Annual Activity Report 2016-17

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

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MEMORIAL UNIVERSITY

Annual Activity Report of
The Memorial University Pension Plan

April 1, 2016 to March 31, 2017

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September 2017

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Chairperson's Message

September 30, 2017

Honorable Al Hawkins
Minister of Advanced Education, Skills and Labour
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister Hawkins:

I am pleased to submit the 2016-17 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2016 to March 31, 2017.

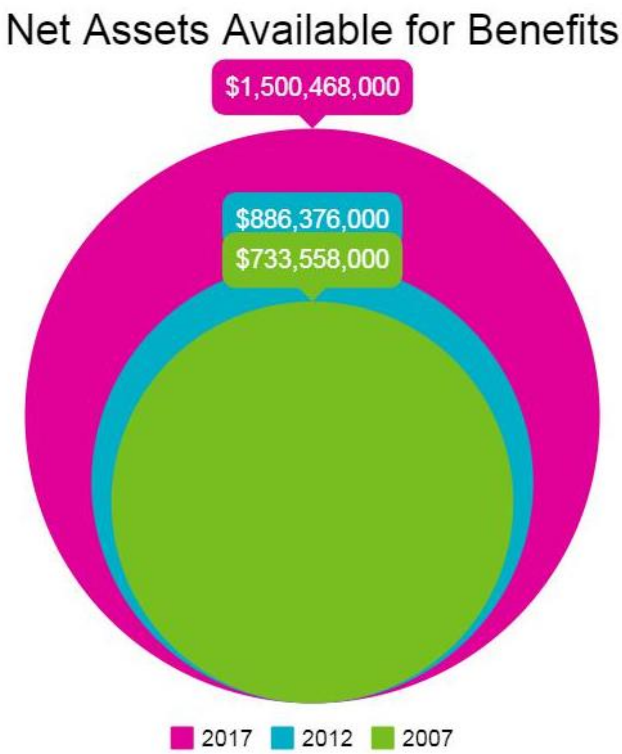
This is the third and final performance-based report to be presented under the Memorial University Pension Plan's Activity Plan for 2014-2017. This document sets forth in clear language how the University has addressed the objectives that were outlined in the plan.

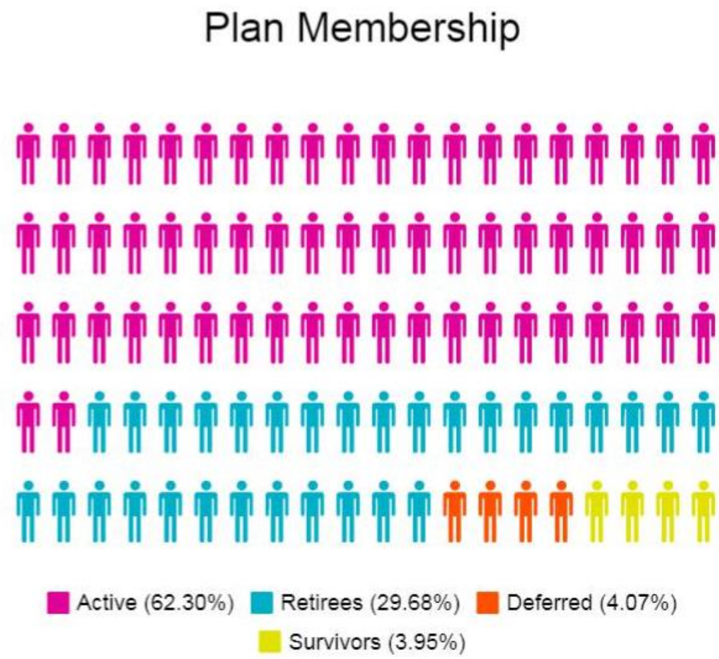
My signature below is on behalf of the Board of Regents and is indicative of our accountability for the actual results reported.

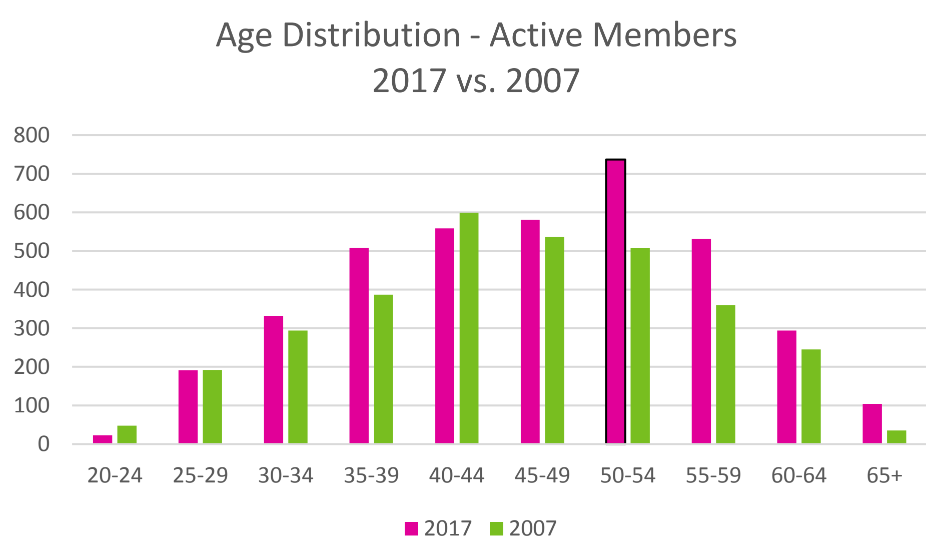
Respectfully submitted,

Iris Petten
Chair, Board of Regents

PENSION PLAN HIGHLIGHTS







Average Ages

Active Members: 46.8 • Pensioners: 71.1 • At Retirement: 61.2

Within the next five years, 1,169 active members will reach their earliest unreduced retirement age.

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, 2014 to March 31, 2017. This Annual Activity Report will discuss the outcome of those objectives for the period April 1, 2016 to March 31, 2017 and provide additional information on the operation of the Plan for the year then ended. The Board of Regents, as trustee of the Fund, is responsible to ensure compliance with the *Memorial University Pensions Act* and operates under its own vision, mission, and mandate.

About the Plan

The Memorial University Pension Plan is one of the largest public sector pension plans in the Province and provides a lifetime pension benefit upon retirement. The Plan is funded through contributions made by employees and Memorial, as well as income from its investments. The majority of employees at the University's main campuses are participants in the Plan (i.e. Grenfell, Marine Institute, Labrador Institute, and the St. John's Campus).

