MEMORIAL UNIVERSITY

Annual Report

2009-2010

THE MEMORIAL UNIVERSITY PENSION PLAN

DEPARTMENT OF HUMAN RESOURCES, MEMORIAL UNIVERSITY OF NEWFOUNDLAND

MEMORIAL
UNIVERSITY

Board of Regents

St. John's, NL Canada A1C 5S7
Tel: 709 737 8281 Fax: 709 737 2344
regents@mun.ca www.mun.ca

Chairperson's Message

September 30, 2010

Honourable Darin King
Minister of Education
West Block, Confederation Building
P.O. Box 8700
St. John's, NL
A1B 4J6

Dear Minister King:

I am pleased to submit the 2009-10 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2009 to March 31, 2010. 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, Q.C.
Chair, Board of Regents

Annual Report of
The Memorial University Pension Plan

April 1, 2009 to March 31, 2010

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

(709) 737-7406
pensions@mun.ca

September 2010

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THE MEMORIAL UNIVERSITY PENSION PLAN OVERVIEW

The three-year Activity Plan prepared for the Memorial University Pension Plan (the “Plan”) in 2008 set out the Plan’s objectives for the period April 1, 2008 to March 31, 2011. This Annual Report will discuss the outcome of those objectives for the period April 1, 2009 to March 31, 2010 and provide additional information on the operation of the Plan for the year then ended.

Mission

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

Measure: Secure retirement incomes
Indicator: Reduced unfunded liability

Vision

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

Department of Human Resources Mission Statement

Our Purpose ...

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

Our Strategies ...

We will demonstrate human resources leadership by....

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

Our Values ...

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

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

Mandate

The mandate of the Board of Regents of Memorial University, acting as the trustee for the Pension Plan, is set out in the *Memorial University Pensions Act*. In 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 Memorial University Pension Plan (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 Memorial University of Newfoundland. In addition, employees of certain separately incorporated entities of Memorial are eligible to participate in the Plan. Benefits, which are integrated with the Canada Pension Plan, are based upon employees' years of pensionable service, best five-year average pensionable salary and a 2 per cent accrual factor.

Authority and Administration

The Plan operates under authority of the *Memorial University Pensions Act*, which prescribes the Board of Regents of Memorial 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 7.5% within a range of +/- 9.4%.

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%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%
Alliance Capital Management Canada Inc.	US Equity	21%
Aberdeen Asset Management *	International Equity	10%
Grenier-Pacaud Management Associates	Real Estate	1.6%
Roycom Inc.	Real Estate	1.6%
To be determined	Mortgages	8%

***** Aberdeen Asset Management replaced Putnam Investments as the international equity manager in January 2010.

The benchmark distribution is not completely implemented at March 31, 2010 as the real estate and mortgage asset classes are in the process of being invested. The transition to the full real estate allocation, initially targeted to occur over a two year period beginning in June 2008, will now continue beyond the 2009-10 fiscal year. The longer than anticipated timeline for real estate investment is a direct consequence of the global financial crisis which began to emerge in 2008.

