

**Pensions Investment Committee  
Province of Newfoundland and Labrador  
Pooled Pension Fund**

**2016 Annual Report**

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**PENSION INVESTMENT COMMITTEE  
PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED  
PENSION FUND**

Honourable Cathy Bennett  
Minister of Finance  
Government of Newfoundland and Labrador  
Confederation Building  
St. John's, NL A1B 4J6

Dear Minister Bennett:

As the Chair of the Pension Investment Committee (PIC), I am pleased to submit the 2016 Activity Report for the Committee. This Report was prepared under the direction of the PIC and the PIC is accountable for the results contained herein. This Report covers the third year of the Committee's 2014-2016 Activity Plan.

The PIC of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) has been overseeing the management of the Fund since its inception in 1981. Throughout that period, the performance of the Fund has contributed to slowing the growth in the unfunded liabilities of the participating pension plans sponsored by government.

There was a significant change to the Fund during 2016. On August 31, 2016, as a result of the establishment of a Joint Sponsorship arrangement between Government and the Newfoundland and Labrador Teachers' Association, the \$3.0 billion in assets relating to the Teachers' Pension Plan (TPP) were moved to a separate fund under the stewardship of the TPP Corporation.

Financial markets were volatile in 2016, due to various economic and political events worldwide. While lower than the benchmark, the 7.4% rate of return earned by the Fund continued to have a favourable impact on the long-term investment goals established by the PIC.

Sincerely,



Donna Brewer  
Chair of the Pension Investment Committee  
of the Province of Newfoundland and Labrador Pooled Pension Fund

## 1.0 Overview

The Pension Investment Committee (PIC) advises the Minister of Finance, as Trustee, on the operation and the investment of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund). The Fund was originally established to finance benefits under the five Government sponsored pension plans; however, as a result of Government's pension reform initiative, the assets of the Public Service Pension Plan and the Teachers' Pension Plan were carved out of the Fund in 2015 and 2016, respectively. The Fund is currently comprised of the assets of the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

Responsibilities of the PIC include the review of all the financial activities of the Fund; the development, review and implementation of Fund objectives and investment strategies; and the recommendations for the appointment of investment consultants, a custodian and investment managers as required.

The members of the PIC as of December 31, 2016 are identified below. It should be noted that the new structure of the PIC was established during 2016 to reflect the remaining stakeholders of the Fund.

<i>Government Representatives:</i>	
Donna Brewer, Chairperson	Deputy Minister of Finance
Denise Hanrahan, Vice-Chair	Assistant Deputy Minister, Financial Planning and Benefits Administration, Department of Finance
Maureen McCarthy	Director, Pension Administration
<i>Employee Representatives:</i>	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Wanda Lee Mercer	House of Assembly
Nick Cashin	Royal Newfoundland Constabulary Association

## 2.0 Mandate

Pursuant to section 14 of the *Pensions Funding Act*, the Lieutenant Governor in Council established the Pensions Investment Committee to administer and manage the Newfoundland and Labrador Pooled Pension Fund. This mandate is delivered by completing the following activities:

- Review of all the financial activities of the Fund
- Develop, review and implement Fund objectives and investment strategies
- Recommend appointments of investment consultants, a custodian and investment managers, as required

## 3.0 Key Statistics

As of December 31, 2016, total Fund assets were \$214.4 million and the total unfunded liability was \$286.4 million. This compares to assets of \$207.0 million and an unfunded liability of \$279.7 million as of December 31, 2015. The assets remaining in the Fund are reflective of the carve-out of the TPP assets from the Fund.

As detailed in the following table, Fund participation was approximately 1,700 members as of December 31, 2016. It should be noted that these numbers no longer include TPP plan members.

Fund Participation as of December 31, 2016				
	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan	Provincial Court Judges' Pension Plan	Total
Active Members	661	39	18	718
Deferred Members	32	6	0	38
Pensioners	870	46	6	922
<b>Total</b>	<b>1,563</b>	<b>91</b>	<b>24</b>	<b>1,678</b>

The following table details contributions and payments made from the Fund for the year ended December 31, 2016. It should be noted that these amounts include contributions and benefits in respect of members of the Uniformed Services, MHA's and Provincial Court Judges' pension plans.

2016 Contributions and Payments				
	Uniformed Services Pension Plan	Members of the House of Assembly Pension Plan	Provincial Court Judges' Pension Plan	Total
<b>Contributions:</b>				
Contributions from Active Members	\$4,617,000	\$428,000	\$321,000	\$5,366,000
Regular Employer Contributions	\$4,548,000	\$391,000	\$193,000	\$5,132,000
<b>Total Contributions:</b>	<b>\$9,165,000</b>	<b>\$819,000</b>	<b>\$514,000</b>	<b>\$10,498,000</b>
<b>Payments:</b>				
Pension Benefit Payments	\$25,519,000	\$1,577,000	\$232,000	\$27,328,000
Refunds to Members	\$39,000	\$237,000	\$0	\$276,000
Administrative Expenses	\$413,000	\$137,000	\$22,000	\$573,000
<b>Total Payments:</b>	<b>\$25,971,000</b>	<b>\$1,951,000</b>	<b>\$254,000</b>	<b>\$28,177,000</b>

## 4.0 Activities

The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long term goal to achieve investment returns on those contributions sufficient to meet the cost of the pension obligations as they become due. As the obligations of the participating pension plans are not fully funded, any excess returns achieved in the portfolio will slow the growth in the unfunded portion.

### 4.1 Discount Rate

In evaluating the long term pension obligations of the Province at December 31, 2016, the Province's actuary used long term annual interest rates ranging from 6.50% to 6.75% to discount the obligations. The discount rate is based on the expected real rate of return for the fund's assets based on the current asset mix plus an assumption for long term inflation. In determining the cash flow requirements of the plans over the valuation period, the actuary assumes that the

assets will achieve a similar rate of return. The PIC is mandated to develop and implement an investment strategy with the primary objective of securing the promised pension benefits at a manageable cost to both government and employees. The long term average targeted rate of return is currently 4.25% + CPI.

#### 4.2 Asset Mix

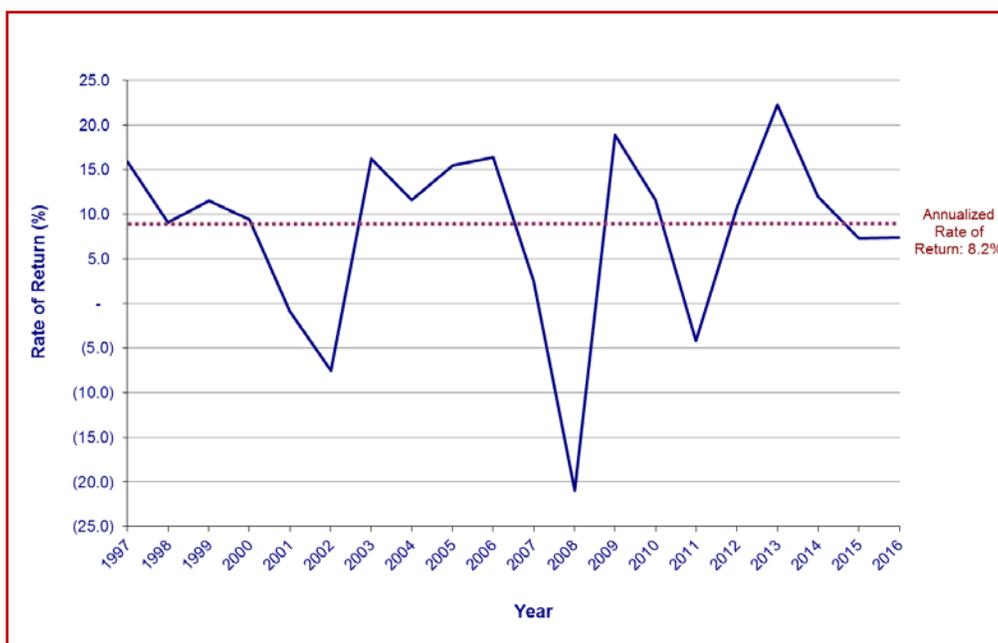
The PIC has implemented an asset mix policy and selected investment managers with a view to achieving annual investment returns that exceed the annual returns earned by the relevant capital market indices. It is hoped that this investment strategy will result in a long term return that exceeds the actuarial discount rate. The table below outlines the Asset Mix as of December 31, 2016.