Pension 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.

PENSION FORMULA:

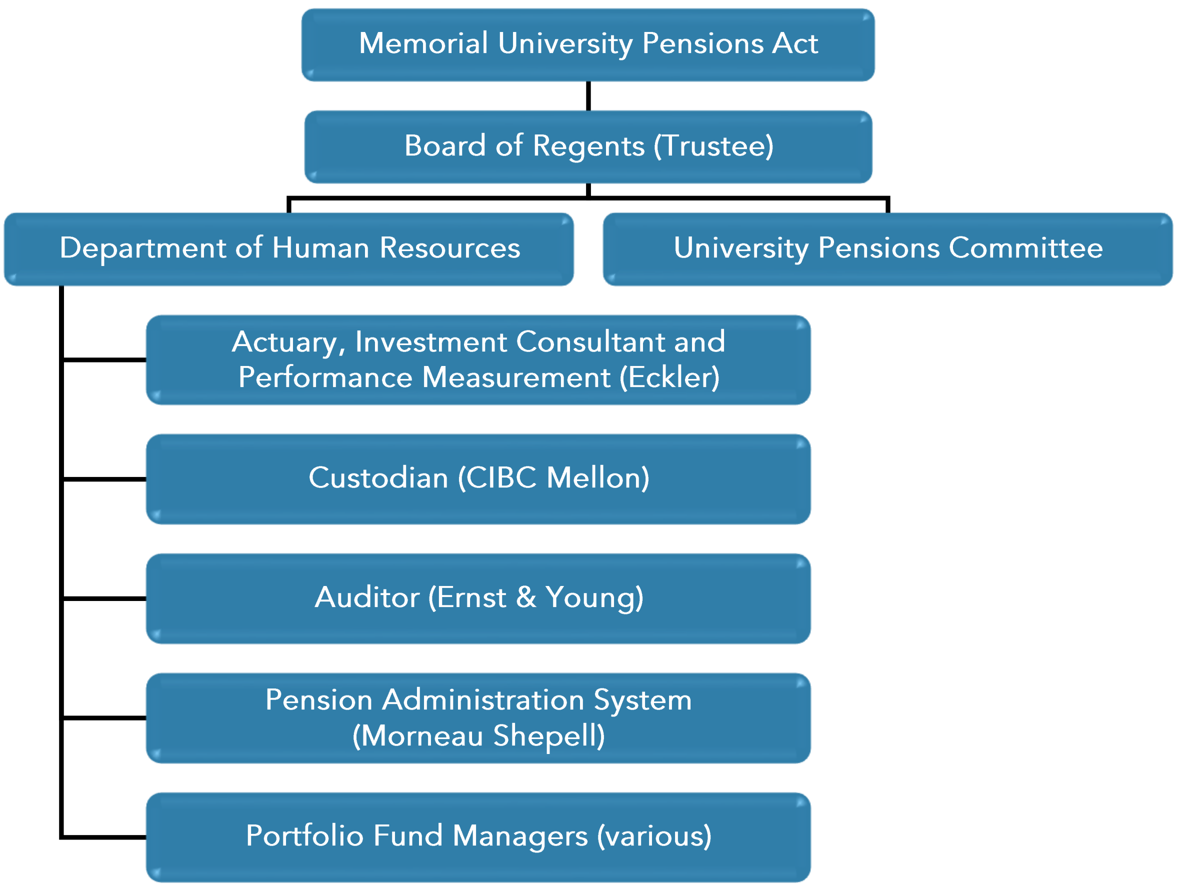
2% x best 5-year average salary x years of pensionable service (inclusive of a "bridge benefit" to age 65)

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.

The administrative and governance structure of the Plan is outlined below:

Figure 1: Organization Chart



Investments

All employee and University contributions are paid into the Memorial University Pension Fund (the Fund) for investment by external investment managers. The Statement of Investment Policy and Objectives that has been developed to guide the investment of the Fund, sets out a policy asset mix with the objective of maintaining predictable and stable benefit costs and contributions.

The Fund is invested in 11 separate investment mandates that include equities, traditional fixed income, real estate, and mortgages. Of the total investment, 31 per cent has been allocated to foreign markets. For a more detailed description of the investment structure, please refer to Tables 1 and 2 below.

INVESTING LOCALLY
Through the Greystone Real Estate Fund, the Pension Plan is invested locally in: "351 Water Street" and "Scotia Place" in St. John's and the "Beclin Business Park" in Mount Pearl.

Policy Asset Mix

The policy asset mix set for the investment of the Fund is set out below:

Table 1: Policy Asset Mix

Asset Class	Percentage Allocation	Benchmark Index
Canadian Equity	25%	S&P/TSX
U.S. Equity	21%	S&P 500
International Equity	10%	MSCI ACWI ex-US
Canadian Fixed Income	25%	FTSE TMX Universe
Cash/Short Term	3%*	n/a
Real Estate	8%	CPI + 4%
Mortgages	8%	60% TMX short + 40% TMX mid + 0.5%

* for monthly re-balancing purposes, cash is included with active fixed income.

The actual distribution of assets will vary from the policy asset mix over time due to the impact of market forces. Once an asset class moves outside a pre-determined range a re-balancing will be performed by the University to move funds into or out of that asset class to bring it back in line with investment policy upper or lower limits.