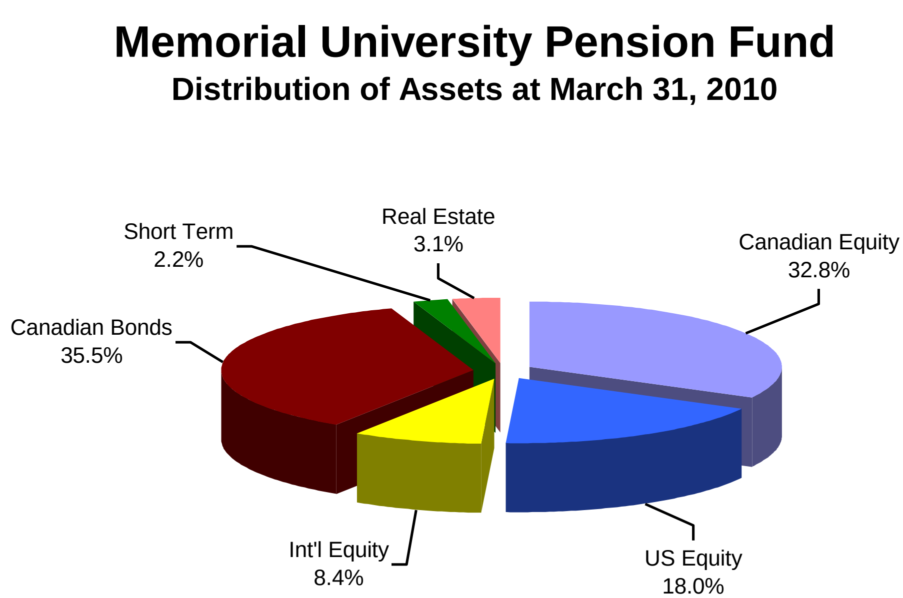
> *"While the worst of the credit crunch was yet to come, along with the ensuing market meltdown and global recession, the real estate market had already slowed precipitously. Sales volume in the industrial properties in which GPM specializes was down approximately 60 % in 2009 relative to 2008."*
>
> *(Grenier-Pacaud Management Associates)*

At March 31, 2010, the real estate allocation of 3.1% is being managed by Greystone Managed Investments and Grenier-Pacaud Management Associates. Roycom Inc. has revised their expected investment date to early spring 2011.

The search for a mortgage manager will begin in June 2010.

The relative distribution of assets across the entire Pension Fund, as at March 31, 2010, is illustrated in the following chart:

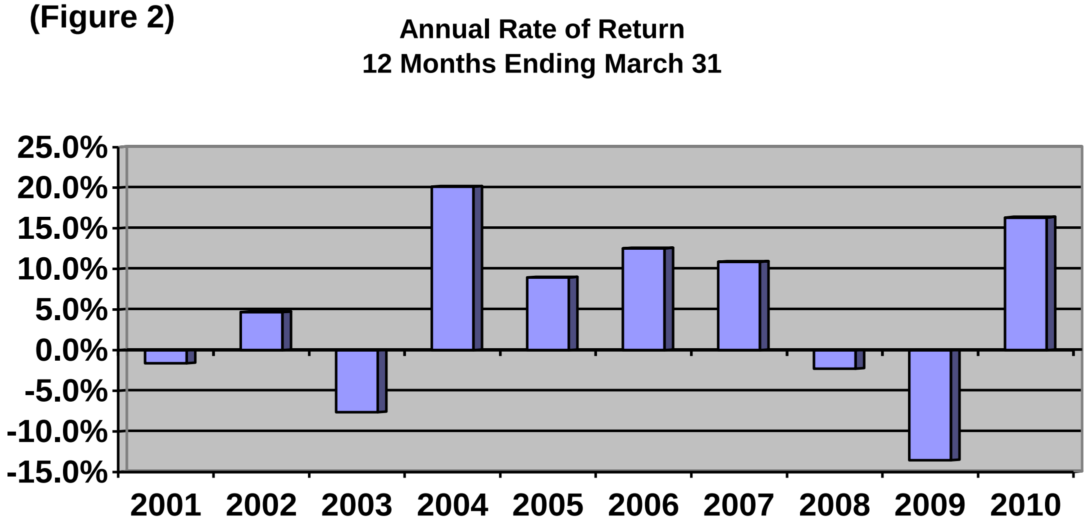
(Figure 1)



Investment Performance

In 2009-10, global equity markets began to stabilize and recover, posting double digit positive returns. The turnaround in equity markets, combined with strong fixed income performance, resulted in an annual return for the Fund of 16.33% at March 31, 2010. This ranked in the 95th 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 $160.6 million – up from $621.0 million at March 31, 2009 to $727.6 million at March 31, 2010.

