Annual Report of
The Memorial University Pension Plan

April 1, 2012 to March 31, 2013

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

(709) 864-7406
pensions@mun.ca

September 2013

TABLE OF CONTENTS PAGE

MEMORIAL
UNIVERSITY

Board of Regents

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

Chairperson's Message

September 16, 2013

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

Dear Minister Shea:

I am pleased to submit the 2012-13 Annual Activity Report of the Memorial University Pension Plan. This report covers the period April 1, 2012 to March 31, 2013.

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

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

Respectfully submitted,

Iris Petten
Chair, Board of Regents

THE MEMORIAL UNIVERSITY PENSION PLAN OVERVIEW

The three-year Activity Plan prepared for the Memorial University Pension Plan (the "Plan") set out the Plan's objectives for the period April 1, 2011 to March 31, 2014. This Annual Report will discuss the outcome of those objectives for the period April 1, 2012 to March 31, 2013 and provide additional information on the operation of the Plan for the year then ended.

Mission

By 2017, the Memorial University Pension Plan will have ensured the provision of secure, affordable and competitive retirement incomes for employees of Memorial University of Newfoundland (the University).

Vision

The vision of the Memorial University Pension Plan is of stable retirement incomes for participating employees.

Mandate

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

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

Plan Design

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

Authority and Administration

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

Investments

The Memorial University Pension Fund (the Fund) is currently managed by six external investment management firms under various individual mandates. The over-riding objective of the Fund's investment policy is to maintain predictable and stable benefit costs and contributions over the long term. A policy asset mix has been established which is expected to achieve this objective at a reasonable and acceptable level of risk. The nominal annual return of the policy asset mix is expected to be 6.25% within a range of +/- 9.5%.

Policy Asset Mix

(Table 1)

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

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

Investment Manager Benchmark Distribution

(Table 2)

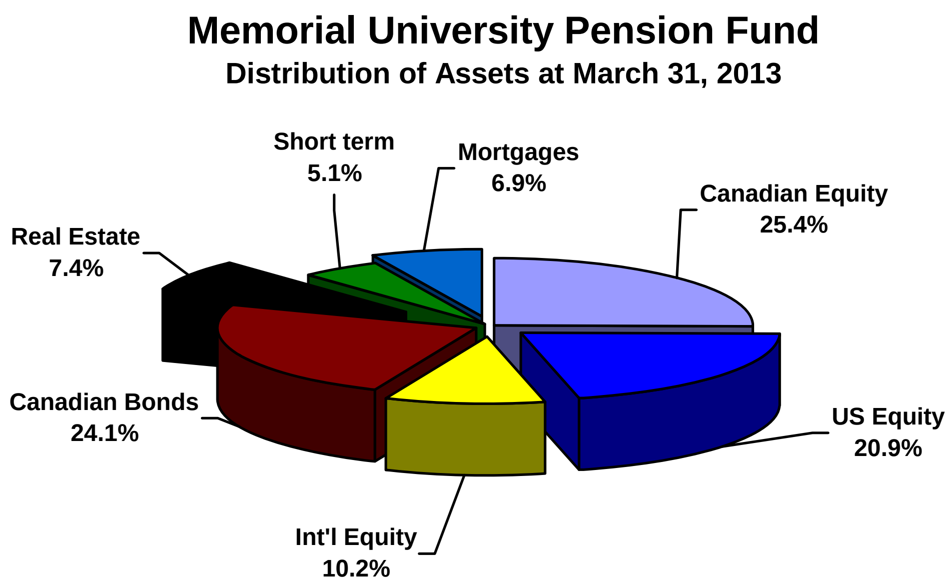
Manager	Mandate	Allocation
Jarislowsky Fraser Limited	Canadian Balanced	20.25%
Greystone Managed Investments Inc.	Canadian Balanced	20.25%
Greystone Managed Investments Inc.	Real Estate	4.8%
Greystone Managed Investments Inc.	Mortgages	8%
CIBC Global Asset Management Inc.	Indexed Bonds	12.5%
Alliance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

In March 2013, the investment policy was amended to split one of the Canadian balanced mandates into individual segregated Canadian equity and Canadian fixed income mandates. Implementation of this change will occur during the 2013-14 fiscal year.