Investment Manager Benchmark Distribution

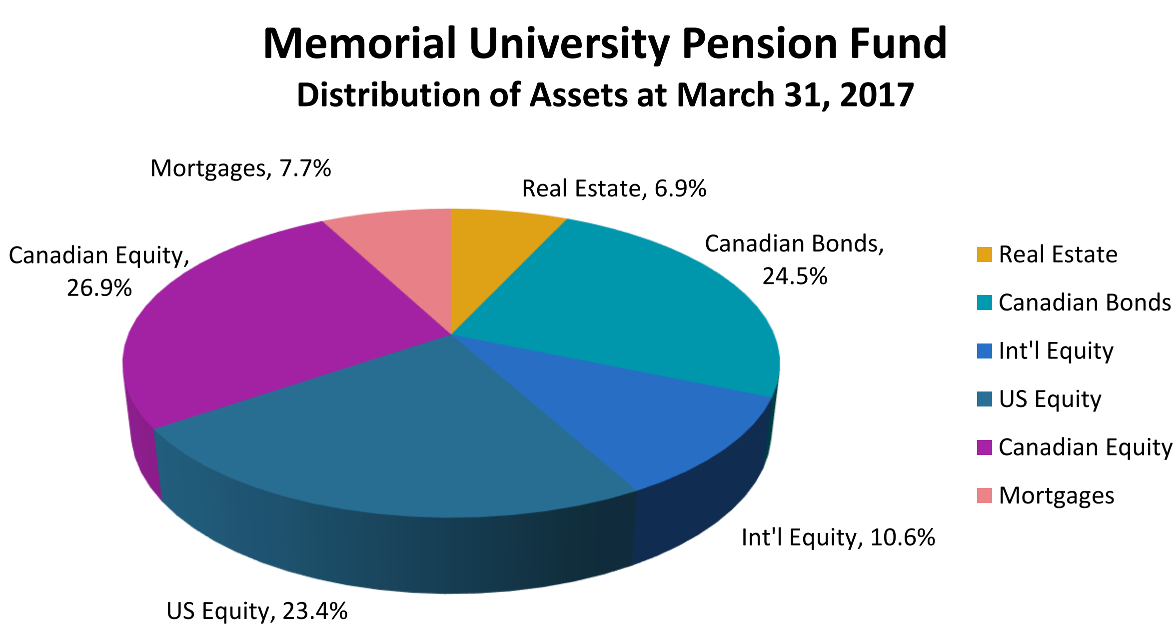
The Fund is invested by external institutional investment management firms. Their mandates and fund allocations are detailed in the table below:

Table 2: Benchmark Distribution

Manager	Mandate	Benchmark Allocation	Actual Allocation March 31, 2017
Jarislowsky Fraser Limited	Canadian Equity	12.5%	14.3%
Connor Clark & Lunn	Canadian Equity	6.25%	6.2%
Fidelity Investments Canada	Canadian Equity	6.25%	6.4%
Greystone Managed Investments Inc.	Canadian Fixed Income	7.75%	6.9%
Jarislowsky Fraser Limited	Canadian Fixed Income	7.75%	5.5%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%	12.1%
Alliance Bernstein	US Equity	21%	23.4%
Aberdeen Managed Investments	International Equity	10%	10.6%
IAM Real Estate Group	Real Estate	3.2%	2.0%
Greystone Managed Investments Inc.	Real Estate	4.8%	4.9%
Greystone Managed Investments Inc.	Mortgages	8%	7.7%

The relative distribution of assets across the entire Fund, as at March 31, 2017, is illustrated in the following chart:

Figure 2: Distribution of Assets



Investment Performance

For the year ended March 31, 2017 the Fund achieved an annual return of 11.87 per cent and performed relatively well compared to other Canadian pension funds. In a universe of similarly invested funds it ranked in the 36th percentile where the 1st percentile represents the top performer and the 100th percentile, the worst. On a longer term annualized basis, the Fund has been a top performer within its peer comparator group. Over a five year period it has earned an annualized return of 10.56 per cent, surpassing its benchmark by 1.70 percentage points. On a ten year basis the Fund has generated an annualized return of 6.52 per cent, an excess of 0.87 percentage points over the benchmark ranking it in the 27th percentile.

Annual Return:

March 31, 2017……. 11.87%
March 31, 2016……. 0.88%

The Fund has surpassed its benchmark and ranked above the median balanced fund over eight of the past ten years. Selected performance metrics are as follows:

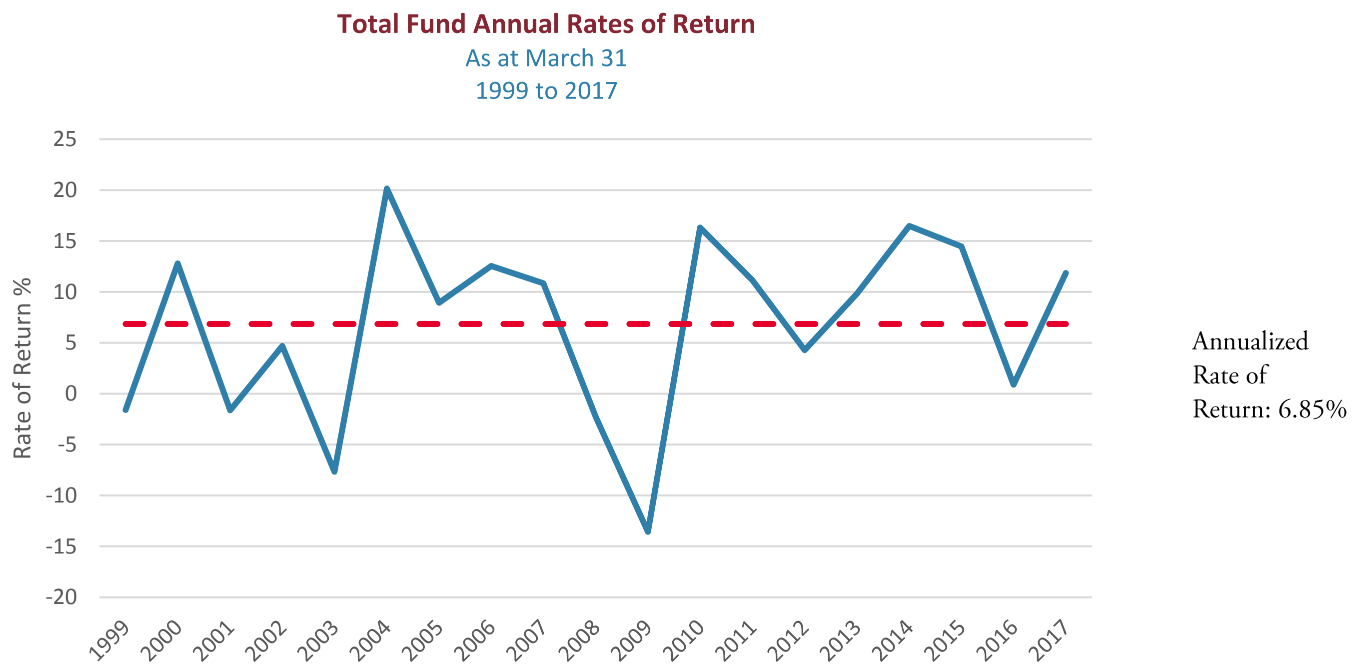
Table 3: Investment Performance

	1 year	4 years	5 years	10 years
Annualized Return	11.87%	10.75%	10.56%	6.52%
Benchmark Return*	11.37%	9.11%	8.86%	5.65%
Value Added	**0.50%**	**1.64%**	**1.70%**	**0.87%**
Percentile Ranking	36	4	18	27

* The benchmark is the expected return of the Fund based upon a passive investment in the indices underlying the policy asset mix.