(Figure 2)



(10 year annualized return: 4.32%)

Actuarial Valuation

The Plan is being funded in accordance with the March 31, 2008 valuation, being the last triennial valuation filed with both the Canada Revenue Agency and the provincial Office of the Superintendent of Pensions.

An actuarial valuation of the Plan was also performed by the University's actuary, Eckler Limited (Eckler), as at March 31, 2010. While valuations are generally required at least once every three years, annual valuations of the Plan are being performed in each of the years 2006 through 2010. 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 exemption is due to expire December 31, 2010. The University will be initiating a discussion with government to extend solvency funding relief beyond this expiration date.

In addition to reporting on the solvency position of the Plan, an actuarial valuation is performed to determine the ability of the Plan to meet its obligations or "pension promises", on a going-concern basis. It is also used to project the cost of benefits that will accrue to active plan members in the years following the valuation. The results of the March 31, 2010 actuarial valuation are highlighted in Table 3 below, together with comparative figures at the last valuation date, March 31, 2009.

(Table 3)

Actuarial Balance Sheet

	March 31, 2010 ($ Millions)		**March 31, 2009 ($ Millions)**	
	Going-Concern [1]	**Solvency** [2]	**Going-Concern**	**Solvency**
Actuarial Value of Assets	743.4	830.1	683.0	761.2
Actuarial Liabilities	1,035.9	1,105.2	954.0	998.5
Deficit	292.5	275.1	271.0	237.3

[1] The going-concern deficit, as at March 31, 2010, includes an unfunded liability of approximately $73.9 million associated with the introduction of indexing in July 2004. Due to the nature of the amortization method and the impact of plan experience, this liability has increased from the prior year. A financing plan is in place to amortize this amount over a remaining period of 34.25 years.

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

In accordance with the *Pension Benefits Act, 1997* (the PBA), Memorial 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, 2010 was calculated by Eckler to be $292.5 million. Of this amount, approximately $73.9 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 34.25 years through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). If the Plan was being funded on the basis of the March 31, 2010 valuation, the balance of the deficit, namely $218.6 million ($292.5 - $73.9), would be liquidated by the University through special payments of 7.2% of payroll over a period not less than 15 years. The payment required for 2010-2011 would be an estimated $17.7 million.

Current Service Cost

The March 31, 2010 valuation revealed that the current service cost for active members had increased. Current service cost is the basis upon which the Plan's contribution rate for both employees and the University is determined. An increase in the contribution rate of 0.1% would be required if the Plan was funded on the basis of the March 31, 2010 valuation.

The contribution rate increase of 0.6% identified in the March 31, 2008 actuarial valuation of the Plan was implemented on April 1, 2009.

(Table 4)

Rate Structure	Old Rate	Current Rate Effective April 1, 2009	Recommended in March 31, 2010 valuation
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.2%	9.8%	9.9%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	7.4%	8.0%	8.1%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.2%	9.8%	9.9%