Asset Mix	Actual (%)		Policy (%)	
	2016	2015	Target	Range
Canadian Equities	32	29	25	20-30
Global Equities	46	47	55	50-60
Canadian Bonds	20	19	20	15-25

#### 4.3 Annual Rates of Return

The asset mix strategy as of December 31, 2016 of 80% equities and 20% fixed income was adopted based on the plans' going concern funded ratio and the need to manage the growth of the unfunded liabilities. While returns in excess of the discount rate will not be achievable every year, the Fund's annualized rate of return over the past 20 years is 8.2%. This is higher than the discount rate range of 6.5% to 6.75% used in the most recent actuarial valuations. The Fund's annualized return over 10 years is 6.1% versus the policy benchmark of 5.5%, and over 5 years the Fund returned 11.9% versus the policy benchmark return of 10.6%. The following graph illustrates the variability in annual rates of return over the past 20 years.

**Annual Rates of Return (1997 – 2016)**



#### 4.4 2016 Performance

Despite significant volatility in global financial markets, strong returns in Canadian equity markets resulted in an overall positive return for the Fund in 2016. The Fund's total return was 7.4%; however, this was 2.5% lower than the benchmark return of 9.9%. The Fund's underperformance versus the benchmark policy was due mainly to the impact of the security selection of the investment managers selected by the PIC.

The Canadian equity category posted a strong return of 19.8%, however it was slightly lower than its benchmark index of 21.1%. Global equity returns were 2.1% for the year, lagging the market index return of 4.7%. Canadian bonds exceeded the benchmark index return of 1.7%, posting a 3.5% return for the year.

The Fund's annual investment results for the five years ending December 31, 2012 to 2016 are presented in the following table.

<i>Investment Performance</i>	<i>Annual Returns (%)</i>				
	2016	2015	2014	2013	2012
Total Fund	7.4	7.3	12.0	22.4	10.8
<i>Policy Benchmark Return*</i>	9.9	4.9	11.5	16.9	9.5
Canadian Equities	19.8	-4.2	11.8	22.7	9.3
<i>S&amp;P/TSX Composite Index</i>	21.1	-8.3	10.6	13.0	7.2
Global Equities	2.1	17.5	14.2	33.9	14.9
<i>MSCI All Country World Index</i>	4.7	17.7	14.1	31.7	14.2
Canadian Bonds	3.5	3.2	8.5	-0.8	4.1
<i>FTSE TMX Bond Universe Index</i>	1.7	3.5	8.8	-1.2	3.6

\*Policy Benchmark Return is defined as the rate of return which would have been earned had the fund been invested in securities identical to the various indices.

#### 5.0 2016 Objectives and Results

##### **Issue:** Responsible Management of the Pension Fund

Part of the PIC mandate is to develop an active investment strategy with the primary long-term goal of achieving investment returns that exceed passive investment in various sectors of financial markets. This strategy is implemented through the selection of managers whose investment style is designed to add value over the relevant market indices over a four year time horizon.

In its 2014-16 Activity Plan, the PIC developed an annual objective focused on the responsible management of the fund, with the aim of earning annual returns in excess of the market index for the relevant category of investments. The results are as follows:

**Objective:** By December 31, 2016 the PIC will have prudently managed the Newfoundland and Labrador Pooled Pension Fund.

**Measure:** Prudent management of the fund

### **Indicators and Summary of Results:**

- *Developed, reviewed and/or implemented Fund objectives and investment strategies with a view of earning annual returns in excess of the market index for the relevant category of investments (i.e. S&P TSX Composite Index; MSCI ACWI Index; FTSE TMX Bond Universe Index(which has replaced the DEX Universe Bond Index) and the ICREIM/IPD Canadian Property Index)*

The objectives of the Fund are long term in nature and are revisited upon the completion of the triennial actuarial valuations of the plans participating in the Fund. During 2016, the triennial valuation of the Members' of the House of Assembly Pension Plan (as of December 31, 2015) was completed. As the total assets under that plan are relatively small, there was no change to the current investment strategy.

- *Reviewed the financial activities of the Fund and advised the responsible Minister as appropriate*

There were no new initiatives for the Fund undertaken in 2016.

- *Recommended appointments of investment consultants, a custodian and investment managers, as required*

No new appointments were required in 2016.

## **6.0 Opportunities and Challenges**

Continuing with its pension reform initiative, Government entered into an agreement with the Newfoundland and Labrador Teachers' Association on June 15, 2015. This agreement included joint management of the Teachers' Pension Plan; an equal sharing between Government and plan members in any future surpluses and deficits; the issuance by Government for a \$1.862 billion promissory note to address the unfunded liability of the plan; and other plan changes designed to have a positive impact on the Fund. While most benefit changes and contribution rate increases were effective September 1, 2015, TPP assets were carved out of the Newfoundland and Labrador Pooled Pension Fund as of August 31, 2016.

As required by the *House of Assembly Accountability, Integrity and Administration Act*, an independent Members' Compensation Review Committee (the Committee) was appointed in July, 2016 to review MHA salaries, allowances, pensions and severance. The Committee's report, which was presented to the House of Assembly Management Commission in November 2016 recommended changes to the Members' of the House of Assembly Pension Plan (MHAPP), including a reduction in the annual accrual from 3.5% to 2.5%; age of eligibility for a pension increased from age 55 to age 60; and the elimination of a member's ability to transfer service to the MHAPP under the *Portability of Pensions Act*. These changes are applicable to members first elected on or after November 30, 2015. The changes have been accepted by the House of Assembly Management Commission as of May 2017; the required amendments to the *Members of the House of Assembly Retiring Allowances Act* are targeted to be made during the Fall 2017 sitting of the House of Assembly.

During 2017, the PIC will therefore continue to oversee the management of the Newfoundland and Labrador Pooled Pension Fund, pursuant to its mandate. As noted above, the Fund will no longer include contributions to the Teachers' Pension Plan. As of September 1, 2016, the Fund

included the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan, and the Provincial Court Judges' Pension Plan.

## **7.0 Contact Information**

Pension Investment Committee

c/o Department of Finance  
Main Floor, East Block  
Confederation Building  
P.O. Box 8700  
St. John's, NL  
A1B 4J6

Telephone: (709) 729-3931  
Fax: (709) 729-6790

Websites:

[www.fin.gov.nl.ca/fin](http://www.fin.gov.nl.ca/fin)

[www.fin.gov.nl.ca/fin/government\\_employee\\_benefits/pensions/index.html](http://www.fin.gov.nl.ca/fin/government_employee_benefits/pensions/index.html)

**Audited Financial Statements  
for the Province of Newfoundland and Labrador Pooled Pension Fund  
for the Year Ending December 31, 2016**

**PROVINCE OF NEWFOUNDLAND AND LABRADOR  
POOLED PENSION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2016**



**AUDITOR  
GENERAL**  
of Newfoundland and Labrador

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**INDEPENDENT AUDITOR'S REPORT**

To the Trustee  
Province of Newfoundland and Labrador  
Pooled Pension Fund  
St. John's, Newfoundland and Labrador

**Report on the Financial Statements**

I have audited the accompanying financial statements of the Province of Newfoundland and Labrador Pooled Pension Fund, which comprise the statement of financial position as at December 31, 2016, 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.

*Auditor's Responsibility*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I 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 auditor's 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 auditor considers 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.