Figure 3: Rate of Return

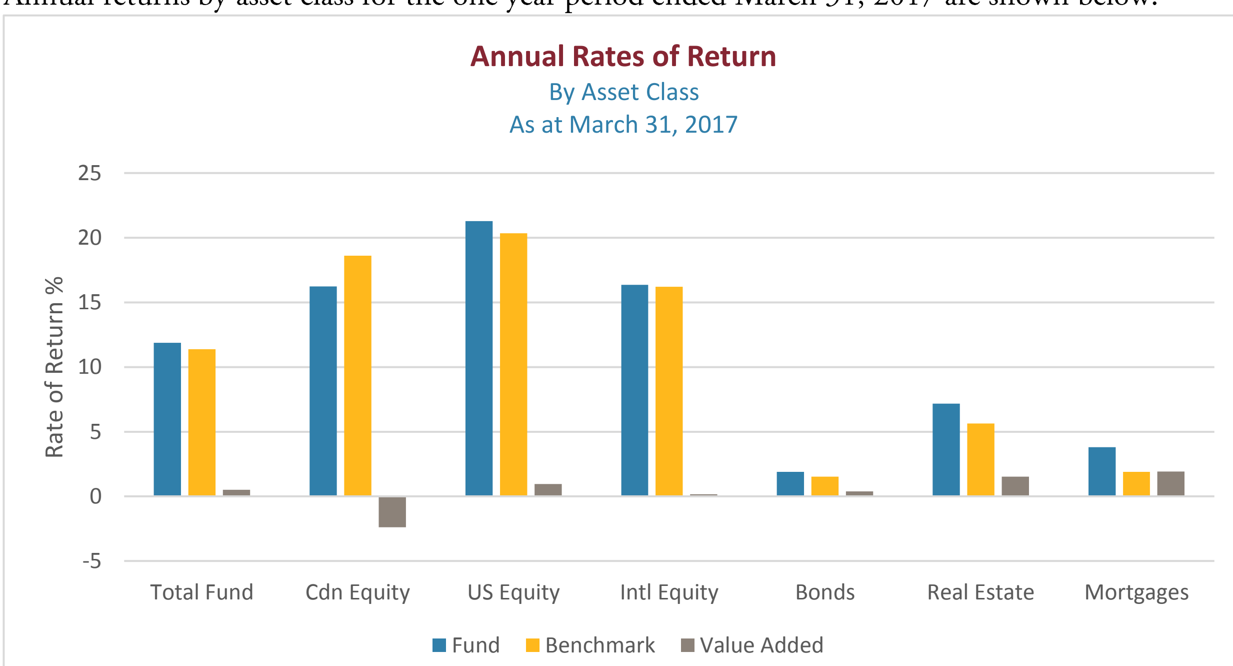
Annual fund returns over the period 1999 to 2017 are presented in the chart below. The annualized return over this period was 6.85 per cent.



Note: For presentation purposes, long term returns are available from 1999 onwards. Past returns should not be viewed as an indicator of future fund performance.

Figure 4: Asset Class Rate of Return

Annual returns by asset class for the one year period ended March 31, 2017 are shown below:



Actuarial Valuation

An actuarial valuation of the Pension Plan was performed as at December 31, 2016 and the results have been extrapolated to March 31, 2017 for reporting purposes. The results of this valuation will be used to determine Pension Plan costs and to quantify the unfunded liability for purposes of financial considerations to be incorporated into a review of the Plan's governance structure and funding. The review that has been undertaken by the Plan's stakeholders was initiated at the request of the Provincial Government.

While an actuarial valuation of the Pension Plan is normally required at least once every three years for funding purposes, annual valuations have been performed since 2006. These valuations have been 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. The latest exemption was in effect to March 31, 2016. In March 2017, the University wrote the Provincial Government to request that the solvency funding exemption be extended.

In addition to reporting on the solvency position of the Pension Plan, an actuarial valuation is performed to determine the ability of the Pension 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 extrapolation to March 31, 2017 and the December 31, 2016 valuation are highlighted in the following table together with comparative figures for an extrapolation of the Pension Plan's financial position to March 31, 2016:

Table 4: Actuarial Results

Actuarial Balance Sheet						
	March 31, 2017 ($ Millions)		December 31, 2016 ($ Millions)		March 31, 2016 ($ Millions)	
	Going Concern	Solvency	Going Concern [1]	Solvency [2]	Going Concern	Solvency
Actuarial Value of Assets [4]	1,474.5	See Note 3) below	1,437.0	1,598.8	1,373.8	See Note 3) below
Actuarial Liabilities	1,736.6		1,715.0	2,072.5	1,657.1	
Unfunded Liability	(262.1)		(278.0)	(473.7)	(283.3)	

Notes:

1) The going concern unfunded liability, as at December 31, 2016 includes approximately $79.5 million related to the introduction of indexing in July 2004. A financing plan is in place to amortize this portion of the unfunded liability over a remaining period of 27.5 years from December 31, 2016.
2) Solvency assets at December 31, 2016 include the present value of five years' worth of going concern special payments ($141.9 million).
3) An extrapolation of the solvency position was not performed as at March 31, 2016 or March 31, 2017.
4) The actuarial value of assets includes a fair value adjustment to "smooth" market effects over a 3 year time period.

The Pension Plan is being funded in accordance with the December 31, 2015 actuarial valuation which disclosed a going-concern deficiency of $297.2 million. Of this amount, approximately $78.8 million was in respect of past service costs associated with the introduction of indexing in 2004. By special provision of the *Pension Benefits Act, 1997* (PBA), the University and employees are financing the indexing liability over a remaining period of 27.5 years from December 31, 2016 through contributions equivalent to 1.2 per cent of pensionable payroll (shared equally by the University and employees). The balance, namely $218.4 million must be liquidated by the University through special payments of 8.6 per cent of pensionable payroll over a period of 15 years. For the fiscal year 2015-16, the University was given regulatory approval to defer the required going concern special payment. During the 2016/17 fiscal year the University made a similar request for approval to defer the 2016/17 going concern special payment.

The Plan's unfunded liability is addressed as Issue Two in the Objectives section of this Activity Report.

With respect to the going concern special payments and solvency funding, the University is working with the Provincial Government to develop a plan to address these funding deficiencies. This is in accordance with direction given by the Provincial Government in June 2016 relative to funding and a move to joint sponsorship. In this regard, the University and its stakeholders groups have begun a structural review of the pension plan, including its governance model and funding policy.