Full implementation of the benchmark distribution neared completion in 2012-13 as all mandates fell within their re-balancing thresholds. In addition, with the rise in the total market value of the Fund, a further re-balancing commitment was made to the mortgage mandate to keep it within policy tolerances.

The relative distribution of assets across the entire Pension Fund, as at March 31, 2013, is illustrated in the following chart:

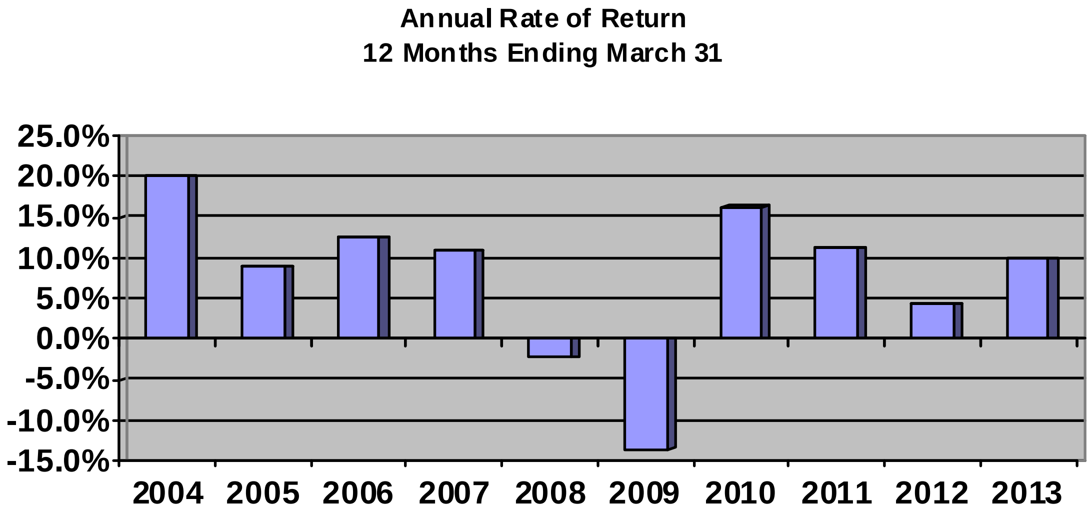
(Figure 1)



Investment Performance

For the year ended March 31, 2013 the Fund posted a 9.81% annual return ranking it in the 41st 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 $109.2 million – up from $886.4 million at March 31, 2012 to $995.6 million at March 31, 2013.

(Figure 2)



(10 year annualized return: 7.4%)

Actuarial Valuation

During the year the Plan changed its valuation date from March 31 to December 31 of any particular year. An actuarial valuation was performed for funding purpose as at December 31, 2012 and the results have been extrapolated to March 31, 2013 for reporting purposes.

While valuations are generally required at least once every three years, annual valuations of the Plan have been performed in each of the years 2006 through 2012. 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 current exemption covers the period from January 1, 2011 to December 31, 2015.

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 December 31, 2012 valuation and extrapolation to March 31, 2013 are highlighted in the following table together with comparative figures for the extrapolation at March 31, 2012:

(Table 3)

Actuarial Balance Sheet						
	March 31, 2013 ($ Millions)		December 31, 2012 ($ Millions)		March 31, 2012 ($ Millions)	
	Going Concern	Solvency	Going Concern	Solvency	Going Concern	Solvency
Actuarial Value of Assets	984.1	See Note 3) below	950.1	1,068.9	891.4	See Note 3) below
Actuarial Liabilities	1,331.1		1,310.8	1,638.5	1,185.2	
Unfunded Liability	(347.0)		(360.7)	569.6	(293.8)	

Notes:

1) The going concern unfunded liability, as at December 31, 2012, includes approximately $76.3 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 31.25 years.