## **Independent Auditor's Report (cont.)**

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### *Opinion*

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Province of Newfoundland and Labrador Pooled Pension Fund as at December 31, 2016, 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.

A handwritten signature in black ink, appearing to read 'Terry Paddon', with a long horizontal line extending to the right.

**TERRY PADDON, CPA, CA**  
**Auditor General**

St. John's, Newfoundland and Labrador  
June 30, 2017

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND  
STATEMENT OF FINANCIAL POSITION**

As at December 31

	2016	2015
	(000's)	(000's)
<b>ASSETS</b>		
Investments (Note 2)		
Short-term notes and deposits	\$ 2,449	\$ 63,294
Bonds and debentures	43,120	612,779
Equities - Canadian	68,294	926,111
- Foreign	98,329	1,474,583
Real estate	-	99,191
	<b>212,192</b>	<b>3,175,958</b>
Receivables		
Outstanding transactions receivable (Note 15)	-	9,000
Employee contributions	288	1,182
Employer contributions	284	1,059
Accrued investment income	679	11,347
Accounts receivable	61	423
	<b>1,312</b>	<b>23,011</b>
Cash	<b>1,139</b>	<b>13,051</b>
	<b>214,643</b>	<b>3,212,020</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	269	2,292
Refunds payable	1	718
Due to other Pension Plans	458	-
Due to (from) Province of Newfoundland and Labrador	(498)	54
	<b>230</b>	<b>3,064</b>
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 214,413</b>	<b>\$ 3,208,956</b>
<b>ACCRUED BENEFITS OBLIGATION AND DEFICIT</b>		
Accrued benefits obligation	\$ 500,847	\$ 5,272,741
Deficit	(286,434)	(2,063,785)
<b>ACCRUED BENEFITS OBLIGATION AND DEFICIT</b>	<b>\$ 214,413</b>	<b>\$ 3,208,956</b>

See accompanying notes

Signed on behalf of the Fund:

  
Minister of Finance  
and President of Treasury Board  
Trustee

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS**  
For the Year Ended December 31

2016 2015

	Teachers' Pension Plan (000's)	Uniformed Services Pension Plan (000's)	Members of the House of Assembly Pension Plan (000's)	Provincial Court Judges' Pension Plan (000's)	Total (000's)	Total (000's)
<b>Increase (decrease) in net assets from:</b>						
<b>Investments (Note 3)</b>						
Investment income	\$ 51,467	\$ 5,666	\$ 882	\$ 280	\$ 58,295	\$ 127,500
Gain on sale of investments	502,959	7,511	1,180	368	512,018	1,428,094
Current period change in market value of investments	(419,773)	7,670	1,157	367	(410,579)	(937,107)
	134,653	20,847	3,219	1,015	159,734	618,487
<b>Contributions (Note 14)</b>						
Employee	39,972	4,617	428	321	45,338	102,608
Employer (Note 9)	37,192	4,548	391	193	42,324	90,617
Change in outstanding transactions receivable (Note 15)	9,000	-	-	-	9,000	(3,000)
	220,817	30,012	4,038	1,529	256,396	808,712
<b>Other changes in net assets</b>						
Pension payments	(184,556)	(25,519)	(1,577)	(232)	(211,884)	(389,698)
Refund of contributions with interest	(5,697)	(39)	(237)	-	(5,973)	(15,870)
Administrative costs (Note 6)	(6,299)	(413)	(137)	(22)	(6,871)	(13,980)
	(196,552)	(25,971)	(1,951)	(254)	(224,728)	(419,548)
<b>Total increase in net assets</b>	24,265	4,041	2,087	1,275	31,668	389,164
<b>Assets transferred out (Note 16)</b>	(3,026,211)	-	-	-	(3,026,211)	(5,720,131)
<b>Net assets available for benefits, beginning of period</b>	3,001,946	177,812	21,470	7,728	3,208,956	8,539,923
<b>Net assets available for benefits, end of period</b>	\$ -	\$ 181,853	\$ 23,557	\$ 9,003	\$ 214,413	\$ 3,208,956

See accompanying notes

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**STATEMENT OF CHANGES IN PENSION OBLIGATIONS**  
**For the Year Ended December 31**

2016

2015

	<b>Teachers' Pension Plan</b>	<b>Uniformed Services Pension Plan</b>	<b>Members of the House of Assembly Pension Plan</b>	<b>Provincial Court Judges' Pension Plan</b>	<b>Total</b>	<b>Total</b>
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
<b>Accrued benefits obligation at beginning of period</b>	\$ 4,786,035	\$ 454,559	\$ 24,692	\$ 7,455	\$ 5,272,741	\$ 13,113,396
<b>Increase (decrease) in accrued benefits obligation</b>						
Transfer of plan to joint sponsor (Note 16)	(5,154,234)	-	-	-	(5,154,234)	(8,927,995)
Outstanding transactions allowance change	(2,900)	-	-	-	(2,900)	17,000
Plan amendments	-	-	-	-	-	(63,903)
Interest on accrued benefits	204,101	29,014	1,573	476	235,164	470,763
Benefits accrued	58,139	9,170	825	551	68,685	148,485
Impact of changes in actuarial assumptions	299,112	-	(268)	(183)	298,661	976,133
Impact of experience gains and losses	-	-	587	-	587	(55,570)
<b>Benefits paid</b>	<b>(190,253)</b>	<b>(25,558)</b>	<b>(1,814)</b>	<b>(232)</b>	<b>(217,857)</b>	<b>(405,568)</b>
<b>Total (decrease) increase in accrued benefits obligation</b>	<b>(4,786,035)</b>	<b>12,626</b>	<b>903</b>	<b>612</b>	<b>(4,771,894)</b>	<b>(7,840,655)</b>
<b>Accrued benefits obligation at end of period</b>	<b>\$ -</b>	<b>\$ 467,185</b>	<b>\$ 25,595</b>	<b>\$ 8,067</b>	<b>\$ 500,847</b>	<b>\$ 5,272,741</b>

*See accompanying notes*

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**Authority and description**

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created July 1, 1980, under the authority of the *Pensions Funding Act* (the *Act*) for the purpose of providing for the funding of pension plans sponsored by the Province. The affairs of the Fund are managed by the Minister of Finance, as Trustee of the Fund. Section 9 of the *Act* states that where there are insufficient assets to meet the obligations of the Fund, or the equity apportioned to a plan is insufficient to meet the obligations of the plan, the Minister shall pay out of the Consolidated Revenue Fund sufficient monies as may be necessary to cover the deficiency.

The Fund is a Crown entity of the Province of Newfoundland and Labrador and as such is not subject to Provincial or Federal income taxes.

The following pension plans participate in the Fund: Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan. These statements reflect the inclusion of the Teachers' Pension Plan as part of the Fund only up to August 30, 2016.

**(a) Teachers' Pension Plan**

**(i) General**

The Plan is a contributory defined benefit pension plan covering teachers employed by school boards or the Province of Newfoundland and Labrador and full-time employees of the Newfoundland and Labrador Teachers' Association.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

**(ii) Employee contributions**

Employee contributions are equal to 11.35% of salary, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**Authority and description (cont.)**

**(a) Teachers' Pension Plan (cont.)**

**(iii) Accrued service pensions**

A service pension is available from the Registered Plan based on  $1/45^{\text{th}}$  of the member's best five years average salary times years of pensionable service prior to January 1, 1991, plus 2% of the member's best five years average salary times years of pensionable service after January 1, 1991. When a member who retired after August 31, 1998, reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average Year's Maximum Pensionable Earnings (YMPE) times years of pensionable service after April 1, 1967. The calculated amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

Where the calculated amount does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested member who is no longer an employee can receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on  $1/45^{\text{th}}$  of the member's best five years average salary times years of pensionable service prior to January 1, 1991, plus 2% of the member's best five years average salary times years of pensionable service after January 1, 1991.