Current Service Cost

Current service cost is the basis upon which the Pension Plan's contribution rate for both employees and the University is determined. The December 31, 2015 funding valuation showed that the cost of pension benefits being earned by members had increased by 1.5 per cent. As contribution rate increases are implemented one year following the valuation date, rates were increased effective January 1, 2017. The former contribution rate together with the increased current contribution is shown below:

Table 5: Contribution Rate

Rate Structure	Former Contribution Rate	Current Contribution Rate
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.9%	11.4%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.1%	9.6%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.9%	11.4%

Pension Plan Membership Statistics

Table 6: Plan Membership Demographics

	March 31				
	2017	2016	2015	2014	2013
Active Members	3,860	3,961	3,907	3,966	3,823
Average Age of Active Members	46.8	46.6	46.5	46.4	46.2
Retirees (incl. survivors)	2,084	1,961	1,796	1,688	1,637
Deferred Pensioners	252	268	362	314	292
Average Age at Retirement	61.23	61.02	60.97	60.94	60.90

Figure 5: Membership Population

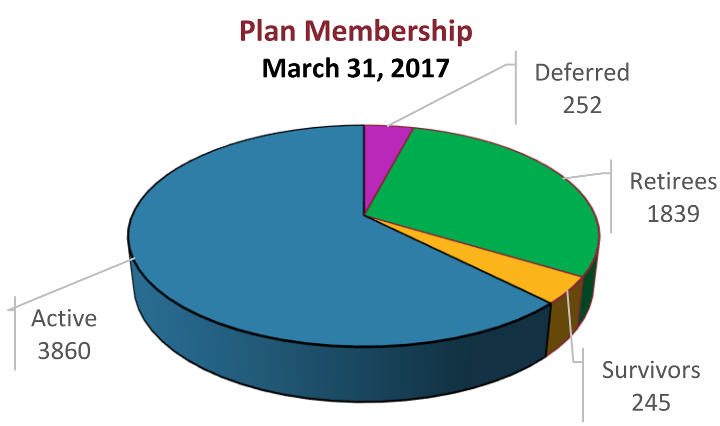
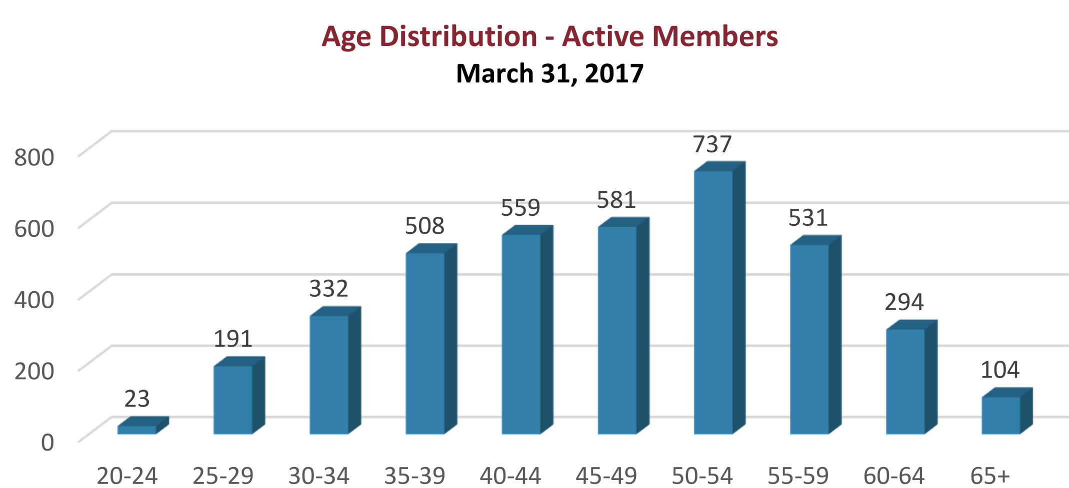


Figure 6: Age Distribution – Active Members



The two primary issues and related goals and objectives identified in the 2014-17 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. The funding objectives include an actuarially sound contribution rate, an appropriate investment strategy and a special payment stream to liquidate unfunded liabilities. It must further ensure that the Plan is administered in accordance with the *Memorial University Pensions Act* and other governing legislation. Over the past three years of the Plan, 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 2014-17 Activity Plan. During the period April 1, 2016 to March 31, 2017 a total of $63.2 million in contributions from the University and its employees were paid into the pension fund for investment while the plan paid out a total of $67.3 million in benefits to eligible retired employees and their beneficiaries. Over that same period, $6.2 million in administrative expenses were paid in addition to $7.6 million in termination benefits. The following details the Plan's successful achievement of the indicators, and therefore the objective presented in the activity plan for the 2016-17 fiscal year.

Objective: By March 31, 2017, the Memorial University Pension Plan will have met its funding objectives including the awarding of monies to eligible retired members or their survivors and the payment of associated administrative expenses

Measure: Met its funding objectives

Indicators:

- <u>Collected and invested contributions</u>
  During the 2016-17 fiscal year, the Plan collected a total of $63,150,000 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.

- <u>Eligible retired members/survivors are receiving pension benefits</u>
  The Plan paid a total of $74,810,000 in benefits to eligible retired employees or their beneficiaries in 2016-17.

- <u>Paid associated administrative expenses and termination benefits</u>
  During 2016-17, the Plan paid a total in $6,247,000 in administrative expenses and $7,560,000 in termination benefits.

Issue Two

Unfunded Liability

As the employer, Memorial University must comply with the pension plan funding requirements of the Newfoundland *Pension Benefits Act, 1997* (PBA). When the Pension Plan experiences funding deficiencies, as measured by periodic actuarial valuations, the University must make additional special payments into the Pension 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. The University was exempt from the requirement to fund solvency deficiencies to March 31, 2016 and through special provision under the PBA, the past service costs associated with the introduction of indexing in 2004 are being amortized over a remaining period of 27.25 years from March 31, 2017. During the 2016/2017 fiscal year, the University wrote the Provincial Government to request that the solvency funding exemption be extended.

With respect to going concern, the University was given regulatory approval to defer the required special payment for 2015/16 and during the 2016/17 fiscal year the University made a similar request for approval to defer the 2016/17 going concern special payment.