2) Solvency assets at December 31, 2012 include the present value of five years worth of going concern special payments ($132.2 million).

3) An extrapolation of the solvency position was not performed as at March 31, 2012 or March 31, 2013. If funding on a solvency basis was required, it would be based upon the December 31, 2012 solvency position.

In accordance with the *Pension Benefits Act, 1997* (the PBA), the University, as employer, is required to liquidate going-concern unfunded liabilities within 15 years of the valuation date. The special payment required for the 2013-14 fiscal year as payment against the unfunded liability identified in the December 31, 2012 valuation is $26.6 million

During the year ended March 31, 2012, the University made a special payment into the Fund of approximately $19.7 million against the going concern unfunded liability.

Current Service Cost

Current service cost is the basis upon which the Plan's contribution rate for both employees and the University is determined. The December 31, 2012 valuation revealed that the current service cost for both active participating members and the University had increased by 0.7%.

(Table 4)

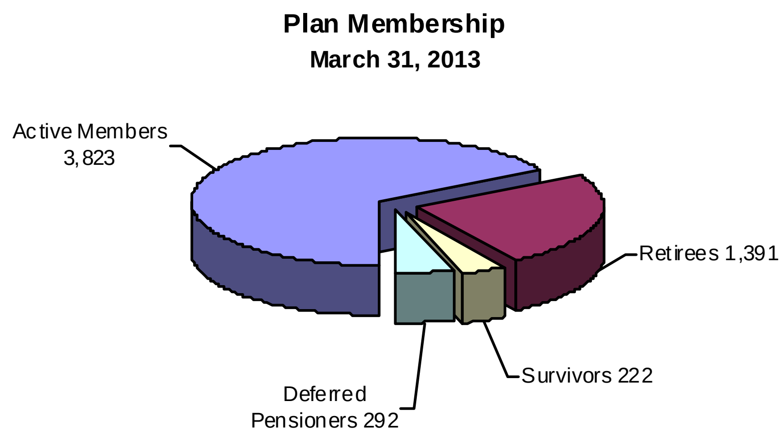
Rate Structure	Current	Recommended
Earnings up to Year's Basic Exemption under Canada Pension Plan	9.9%	10.6%
Earnings between Year's Basic Exemption under Canada Pension Plan and the Year's Maximum Pensionable Earnings under Canada Pension Plan	8.1%	8.8%
Earnings above Year's Maximum Pensionable Earnings under Canada Pension Plan	9.9%	10.6%

Plan Membership Statistics

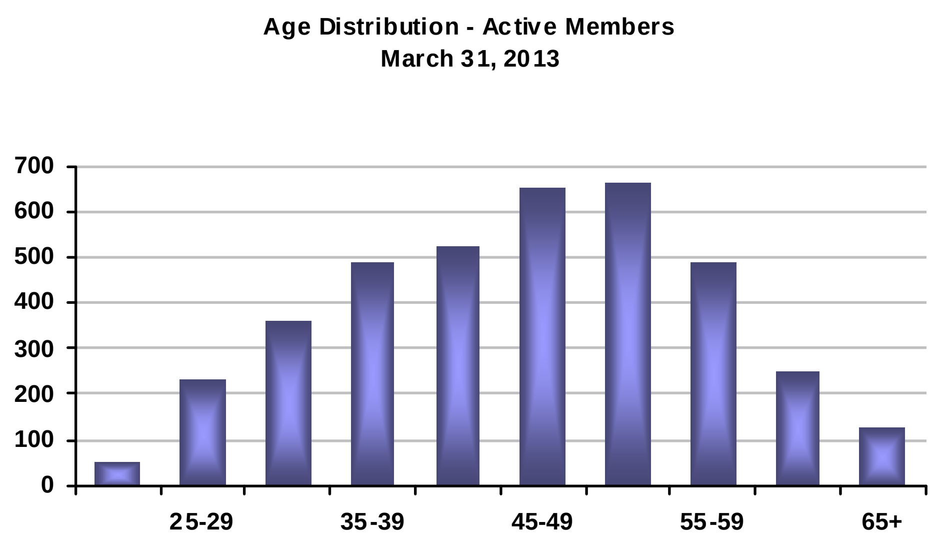
(Table 5)