As part of pension reform, in respect of service accrued after August 31, 2015, the calculation is based on the best eight years' salary. For service accrued before September 1, 2015, the calculation will be based on the greater of the average best five years' salary to August 31, 2015 or the average best eight years of salary.

**(iv) Disability pensions**

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

**(v) Survivor pensions**

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**Authority and description (cont.)**

**(a) Teachers' Pension Plan (cont.)**

**(vi) Pre-retirement death benefits**

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement.

Where an employee with at least five years pensionable service dies before receiving a pension and there is no surviving principal beneficiary the commuted value of the employee's pension entitlement is paid to the employee's estate.

**(vii) Termination benefits**

On termination of employment, a teacher may elect to receive a refund of the teacher's own contributions with interest or, if the teacher has at least five years pensionable service, may elect to receive a deferred pension or commuted value. A teacher who terminates employment after August 31, 2016, with less than 24.5 years of service and who chooses to take a deferred pension will have to wait until age 62 to access that pension.

**(viii) Indexing**

Effective September 1, 2002, and each September 1 thereafter the amount of a pension or survivor benefit paid to an individual who has reached the age of 65 will be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual pension or survivor benefit. This provision only applies to a pension or survivor benefit where the teacher to whom that pension or benefit relates retires after August 31, 1998. For individuals who retire after August 31, 2015, the indexing adjustment is only applicable for the years and months of service credited before August 31, 2015.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Authority and description (cont.)**

**(b) Uniformed Services Pension Plan**

**(i) General**

The Plan is a contributory defined benefit pension plan covering members of the Royal Newfoundland Constabulary, warders at various Provincial correctional institutions, and some members of the St. John's Regional Fire Department.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

**(ii) Employee contributions**

Employee contributions are equal to 9.95% of the Canada Pension Plan (CPP) basic exemption, plus 8.15% of the employee's salary between the CPP basic exemption and the YMPE under the CPP, plus 9.95% of the employee's salary in excess of the YMPE.

**(iii) Accrued service pensions**

A service pension is available based on the number of years of pensionable service times 2% of the member's best three years average salary. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's best three years average salary up to average YMPE times years of pensionable service after April 1, 1967.

Employees may retire with an unreduced pension with 25 years of pensionable service.

Vested employees who have reached age 55 may retire with an actuarially reduced pension.

**(iv) Disability pensions**

A disability pension equal to the accrued service pension is available on permanent incapacity at any age with a minimum of five years pensionable service.

**(v) Survivor pensions**

A survivor pension of 60% of the member's accrued service pension is paid to the surviving principal beneficiary (and on the surviving principal beneficiary's death, to dependent children) following the death of a pensioner, a deferred pensioner or an employee with at least five years pensionable service. For grandfathered members, who died before January 1, 1997, the survivor pension is 55% of the member's accrued service pension.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**Authority and description (cont.)**

**(b) Uniformed Services Pension Plan (cont.)**

**(vi) Pre-retirement death benefits**

Where an employee with at least five years pensionable service dies before receiving a pension and a survivor benefit is payable, the surviving principal beneficiary may elect to receive either the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the employee's pension entitlement.

Where an employee with at least five years pensionable service dies before receiving a pension and there is no surviving principal beneficiary the commuted value of the employee's pension entitlement is paid to the employee's estate.

**(vii) Termination benefits**

On termination of employment, an employee may elect to receive a refund of the employee's own contributions with interest or, if the employee has at least five years pensionable service, may elect to receive a deferred pension or the commuted value.

**(c) Members of the House of Assembly Pension Plan**

**(i) General**

The Plan is a contributory defined benefit pension plan for Members of the House of Assembly (MHAs). Members may elect not to participate in the Plan for their first term.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

**(ii) Member contributions**

Members are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Member contributions cease after seventeen years of service if elected before or during the 43<sup>rd</sup> General Assembly and after twenty years of service if elected since that time.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**Authority and description (cont.)**

**(c) Members of the House of Assembly Pension Plan (cont.)**

**(ii) Member contributions (cont.)**

On December 22, 2009, the Province amended the *Members of the House of Assembly Retiring Allowances Act*. This amendment provided that for Members elected prior to January 1, 2010, their pensionable salary effective July 1, 2007, would be equal to 81.2% of the salary authorized to be paid to an MHA under section 11(1) of the *House of Assembly Accountability, Integrity and Administration Act*. The pensionable salary for Members elected after December 31, 2009, would be the salary authorized under subsection 11(1) of the *House of Assembly Accountability, Integrity and Administration Act*.

**(iii) Calculation of allowances on retirement**

A vested Member who is no longer an MHA or a minister may, on application and subject to eligibility criteria, receive an allowance as follows:

For Members elected for the first time before or during the 43<sup>rd</sup> General Assembly, the percentage is calculated at 5% for each of the first ten years, 4% for each of the next five years, 2.5% for each of the next two years and 2% for each year of other service. Ministers receive an additional allowance calculated similarly and based on service and salary as a Minister (excluding Member's salary).

For Members elected for the first time after the 43<sup>rd</sup> General Assembly and prior to January 1, 2010, the percentage is 5% for each of the first ten years, 2.5% for each of the next ten years, and 2% for each year of other service.

On December 22, 2009, the Province amended the *Members of the House of Assembly Retiring Allowances Act*. These amendments provided for a new benefit accrual rate and new eligibility criteria for Members first elected to the House of Assembly after December 31, 2009. The annual accrual benefit rate for the new Member would be 3.5% to a maximum of 20 years service. The new Member would have to reach age 55 before being eligible for an unreduced pension. A new Member who retires between the ages of 50 and 54 would be eligible for a pension that would be reduced by 6% for each year that the Member is under the age of 55.

These allowances are paid as follows:

Under the Registered Plan the allowance is the product of 2% of MHA's and minister's salary for the best three calendar years. When a Member reaches age 65, the amount of the registered allowance is reduced by 0.6% of the Member's average YMPE times years of service between January 1, 1998, and December 31, 2004. The amount of the registered allowance shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

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**NOTES TO FINANCIAL STATEMENTS**  
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**Authority and description (cont.)**

**(c) Members of the House of Assembly Pension Plan (cont.)**

**(iii) Calculation of allowances on retirement (cont.)**

Where the calculated allowance does exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada), a vested Member who is no longer an MHA or a minister can receive an allowance from the Supplementary Plan. The Member's supplementary allowance is reduced by the amount of his or her registered allowance. The annual allowance is based on a percentage of the average of the Member's pensionable salary for the best three calendar years. When a Member reaches age 65, the amount of the supplementary allowance is reduced by 0.6% of the Member's average YMPE times years of service after April 1, 1967 (service between January 1, 1998 and December 31, 2004 excluded).

**(iv) Disability allowance**

A disability allowance equal to the amount of the registered allowance the Member would have been eligible to receive at 65 years of age is available if a Member becomes permanently disabled. Additional supplementary benefits are also available on disability.

**(v) Survivor benefits**

A survivor benefit equal to 60% of the Member's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

**(vi) Pre-retirement death benefits**

If a Member dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the Member's entitlement. Where a survivor pension is not payable, the commuted value of the pension entitlement is paid to the deceased plan Member's estate.

**(vii) Termination benefits**

A Member who is no longer an MHA or a minister and who has been elected to only one general assembly or who has less than five years of service may elect to receive a refund of his or her contributions with interest.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
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**Authority and description (cont.)**

**(c) Members of the House of Assembly Pension Plan (cont.)**

**(vii) Termination benefits (cont.)**

A vested Member who is no longer an MHA or a minister may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, or receive a deferred registered allowance. Also, the Member may receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred supplementary allowance.

**(d) Provincial Court Judges' Pension Plan**

**(i) General**

The Plan is a contributory defined benefit pension plan covering all Provincial Court judges appointed on or after April 1, 2002, and to a judge who elected on or before April 1, 2002, to join the Plan.

