pension Plan** as at March 31, 2011 and the changes in its net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Chartered Accountants

St. John's, Canada
July 7, 2011

Memorial University of Newfoundland Pension Plan

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at March 31

[thousands of dollars]

	2011	2010
ASSETS		
Receivables		
Contributions receivable	**2,767**	2,494
Accrued interest and dividends	**2,139**	1,974
Amounts due from pending trades	**896**	2,229
Due from Memorial University of Newfoundland *[note 4]*	**28,058**	1,764
	33,860	8,461
Investments *[note 5]*		
Cash and short-term investments	**28,800**	16,820
Bonds and debentures	**260,569**	256,683
Equities	**471,578**	425,587
Real estate	**50,132**	22,657
	811,079	721,747
Total assets	**844,939**	730,208
LIABILITIES		
Accounts payable and accrued expenses	**651**	530
Accrued pension refunds	**1,965**	942
Amounts payable from pending trades	**1,847**	1,148
Total liabilities	**4,463**	2,620
Net assets available for benefits	**840,476**	727,588

See accompanying notes

On behalf of the Board:

Chair of the Board of Regents

Chair of the Finance Committee

Memorial University of Newfoundland Pension Plan

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Year ended March 31
[thousands of dollars]

	2011	2010
INCREASE IN ASSETS		
Investment income		
Interest income	**13,172**	12,467
Dividend income	**11,711**	7,862
Realized gain (loss) on sale of investments *[note 5 [c]]*	**20,081**	(7,179)
Current-period increase in fair value of investments	**36,033**	88,016
	80,997	101,166
Contributions *[note 7]*		
Employer's	**53,118**	25,498
Employees'	**21,536**	19,837
Past service contributions and transferred service	**3,293**	2,581
	77,947	47,916
Total increase in assets	**158,944**	149,082
DECREASE IN ASSETS		
Benefits paid	**39,326**	37,276
Refunds of contributions	**3,765**	2,747
Administrative expenses	**2,965**	2,410
Total decrease in assets	**46,056**	42,433
Increase in net assets	**112,888**	106,649
Net assets available for benefits, beginning of year	**727,588**	620,939
Net assets available for benefits, end of year	**840,476**	727,588

See accompanying notes

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2011
[tabular amounts in thousands of dollars]

1. DESCRIPTION OF PLAN

The following description of the Memorial University of Newfoundland Pension Plan [the "Plan"] is a summary only. For more complete information, reference should be made to the *Memorial University Pensions Act.*

General

The Plan is a contributory defined benefit pension plan covering eligible employees of Memorial University of Newfoundland [the "University"] in accordance with the *Memorial University Pensions Act.*

Where differences exist between the provisions of the *Memorial University Pensions Act* and the Newfoundland *Pensions Benefits Act, 1997* [the "PBA"], the minimum standards prescribed by the PBA will prevail unless the Plan provisions exceed these standards.

Funding policy

The Plan is subject to the funding provisions of section 35 of the PBA and section 12 of the PBA Regulations which require that the employer contribute an amount equal to the normal actuarial cost allocated to the employer in the most recently filed actuarial valuation. In addition, where the Plan experiences a solvency deficiency, the employer is required to contribute an amount sufficient to liquidate the solvency deficiency within five years of the solvency valuation date. Likewise, going concern unfunded liabilities are required to be liquidated by the employer over a period not exceeding 15 years.

Provincial guarantee

The Plan is being underwritten by the Province of Newfoundland and Labrador. Section 6 of the *Memorial University Pensions Act* states:

> All pensions, payments, and refunds and all expenses of the administration of this Act are a charge upon and payable out of the fund and if at any time there is not sufficient money at the credit of the fund for those purposes as they fall due for payment the Minister of Finance shall pay to the board an amount to cover the deficiency, and the board shall deposit that amount to the fund.

Service pensions

A service pension is available based on the number of years of service times two percent of the best five-year average pensionable salary. Pensions are indexed, from age 65, at the rate of 60% of the annual change in the Consumer Price Index, as measured by Statistics Canada, to a maximum annual increase of 1.2%.