	March 31				
	2013	2012	2011	2010	2009
Active Members	3,823	3,863	3,728	3,636	3,496
Pensions (incl. survivors)	1,637	1,549	1,463	1,392	1,340
Deferred Pensioners	292	287	238	206	199
Average Age at Retirement	60.90	60.49	60.56	60.43	60.39

(Figure 3)



(Figure 4)



OUTCOME OF OBJECTIVES 2012-13

The two primary issues and related objectives identified in the 2011-14 Activity Plan are set out below:

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

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

In 2012-13, the Board of Regents ensured that the funding objectives of the Plan were met and that contributions were invested in a timely and prudent manner in accordance with all governing legislation. In doing so, they successfully achieved their objective as outlined in the 2011-14 Activity Plan.

Objective: By March 31, 2013, the Memorial University Pension Plan will have collected and invested responsibly the contributions received from the Plan's eligible members and the Board, as well as awarded monies to eligible retired members or their survivors and paid associated administrative expenses.

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

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

Indicators:

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

During the 2012-13 fiscal year, the Plan collected a total of $77,337,000 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 out a total of $46,196,000 in benefits to eligible retired employees or their beneficiaries in 2012-13.

Administrative expenses are paid

During 2012-13, the Plan paid a total in $3,791,000 in administrative expenses.

Issue Two: Unfunded Liability

The Plan, as a registered pension plan, must comply with the funding requirements of the Newfoundland and Labrador *Pension Benefits Act, 1997 (*PBA). When the Plan experiences funding deficiencies, as measured by periodic actuarial valuations, the University must make additional special payments into the Plan. The PBA requires that going-concern deficiencies be amortized over a period not greater than 15 years, while solvency deficiencies must be paid over not more than 5 years. By special provision of the PBA, the University is exempt from the solvency funding requirements to December 31, 2015. In addition the University is amortizing past service costs associated with indexing, introduced in 2004, over a remaining period of 31.25 years in accordance with the PBA.

Objective: By March 31, 2013, Memorial University will make annual special payments of 7.1% of pensionable payroll toward the going concern unfunded liability, in addition to the 1.2% indexing payment.

Measure: Unfunded liability reduced.

For the period April 1, 2012 to December 31, 2012, the Plan was being funded in accordance with an actuarial valuation performed as at March 31, 2010 and unfunded liabilities were being amortized over a 15 year period with special annual payments of 7.1% of pensionable payroll. During the year the Plan's valuation date was changed to December 31 and an updated funding valuation was prepared as at December 31, 2012. The December valuation disclosed that the Plan's going-concern unfunded liability was $360.7 million and the portion (after accounting for the indexing liability) to be funded by the University was $284.3 million. This amount is being amortized over a 15 year period with annual special payments of 8.8% of pensionable payroll. The indexing liability is being financed by ongoing contributions from the University and employees at a combined rate of 1.2% of pensionable payroll. For additional information on the special payments, please see the detail under the indicator below.

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

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

Indicator: Annual special payments of 7.1% of pensionable payroll towards liability ($19.734 million in 2012-13)

During the year ended March 31, 2013, the University made a special payment into the Pension Plan Fund of $19.734 million, thus reducing the unfunded liability identified in the March 31, 2010 actuarial valuation of the Plan that the University was solely responsible to fund. In addition, pursuant to the December 31, 2012 funding valuation of the Plan, the University recognized a liability of $1.642 million being the difference in special payment required for the period January 1, 2013 to March 31, 2013 and the payment already made determined with reference to the March 31, 2010 funding valuation.

