Annual Report of The Memorial University Pension Plan

April 1, 2011 to March 31, 2012

Department of Human Resources
Memorial University of Newfoundland
St. John’s, NL
A1C 5S7

(709) 864-7406
pensions@mun.ca

September 2012

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MEMORIAL
UNIVERSITY

Board of Regents

St. John's, NL Canada A1C 5S7
Tel: 709 864 8281
regents@mun.ca www.mun.ca/regents

Chairperson's Message

September 21, 2012

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 2011-12 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2011 to March 31, 2012.

This is the first performance-based report to be presented under the Memorial University Pension Plan's activity plan for 2011-2014. This document sets forth in clear language how the University has addressed the 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

THE MEMORIAL UNIVERSITY PENSION PLAN OVERVIEW

The three-year Activity Plan prepared for the Memorial University Pension Plan (the "Plan") set out the Plan's objectives for the period April 1, 2011 to March 31, 2014. This Annual Report will discuss the outcome of those objectives for the period April 1, 2011 to March 31, 2012 and provide additional information on the operation of the Plan for the year then ended.

Mission

By 2017, 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 stable retirement incomes for participating employees.

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 their 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 and affiliated employers 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 two 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 6.25% within a range of +/- 9.5%.

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

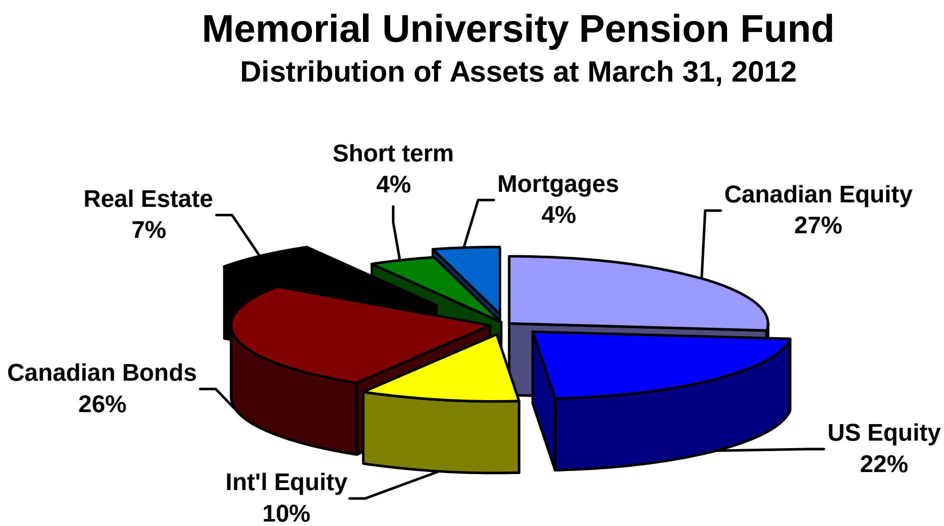
(Table 2)

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 Bernstein L.P.	US Equity	21%
Aberdeen Asset Management	International Equity	10%
Grenier-Pacaud Management Associates	Real Estate	3.2%

Implementation of the benchmark distribution continued in 2011-12 with funds gradually being reallocated to real estate and mortgages from the traditional equity and fixed income asset classes. Funding of the additional Greiner Pacaud Management (GPM) real estate mandate and the Greystone mortgage mandate began during the year. When these mandates are fully invested, the current investment policy asset mix will be fully implemented.

The relative distribution of assets across the entire Pension Fund, as at March 31, 2012, is illustrated in the following chart:

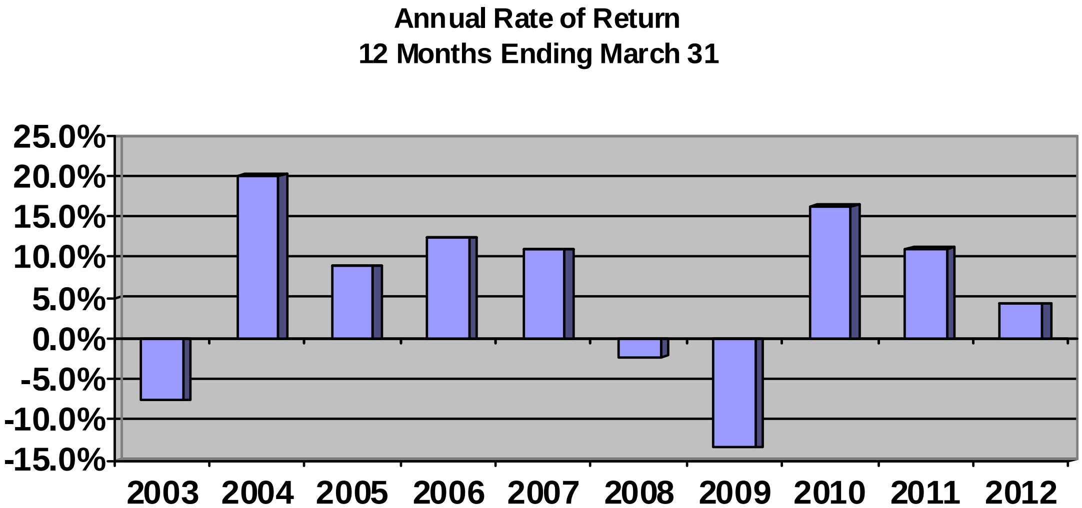
(Figure 1)



Investment Performance

On a relative basis, the Fund performed very well in 2011-2012, achieving an overall annual return of 4.28% at March 31, 2012. This ranked in the 19th 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 $45.9 million – up from $840.5 million at March 31, 2011 to $886.4 million at March 31, 2012.

(Figure 2)



(10 year annualized return: 5.6%)

Actuarial Valuation

The Plan is being funded in accordance with an actuarial valuation performed at March 31, 2010. Another valuation was performed by the University's actuary, Eckler Limited (Eckler) at March 31, 2011 and these results have been extrapolated to March 31, 2012 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. Following the period covered by this report the exemption was reinstated, retroactive to January 1, 2011.

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 2010 and 2011 actuarial valuations together with the going concern extrapolation to March 31, 2012 are highlighted in the following table.

(Table 3)

Actuarial Balance Sheet						
	March 31, 2012 ($ Millions)		**March 31, 2011 ($ Millions)**		**March 31, 2010 ($ Millions)**	
	Going Concern	**Solvency**	**Going Concern**	**Solvency**	**Going Concern**	**Solvency**
Actuarial Value of Assets	891.4	See Note 3) below	791.4	891.3	743.4	830.1
Actuarial Liabilities	1,185.2		1,108.9	1,170.6	1,035.9	1,105.2
Deficit	(293.8)		(317.5)	(279.3)	(292.5)	(275.1)

Notes:

1) The going concern deficit, as at March 31, 2012, includes an estimated unfunded liability of approximately $78.7 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 32.25 years.

2) Solvency assets at March 31, 2011 and 2010 include the present value of five years worth of going concern special payments (2011 – $100.3 million, 2010 - $87.0 million).

3) An extrapolation of the solvency position was not performed as at March 31, 2012. If funding on a solvency basis was required, it would be based upon the March 31, 2010 solvency position.

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, 2012 was estimated by

Eckler to be $293.8 million. Of this amount, approximately $78.7 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 32.25 years through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). The balance, namely $215.1 million ($293.8 - $78.7), would be liquidated by the University through special annual payments over not less than 15 years, if funding were based on the 2012 extrapolation. The special payment required for 2012-2013 would be $19.9 million.

During the year ended March 31, 2012, the University made a special payment into the Fund of approximately $19.0 million against the going concern unfunded liability.

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.