Survivors' pensions

A survivor pension is paid to a surviving principal beneficiary or dependent child, as defined in the *Memorial University Pensions Act*, of a member who has a minimum of two years' credited service.

Death refunds

A death refund is payable to the estate of a pensioner or survivor where such pensions have not been paid to the full extent of the individual's contributions plus interest. In a similar manner, a death refund is payable to the estate of a contributor where no survivor pension is paid.

Refunds

Upon application and subject to locking-in provisions, a terminated employee may withdraw their contributions and accumulated interest.

Income taxes

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

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements follow the guidelines established by the Canadian Institute of Chartered Accountants ["CICA"] for pension plans.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates. These estimates are reviewed periodically and, as adjustments become necessary, they are reported in earnings in the period during which they become known.

Basis of presentation

These financial statements are prepared on the going concern basis and present the information of the Plan as a separate financial reporting entity independent of the sponsor and Plan members. The financial statements are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period, but they do not portray the funding requirements of the Plan or the benefit security of individual Plan members.

Investments

Investments are stated at fair value and transactions are recorded as of the trade date. In determining fair value, adjustments have not been made for transaction costs as they are not considered to be significant. The change in the difference between the fair value and cost of investments, at the beginning and end of each fiscal year, is reflected in the statement of changes in net assets available for benefits as current-period increase in fair value of investments.

Fair value of investments is determined as follows:

Bonds, debentures and equities are valued at year-end quoted market prices where available. Where quoted prices are not available, estimated fair value is calculated using comparable securities.

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which, together with accrued interest income, approximates fair value given the short-term nature of these instruments.

Guaranteed investment certificates and term deposits maturing after one year are valued at the present value of estimated future cash flows discounted at interest rates in effect on the last business day of the year for investments of a similar type, quality, and maturity.

Pooled fund investments are valued at the unit value supplied by the pooled fund administrator, which represents the Plan's proportionate share of underlying net assets at fair value determined using closing market prices.

The investment in real estate is comprised of units in both a closed-end real estate fund and an open-end real estate fund. The fair value of properties in both funds is determined at least annually by independent accredited appraisers. New acquisitions are carried at cost for the first 12 months.

Investment income

Investment income, which is recorded on the accrual basis, includes realized gains (losses) on the sale of investments, interest income and dividends.

Gain (loss) on sale of investments

The realized gains (losses) on the sale of investments are the difference between proceeds received and the average cost of investments sold.

Foreign currency translation

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

Foreign currency denominated transactions, as well as cost amounts included in note 5[b], are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

3. CHANGES IN ACCOUNTING POLICY

Impact of adopting future accounting policies

Recent accounting pronouncements that have been issued but are not yet effective and have a potential implication for the Plan are as follows:

Pension Plans

The CICA has issued new *Handbook* Section 4600, *Pensions Plans*, which applies to fiscal years beginning on or after January 1, 2011. Adoption of this standard is not expected to have a significant impact on the Plan's financial statements.

4. DUE FROM MEMORIAL UNIVERSITY OF NEWFOUNDLAND

The treasury function of the Plan is administered by the University and, therefore, the due from Memorial University of Newfoundland account represents funds owed to the Plan by the University.

Included in the due from Memorial University of Newfoundland balance is an accrued receivable of $13,003,000 related to a special payment to fund the going concern deficiency and an accrued receivable of $12,973,000 related to the solvency deficiency as described in note 7.

NOTES TO FINANCIAL STATEMENTS

March 31, 2011
[tabular amounts in thousands of dollars]

5. INVESTMENTS

[a] The following table summarizes the fair value of investments as at March 31 by the earlier of contractual re-pricing or maturity dates, as well as average effective yields by class of investment:

	2011							2010	
	Within 1-year	1-5 years	5-10 years	Over 10 years	No specific maturity	Total	Average effective yield %	Total	Average effective yield %
Cash and short-term investments	28,800	—	—	—	—	28,800	0.73	16,820	0.36
Canadian bonds and debentures	2,926	48,776	34,921	43,426	130,520	260,569	3.39	256,683	4.20
	31,726	48,776	34,921	43,426	130,520	289,369		273,503	
Canadian equities									
Common stock		—	—	—	—	247,823		229,575	
Pooled funds		—	—	—	—	7,047		7,333	
Foreign equities		—	—	—	—				
Common stock		—	—	—	—	148,884		128,135	
Pooled funds		—	—	—	—	67,824		60,544	
		—	—	—	—	471,578		425,587	
Real estate		—	—	—	—	50,132		22,657	
	31,726	48,776	34,921	43,426	130,520	811,079		721,747	

The average effective yield reflects the result obtained by dividing estimated annual income from a security, based on its coupon or interest rate, into its fair value as at March 31.