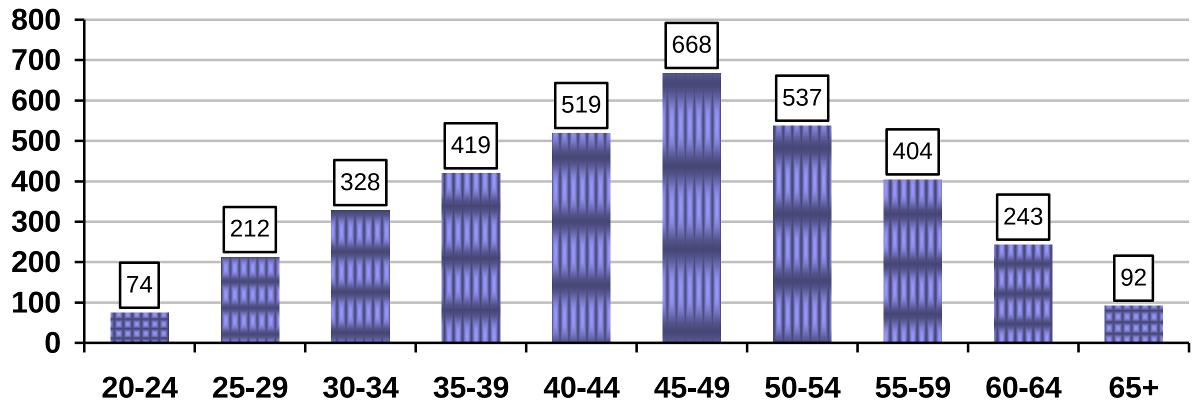
Plan Membership Statistics

(Table 5)

	March 31				
	2010	**2009**	**2008**	**2007**	**2006**
Active Members	3,636	3,496	3,368	3,203	3,055
Retirees (incl. survivors)	1,392	1,340	1,294	1,231	1,165
Deferred Pensioners	206	199	163	149	134
Average Age at Retirement	60.43	60.39	60.47	60.46	60.50

(Figure 3)

Age Distribution - Active Members
March 31, 2009



OUTCOME OF OBJECTIVES 2009-10

The two primary issues and related objectives identified in the 2008-11 Activity Plan of the Memorial University Pension 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.

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

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

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

Contributions are collected and invested

During the 2009-10 fiscal year, the Plan collected a total of $47,916,000 in contributions, representing amounts paid by Memorial University and its employees and funds transferred from other employers' plans.

All contributions are paid into the Memorial University 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 $37,276,000 in benefits to eligible retired employees or their beneficiaries in 2009-10.

Administrative expenses are paid

During 2009-10, the Plan paid a total in $2,410,000 in administrative expenses.

Issue Two: Unfunded Liability

The Memorial University Pension 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, Memorial University is exempt from the solvency funding requirements to December 31, 2010 and is amortizing past service costs associated with indexing, introduced in 2004, over a remaining period of 34.25 years.

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

Measure: Unfunded liability reduced.

The going-concern unfunded liability, at March 31, 2008, was $117.2 million, of which $61.9 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 $55.3 million was to be amortized by the University over a 15 year period with annual special payments of 2.16% of pensionable payroll. The second special payment, made in the 2009-2010 fiscal year, was $4.854 million.

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 goal presented in the activity plan.

<u>Annual payment of 1.2% of pensionable payroll and special payment of $4.854 million</u>

By special provision of the PBA, the University and employees are financing the indexing liability through contributions equivalent to 1.2% of pensionable payroll (shared equally by the University and employees). This annual payment was submitted in 2009-10.

During the year ended March 31, 2010, the University made a special payment into the Pension Plan Fund of $4.854 million, thus reducing the unfunded liability identified in the March 31, 2008 actuarial valuation of the Plan that the University was solely responsible to fund.

2010-11 Objectives

The aforementioned objectives, measures and indicators associated with Issue One will also be reported upon in the 2010-11 Annual Report of the Pension Plan.

With respect to Issue Two, Memorial University may, on an annual basis, adjust that part of the objective that references 2.16% of pensionable payroll to the appropriate figure determined by the most recent actuarial valuation of the Pension Plan prepared for funding purposes. Such adjustment will be made only where the University's funding obligation changes, as determined by the actuarial valuation.

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights

(Table 6)

		March 31	
		2010	**2009**
Net Assets Available for Benefits		737,588,000	620,939,000
One-Year Annual Rate of Return		16.66%	-13.57%
Investment Income		13,150,000	1,914,000
Pensions Paid		37,276,000	34,868,000
Current Contributions:	Employee	19,837,000	16,644,000
	Employer	25,498,000	21,307,000 [1]

[1] For 2010, Current Contributions – Employer includes a matching employee amount plus a special payment of $4,854,000 (2009 - $4,334,000) toward the unfunded liability identified in the March 31, 2008 actuarial valuation of the pension plan. In addition, employer contributions includes $814,000 (2009 - $340,000), in respect of the solvency deficiency associated with refunds paid.