The Plan is comprised of two components, a Registered Plan, which provides registered pension benefits allowable under the *Income Tax Act* (Canada), and a Supplementary Plan, which provides benefits in excess of the *Income Tax Act* (Canada) maximum benefit limits. These financial statements include only amounts that pertain to the Registered Plan. Amounts that pertain to the Supplementary Plan are included within the accounts of the Consolidated Revenue Fund.

**(ii) Judges' contributions**

Judges are required to pay 9% of their pensionable salary to the Registered Plan, up to the maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Judges' contributions cease when they have accrued and paid contributions for twenty years of pensionable service.

**(iii) Calculation of allowances on retirement**

The annual amount of the allowance paid to a vested judge on normal retirement is the product of 3.33% of his or her annual salary immediately prior to ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
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**Authority and description (cont.)**

**(d) Provincial Court Judges' Pension Plan (cont.)**

**(iii) Calculation of allowances on retirement (cont.)**

The annual amount of the allowance paid from the Registered Plan to a vested judge on normal retirement is the product of 2% of his or her annual salary immediately prior to ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years. The amount shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada). The remaining allowance is paid from the Supplementary Plan.

Normal retirement date is the first day of the month following the judge's 65<sup>th</sup> birthday.

**(iv) Survivor benefits**

A survivor benefit equal to 60% of the pensioner's or judge's registered allowance that he or she would have received had he or she reached age 65 on the date of death is paid to the surviving principal beneficiary.

**(v) Pre-retirement death benefits**

If a judge dies before receiving an allowance and a survivor benefit is payable, the surviving principal beneficiary may elect to receive the survivor benefit, or the greater of the commuted value of the survivor benefit and the commuted value of the judge's entitlement. Where a survivor pension is not payable, the commuted value of the entitlement is paid to the deceased judge's estate.

**(vi) Termination benefits**

A judge who has stopped serving as a judge and who has less than two years of judge's service may elect to receive a refund of his or her contributions with interest.

A judge who has at least two years of judge's service may, subject to eligibility criteria, elect to transfer the commuted value of his or her entitlement under the Registered Plan to another approved retirement arrangement, receive a lump sum payment of his or her entitlement under the Supplementary Plan, or receive a deferred allowance.

**(vii) Indexing**

Effective October 1, 2002, and each October 1 thereafter, the amount of the allowance or survivor benefit paid to an individual who has reached the age of 65 shall be adjusted by 60% of the Consumer Price Index for Canada for the previous calendar year as published by Statistics Canada, to a maximum of 1.2% of the annual allowance or survivor benefit.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**1. Summary of significant accounting policies**

Outlined below are the significant accounting policies followed.

**(a) Basis of Presentation**

The Fund's management prepares financial statements in accordance with the requirements of the Chartered Professional Accountants Canada (CPA Canada) Handbook Section 4600 - Pension Plans. This standard is the basis for Canadian accounting standards for pension plans. The recognition and measurement of the Fund's assets and liabilities are consistent with the requirement of CPA Canada Handbook Section 4600.

CPA Canada Handbook Section 4600 requires that in selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, a pension plan shall comply on a consistent basis with either International Financial Reporting Standards in Part I of the CPA Canada Handbook, or Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook, to the extent that those standards do not conflict with the requirements of Section 4600. The Fund has chosen to comply, on a consistent basis, with the Accounting Standards for Private Enterprises in Part II of the CPA Canada Handbook, hereafter referred to as "ASPEs".

**(b) Functional and presentation currency**

The financial statements are presented in Canadian dollars, which is the Fund's functional currency.

**(c) Measurement uncertainty**

The preparation of the financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and items reported on the statement of financial position and the statement of changes in net assets available for benefits at the date of the financial statements. The major estimates used by management in preparing the financial statements relate to the valuations and classification of investments, as well as assumptions used in the calculation of pension obligations. Actual results could differ from these estimates, and the impact of any such differences will be recorded in future periods.

**(d) Investments**

The Fund's investments consist of the following major assets classes: pooled funds, public equities, interest bearing investments such as treasury bills, bonds and mortgages.

# PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND

## NOTES TO FINANCIAL STATEMENTS

December 31, 2016

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### 1. Summary of significant accounting policies (cont.)

#### (d) Investments (cont.)

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Fund's proportionate share of underlying net assets at fair values determined using closing market prices.

Investments are classified as held-for-trading. All investment transactions are recorded at the point upon which the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date and are stated at fair value as at year-end. Fair value is an estimate of the amount of consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Short-term notes and deposits are valued at book value which approximates market value.

Bonds and debentures are valued at the mean or the average price at the valuation date.

Publicly traded equities are valued at the last board lot trade for a given stock. In instances where the quoted stock has not been traded on the valuation date, the price of the last board lot traded price is quoted.

#### (e) Investment income

Investment income is allocated proportionately to the pension plans under the Fund based on the asset value held in the pension plan account.

Investment income (loss) is reflected in investment activities and includes the following:

- (i) Dividend income which is recognized as of the date of record for North American equities, and as of the date of receipt for non-North American equities.
- (ii) Bank interest and interest on bonds and debentures, short-term notes and deposits.
- (iii) Real estate income which includes dividends received and unrealized gains and losses.
- (iv) Foreign exchange gains and losses.
- (v) Gains and losses that have been realized on disposal of investments.
- (vi) Unrealized gains and losses which reflect the change in fair value of investments held at the end of the year.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

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**1. Summary of significant accounting policies (cont.)**

(f) **Accrued pension benefits and accrued benefits obligation**

The value of accrued pension benefits is based on a projected accrued benefits method actuarial valuation prepared triennially by an independent firm of actuaries. This accrued benefits obligation is measured in accordance with accepted actuarial methods, using actuarial assumptions and methods adopted by the Province for the purpose of establishing the long-term funding requirements. The actuarial valuation included in the financial statements is consistent with the valuation for funding purposes. In between valuations, the value of accrued benefits is extrapolated annually from these valuations.

(g) **Foreign currency translation**

Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

Foreign currency differences arising on retranslation are recognized in the statement of changes in net assets available for benefits as a change in market value of the investment.

(h) **Surplus/deficit**

For financial statement reporting, the surplus/deficit of the Plans are based on the difference between the fair value of the Plans' net assets available for benefits and the Plans' accrued benefits obligation. For funding purposes, the Plans' surplus/deficit is based on the difference between the Plans' value of net assets and the actuarial value of the Plans' accrued benefits obligation.

(i) **Contributions**

Contributions from employers and members due to the Plans at the end of the year are recorded on an accrual basis. A receivable for service purchases that include, but are not limited to leaves of absence, periods of reduced accrual and transfer from other pension plans has been accrued based on an analysis of outstanding requests for service purchases on hand at year end. The value of these unprocessed requests has been estimated by the Fund's actuary based on the history of similar requests. (see Note 15). These outstanding transactions receivable were transferred with the other assets of the TPP to a separate trustee as of August 31, 2016. As at December 31, 2016, there were no outstanding transactions receivable for the Fund.

(j) **Benefits**

Benefit payments to retired members are recorded as they are due and paid, twice monthly. Commuted value payments and transfers to other pension plans are recorded when paid. Accrued benefits from members are recorded as part of the accrued pension obligation.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**1. Summary of significant accounting policies (cont.)**

(k) Administrative Expenses

Administrative expenses are incurred for direct pension administration and external investment management and are recorded on an accrual basis. Direct pension administration expenses represent expenses to provide direct services to plan members and employers and include actuarial consulting and disability pension adjudication. External investment management expenses represent payments to the investment managers. These are allocated between the plans on a pro rata basis, based on the balance of the assets in the individual plans as a percentage of the total value of the combined plans.

(l) Cash

Cash includes cash on hand and balances with banks and investment managers.