[tabular amounts in thousands of dollars]

[b] The following table summarizes investments at cost:

	2011	2010
Cash and short-term investments	**28,889**	16,919
Canadian bonds and debentures:		
Federal	**45,721**	39,039
Provincial	**23,161**	24,944
Corporate	**59,152**	55,404
Pooled funds	**131,629**	135,359
	259,663	254,746
Canadian equities:		
Common stock	**177,623**	175,960
Pooled funds	**6,205**	7,395
	183,828	183,355
Foreign equities:		
Common stock	**136,143**	125,853
Pooled finds	**65,578**	63,503
	201,721	189,356
Real estate	**45,973**	22,391
	720,074	666,767

[c] Realized losses arising from foreign currency translation amounted to $5,358,511 for the year ended March 31, 2011 [2010 – loss of $3,929,640]. For financial statement presentation purposes, these amounts have been included in realized gain (loss) on sale of investments.

6. OBLIGATION FOR PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefits method prorated on service and the administrator's best estimate assumptions. Eckler Ltd., a firm of consulting actuaries, performed an actuarial valuation as at March 31, 2011.

NOTES TO FINANCIAL STATEMENTS

March 31, 2011
[tabular amounts in thousands of dollars]

The actuarial present value of benefits as at March 31, 2011 and the principal components of change in actuarial present value during the years are as follows:

	2011	2010
Actuarial present value of accrued pension benefits, beginning of year	**1,035,932**	954,041
Experience (gains) losses	**(2,990)**	17,272
Changes in actuarial assumptions/methodology	**8,350**	—
Benefit improvements	—	302
Interest accrued on benefits	**67,347**	62,085
Benefits accrued	**43,428**	42,255
Benefits paid and refunds of contributions	**(43,091)**	(40,023)
Actuarial present value of accrued pension benefits, end of year	**1,108,976**	1,035,932

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 were:

Discount rate	Salary escalation rate
6.5% [2010 – 6.5%] pre- and post-retirement	4.5% [2010 – 4.5%] per annum

The actuarial value of net assets available for benefits has been determined at amounts that reflect long-term market trends [consistent with assumptions underlying the valuation of the accrued pension benefits]. The fair value is the underlying basis and incorporates an investment reserve calculated as the unamortized difference between expected and actual investment returns over a period of three years.

The actuarial asset values used in both the 2011 and 2010 valuations were as follows:

	2011	2010
Net assets available for benefits	**827,506**	727,588
Fair value changes not reflected in actuarial value of net assets	**(36,077)**	15,853
Actuarial value of net assets available for benefits	**791,429**	743,441

[tabular amounts in thousands of dollars]

7. FUNDING POLICY

Pursuant to the *Memorial University Pensions Act*, employees are required to contribute to the Plan in accordance with the following schedule:

9.80%	of pensionable earnings up to the Year's Basic Exemption ["YBE"] under the *Canada Pension Plan Act*;
8.00%	of pensionable earnings above the YBE up to and including the Year's Maximum Pensionable Earnings ["YMPE"] under the *Canada Pension Plan Act*;
9.80%	of pensionable earnings above the YMPE.

The University is required to contribute an amount equal to the contributions paid by employees and any additional amounts required to be paid by an employer under the PBA. In addition to its matching contributions, the University made a special payment of $4,745,000 to the Plan during the year. This was a partial payment against the unfunded liability, not attributable to indexing, that was identified in the March 31, 2010 actuarial valuation of the Plan. The total special payment required amounted to $17,748,000 and the balance of $13,003,000 has been included under due from Memorial University of Newfoundland.