(Table 4)

Rate Structure	Effective April 1, 2011
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.9%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.1%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.9%

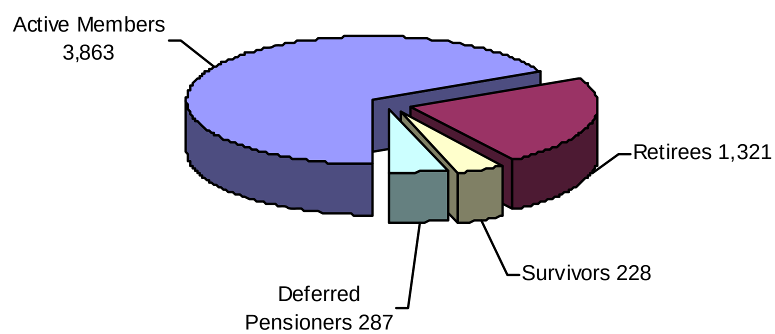
Plan Membership Statistics

(Table 5)

	March 31				
	2012	2011	2010	2009	2008
Active Members	3,863	3,728	3,636	3,496	3,368
Pensions (incl. survivors)	1,549	1,463	1,392	1,340	1,294
Deferred Pensioners	287	238	206	199	163
Average Age at Retirement	60.49	60.56	60.43	60.39	60.47

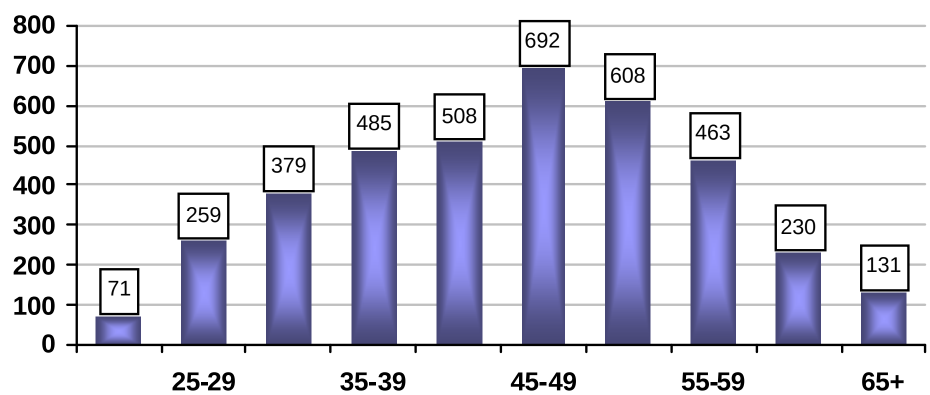
(Figure 3)

Plan Membership
March 31, 2012



(Figure 4)

Age Distribution - Active Members
March 31, 2012



OUTCOME OF OBJECTIVES 2011-12

The two primary issues and related objectives identified in the 2011-14 Activity 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 2011-12, 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 2011-14 Activity Plan.

Objective: By March 31, 2012, 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:

<u>Contributions are collected and invested</u>

During the 2011-12 fiscal year, the Plan collected a total of $71,501,000 in contributions, representing amounts paid by the University and its employees and funds transferred from other employers' plans. The audited financial statements prepared as at March 31, 2012 report a lower total contributions figure of $58,528,000 as a result of the reversal in this fiscal year of $12,973,000, being the amount accrued in the prior year that represented the University's then solvency funding obligation.

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 $42,353,000 in benefits to eligible retired employees or their beneficiaries in 2011-12.

Administrative expenses are paid

During 2011-12, the Plan paid a total in $3,445,000 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 *Pension Benefits Act, 1997 (*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 this exemption was subsequently extended with effect from January 1, 2011. In addition the University is amortizing past service costs associated with indexing, introduced in 2004, over a remaining period of 32.25 years in accordance with the PBA.

Objective: By March 31, 2012, Memorial University will make annual special payments of 7.1% of pensionable payroll toward the going concern unfunded liability, in addition to the 1.2% indexing payment.

Measure: Unfunded liability reduced.

The Plan is being funded in accordance with the March 31, 2010 actuarial valuation which disclosed that the going-concern unfunded liability 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 being 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 special payments of 7.1% of pensionable payroll towards liability (18.98 million in 2011-12)

During the year ended March 31, 2012, the University made a special payment into the Pension Plan Fund of $18.98 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.

2012-13 Objectives

The aforementioned objectives, measures and indicators will also be reported upon in the 2012-13 Annual Report of the Pension Plan.