**2. Investments**

(a) Investment portfolio

The fair value of investments relative to the cost is summarized in the following table:

	As at December 31, 2016			As at December 31, 2015		
	Assets (000's)	%	Cost (000's)	Assets (000's)	%	Cost (000's)
Money Market	\$ 2,449	1.2	\$ 2,449	\$ 63,294	2.0	\$ 63,289
Fixed Income						
Canadian	* 43,120	20.3	45,072	518,504	16.3	510,450
US	-	-	-	94,275	3.0	93,311
Equities						
Canadian	* 68,294	32.2	65,324	926,111	29.2	846,073
US	* 55,964	26.3	52,203	913,700	28.7	701,752
Global	* 42,365	20.0	39,818	560,883	17.7	472,329
Real estate	-	-	-	99,191	3.1	70,511
<b>Total</b>	<b>\$ 212,192</b>	<b>100</b>	<b>\$ 204,866</b>	<b>\$ 3,175,958</b>	<b>100</b>	<b>\$ 2,757,715</b>

\* The fixed income and equity assets held at December 2016 are invested in pooled funds.

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
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**2. Investments (cont.)**

**(b) Fair value measurement**

Financial instruments are classified according to the following fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- **Level 1:** Fair value is based on inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 primarily includes publicly listed investments.
- **Level 2:** Fair value is based on valuation methods that make use of inputs other than quoted prices included in Level 1, that are observable for the asset or liability, either directly or indirectly, including inputs in markets that are not considered to be active. Level 2 primarily includes fixed income securities not actively traded on a public exchange, public equities not traded in an active market and investments in pooled funds.
- **Level 3:** Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. Level 3 primarily includes private market investments such as real estate, valued based on discounted future cash flow models which reflect assumptions that a market participant would use when valuing such an asset or liability.

Investments based on the valuation level within the fair value hierarchy are as follows:

<b>As at December 31, 2016</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>(000's)</b>	<b>(000's)</b>	<b>(000's)</b>	<b>(000's)</b>
<b>Money Market</b>				
Canadian	\$ -	\$ 2,381	\$ 68	\$ 2,449
US	-	-	-	-
<b>Fixed Income</b>				
Canadian	-	43,120	-	43,120
US	-	-	-	-
<b>Equities</b>				
Canadian	-	68,294	-	68,294
US	-	55,964	-	55,964
Global	27	42,338	-	42,365
<b>Total</b>	<b>\$ 27</b>	<b>\$ 212,097</b>	<b>\$ 68</b>	<b>\$ 212,192</b>

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2016**

**2. Investments (cont.)**

(b) Fair value measurement (cont.)

<b>As at December 31, 2015</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	(000's)	(000's)	(000's)	(000's)
Money Market				
Canadian	\$ -	\$ 62,918	\$ -	\$ 62,918
US	-	376	-	376
Fixed Income				
Canadian	-	518,504	-	518,504
US	-	94,275	-	94,275
Equities				
Canadian	777,010	149,101	-	926,111
US	913,700	-	-	913,700
Global	560,883	-	-	560,883
Real estate	-	-	99,191	99,191
<b>Total</b>	<b>\$ 2,251,593</b>	<b>\$ 825,174</b>	<b>\$ 99,191</b>	<b>\$ 3,175,958</b>

During the year, there have been no transfers of amounts between Level 1, Level 2, and Level 3.

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy:

	(000's)
<b>Fair value, December 31, 2015</b>	<b>\$ 99,191</b>
Transfers	7,149
Acquisitions	18,547
Dispositions	(128,816)
Realized gain/loss	32,778
Net change in unrealized gain/loss	(28,781)
<b>Fair value, December 31, 2016</b>	<b>\$ 68</b>

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
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**2. Investments (cont.)**

(c) Securities lending

The Fund participated in a securities lending program whereby it lends securities in order to enhance portfolio returns. The securities lending program requires collateral in cash, high-quality debt instruments or securities. Collateral transactions are conducted under terms that are usual and customary in standard securities lending programs. In the absence of an event of default, the same securities or equivalent securities must be returned to the counterparty at the end of the contract.

The Fund's participation in the securities leading program terminated on August 31, 2016, with the transfer of the Teachers' Pension Plan.

The fair values of the allocated securities and collateral associated with the securities lending program as at December 31 are as follows:

	2016	2015
	(000's)	(000's)
Securities lent	\$ -	\$ 760,432
Securities contractually receivable	\$ -	\$ 800,898

**3. Investment income**

(a) Investment income (loss) for the year ended December 31 is as follows:

	2016	2015
	(000's)	(000's)
Interest income	\$ 15,450	\$ 31,664
Dividend income	41,213	92,302
Security lending income	1,585	3,408
Commission recapture income	47	126
	<b>58,295</b>	127,500
Net realized gains	512,018	1,428,094
Net unrealized loss	(410,579)	(937,107)
<b>Investment income</b>	<b>\$ 159,734</b>	<b>\$ 618,487</b>

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
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**December 31, 2016**

**3. Investment income (cont.)**

(b) Investment income (loss) by asset mix, for the year ended December 31 is as follows:

	<b>Investment income</b>	<b>Gain on sale of investments</b>	<b>Current period change in market value of investments</b>	<b>2016 Total</b>	<b>2015 Total</b>
	(000's)	(000's)	(000's)	(000's)	(000's)
Canadian equities	\$ 23,687	\$ 1,494,526	\$ (68,966)	\$ 1,449,247	\$ 563,403
Foreign equities	18,717	(1,046,673)	(300,154)	(1,328,110)	522,155
Bonds and debentures	12,953	31,507	(12,773)	31,687	57,669
Short term notes & deposits	1,925	(284)	(6)	1,635	6,439
Real estate	1,013	32,942	(28,680)	5,275	(531,179)
<b>Total</b>	<b>\$ 58,295</b>	<b>\$ 512,018</b>	<b>\$ (410,579)</b>	<b>\$ 159,734</b>	<b>\$ 618,487</b>

(c) Investment returns

The Fund's investment returns gross of fees are shown by asset class in the table below.

	<b>2016</b>	<b>2015</b>
	(%)	(%)
Canadian equity	20.00	(4.15)
Global equity	0.96	17.49
Fixed income	3.05	3.23
Real estate	4.85	8.29
<b>Total portfolio return</b>	<b>7.40</b>	<b>7.32</b>

The Fund's net return after all investment management cost for the year ended December 31, 2016, was 7.24% (2015 - 7.07%).

**PROVINCE OF NEWFOUNDLAND AND LABRADOR POOLED PENSION FUND**  
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**4. Investment risk management**

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. The use of financial instruments exposes the Fund to credit and liquidity risks, interest rate volatility, and market risks including foreign exchange and market price fluctuations and volatility. The Fund has policies and operating procedures that establish an asset mix among equity, fixed income and real estate investment, require diversification of investments within categories, and set limits on the size of exposure to individual investment and counterparties. Trustee oversight, procedures and compliance functions are incorporated into Fund processes to achieve consistent controls and mitigate operational risk.

(a) Interest rate risk

Interest rate risk refers to the fact that the Fund’s financial position will change with market interest rate changes, as fixed income securities are sensitive to changes in nominal interest rates. Interest rate risk is inherent in the management of a pension plan due to prolonged timing differences between cash flows related to the Fund’s assets and cash flows related to the Fund’s liabilities. The fixed income portfolio has guidelines on concentration, duration and distribution which are designed to partially mitigate the risks of interest rate volatility.

The fair value of the Fund is affected by short term changes in nominal interest rates. Pension liabilities are exposed to the long term expectation of rate of return on the investments, as well as expectations of inflation and salary escalation.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of these securities, as at December 31 are as follows:

	<b>2016</b>	<b>2015</b>
	(%)	(%)
Within 1 year	<b>10.5</b>	7.1
Short (1 - 5 years)	<b>23.4</b>	31.7
Medium (5 - 10 years)	<b>31.9</b>	29.0
Long (10+ years)	<b>34.2</b>	32.2
<b>Total</b>	<b>100.0</b>	100.0

Assuming a parallel change in the long and short-term yields, a 1% increase in interest rates would have the effect of decreasing the fair value of the Fund’s fixed income investments by approximately \$3.28 million or 7.6% (2015 - \$42.2 million or 6.86%).