Benefit Provisions – Indexing

On July 1, 2009, 956 retirees and survivors received a 1.2 per cent indexing adjustment to their pensions. Indexing was introduced under the Plan in July 2004, with yearly adjustments calculated as 60 per cent of the annual change in the consumer price index, as measured by Statistics Canada, to a maximum yearly increase of 1.2 per cent.

Actuarial Valuation of Plan

An actuarial valuation of the Plan was performed as at March 31, 2010. While much of the work related to this valuation was done after the period covered by this Annual Report, the results have been included to outline the actuarial financial position of the Plan at its measurement date.

Communications to Employees

The annual "Report to Plan Members", a pocket-sized brochure detailing financial and administrative aspects of the Plan, for the year ended December 31, 2009, was provided to active pension plan members in the Spring of 2010. Active plan members also received their annual pension plan statement.

Retirement Planning Seminars

In September 2009, the University partnered with the Royal Bank of Canada to deliver a series of retirement transition seminars on the St. John's campus. The four seminars, which were attended by over 75 employees and their spouses, were designed to encourage people to begin thinking about such transitional issues as finances, lifestyle, health and well being, etc.

In addition, in February 2010, the University held a full day retirement planning seminar on the St. John's campus which was attended by approximately 190 employees and their spouses. Topics covered included the Memorial University Pension Plan, the Canada Pension Plan and Old Age Security Benefits, financial planning and the Memorial University Pensioners' Association.

Plan Amendments

In May 2009 and December 2009, amendments to the Plan were enacted under *The Memorial University Pensions Act*. The amendments included the following:

- i) Definition changes to coincide with existing pensionable salary calculations and introduce Canada Pension Plan earnings limits;
- ii) Recognition of employees of certain employers associated with Memorial University of Newfoundland;
- iii) Removal of mandatory retirement language;
- iv) Removal of disability pension provision;
- v) Incorporation of existing Canada Pension Plan integration (bridging) into the Act;
- vi) Payment of a 60% survivor pension on the bridge benefit;
- vii) Temporary suspension of pension upon re-employment of retirees to facilitate re-entry into the Plan;
- viii) Inclusion of *Income Tax Act* limits for periods of unpaid leave and reduced pay;

ix) Changes to reflect *Pension Benefits Act, 1997* survivor benefit requirements; and,

x) Changes required by the Canada Revenue Agency to ensure compliance with the *Income Tax Act*.

Socially Responsible Investing

In March 2010, an education session on socially responsible investing strategies was held for the University Pensions Committee. Topics included an overview of socially responsible investing strategies, governance responsibilities, investment performance, and legal / fiduciary considerations. The Committee will continue to explore whether such a strategy might be appropriate for the Plan.

Consultation Process on Unlocking of Pension Funds

In June 2009 the Government of Newfoundland and Labrador initiated a consultation process on unlocking pension funds and asked various stakeholders to submit their views on proposed changes to the locking-in rules for registered pension money. The University, in collaboration with the University Pensions Committee, submitted its responses to the questions posed by government in their consultation document in September 2009.

OPPORTUNITIES AND CHALLENGES 2010-11

During the year ahead, the focus with respect to the Plan will be concentrated in a number of areas including:

- Assessing and responding to the implications of the March 31, 2010 actuarial valuation;
- Continued monitoring of the investment performance of fund managers and review of the Statement of Investment Policy and Objectives;
- Continued transition of funds into the real estate portfolios;
- Selecting investment management services for mortgage investments;
- Exploring alternative, socially 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 Memorial University Pension Plan for the fiscal years 2009-11. Progress toward the achievement of the objectives will be reported each Fall.

The Memorial University Pension Plan

FINANCIAL STATEMENTS

March 31, 2010

AUDITORS' REPORT

To the Board of Regents of
Memorial University of Newfoundland

We have audited the statement of net assets available for benefits of the **Memorial University of Newfoundland Pension Plan** [the "Plan"] as at March 31, 2010 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as at March 31, 2010 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Chartered Accountants

St. John's, Canada,
June 11, 2010.