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights

(Table 6)

		March 31	
		2012	**2011**
Net Assets Available for Benefits		886,376,000	840,476,000
One-Year Annual Rate of Return		4.28%	11.13%
Realized Investment Income		32,021,000	44,964,000
Pensions Paid		42,353,000	39,326,000
Current Contributions:	Employee	23,406,000	21,536,000
	University	23,405,000	21,539,000
University special payments:			
	Going Concern	18,980,000	17,748,000
	Solvency Funding [1]	(12,970,000)	12,970,000
	Solvency deficit-refunds	1,177,000	860,000

[1] In 2011, an amount of $12,970,000 was accrued as receivable in the pension plan accounts as the University's solvency funding exemption had not yet been extended beyond December 31, 2010. As the funding exemption was granted in 2012 with retroactive effect to January 1, 2011, the receivable was reversed in 2012.

Benefit Provisions – Indexing

On July 1, 2011, 1,088 retirees and survivors received a 1.08 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.

Extrapolation of Pension Plan Financial Position

An extrapolation of the pension plan's financial position was performed as at March 31, 2012, based upon the 2011 actuarial valuation. The next full valuation of the pension plan is scheduled to be performed as at March 31, 2013.

Retirement Planning Seminars

In February 2012, the University held a full day retirement planning seminar on the St. John's campus. This seminar was attended by approximately 158 employees and their spouses. Topics covered included the Plan, the Canada Pension Plan and Old Age Security Benefits, financial planning and the Memorial University of Newfoundland Pensioners' Association.

Replacement of Pension Administration System

During the year the University issued a public tender for the supply and installation of a replacement pension administration system and in February 2012 the successful respondent, Morneau Shepell, was notified of their selection. Implementation of the new system will occur in 2012 with an anticipated "go-live" date of January 2013. The new system is expected to enhance administrative efficiency, expand electronic record keeping capabilities and improve upon plan member's self service experiences.

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:

- 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 and mortgage portfolios;
- Continued review of responsible investment strategies;
- 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 2011-14.

The Memorial University Pension Plan

FINANCIAL STATEMENTS

March 31, 2012

MEMORIAL UNIVERSITY OF NEWFOUNDLAND
PENSION PLAN

Financial Statements

March 31, 2012

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 statements of financial position as at March 31, 2012 and 2011, the statements of changes in net assets available for benefits and the statements of changes in pension obligations for the years 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, these financial statements present fairly, in all material respects, the financial position of the **Memorial University of Newfoundland Pension Plan** as at March 31, 2012 and 2011, and the changes in its net assets available for benefits and the changes in pension obligations for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

St. John's, Canada,
July 5, 2012.

Chartered Accountants

Memorial University of Newfoundland Pension Plan

STATEMENT OF FINANCIAL POSITION

As at March 31

[thousands of dollars]

	2012	**2011**
ASSETS		
Receivables		
Contributions receivable	**3,513**	2,767
Accrued interest and dividends	**2,077**	2,139
Amounts due from pending trades	**2,315**	896
Due from Memorial University of Newfoundland *[note 4]*	**1,003**	28,058
	8,908	33,860
Investments *[note 5]*		
Cash and short-term investments	**29,193**	28,800
Bonds and debentures	**230,365**	260,569
Equities	**518,379**	471,578
Real estate	**61,928**	50,132
Mortgages	**43,600**	-
	883,465	811,079
Total assets	**892,373**	844,939
LIABILITIES		
Accounts payable and accrued expenses	**767**	651
Accrued pension refunds	**1,173**	1,965
Amounts payable from pending trades	**4,057**	1,847
Total liabilities	**5,997**	4,463
Net assets available for benefits	**886,376**	840,476
Pension obligations	**1,185,201**	1,108,976
Deficit	**298,825**	268,500

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

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

Years ended March 31
[thousands of dollars]