2013-14 Objectives

The aforementioned objectives, measures and indicators will also be reported upon in the 2013-14 Annual Report of the Pension Plan. An exception will be a revised indicator for Issue 2; 2013-14 Objective as follows:

Indicator: Annual special payments of 8.8% of pensionable payroll towards liability

HIGHLIGHTS AND ACCOMPLISHMENTS

Financial Highlights

(Table 6)

		March 31	
		2013	**2012**
Net Assets Available for Benefits		995,648,000	886,376,000
One-Year Annual Rate of Return		9.81%	4.28%
Realized Investment Income		49,340,000	32,021,000
Pensions Paid		46,196,000	42,353,000
Current Contributions:	Employee	24,270,000	23,406,000
	University	24,266,000	23,405,000
University special payments:			
	Going Concern	21,376,000	18,980,000
	Solvency Funding [1]	-	(12,970,000)
	Solvency deficit-refunds	1,957,308	1,177,000

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

Benefit Provisions – Indexing

On July 1, 2012, 1,172 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 Pension Plan

A full valuation of the pension plan was performed as at December 31, 2012 and the results were extrapolated to March 31, 2013. The December valuation will be the basis for Plan funding until the next triennial funding valuation, due no later than December 31, 2015.

Policy Directives

The *Memorial University Pensions Act* (the Act) prescribes that the Board may issue policy directives to give effect to the Act, including directives pertaining to plan participation, prior service purchases, contribution rates and other matters of an administrative nature. During the year the University began a review of pension plan policies and procedures together with its pension advisory committee with the objective of formally documenting certain administrative functions not specifically set out in the Act. The review culminated in a series of policy directives that were approved by the Board in December 2012. These formal instruments, once approved by the Minister of Advanced Education and Skills, will set out in writing many of the University's existing policies and procedures relative to pension administration so as to ensure consistent application and promote transparency to all stakeholders. They will also contain some important changes that will improve upon flexibility for members and the University and promote cost neutrality for the plan. Ministerial approval of the directives is expected to occur during the 2013-14 fiscal year. In anticipation of this and to provide plan members with ample notice of changes that might affect them, all plan members received a hard copy notice of the directives in February 2013. Other communication strategies included the employee newsletter, the University's *Newsline* e-mail service and website publication.

Retirement Planning Seminars

In February 2013, the University held full day retirement planning seminars on both the St. John's and Corner Brook campuses. These seminars were attended by approximately 138 employees and their spouses. Topics covered included the Plan, the Canada Pension Plan and Old Age Security Benefits, financial planning and the Memorial University of Newfoundland Pensioners' Association.

Implementation of Pension Administration System

The University completed the implementation of new pension administration system during the year. While the "Ariel" system went live in March 2013, further work on interfaces with the Human Resources Information System will occur in 2013-14 as well as an expected roll-out of the employee self service module. This feature will allow plan members to prepare pension projections based on live access to their own data and certain assumptions about their expected retirement.

OPPORTUNITIES AND CHALLENGES

The Activity Plan for 2011-14 outlines the objectives for the years, 2011-12 to 2013-14. The focus in 2013-14 will be concentrated in a number of areas including:

- Continued monitoring of the investment performance of fund managers and review of the Statement of Investment Policy and Objectives;
- Implementation of the investment policy change to split one of the Canadian Balanced mandates into segregated fixed income and Canadian equity;
- Integration of human resources and pension systems and roll-out of employee self service module;
- Continued transition of funds into the real estate and mortgage portfolios;
- Continued review of responsible investment strategies;
- Providing retirement planning seminars.

CONCLUSION

The successful achievement of the objectives listed in this report reflects the course of action set out in the Board of Regents' three-year activity plan intended to guide the Plan for the fiscal years 2011-14.

MEMORIAL UNIVERSITY

The Memorial University Pension Plan

FINANCIAL STATEMENTS

March 31, 2013

INDEPENDENT AUDITORS' REPORT

To the Board of Regents of
Memorial University of Newfoundland

We have audited the accompanying financial statements of the Memorial University Pension Plan, which comprise the statement of financial position as at March 31, 2013 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, 2013, 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

St. John's, Canada
July 4, 2013.