The Plan is being funded in accordance with the March 31, 2010 actuarial valuation. The most recent valuation was prepared at March 31, 2011 by Eckler Ltd. for internal management purposes. This valuation revealed that the going concern unfunded liability had increased to $317,547,000 at March 31, 2011 based on current Plan provisions and PBA requirements. Of this amount, approximately $77,407,000 relates to the past service costs of indexing, introduced under the Plan, effective July 1, 2004. A financing arrangement was implemented coincident with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2011, approximately 33.25 years are remaining in the amortization schedule. Due to the nature of the amortization method, which is based upon 1.2% of annual pensionable payroll, the present value of the indexing liability has increased from the level that existed at March 31, 2010. This pattern of increasing liability can be expected to continue until such time as pensionable payroll grows to a level sufficient to generate contributions towards indexing in excess of the annual interest accumulated on the liability. The balance of the going concern unfunded liability, in the amount of $240,140,000, would be liquidated by the University in accordance with note 1 if funding were based upon the March 31, 2011valuation.

The March 31, 2011 actuarial valuation also revealed an increase in current service cost of 0.20%, for both the University and employees. As the Plan is being funded in accordance with the March 31, 2010 valuation, no change in the contribution rate is being contemplated as a result of the March 31, 2011 valuation. The rate increase of 0.1% recommended in the March 31, 2010 valuation is scheduled for implementation effective April 1, 2011.

In addition, Eckler Ltd. prepared a solvency valuation, at March 31, 2011, which disclosed a solvency deficiency of $279,265,000 based upon PBA requirements. With respect to solvency, the University was exempt from the associated funding obligation under the PBA up to December 31,

2010. This exemption had been in place since 2002 and application has been made to have it continued. In the absence of an exemption the University would be required to fund the solvency deficiency, effective January 1, 2011. The special payment due in respect of the period January 1, 2011 to March 31, 2011 is $12,973,000 and has been reflected as a Due from Memorial University and Employer Contributions. The special payment due in respect of the period April 1, 2011 to March 31, 2012 will be $60,014,000.

8. RISK MANAGEMENT

The fair value of investments is as described in notes 2 and 5[a]. The fair value of other financial assets and liabilities, namely contributions receivable [employees], accrued interest and dividends, due from Memorial University of Newfoundland, accounts payable and accrued expenses, and accrued pension refunds, approximates their carrying value due to the short-term nature of these instruments. The fair value of amounts due from pending trades and amounts payable from pending trades is represented by the fair value of the underlying securities. Fair values of investments are exposed to price risk, liquidity risk and credit risk.

Price risk

Price risk is comprised of currency risk, interest rate risk, and market risk.

[a] **Currency risk:** Currency risk relates to the possibility that the investments will change in value due to future fluctuations in the U.S., Euro, and other international foreign exchange rates. For example, a 5% strengthening of the Canadian dollar against the U.S. dollar at March 31, 2011 would have decreased the U.S. investment value by approximately $7,800,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2011 would have increased the U.S. investment value by approximately $7,800,000.

[b] **Interest rate risk:** Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates, thereby impacting pension liabilities which are exposed to longer-term fixed-income instruments. Duration is an appropriate measure of interest rate risk for fixed-income funds as a rise in interest rates will cause a decrease in bond prices: the longer the duration, the greater the effect. At March 31, 2011, the average duration of the bond portfolio was 6.23 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.23%.

[c] **Market risk:** Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the Plan's investment policy which incorporates diversification of the investment portfolio across various asset classes and within each asset class. Equity price risk is managed by investing in Canadian, U.S. and international equities through the use of four external investment managers utilizing

differing investment styles. The equity portfolio is diversified across a range of economic sectors and companies and is limited to stocks traded on recognized stock exchanges.

Fixed-income market risk is managed by diversifying across various government and corporate issuers and by maintaining minimum quality ratings of "A" as determined by recognized bond rating agencies. The minimum quality rating for the pooled index bond fund is "BBB".

Price risk can be measured in terms of volatility, i.e., the standard deviation of change in the value of a financial instrument within a specific time horizon. Based on the volatility of the Plan's current asset class holdings shown below, the expectation is that over the long term, the Plan will return approximately 7.5%, within a range of +/- 9.4% [i.e., results ranging from (1.9)% to 16.9%].