An actuarial valuation of the Pension Plan was performed as at December 31, 2015 for funding purposes and this will be the basis for funding until the date of the next funding valuation, due no later than December 31, 2018. The going concern unfunded liability at December 31, 2015 of $297.2 million includes approximately $78.8 million in respect of indexing introduced in 2004. Under the PBA the balance of $218.4 million must be amortized over a 15 year period with special annual payments of 8.6 per cent of pensionable payroll.

In response to the issue of the unfunded liability and to ensure that the long term funding goals of the Pension Plan are met, the University Pensions Committee established an ad hoc subcommittee to review the funding model and governance structure. The objectives of the review include a move toward shared responsibility for the Pension Plan by the University and employees and the development of a funding policy that will guide the long term sustainability of the Pension Plan.

Objective: By March 31, 2017, Memorial University will have made special payments against the unfunded liability as per the latest funding valuation, in accordance with legislative requirements.

Measure: Made special payments, as per the latest funding valuation, in accordance with legislative requirements.

Indicator: Made annual special payment of 7.2 per cent of pensionable payroll towards liability ($27.5 million in 2016/17).

The 2016-17 annual special payment requirement against the Pension Plan's unfunded liability has been updated to 8.6 per cent of pensionable payroll in accordance with the December 31, 2015 funding valuation.

Memorial University did not meet the objective of making a special payment against the unfunded liability as set out in the 2014-2017 Activity Plan. With the support of the Provincial Government and plan stakeholders, the University has requested approval to defer the required special payment required for the 2016/2017 fiscal year.

The indexing liability is being financed by ongoing contributions from the University and employees at a combined rate of 1.2 per cent of pensionable payroll.

Financial Highlights

Selected financial highlights for the Plan are shown in the table below. More detailed information can be found in the audited financial statements, beginning on page 22 of this report.

Table 7: Financial Highlights

		March 31 2017	2016
Net Assets Available for Benefits *		1,500,468,000	1,358,381,000
One-Year Annual Rate of Return		11.87%	0.88%
Realized Investment Income		107,660,000	116,326,000
Pensions Paid**		66,380,000	60,065,000
Current Contributions:	Employee	27,583,000	26,338,000
	University	27,577,000	26,344,000
University special payments:			
	Going Concern	Nil	Nil
	Solvency deficit (refunds)	2,907,000	3,118,000

* Net assets available for benefits is reported at fair value and does not include the actuarial smoothing adjustment. Refer to note 6 of the accompanying financial statements for further information.

** Not inclusive of death benefits or refunds

Benefits Provision Indexing

On July 1, 2016, 1,546 retirees and survivors received a 0.66 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 Pension Plan and Financial Position

A full valuation of the Plan was performed at December 31, 2016 and extrapolated to March 31, 2017 for financial reporting purposes. The results of this valuation are reported upon in an earlier section.

Financial Position / Funded Ratios

On a market value basis, the funded ratio of the Pension Plan steadily increased for a number of years following the 2008-09 global financial crisis. The Plan's financial position increased as at March 31, 2017. Selected periods are shown below:

Table 8: Financial Position

	March 31						
	2017 (000s)	**2016** (000s)	**2015** (000s)	**2014** (000s)	**2013** (000s)	**2012** (000s)	**2009** (000s)
Net Assets at Market Value	1,500,468	1,358,381	1,359,270	1,176,485	994,461	886,376	620,939
Pension Obligations	1,736,599	1,657,148	1,465,989	1,399,236	1,262,133	1,185,201	954,041
Deficit	236,131	298,767	106,719	222,751	267,672	298,825	333,102
Funded Ratio	**86%**	**82%**	**93%**	**84%**	**79%**	**75%**	**65%** global financial crisis

- Annual valuations have occurred at December 31 since 2012. Previously, valuations were prepared as at March 31.
- Results of December 31 valuations are extrapolated to March 31 for financial reporting.
- Financial positions and funded ratios are reported at market value as per Pension Plan financial statements and do not reflect asset "smoothing" adjustments contained in actuarial valuation reports.

Retirement Planning Seminars

To help Memorial employees plan for their retirement, full day retirement planning seminars are held annually. With almost 1,000 employees eligible for unreduced retirement by 2019, this year's seminar had approximately 180 participants. The seminar was open to employees and their spouses and was attended both by those who anticipate retiring in the next few years and those who are planning ahead for their retirement in years to come. During the seminar, participants learned about the university's pension and post-retirement benefits, the Canada Pension Plan and Old Age Security Benefits. Presentations were also provided by a representative of Memorial University of Newfoundland Pensioners' Association (MUNPA) and from a financial planning and consulting firm. This year's seminars for both the St. John's and Grenfell campuses were held in February 2017. The University also provides pension information sessions at the request of individual departments.

Opportunities and Challenges Ahead

The following areas of opportunity have been identified for 2017-18

- Exploration of alternative investment strategies; and,
- Providing retirement planning seminars.

The following challenges have been identified for 2017-18

- 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 portfolio; and
- Focused discussion with employee groups on Pension Plan governance structure and funding with the objective of reaching agreement on joint sponsorship, plan design and funding policy.

Conclusion

The Pension Plan performed quite well during the 2016/17 fiscal year posting investment returns well in excess of its actuarial hurdle of 5.8%. As a result, the unfunded liability measured on a market value basis, as reported in the Pension Plan's financial statements, has declined by approximately $62.6 million from the prior year. Significant progress has also been made by the University and plan stakeholders relative to the review on joint sponsorship and funding. This work will continue into the 2017/18 fiscal year with the objective of reaching agreement on joint sponsorship, plan design and funding policy.

The Board, through the work of the University administration and stakeholder groups, will continue its efforts to ensure that funding goals are achieved and that the Pension Plan remains competitive and affordable for its constituent groups.

With respect to the objectives set out in the Board of Regents' three-year activity plan intended to guide the Plan for the fiscal years 2014-15 to 2016-17, the University met the funding objective relative to the collection, investment, and disbursement of the fund. As for the objective dealing with special payments into the Fund against the unfunded liability, the University has requested approval from the Provincial Government to defer the 2016/17 special payment as it works towards joint sponsorship with employee groups.