Chartered Accountants

Memorial University of Newfoundland Pension Plan

STATEMENT OF FINANCIAL POSITION

As at March 31

[thousands of dollars]

	2013	2012
ASSETS		
Receivables		
Contributions receivable	**4,955**	3,513
Accrued interest and dividends	**2,084**	2,077
Amounts due from pending trades	**2,194**	2,315
Due from Memorial University of Newfoundland *[note 4]*	**689**	1,003
	9,922	8,908
Investments *[note 5]*		
Cash and short-term investments	**52,374**	29,193
Bonds and debentures	**239,260**	230,365
Equities	**560,497**	518,379
Real estate	**73,113**	61,928
Mortgages	**68,348**	43,600
	993,592	883,465
Intangible assets	**440**	—
Total assets	**1,003,954**	892,373
LIABILITIES		
Accounts payable and accrued expenses	**869**	767
Accrued pension refunds	**1,924**	1,173
Amounts payable from pending trades	**5,513**	4,057
Total liabilities	**8,306**	5,997
Net assets available for benefits	**995,648**	886,376
Pension obligations	**1,331,087**	1,185,201
Deficit	**335,439**	298,825

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]

	2013	2012
INCREASE IN ASSETS		
Investment income		
Interest income	**9,053**	10,630
Dividend income	**17,828**	13,225
Current-period increase in fair value of investments	**39,455**	3,999
Realized gain on sale of investments	**22,459**	8,166
	88,795	36,020
Contributions *[note 7]*		
Employee - current service	**24,270**	23,406
- past service	**5,114**	4,178
Employer - current service	**24,266**	23,405
- past service	**354**	352
- special payments	**23,333**	7,187
	77,337	58,528
Total increase in assets	**166,132**	94,548
DECREASE IN ASSETS		
Benefits paid	**46,196**	42,353
Refunds of contributions	**5,602**	1,591
Death benefits	**1,271**	1,259
Administrative expenses *[note 8]*	**3,791**	3,445
Total decrease in assets	**56,860**	48,648
Increase in net assets	**109,272**	45,900
Net assets available for benefits, beginning of year	**886,376**	840,476
Net assets available for benefits, end of year	**995,648**	886,376

See accompanying notes

Memorial University of Newfoundland Pension Plan

STATEMENT OF CHANGES IN PENSION OBLIGATIONS

Year ended March 31
[thousands of dollars]

	2013	2012
Actuarial present value of accrued pension benefits, beginning of year	**1,185,201**	1,108,976
Experience losses	**8,377**	—
Changes in actuarial assumptions/methodology	**60,700**	—
Interest accrued on benefits	**77,416**	72,214
Benefits accrued	**52,462**	49,214
Benefits paid, death benefits and refunds of contributions	**(53,069)**	(45,203)
Actuarial present value of accrued pension benefits, end of year *[note 6]*	**1,331,087**	1,185,201

See accompanying notes

Memorial University of Newfoundland Pension Plan

NOTES TO FINANCIAL STATEMENTS

March 31, 2013
[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 Canadian Institute of Chartered Accountants ["CICA"] 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. 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.

Foreign currency translation

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

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

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

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, 2013
[tabular amounts in thousands of dollars]

5. INVESTMENTS

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

	2013	2012
Cash and short-term investments	**52,374**	29,193
Canadian bonds and debentures:		
Federal	**28,050**	31,862
Provincial	**36,587**	26,884
Corporate	**52,732**	50,810
Pooled funds	**121,891**	120,809
	239,260	230,365
Canadian equities:		
Common stock	**241,721**	227,593
Pooled funds	**10,498**	8,719
	252,219	236,312
Foreign equities:		
Common stock	**207,222**	193,554
Pooled finds	**101,056**	88,513
	308,278	282,067
Canadian Real estate	**73,113**	61,928
Canadian Mortgages	**68,348**	43,600
	993,592	883,465

[b] Realized losses arising from foreign currency translation amounted to $512,984 for the year ended March 31, 2013 [2012 – loss of $3,707,181]. 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. Eckler Ltd, a firm of consulting actuaries, performed an actuarial valuation as at December 31, 2012 and extrapolated the results to March 31, 2013.