	2012	2011
INCREASE IN ASSETS		
Investment income		
Interest income	**10,630**	13,172
Dividend income	**13,225**	11,711
Current-period increase in fair value of investments	**3,999**	36,033
Realized gain on sale of investments	**8,166**	20,081
	36,020	80,997
Contributions *[note 7]*		
Employee – current service	**23,406**	21,536
– past service	**4,178**	3,248
Employer – current service	**23,405**	21,539
– past service	**352**	46
– special payments	**7,187**	31,578
	58,528	77,947
Total increase in assets	**94,548**	158,944
DECREASE IN ASSETS		
Benefits paid	**42,353**	39,326
Refunds of contributions	**1,591**	3,542
Death benefits	**1,259**	223
Administrative expenses *[note 8]*	**3,445**	2,965
Total decrease in assets	**48,648**	46,056
Increase in net assets	**45,900**	112,888
Net assets available for benefits, beginning of year	**840,476**	727,588
Net assets available for benefits, end of year	**886,376**	840,476

See accompanying notes

Memorial University of Newfoundland Pension Plan

STATEMENTS OF CHANGES IN PENSION OBLIGATIONS

Years ended March 31
[thousands of dollars]

	2012	2011
Actuarial present value of accrued pension benefits, beginning of year	**1,108,976**	1,035,932
Experience losses	—	(2,990)
Changes in actuarial assumptions/methodology	—	8,350
Interest accrued on benefits	**72,214**	67,347
Benefits accrued	**49,214**	43,428
Benefits paid and refunds of contributions	**(45,203)**	(43,091)
Actuarial present value of accrued pension benefits, end of year *[note 6]*	**1,185,201**	1,108,976

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 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 (the 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 Act.

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

Survivor's pensions

A survivor's pension is paid to a surviving principal beneficiary or dependent child, as defined in the 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's pension is paid. A death refund may also be paid to a surviving principal beneficiary who elects to transfer the commuted value of their survivor's pension from the Plan where the death of a contributor precedes the commencement of their pension.

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. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

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, including its funding requirements, but they do not portray the benefit security of individual Plan members.

Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for pension plans 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.

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 change 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. In the case of bonds and debentures, fair value measurement is based upon the bid price whereas equities are valued at the mid-point of the bid-ask spread.

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, dividends and unrealized changes in fair value.

Gain on sale of investments

The realized gain on the sale of investments is 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. CHANGE IN ACCOUNTING POLICY

Adoption of Canadian accounting standards for pension plans

Effective April 1, 2011, the Plan adopted Section 4600, *Pension Plans*, of the Canadian Institute of Chartered Accountants ["CICA"] Handbook on a retrospective basis.

In accordance with Section 4600, Canadian accounting standards for private enterprises in Part II of the CICA Handbook have been chosen for accounting policies that do not relate to the investment portfolio to the extent that those standards do not conflict with the requirements of Section 4600. The adoption of Part II had no effect on the accounting policies of the Plan.

In satisfying the fair value measurement requirements for investment assets and investment liabilities in Section 4600, the Plan has chosen to early adopt IFRS 13, *Fair Value Measurement,* in Part I of the Handbook effective April 1, 2010. The early adoption of IFRS 13 had no effect on the accounting policies of the Plan.

[tabular amounts in thousands of dollars]

Additional disclosures have also been provided in the notes to the financial statements.

These changes had no impact on the overall net assets available for benefits or overall net change in net assets available for benefits of the Plan for all reporting periods.

4. DUE FROM MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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

5. INVESTMENTS

[a] The following table summarizes investments at fair value:

	2012	2011
Cash and short-term investments	**29,193**	28,800
Canadian bonds and debentures:		
Federal	**31,862**	46,307
Provincial	**26,884**	23,422
Corporate	**50,810**	60,320
Pooled funds	**120,809**	130,520
	230,365	260,569
Canadian equities:		
Common stock	**227,593**	247,823
Pooled funds	**8,719**	7,046
	236,312	254,869
Foreign equities:		
Common stock	**193,554**	148,884
Pooled finds	**88,513**	67,825
	282,067	216,709
Canadian Real estate	**61,928**	50,132
Canadian Mortgages	**43,600**	—
	883,465	811,079

[tabular amounts in thousands of dollars]

[b] Realized losses arising from foreign currency translation amounted to 3,707,181 for the year ended March 31, 2012 [2011 – loss of 5,358,511]. For financial statement presentation purposes, these amounts have been included in realized gain 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 and extrapolated the results to March 31, 2012.