Memorial University of Newfoundland Pension Plan

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS

As at March 31
[thousands of dollars]

	2010	2009
	$	$
ASSETS		
Receivables		
Contributions receivable	**2,494**	1,875
Accrued interest and dividends	**1,974**	2,241
Amounts due from pending trades	**2,229**	3,868
Due from Memorial University of Newfoundland *[note 3]*	**1,764**	1,488
	8,461	9,472
Investments *[note 4]*		
Cash and short-term investments	**16,820**	19,730
Bonds and debentures	**256,683**	265,967
Equities	**425,587**	320,880
Real estate	**22,657**	6,799
	721,747	613,376
Total assets	**730,208**	622,848
LIABILITIES		
Accounts payable and accrued expenses	**530**	501
Accrued pension refunds	**942**	654
Amounts payable from pending trades	**1,148**	754
Total liabilities	**2,620**	1,909
Net assets available for benefits	**727,588**	620,939

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]

	2010 $	2009 $
INCREASE IN ASSETS		
Investment income		
Interest income	**12,467**	16,139
Dividend income	**7,862**	9,958
Current-period increase in fair value of investments	**88,016**	—
	108,345	26,097
Contributions *[note 6]*		
Employer's	**25,498**	21,307
Employees'	**19,837**	16,644
Past service contributions and transferred service	**2,581**	2,343
	47,916	40,294
Total increase in assets	**156,261**	66,391
DECREASE IN ASSETS		
Realized loss on sale of investments *[note 4 [c]]*	**7,179**	24,183
Benefits paid	**37,276**	34,868
Refunds of contributions	**2,747**	2,138
Administrative expenses	**2,410**	2,302
Current-period decrease in fair value of investments	—	98,537
Total decrease in assets	**49,612**	162,028
Increase (decrease) in net assets	**106,649**	(95,637)
Net assets available for benefits, beginning of year	**620,939**	716,576
Net assets available for benefits, end of year	**727,588**	620,939

See accompanying notes

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[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 *Memorial University Pensions Act.*

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

Funding policy

The Plan is subject to the funding provisions of sections 35 and 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. Section 6 of the Act:

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 into the fund an amount to cover the deficiency.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

Service pensions

A service pension is available based on the number of years of service times 2% 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.

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 (Canada)* and is not subject to income taxes.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

2. SIGNIFICANT ACCOUNTING POLICIES

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

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income 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 increase in net assets in the period during which they become known.

Basis of presentation

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

Investments

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

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

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 closed-end and open-end real estate funds. The fair value of properties in both funds is determined 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 gain (loss) on sale of investments, interest income and dividends.

Gain (loss) on sale of investments

The realized gain (loss) on 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 (decrease) in fair value of investments.

Foreign currency denominated transactions, as well as cost amounts included in *note 4[b]* are translated into Canadian dollars at the rates of exchange in effect on the dates of the related transactions.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

3. 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.

4. INVESTMENTS

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

	2010							2009	
	Within 1-year $	1-5 years $	5-10 years $	Over 10 years $	No specific maturity $	Total $	Average effective yield %	Total $	Average effective yield %
Cash and short-term investments	16,820	—	—	—	—	16,820	0.36	19,730	1.11
Canadian bonds and debentures	836	45,608	36,624	38,520	135,095	256,683	4.20	265,967	4.14
	17,656	45,608	36,624	38,520	135,095	273,503		285,697	
Canadian equities:									
Common stock						229,575		159,593	
Pooled funds						7,333		5,379	
Foreign equities:									
Common stock						128,135		102,861	
Pooled funds						60,544		53,047	
						425,587		320,880	
Real estate						22,657		6,799	
						721,747		613,376	

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

[tabular amounts in thousands of dollars]

[b] The following table summarizes investments at cost:

	2010 $	2009 $
Cash and short-term investments	**16,919**	19,717
Canadian bonds and debentures:		
Federal	**39,039**	34,792
Provincial	**24,944**	28,090
Corporate	**55,404**	61,257
Pooled funds	**135,359**	144,078
	254,746	268,217
Canadian equities:		
Common stock	**175,960**	160,372
Pooled funds	**7,395**	7,648
	183,355	168,020
Foreign equities:		
Common stock	**125,853**	117,734
Pooled finds	**63,503**	66,107
	189,356	183,841
Real estate	**22,391**	6,686
	666,767	646,481

[c] Realized losses arising from foreign currency translation amounted to $3,979,877 for the year ended March 31, 2010 [2009 – gain of $4,662,237]. For financial statement presentation purposes, these amounts have been included in realized loss on sale of investments.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

5. OBLIGATION FOR PENSION BENEFITS

The present value of accrued pension benefits was determined using the projected benefit method prorated on service and the administrator's best estimate assumptions. Eckler Limited., a firm of consulting actuaries, performed an extrapolation as at March 31, 2010, based on the results of the actuarial valuation as at March 31, 2008.

The actuarial present value of benefits as at March 31, 2010 and 2009 and the principal components of change in actuarial present value during the years are as follows:

	2010 $	2009 $
Actuarial present value of accrued pension benefits, beginning of year	**954,041**	871,110
Experience losses	**17,272**	24,194
Changes in actuarial assumptions/methodology	—	6,542
Benefit improvements	**302**	—
Interest accrued on benefits	**62,085**	56,483
Benefits accrued	**42,255**	32,718
Benefits paid and refunds of contributions	**(40,023)**	(37,006)
Actuarial present value of accrued pension benefits, end of year	**1,035,932**	954,041

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

Discount rate	Salary escalation rate
6.5% [2009 – 6.5%] pre- and post-retirement	4.5% [2009 – 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.

NOTES TO FINANCIAL STATEMENTS

March 31, 2010
[tabular amounts in thousands of dollars]

Due to the magnitude of the decline experienced by investment markets at March 31, 2009, the investment reserve for the prior year was capped at 10% of the fair value of net assets available for benefits.

The actuarial asset values used in the extrapolation [2008 actuarial valuation] were as follows:

	2010 $	2009 $
Net assets available for benefits	**727,588**	620,939
Fair value changes not reflected in actuarial value of net assets	**15,853**	62,094
Actuarial value of net assets available for benefits	**743,441**	683,033

The retirement age assumptions have not been adjusted to reflect the removal of mandatory retirement. Once more information becomes available, the retirement assumptions will be revised.

6. FUNDING POLICY

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

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

The most recent actuarial valuation for funding purposes was performed by Eckler Limited as at March 31, 2008. The contribution rate was increased by 0.6% effective April 1, 2009, pursuant to a recommendation contained in this valuation. The University is required to contribute an amount equal to the contributions paid by employees and any additional amounts required to be paid by an employer under the PBA. In addition to its matching contributions, the University made a special payment of $4,854,000 to the Plan during the year. This was the second payment against the unfunded liability, not attributable to indexing, that was identified in the March 31, 2008 actuarial valuation of the Plan.

The Plan is being funded in accordance with the March 31, 2008 actuarial valuation. The most recent extrapolation was prepared at March 31, 2010 by Eckler Limited for internal management purposes. This valuation revealed that the going concern unfunded liability had increased to $292,491,000 at March 31, 2010 based on current Plan provisions and PBA requirements. Of this amount, approximately $73,914,000 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. At March 31, 2010, approximately 34.25 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, and the impact of valuation assumptions, the unamortized indexing liability has increased from the level that existed at March 31, 2009. The balance of the going concern unfunded liability, namely $218,577,000, would be liquidated by the University in accordance with *note 1* if funding were based upon the March 31, 2010 valuation.