Financial Statements

Memorial University of Newfoundland Pension Plan

March 31, 2017

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 financial position as at March 31, 2017 and the statements of changes in net assets available for benefits and changes in pension obligations 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 accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 financial position of the Memorial University of Newfoundland Pension Plan as at March 31, 2017, and the changes in its net assets available for benefits and changes in its pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Ernst & Young LLP

Chartered Professional Accountants

St. John's, Canada
December 12, 2017

Memorial University of Newfoundland Pension Plan

STATEMENT OF FINANCIAL POSITION

As at March 31

[thousands of dollars]

	2017	2016
ASSETS		
Receivables		
Contributions receivable	**2,144**	4,221
Accrued interest and dividends	**2,411**	2,132
Amounts due from pending trades	**3,488**	8,133
Due from Memorial University of Newfoundland *[note 4]*	**4,275**	4,018
	12,318	18,504
Investments *[note 5]*		
Cash and short-term investments	**36,601**	18,882
Bonds and debentures	**364,311**	357,977
Equities	**876,033**	773,619
Real estate	**104,422**	97,822
Mortgages	**115,545**	102,247
	1,496,912	1,350,547
Intangible assets	**262**	306
Total assets	**1,509,492**	1,369,357
LIABILITIES		
Accounts payable and accrued expenses	**1,152**	1,198
Accrued pension refunds	**2,955**	2,203
Amounts payable from pending trades	**4,917**	7,575
Total liabilities	**9,024**	10,976
Net assets available for benefits	**1,500,468**	1,358,381
Pension obligations	**(1,736,599)**	**(1,657,148)**
Deficit	**(236,131)**	**(298,767)**

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]

	2017	2016
INCREASE IN ASSETS		
Investment income		
Interest income	**16,296**	15,535
Dividend income	**22,319**	23,820
Current-period increase in fair value of investments	**52,334**	(103,717)
Realized gain on sale of investments	**69,045**	76,971
	159,994	12,609
Contributions *[note 7]*		
Employee - current service	**27,583**	26,338
- past service	**4,892**	3,810
Employer - current service	**27,577**	26,344
- past service	**191**	201
- special payments	**2,907**	3,118
	63,150	59,811
Total increase in assets	**223,144**	72,420
DECREASE IN ASSETS		
Benefits paid	**66,380**	60,065
Refunds of contributions	**7,560**	5,078
Death benefits	**870**	2,343
Administrative expenses *[note 8]*	**6,247**	5,823
Total decrease in assets	**81,057**	73,309
Increase in net assets	**142,087**	(889)
Net assets available for benefits, beginning of year	**1,358,381**	1,359,270
Net assets available for benefits, end of year	**1,500,468**	1,358,381

See accompanying notes

Memorial University of Newfoundland Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended March 31
[thousands of dollars]

	2017	2016
Actuarial present value of accrued pension benefits, beginning of year	**1,657,148**	1,465,989
Experience losses (gains)	**(6,343)**	9,253
Changes in actuarial assumptions/methodology	**-**	98,400
Interest accrued on benefits	**96,761**	92,768
Benefits accrued	**63,843**	58,224
Benefits paid, death benefits and refunds of contributions	**(74,810)**	(67,486)
Actuarial present value of accrued pension benefits, end of year *[note 6]*	**1,736,599**	1,657,148

See accompanying notes

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
[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 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%.

Survivors' pensions

A survivor 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 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 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

These financial statements have been prepared on a going concern basis as set out in Section 4600, Pension Plans, in Part IV of the Chartered Professional Accountants of Canada ["CPA Canada"] Accounting Handbook. These financial statements present the information of the Plan as a separate reporting entity independent of the sponsor and participants of the Plan.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Areas of key estimation include the actuarial assumptions for the determination of the pension obligations.

Investments

Investments are stated at fair value and transactions are recorded as of the trade date. Fair value is the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable willing parties who are under no compulsion to act. 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 valued at amortized 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.

Recognition of contributions and benefits

Contributions and benefits are recognized on the accrual basis of accounting.

All current service and required contributions from the University and Plan participants, respectively, are reflected in the year of the Plan participant's earnings.

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 including cost amounts, are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

Intangible assets

Intangible assets are amortized on the basis of their estimated useful lives using the straight line method and the following duration:

Software	10 years

Fair value of financial instruments

Investment assets and liabilities are measured at fair value as disclosed elsewhere in these financial statements. Other assets and liabilities do not have significant fair value risk as they are all due within twelve months.

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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2017
[tabular amounts in thousands of dollars]

5. INVESTMENTS

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

	2017	2016
Cash and short-term investments	**36,601**	18,882
Canadian bonds and debentures:		
Federal	**48,154**	39,690
Provincial	**60,637**	55,201
Corporate	**73,863**	82,351
Pooled funds	**181,657**	180,735
	364,311	357,977
Canadian equities:		
Common stock	**286,131**	254,429
Pooled funds	**108,745**	95,028
	394,876	349,457
Foreign equities:		
Common stock	**321,875**	287,258
Pooled finds	**159,282**	136,904
	481,157	424,162
Canadian Real estate	**104,422**	97,823
Canadian Mortgages	**115,545**	102,246
	1,496,912	1,350,547

[b] Realized losses arising from foreign currency translation amounted to $35,409 for the year ended March 31, 2017 [2016 – loss of $13,944]. For financial statement presentation purposes, these amounts have been included in realized gain on sale of investments.

[tabular amounts in thousands of dollars]

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. The Actuary performed an actuarial valuation as at December 31, 2016 and extrapolated the results to March 31, 2017.

The actuarial present value of benefits as at March 31, 2017 was estimated to be $1,736,599,000 [2016 – $1,657,148,000]. 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 December 31, 2016 valuation were:

Discount rate	**Salary escalation rate**
5.8% [2016 – 5.8%] pre- and post-retirement	4.0% [2016 – 4.0%] 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 extrapolations for 2017 and 2016 were as follows:

	2017	**2016**
Net assets available for benefits	**1,500,468**	1,358,381
Actuarial value changes not reflected in fair value of net assets	**(25,942)**	15,377
Actuarial value of net assets available for benefits	**1,474,526**	1,373,758

[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:

11.4%	of pensionable earnings up to the Year's Basic Exemption ["YBE"] under the *Canada Pension Plan Act*;
9.6%	of pensionable earnings above the YBE up to and including the Year's Maximum Pensionable Earnings ["YMPE"] under the *Canada Pension Plan Act*;
11.4%	of pensionable earnings above the YMPE.

The December 31, 2016 valuation of the Plan revealed that the current service cost of benefits accruing to members had increased by 0.4%.

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. For the period April 1, 2015 to March 31, 2017 the University was exempt from the going concern funding requirements of the PBA thereby allowing deferral of the 2015/16 and 2016/17 special payments against the Plan's unfunded liability.

With respect to solvency, the University was exempt to March 31, 2017 from the PBA requirement to liquidate solvency deficiencies within five years of the solvency valuation date. Where the solvency ratio is below prescribed limits the University will, however, make special payments into the fund representing the solvency deficiency on refunds and transfers paid out of the fund.