The actuarial present value of benefits as at March 31, 2012 was estimated to be 1,185,201 [2011 – 1,108,976]. The statement of changes in pension obligations outlines the principal components of change in actuarial present value from one year to the next.

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 in the extrapolation, where applicable, were:

Discount rate	**Salary escalation rate**
6.5% [2011 – 6.5%] pre- and post-retirement	4.5% [2011 – 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 the 2012 extrapolation and the 2011 valuation were as follows:

	2012	**2011**
Net assets available for benefits	**886,376**	840,476
Actuarial value changes not reflected in fair value of net assets	**5,046**	(36,077)
Actuarial value of net assets available for benefits	**891,422**	804,399

[tabular amounts in thousands of dollars]

7. FUNDING POLICY

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

9.90%	of pensionable earnings up to the Year’s Basic Exemption [“YBE”] under the *Canada Pension Plan Act*;
8.10%	of pensionable earnings above the YBE up to and including the Year’s Maximum Pensionable Earnings [“YMPE”] under the *Canada Pension Plan Act*;
9.90%	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 18,980,000 to the Plan during the year. This payment was made against the unfunded liability, not attributable to indexing, that was identified in the March 31, 2010 actuarial valuation of the Plan.

The Plan is being funded in accordance with the March 31, 2010 actuarial valuation. The most recent actuarial valuation of the Plan was performed as at March 31, 2011 and the results have been extrapolated to March 31, 2012 for financial statement reporting purposes. The extrapolation revealed that the going concern unfunded liability had decreased to 293,779,000 as at March 31, 2012 based on current Plan provisions and PBA requirements. Of this amount, approximately 78,700,000 relates to the past service costs of indexing, introduced under the Plan, effective July 1, 2004. A financing arrangement was implemented coinciding with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. As at March 31, 2012, approximately 32.25 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 as at March 31, 2011. The Office of the Superintendent of Pensions (Newfoundland and Labrador) has given the University notice that beginning with the March 31, 2013 actuarial valuation of the Plan, the indexing liability must be amortized on a declining balance basis as opposed to the current percentage of payroll basis. The balance of the going concern unfunded liability, in the amount of 215,079,000, would be liquidated by the University in accordance with note 1 if funding were based upon the March 31, 2012 extrapolation.

[tabular amounts in thousands of dollars]

With respect to solvency funding, the University has received an extension to solvency funding relief effective January 1, 2011 and expiring on December 31, 2015. An exemption from the obligation to fund the Plan on a solvency basis was first granted in 2002 and this was continued through to December 31, 2010. As at March 31, 2011, the current funding exemption was not yet in place and the pension plan recognized a solvency funding payment due from the University of 12,973,000. As a consequence of the exemption, this amount is no longer receivable and has been reversed. The employer special payments for the year ended March 31, 2012 has been reduced accordingly.

8. ADMINISTRATIVE EXPENSES

Administrative expenses are paid by the University on behalf of the Plan. The Plan then reimburses the University on a monthly basis. A detailed breakdown of these expenses is as follows:

	2012	2011
Actuarial fees	**162**	157
Audit fees	**7**	8
Custodial fees	**225**	182
Investment management fees	**2,774**	2,344
Salaries and benefits	**266**	231
Other fees	**11**	43
	3,445	2,965

9. 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

Fair value hierarchy

	2012	2011
Level 1		
Equities	**421,147**	396,707
Level 2		
Cash and short term investments	**29,193**	28,800
Equities	**97,232**	74,871
Bonds and debentures	**230,365**	260,569
Mortgages	**43,600**	—
	400,390	364,240
Level 3		
Real estate	**61,928**	50,132
	883,465	811,079

Financial instruments measured at fair value are classified according to a fair value hierarchy that reflects the importance of the data used to perform each valuation. The fair value hierarchy is made up of the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;
Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable data on the market each time such data exists. A financial instrument is classified at the lowest level of hierarchy for which significant input has been considered in measuring fair value.