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**4. Investment risk management (cont.)**

(b) Market price risk

Market price risk is the risk of fluctuation in market values of investments from influences specific to a particular investment or from influences on the market as a whole. All changes in market conditions will directly result in an increase (decrease) in net assets available for benefits. Market price risk is managed by the Fund through the construction of a diversified portfolio of instruments traded on various markets and across various industries. If equity market indices (S&P/TSX and MSCI ACWI and their sectors) declined by 10% and all other variables are held constant, the potential loss to the Fund would be approximately \$16.7 million, or 7.85% (2015 - \$240.1 million or 7.56%).

(c) Credit risk

Credit risk is the risk that the issuer of a debt security or counterparty to a contract is unable to fulfill its financial obligation and causes the other party to incur a loss.

Fixed income portfolio

Credit risk in the fixed income portfolio is monitored by evaluating the Fund's exposure in two ways: by sector (government versus corporate) and by credit quality.

The Fund is exposed to credit risk from the following interest earning investments, classified by sector as at December 31:

	<b>2016</b>	<b>2015</b>
	(%)	(%)
Federal government	<b>19.3</b>	19.0
Provincial government	<b>34.3</b>	29.9
Municipal government	-	1.2
Corporate	<b>34.5</b>	47.4
Other	<b>11.9</b>	2.5
<b>Total</b>	<b>100.0</b>	100.0

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**4. Investment risk management (cont.)**

(c) Credit risk (cont.)

The Fund's concentration risk by credit rating as at December 31 is as follows:

	<b>2016</b>	<b>2015</b>
	(%)	(%)
AAA to A-	<b>70.8</b>	67.0
BBB to BBB-	<b>16.2</b>	14.5
BB+ and below	<b>1.1</b>	0.6
Not rated	<b>11.9</b>	17.9
<b>Total</b>	<b>100.0</b>	100.0

Real estate

Real estate investment managers manage risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector and geographic area. Transactions that involve assuming a new tenant exposure are vetted by an appropriate due diligence and approval process. As at December 31, 2016, the Fund has no investments in real estate.

Securities lending

The Fund lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the securities lending program ensure that its various components are continuously being monitored. As at December 31, 2016, the Fund has no investments in securities lending.

(d) Foreign currency risk

Foreign currency exposure arises through holdings of securities and units in pooled funds in non-Canadian assets. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of the investments. The Fund does not take an active approach, such as currency hedging to managing this risk, but rather the currency risk is managed through the diversified nature of the overall portfolio. In addition, the investment managers of the Fund are given flexibility through their mandate to periodically hedge currency for opportunistic or defensive purposes.

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**4. Investment risk management (cont.)**

(d) Foreign currency risk (cont.)

The Fund's unhedged currency exposure from net investment assets as at December 31 is summarized in the following table:

	<b>2016</b>	<b>2015</b>
	(%)	(%)
Canadian dollar	<b>54.2</b>	53.4
US dollar	<b>26.3</b>	28.8
Euro	<b>4.8</b>	4.4
Other Asia/Pacific currencies	<b>4.4</b>	3.5
British pound	<b>3.0</b>	4.0
Japanese yen	<b>2.5</b>	2.2
Other currencies *	<b>2.5</b>	0.9
Other European currencies	<b>2.3</b>	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

\* Other currencies include Africa, Middle East and Latin America

A 10% increase in the value of the Canadian dollar in relation to all other foreign currencies, with all other variables held constant, would result in an unrealized investment loss of \$9.8 million, or 4.58% (2015 - \$149.1 million, or 4.66%).

(e) Liquidity risk

Liquidity risk corresponds to the Fund's ability to meet its financial obligations as they come due with sufficient and readily available cash resources. Cash obligations are fulfilled from contributions to the Fund, cash income of the Fund and planned dispositions of Fund assets as required. Cash requirements of the Fund are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations. In general, the Fund's investments in cash and cash equivalents, debt and public equities are expected to be highly liquid and are invested in securities that are actively traded.

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**5. Capital management**

The capital of the Fund is defined as the net assets available for benefits. The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long-term goal to achieve investment returns. The main objective of the Fund is to secure promised pension obligations as they come due, and the secondary objective is to minimize employer long-term contributions and manage the variability of employer contributions.

The Fund is sponsored by the Government of Newfoundland and Labrador, represented by the Minister of Finance who is Trustee of the Fund. The Trustee has appointed the Pension Investment Committee (PIC) to review, monitor, administer and supervise all investment activities of the Fund.

Portfolio Management

The Fund utilizes external investment management firms to invest the assets of the Fund. Each investment manager is selected through a disciplined process to ensure a good fit with the investment structure and objectives of the Fund. As at December 31, 2016, the external investment fund management group was comprised of the following firms:

Beutel, Goodman & Company Ltd.  
Connor, Clark & Lunn Investment Management Ltd.  
Phillips, Hager & North Investment Management Ltd.  
T. Rowe Price  
Wellington Management Company, LLP

In addition, CIBC Mellon Global Securities Services provides all custodial and administrative services for the Fund, and Russell Investments provides investment counseling services to the Fund.

The long-term asset mix policy of the Fund is as follows:

Canadian equity	25%
Global equities	55%
Fixed income	20%

The asset mix policy was adopted after evaluating the potential impact of alternative policies on benefit security and employer contributions. Factors evaluated included the Plans' going-concern and solvency funded ratios, demographics, cash flow requirements, actuarial assumptions, benefit levels, and liquidity requirements. The expected real return of the Fund's investment policy is 4.25% annualized over the long term.

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**6. Administrative costs**

Administrative costs are direct costs of the Department of Finance, Pensions Division and are allocated to the various pension plans based on the previous month's equity balance related to the total Fund. Any direct costs related to a specific plan are charged accordingly. Administrative costs for the year ended December 31 were comprised as follows:

	<b>2016</b>	<b>2015</b>
	(000's)	(000's)
Investment management fees	\$ 5,278	\$ 11,524
Custodian fees	442	728
Investment consulting fees	131	122
Actuarial consulting fees	192	140
	<b>6,043</b>	<b>12,514</b>
Salaries and benefits	601	1,147
Computer charges	75	88
Other expenses	70	208
Medical and professional fees	51	23
Rent	31	-
	<b>\$ 6,871</b>	<b>\$ 13,980</b>

**7. Accrued benefits obligation**

**Actuarial assumptions**

The actuarial assumptions used in determining the value of the accrued benefits obligation of \$500.8 million reflect management's best estimate of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, salary escalation and the inflation rate. The discount rate is based on the target asset mix and expected real returns for each asset class. The inflation rate is derived from the Bank of Canada's long term investment range. The salary escalation rate incorporates the inflation rate assumption and long term expectation of growth in real wages. A summary of the primary economic assumptions as at December 31 is as follows:

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**7. Accrued benefits obligation (cont.)**

	USPP		MHAPP		PCJPP	
	2016	2015	2016	2015	2016	2015
Discount Rate	6.50%	6.50%	6.50%	6.50%	6.25%	6.25%
Salary escalation	3.75%	3.75%	0-3%*	3.00%	3.25%	3.25%
Inflation rate	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

\* Salary escalation for the MHAPP is 0% for the next 4 years (2016-2019) and 3.00% thereafter.

**8. Actuarial valuations**

Triennial actuarial valuations are performed by the actuarial consulting firm of Morneau Shepell. Relevant reporting dates for the various plans are summarized below.

Pension Plan	Effective date of valuation used to determine pension obligation	Date of next required valuation
Uniformed Services	December 31, 2014	December 31, 2017
Members of the House of Assembly	December 31, 2015	December 31, 2018
Provincial Court Judges'	December 31, 2013	December 31, 2016

**9. Funding policy**

In accordance with legislation, the Province's funding requirement is to match the employee contributions for current service. Matching of contributions may also occur for certain other types of prior service, which may be purchased under contract.