The March 31, 2010 actuarial valuation also revealed an increase in current service cost of 0.10%, for both the University and employees. As the Plan is being funded in accordance with the March 31, 2008 valuation, no change in the contribution rate is being contemplated.

In addition, Eckler Limited prepared a solvency valuation, at March 31, 2010, which disclosed a solvency deficiency of $275,084,000 based upon PBA requirements. The Plan is exempt from the solvency funding provisions of the PBA for the period January 1, 2006 to December 31, 2010. The University has begun negotiations with the Government of Newfoundland and Labrador to extend this exemption.

7. RISK MANAGEMENT

The fair value of investments is as described in *notes 2 and 4[b]*. The fair value of other financial assets and liabilities, namely: contributions receivable [employees], accrued interest and dividends, due from Memorial University of Newfoundland, accounts payable and accrued expenses, and accrued pension refunds, approximates their carrying value due to the short-term nature of these instruments. The fair value of amounts due from pending trades and amounts payable from pending trades is represented by the fair value of the underlying securities. Fair values of investments are exposed to market risk, liquidity risk and credit risk.

Market risk

Market risk is the risk that the fair value or future cash flows of an investment will fluctuate because of changes in market prices. The Plan's policy is to invest in a diversified portfolio of investments to mitigate the impact of 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 foreign currencies. For example, a 5% strengthening of the Canadian dollar against the U.S. dollar at March 31, 2010 would have decreased the U.S. investment value by approximately $6.5 million. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2010 would have increased the U.S. investment value by approximately $6.5 million.

[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, 2010, the average duration of the bond portfolio was 6.11 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.11%.

[c] **Price risk:** Price risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. This risk is reduced by the Plan's investment policy which incorporates diversification of the investment portfolio across various asset classes and within each asset class. Equity price risk is managed by investing in Canadian, U.S. and international equities through the use of four external investment managers utilizing differing investment styles. The equity portfolio is diversified across a range of economic sectors and companies and is limited to stocks traded on recognized stock exchanges.

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

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

[tabular amounts in thousands of dollars]

	Estimated volatility %
Asset class	
Canadian equities	+/- 17.25
U.S. equities	+/- 16.75
International equities	+/- 16.75
Real estate	+/- 6.20
Cash and short-term investments	+/- 2.00
Canadian bonds and debentures	+/- 5.00

	Market value at March 31, 2010 $	Investments %
Held-for-trading securities		
Cash and short-term investments	**16,820**	2.3
Canadian bonds and debentures	**256,683**	35.6
Canadian equities	**236,908**	32.8
U.S. equities	**128,135**	17.8
International equities	**60,544**	8.4
Canadian real estate	**22,657**	3.1
Total	**721,747**	100.0

	% change %	Net impact on market value $
Benchmark for investments		
DEX Universe Bond Index	**+/- 5.0**	+/- 12,834
S&P/TSX Capped Composite Index	**+/- 17.25**	+/- 40,867
MSCI EAFE Index	**+/- 16.75**	+/- 10,141
S&P 500 Index	**+/- 16.75**	+/- 21,463
Canadian Consumer Price Index [real estate]	**+/- 6.20**	+/- 1,405

Liquidity risk

Liquidity risk is the risk of being unable to generate sufficient cash or cash equivalents 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 5*] and operating expenses. Liquidity requirements are managed through net monthly contributions and investing in sufficiently liquid [e.g., publicly traded] equities, pooled funds and other easily marketable instruments.

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March 31, 2010
[tabular amounts in thousands of dollars]

Credit risk

Credit risk relates to the possibility that a loss may occur from failure of a fixed-income security issuer. At March 31, 2010, the maximum risk exposure for this type of investment amounts to $256,683,000. 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	47.0
AA	25.7
A	23.2
BBB	4.1

8. 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.

Department of Human Resources,
Memorial University of Newfoundland
Arts and Administrations Building, Room 4025
230 Elizabeth Avenue, St. John's, NL, Canada, A1C 5S7

www.mun.ca/humanres