The following table summarizes the changes in the fair value of financial instruments classified in Level 3 for the year ended March 31:

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

Level 3

	2012	2011
Real estate		
Balance, beginning of year	**50,132**	22,656
Net purchases	**4,548**	23,583
Net dividends earned	**674**	326
Net dividends transferred out	**(664)**	(324)
Net unrealized gains	**7,248**	3,893
Administrative expenses	**(10)**	(2)
	61,928	50,132

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. dollar, euro, and other international foreign exchange rates. For example, a 5% strengthening of the Canadian dollar against the U.S. dollar as at March 31, 2012 would have decreased the U.S. investment value by approximately 10,000,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar as at March 31, 2012 would have increased the U.S. investment value by approximately 10,000,000.

A 5% strengthening of the Canadian dollar against the pound sterling as at March 31, 2012 would have decreased the U.K. investment value by approximately 1,000,000. Conversely, a 5% weakening of the Canadian dollar against the pound sterling as at March 31, 2012 would have increased the U.K. investment value by approximately 1,000,000.

A 5% strengthening of the Canadian dollar against the euro as at March 31, 2012 would have decreased the European investment value by approximately 550,000. Conversely, a 5% weakening of the Canadian dollar against the euro as at March 31, 2012 would have increased the European investment value by approximately 550,000.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

A 5% strengthening of the Canadian dollar against the Swiss franc as at March 31, 2012 would have decreased the Swiss investment value by approximately 700,000. Conversely, a 5% weakening of the Canadian dollar against the Swiss franc as at March 31, 2012 would have increased the Swiss investment value by approximately700,000.

[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. As at March 31, 2012, the average duration of the bond portfolio was 6.58 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.58%.

	Within 1 year	**1-5 years**	**5-10 years**	**Over 10 years**	**No specific maturity**	**Total**
Cash and short-term investments	29,193	—	—	—	—	**29,193**
Bonds and debentures						
Federal	5,012	13,953	3,835	9,061	—	**31,861**
Provincial	1,714	5,297	8,549	11,325	—	**26,885**
Corporate	1,250	16,832	17,109	15,619	—	**50,810**
Pooled funds	—	—	—	—	120,809	**120,809**
Total bonds and debentures	7,976	36,082	29,493	36,005	120,809	**230,365**
Total fixed income	**37,169**	**36,082**	**29,493**	**36,005**	**120,809**	**259,558**

[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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

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	+/- 17.30
Global equities	+/- 17.50
Real estate	+/- 6.50
Mortgages	+/- 5.80
Cash and short-term investments	+/- 2.00
Canadian bonds and debentures	+/- 10.00

	Market value as at March 31, 2012	**Investments** %
Held-for-trading securities		
Cash and short-term investments	**29,193**	3.3
Canadian bonds and debentures	**230,365**	26.1
Canadian equities	**236,312**	26.7
U.S. equities	**193,554**	21.9
International equities	**88,513**	10.0
Canadian real estate	**61,928**	7.1
Canadian mortgages	**43,600**	4.9
Total	**883,465**	100.0

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

	Change %	**Net impact on market value**
Benchmark for investments		
DEX Universe Bond Index	**+/- 10.00**	+/- 23,037
S&P/TSX Capped Composite Index	**+/- 17.30**	+/- 40,882
MSCI EAFE Index	**+/- 17.50**	+/- 15,490
S&P 500 Index	**+/- 17.50**	+/- 33,872
Canadian Consumer Price Index [real estate]	**+/- 6.50**	+/- 4,025
DEX Conventional Mortgages	**+/- 5.80**	+/- 2,529

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. As at March 31, 2012, the maximum risk exposure for this type of investment amounts to 230,365,000. 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	42.2
AA	27.7
A	25.0
BBB	5.1
	100

NOTES TO FINANCIAL STATEMENTS

March 31, 2012 and 2011
[tabular amounts in thousands of dollars]

10. 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.