Also, the Province is requested to pay into the Fund amounts required to cover any actual plan deficiencies which may occur. A plan deficiency occurs when pension payments, refunds of contributions and administrative costs exceed a plan's fund balance.

**10. Teachers' Indexing Fund**

The total fund balance relating to the Teachers' Pension Plan is comprised of the regular fund balance and the fund balance of the Teachers' Indexing Fund. In accordance with the most recent Teachers' Collective Agreement, contributions required to fund the indexing benefit introduced as of September 1, 2002, shall be deposited to a separate account. On August 31, 2016, the assets of the TPP were transferred to a new trustee, including the Teachers' Indexing Fund. As at December 31, 2016, the increase and decrease in the net assets of the Fund related to the Teachers' Indexing Fund and the closing balance, along with the closing balance of the Fund related to the Teachers' Regular Fund, are comprised as follows:

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**10. Teachers' Indexing Fund (cont.)**

	2016 (000's)	2015 (000's)
Teachers' Indexing Fund:		
Increases in net assets		
Contributions	\$ 6,745	\$ 8,521
Investment income	7,270	10,325
	<b>14,015</b>	<b>18,846</b>
Decreases in net assets		
Pensions	(234)	(271)
Administrative costs	(340)	(451)
	<b>(574)</b>	<b>(722)</b>
Increase in net assets	<b>13,441</b>	<b>18,124</b>
Transfer of Teachers' Indexing Fund balance, August 31, 2016	(168,847)	-
Teachers' Indexing Fund Balance, beginning of year	<b>155,406</b>	<b>137,282</b>
Teachers' Indexing Fund balance, end of year	-	155,406
Teachers' Regular Fund balance	-	2,846,540
Teachers' Pension Plan combined balance	<b>\$ -</b>	<b>\$ 3,001,946</b>

**11. Related party transactions**

The following related party investments were held by the Fund as at December 31, 2016:

Description	Cost (000's)	Market Value (000's)
Province of Newfoundland and Labrador Debentures - Series maturing October 17, 2033	\$ 163	\$ 150
	<b>\$ 163</b>	<b>\$ 150</b>

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**12. Commitments**

In 2015, the Fund had committed to invest in certain private equity and infrastructure funds which may be funded in accordance with agreed upon conditions over the next several years. As at December 31, 2015, these commitments totaled \$300 million. This investment will be made through TPP Neptune Corporation, a wholly owned subsidiary of the Teachers' Pension Plan, which was transferred to a separate trustee as of August 31, 2016. As at December 31, 2016, there were no commitments for the Fund.

**13. Pensioner and refund payroll**

All plans, with the exception of the Provincial Court Judges' Pension Plan, provide for disability pensions payable in the event the plan member is certified to be totally and permanently disabled. As well, should an employee die in service, there is provision for the payment of the employee's entitlement to the estate. The following tables summarize disability pension payments and the payments to employees' estates upon pre-retirement death.

**Disability Pensions (\$000's)**

<b>Plan</b>	<b>Teachers'</b>	<b>Uniformed Services</b>	<b>Members of the House of Assembly</b>
2016	5,983	968	*
2015	9,911	1,029	*

**Payments on Pre-Retirement Death (\$000's)**

<b>Plan</b>	<b>Teachers'</b>	<b>Uniformed Services</b>	<b>Members of the House of Assembly</b>	<b>Provincial Court Judges'</b>
2016	1,047	-	-	-
2015	675	-	-	-

\* Figure not shown to protect confidentiality

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**14. Contributions**

	<b>PSPP</b>	<b>Teachers'</b>	<b>Uniformed Services</b>	<b>Members of the House of Assembly</b>	<b>Provincial Court Judges'</b>	<b>Total</b>
<b>December 2016 (\$000's)</b>						
<b>Employee</b>						
Current	-	36,508	4,532	395	321	41,756
Past Service	-	2,087	40	6	-	2,133
Reciprocal transfer	-	1,377	45	27	-	1,449
	-	<b>39,972</b>	<b>4,617</b>	<b>428</b>	<b>321</b>	<b>45,338</b>
<b>Employer</b>						
Current Service	-	36,534	4,518	385	193	41,630
Past Service	-	658	30	6	-	694
	-	<b>37,192</b>	<b>4,548</b>	<b>391</b>	<b>193</b>	<b>42,324</b>
<b>December 2015 (\$000's)</b>						
<b>Employee</b>						
Current	37,658	47,195	4,429	456	299	90,037
Past Service	1,281	4,813	152	32	-	6,278
Reciprocal transfer	3,468	2,004	179	642	-	6,293
	<b>42,407</b>	<b>54,012</b>	<b>4,760</b>	<b>1,130</b>	<b>299</b>	<b>102,608</b>
<b>Employer</b>						
Current Service	37,186	47,158	4,402	445	185	89,376
Past Service	415	758	62	6	-	1,241
	<b>37,601</b>	<b>47,916</b>	<b>4,464</b>	<b>451</b>	<b>185</b>	<b>90,617</b>

**15. Outstanding Transactions Receivable**

The comparative figures for the period ended December 2015 included an estimated liability of \$10 million and an outstanding asset (receivable) of \$9 million related to 447 outstanding unprocessed requests for the TPP. The value of these unprocessed requests was estimated by the Plan's actuary based on the history of similar requests. The two significant types of requests are plan to plan transfers between the PSPP and TPP and the Government Money Purchase Pension Plan, and service buybacks. Both of these requests result in the transfer of funds and the crediting of service under the respective pension plan. Actual results may differ from these estimates. These outstanding transactions receivable were transferred with the other assets of the TPP to a separate trustee as of August 31, 2016. The corresponding accrued benefit obligation was also transferred to a separate trustee as of August 31, 2016.

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**16. Transfer of the Teachers' Pension Plan**

On March 15, 2016, a Joint Sponsorship Agreement was signed between the Government of Newfoundland and Labrador and the Newfoundland and Labrador Teachers' Association. The purpose of this agreement is to establish the principles of the Joint Trusteeship as provided for in the June 15, 2015 Teachers' Pension Plan (TPP) Reform Agreement.

On August 31, 2016, legislation was proclaimed by the Lieutenant-Governor in Council to establish the Teachers' Pension Plan Fund (the TPP Fund), and to create the trustee of the TPP Fund, the Teachers' Pension Plan Corporation (the Corporation). The net assets available for benefits of the TPP of \$3.0 billion contained in the Newfoundland and Labrador Pooled Pension Fund under the *Pensions Funding Act* were transferred to the TPP Fund effective August 31, 2016. The accrued benefit obligations of \$5.2 billion were also transferred to the TPP Fund effective August 31, 2016. The affairs of the TPP Fund will be managed by the new trustee, the Corporation. In the interim, a service level agreement has been executed between the Corporation and the Government to allow Government to continue to administer the Fund for an interim period of 7 months with the possibility to extend for an additional 12 months.

**17. Subsequent event**

As required by the *House of Assembly Accountability, Integrity and Administration Act*, an independent Members' Compensation Review Committee (the Committee) was appointed in July 2016 to review MHA salaries, allowances, pensions and severance. The Committee's report, which was presented to the House of Assembly Management Commission in November 2016 recommended changes to the Members of the House of Assembly Pension Plan (MHAPP), including a reduction in the annual accrual from 3.5% to 2.5%; age of eligibility for a pension increased from age 55 to age 60; and the elimination of a member's ability to transfer service to the MHAPP under the *Portability of Pensions Act*. The changes have been accepted by the House of Assembly Management Commission as of May 2017; the required amendments to the *Members of the House of Assembly Retiring Allowances Act* will be targeted for the Fall 2017 sitting of the House of Assembly.