	Estimated volatility %
Asset class	
Canadian equities	+/- 17.25
Global equities	+/- 17.50
Real estate	+/- 6.50
Cash and short-term investments	+/- 2.00
Canadian bonds and debentures	+/- 5.00

[tabular amounts in thousands of dollars]

	Market value at March 31, 2011	Investments %
Held-for-trading securities		
Cash and short-term investments	**28,800**	3.6
Canadian bonds and debentures	**260,569**	32.1
Canadian equities	**254,869**	31.4
U.S. equities	**148,884**	18.3
International equities	**67,825**	8.4
Canadian real estate	**50,132**	6.2
Total	**811,079**	100.0

	% change	Net impact on market value
Benchmark for investments		
DEX Universe Bond Index	**+/- 5.00**	+/- 13,028
S&P/TSX Capped Composite Index	**+/- 17.25**	+/- 43,965
MSCI EAFE Index	**+/- 17.50**	+/- 11,869
S&P 500 Index	**+/- 17.50**	+/- 26,055
Canadian Consumer Price Index [real estate]	**+/- 6.50**	+/- 3,259

Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or its equivalent in a timely and cost-effective manner in order to meet commitments as they come due. The primary liabilities in the Plan are future benefit obligations *[see note 6]* and operating expenses. Liquidity requirements are managed through net monthly contributions and by investing in sufficiently liquid [e.g., publicly traded] equities, pooled funds and other easily marketable instruments.

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed-income security issuer. At March 31, 2011, the maximum risk exposure for this type of investment amounts to $260,569,000. The Plan limits credit risk by purchasing individual fixed-income instruments that have a credit rating of "A" or higher as rated by recognized Canadian bond rating services. The Plan also owns units of an indexed bond fund which may hold fixed-income instruments with credit ratings of "BBB" and above.

The following table shows the percentage of fixed-income holdings in the portfolio by credit rating:

Rating	%
AAA	45.6
AA	26.0
A	24.6
BBB	3.8

9. CAPITAL DISCLOSURES

The purpose of the Plan is to provide pension benefits to Plan members. The Plan's objective when managing capital is to preserve assets in a manner that provides it with the ability to continue as a going concern. To accomplish this objective, a broadly diversified investment portfolio is utilized to achieve the highest rate of return within an acceptable level of risk. With the assistance of an outside consultant, the Plan's pension advisory committee and the University's administration department regularly monitor the asset mix to ensure compliance with the Statement of Investment Policies and Objectives.

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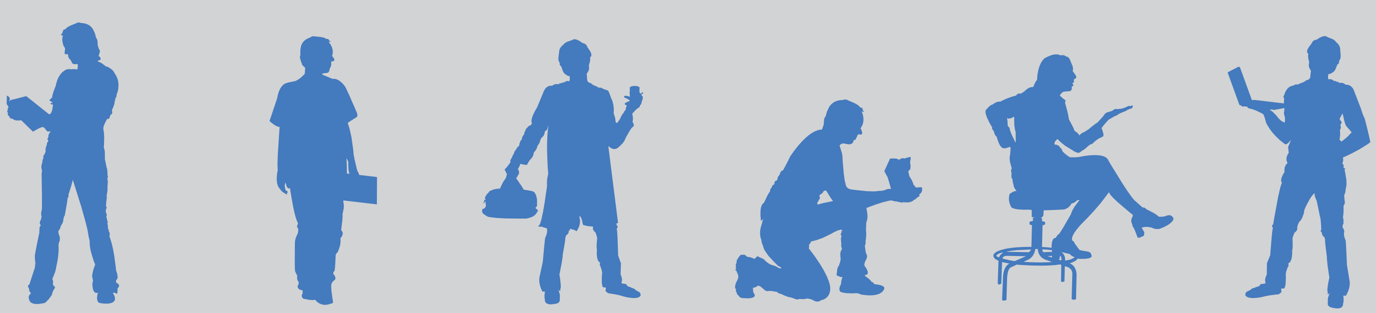

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