The actuarial present value of benefits as at March 31, 2013 was estimated to be $1,331,087 (2012 – $1,185,201). The statement of changes in pension obligations outlines the principal components of change in actuarial present value from one year to the next.
The assumptions used in determining the actuarial value of accrued pension benefits were developed by reference to expected long-term market conditions. Significant long-term actuarial assumptions used in the valuation and in the extrapolation, where applicable, were:

Discount rate	**Salary escalation rate**
6.0% [2012 – 6.5%] pre- and post-retirement	4.0% [2012 – 4.5%] per annum

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

The actuarial asset values used in the extrapolations for 2013and 2012 were as follows:

	2013	**2012**
Net assets available for benefits	**995,648**	886,376
Actuarial value changes not reflected in fair value of net assets	**(11,595)**	5,046
Actuarial value of net assets available for benefits	**984,053**	891,422

[tabular amounts in thousands of dollars]

7. FUNDING POLICY

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

9.90%	of pensionable earnings up to the Year's Basic Exemption ["YBE"] under the *Canada Pension Plan Act*;
8.10%	of pensionable earnings above the YBE up to and including the Year's Maximum Pensionable Earnings ["YMPE"] under the *Canada Pension Plan Act*;
9.90%	of pensionable earnings above the YMPE.

The University is required to contribute an amount equal to the contributions paid by employees and any additional amounts required to be paid by an employer under the PBA. In addition to its matching contributions, the University made a special payment of $19,734,000 to the Plan during the year. This payment was made against the unfunded liability, not attributable to indexing, that was identified in the March 31, 2010 actuarial valuation of the Plan.

A valuation of the Plan was performed for funding purposes as at December 31, 2012 and the results have been extrapolated to March 31, 2013 for financial statement reporting. The extrapolation revealed that the going concern unfunded liability is $347.0, million at March 31, 2013 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 coinciding with the introduction of indexing to liquidate this unfunded liability over a period of 40 years. At March 31, 2013, approximately 31.25 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, that 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, 2012 actuarial valuation. As at December 31, 2012 the going concern unfunded liability was $360.7 million. The portion of the going concern unfunded liability (after accounting for the indexing liability) to be amortized was $284.3 million and the required amortization payment for fiscal 2013/2014 is $26,563,000 (or 8.8% of pensionable payroll). University special payments will continue at this level (i.e., 8.8% of pensionable payroll) until the next actuarial valuation for funding purposes, which is due no later than December 31, 2015 (i.e., within three years of the December 31, 2012 actuarial valuation).

The December 31, 2012 actuarial valuation also revealed an increase in current service cost of 0.70% for both the University and employees.

With respect to solvency, the University is exempt from the solvency funding requirements of the PBA until December 31, 2015.

NOTES TO FINANCIAL STATEMENTS

March 31, 2013
[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:

	2013	2012
Administrative expenses:		
Actuarial fees	**165**	162
Audit fees	**9**	7
Custodial fees	**191**	225
Investment management fees	**3,148**	2,774
Salaries and benefits	**248**	266
Other fees	**30**	11
	3,791	3,445

9. INTANGIBLE ASSETS

	2013			2012
	Cost	**Accumulated Amortization**	**Net Book Value**	Net Book Value
Software	**440**	**—**	**440**	—

[tabular amounts in thousands of dollars]

10. RISK MANAGEMENT

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

Fair value hierarchy

	2013	2012
Level 1		
Equities	**448,943**	421,147
Level 2		
Cash & short term investments	**52,374**	29,193
Equities	**111,554**	97,232
Bonds & debentures	**239,260**	230,365
Mortgages	**68,348**	43,600
	471,536	400,390
Level 3		
Real estate	**73,113**	61,928
	993,592	883,465