A valuation of the Plan was performed as at December 31, 2016 and the results have been extrapolated to March 31, 2017 for financial statement reporting. The extrapolation revealed that the going concern unfunded liability is $262.1 million at March 31, 2017 based on current Plan provisions and PBA requirements. A portion of the unfunded liability relates to the past service cost of indexing, introduced under the Plan, effective July 1, 2004. A funding arrangement was implemented coincident with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2017, approximately 27.25 years are remaining in the amortization schedule. The indexing liability is amortized on a declining balance basis along with recognition that if the indexing contributions (i.e., an additional 0.6% of payroll being made by both the University and Employees) exceed the originally scheduled amortization payment, then 15 years' worth of these excess contributions can be accounted for when determining the University's special payments.

The University is required to make special payments to fund the going concern unfunded liability revealed in the December 31, 2015 actuarial valuation. As at December 31, 2015 the going concern unfunded liability was $ 297.2 million. The portion of the going concern unfunded liability (after accounting for the indexing liability) to be amortized was $ 218.4 million and the required amortization payment for fiscal 2017/2018 is $28.6 million [or 8.6% of pensionable payroll]. University special payments will continue at this level [i.e. 8.6% of pensionable payroll] until the next actuarial valuation for funding purposes, which is due no later than December 31, 2018 [i.e. within three years of the December 31, 2015 actuarial valuation].

[tabular amounts in thousands of dollars]

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:

	2017	2016
Administrative expenses:		
Actuarial fees	**287**	323
Administrative Services	**267**	246
Audit fees	**11**	9
Custodial fees	**332**	283
Investment management fees	**4,854**	4,504
Salaries and benefits	**444**	406
Amortization	**44**	44
Other fees	**8**	8
	6,247	5,823

9. INTANGIBLE ASSETS

	2017			2016
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Software	**437**	**175**	**262**	306

[tabular amounts in thousands of dollars]

10. FAIR VALUE MEASUREMENTS, FINANCIAL RISKS AND RISK MANAGEMENT

The fair value of investments is as described in notes 3 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 are measured at amortized cost. 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 value hierarchy

	2017	2016
Level 1		
Cash & short term investments	**36,601**	18,882
Equities	**608,005**	541,686
	644,606	560,568
Level 2		
Equities	**268,028**	231,933
Bonds & debentures	**364,311**	357,977
Mortgages	**115,545**	102,246
	747,884	692,156
Level 3		
Real estate	**104,422**	97,823
	1,496,912	1,350,547

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).

[tabular amounts in thousands of dollars]

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. There have been no significant transfers between Levels for all reporting periods presented.

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

Level 3

	2017	2016
Real estate		
Balance at beginning of year	**97,823**	89,009
Net purchases	**1,500**	4,000
Net Dispositions	**(328)**	**--**
Net dividends earned	**2,009**	1,558
Net dividends transferred out	**(1,829)**	(1,529)
Net realized gains	**72**	--
Net unrealized gains	**5,356**	4,814
Administrative expenses	**(180)**	(29)
	104,423	97,823

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, 2017 would have decreased the U.S. investment value by approximately $16,100,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2017 would have increased the U.S. investment value by approximately $16,100,000.

A 5% strengthening of the Canadian dollar against the U.K. Pound at March 31, 2017 would have decreased the U.K. investment value by approximately $1,800,000. Conversely, a 5% weakening of the Canadian dollar against the U.K. Pound at March 31, 2017 would have increased the U.K. investment value by approximately $1,800,000.

[tabular amounts in thousands of dollars]

A 5% strengthening of the Canadian dollar against the Euro at March 31, 2017 would have decreased the European investment value by approximately $930,000. Conversely, a 5% weakening of the Canadian dollar against the Euro at March 31, 2017 would have increased the European investment value by approximately $930,000.

A 5% strengthening of the Canadian dollar against the Swiss Franc at March 31, 2017 would have decreased the Swiss investment value by approximately $930,000. Conversely, a 5% weakening of the Canadian dollar against the Swiss Franc at March 31, 2017 would have increased the Swiss investment value by approximately $930,000.

[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, 2017, the average duration of the bond portfolio was 7.2 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 7.2%.

	Within 1-year	**1-5 years**	**5-10 years**	**Over 10 years**	**No specific maturity**	**Total**
Cash and short-term investments	36,531	—	—	—	—	**36,531**
Bonds and debentures						
Federal	—	34,830	6,474	6,850	—	**48,154**
Provincial	—	10,419	21,913	28,305	—	**60,637**
Corporate	3,639	41,573	10,609	18,041	—	**73,862**
Pooled funds	—	—	—	—	181,658	**181,658**
Total bonds and debentures	3,639	86,822	38,996	53,196	181,658	**364,311**
Total fixed income	**40,170**	**86,822**	**38,996**	**53,196**	**181,658**	**400,842**

[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 five 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.

[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 (15 years), the Plan will return approximately 5.7%, with a 95% probability of the 15 year annualized return falling within the range of 1.8% to 9.5%.

	Estimated volatility %
Asset class	
Canadian equities	+/- 18.30
U.S. equities	+/- 17.60
International equities	+/- 18.70
Real estate	+/- 12.30
Mortgages	+/- 3.80
Cash and short-term investments	+/- 1.40
Canadian bonds and debentures	+/- 4.70

	Market value at March 31, 2017	**Investments %**
Held-for-trading securities		
Cash and short-term investments	**36,601**	2.5
Canadian bonds and debentures	**364,311**	24.3
Canadian equities	**394,876**	26.4
U.S. equities	**321,875**	21.5
International equities	**159,282**	10.6
Canadian real estate	**104,422**	7.0
Canadian mortgages	**115,545**	7.7
Total	**1,496,912**	100.0

	% change	**Net impact on market value**
Benchmark for investments		
S&P/TSX Composite Index	**+/- 18.30**	+/- 72,269
S&P 500	**+/- 17.60**	+/- 56,643
MSCI EAFE (net noon)	**+/- 18.70**	+/- 29,786
CPI	**+/- 12.30**	+/- 12,839
Blended FTSE TMX (60% short; 40% mid)	**+/- 3.80**	+/- 4,391
FTSE TMX Universe	**+/- 4.70**	+/- 17,123

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, 2017, the maximum risk exposure for this type of investment amounts to $357,977. 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	35.8
AA	34.1
A	23.7
BBB	6.4

11. 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.