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

Level 1- valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2- valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly;

Level 3- valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

[tabular amounts in thousands of dollars]

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

	2013	2012
Real estate		
Balance at beginning of year	**61,928**	50,132
Net purchases	**5,349**	4,548
Net dividends earned	**1,004**	674
Net dividends transferred out	**(1,182)**	(664)
Net unrealized gains	**6,002**	7,248
Net realized gain	**32**	—
Administrative expenses	**(20)**	(10)
	73,113	61,928

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, 2013 would have decreased the U.S. investment value by approximately $10,400,000. Conversely, a 5% weakening of the Canadian dollar against the U.S. dollar at March 31, 2013 would have increased the U.S. investment value by approximately $10,400,000.

A 5% strengthening of the Canadian dollar against the U.K. Pound at March 31, 2013 would have decreased the U.K. investment value by approximately $1,100,000. Conversely, a 5% weakening of the Canadian dollar against the U.K. dollar at March 31, 2013 would have increased the U.K. investment value by approximately $1,100,000.

A 5% strengthening of the Canadian dollar against the Euro at March 31, 2013 would have decreased the European investment value by approximately $550,000. Conversely, a 5% weakening of the Canadian dollar against the Euro at March 31, 2013 would have increased the European investment value by approximately $550,000.

[tabular amounts in thousands of dollars]

A 5% strengthening of the Canadian dollar against the Swiss Franc at March 31, 2013 would have decreased the Swiss investment value by approximately $860,000. Conversely, a 5% weakening of the Canadian dollar against the Swiss Franc at March 31, 2013 would have increased the Swiss investment value by approximately $860,000.

[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, 2013, the average duration of the bond portfolio was 6.67 years. Therefore, if interest rates were to increase by 1%, the value of the bond portfolio would drop by 6.67%.

	Within 1-year	**1-5 years**	**5-10 years**	**Over 10 years**	**No specific maturity**	**Total**
Cash and short-term investments	52,374	—	—	—	—	**52,374**
Bonds and debentures						
Federal	651	16,196	5,087	6,116	—	**28,050**
Provincial		8,354	15,949	12,284	—	**36,587**
Corporate		21,557	16,077	15,098	—	**52,732**
Pooled funds	—	—	—	—	121,891	**121,891**
Total bonds and debentures	651	46,107	37,113	33,498	121,891	**239,260**
Total fixed income	**53,025**	**46,107**	**37,113**	**33,498**	**121,891**	**291,634**

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

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

[tabular amounts in thousands of dollars]

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

	Estimated volatility %
Asset class	
Canadian equities	+/- 17.20
Global equities	+/- 18.70
Real estate	+/- 6.40
Mortgages	+/- 5.90
Cash and short-term investments	+/- 2.00
Canadian bonds and debentures	+/- 5.40

	Market value at March 31, 2013	**Investments** %
Held-for-trading securities		
Cash and short-term investments	**52,374**	5.2
Canadian bonds and debentures	**239,260**	24.1
Canadian equities	**252,219**	25.4
U.S. equities	**207,222**	20.9
International equities	**101,056**	10.1
Canadian real estate	**73,113**	7.4
Canadian mortgages	**68,348**	6.9
Total	**993,592**	100.0

	% change	**Net impact on market value**
Benchmark for investments		
DEX Universe Bond Index	**+/- 5.40**	+/- 12,920
S&P/TSX Capped Composite Index	**+/- 17.20**	+/- 43,382
MSCI EAFE Index	**+/- 18.50**	+/- 18,669
S&P 500 Index	**+/- 18.90**	+/- 39,165
Canadian Consumer Price Index [real estate]	**+/- 6.40**	+/- 4,679
DEX Conventional Mortgages	**+/- 5.90**	+/- 4,033

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, 2013, the maximum risk exposure for this type of investment amounts to $239,260,000. 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	37.3
AA	31.7
A	27.3
BBB	3.7

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.