

June 29, 2016

Ms. Sandra Barnes  
Clerk of the House of Assembly

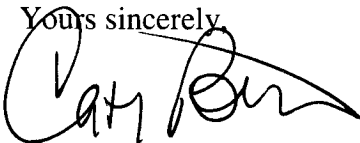
Dear Ms. Barnes:

**RE: 2015 Annual Report of the Pensions Investment Committee**

Please find enclosed a copy of the 2015 Annual Report of the Pensions Investment Committee. This report is presented for tabling in the House of Assembly, in accordance with the Transparency and Accountability Act. Please note however that the report does not include audited financial statements at this time. Finalization of these statements have been delayed due to complexities caused by the implementation of the Joint Trusteeship agreement between Government and the unions that participate in the Public Service Pension Plan (PSPP). These complexities arose primarily due to the transition of the PSPP assets out of the Pooled Pension Fund. Upon completion of the audited financial statements, the report will be amended accordingly and re-tabled in the House of Assembly. If any changes to the report are required due to the finalization of the audited financial statements, notification will be provided accordingly.

I trust this is satisfactory.

Yours sincerely,



Honourable Cathy Bennett, M.H.A.  
District of Windsor Lake  
Minister of Finance and  
President of Treasury Board

Encl.



**Department of Finance**  
**Pension Investment Committee**  
**2015 Activity Report**

June 2016

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

P.O. Box 8700  
St. John's, NL  
A1B 4J6

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 2015 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 second 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 five participating pension plans sponsored by government.

There was a significant change to the Fund during 2015. On March 31, 2015, as a result of the establishment of a Joint Sponsorship arrangement between Government and the unions that participate in the Public Service Pension Plan (PSPP), the \$5.6 billion in assets relating to the PSPP were moved to a separate fund under the stewardship of the PSPP Corporation.

Despite volatile global equity markets in 2015, the overall Fund performance benefited from weakness in the Canadian dollar relative to the US dollar. The 7.3% rate of return earned by the Fund was significantly higher than the 4.9% benchmark rate of return for the Fund, which had a positive impact on the long-term investment goals established by the PIC.

Prudent management of the Fund by the PIC is consistent with the strategic direction of Government to help improve the funded status of the pension plans sponsored by the Province.

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 established to finance benefits under the various Government sponsored pension plans, including the Public Service Pension Plan, the Teachers' Pension Plan, 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 PIC also oversees the operations of Newvest Realty Corporation (Newvest) in relation to the real estate holdings of the four plans remaining in the fund. Newvest was established solely to facilitate the Fund's investment in real estate. The activities of Newvest are included as part of the activities of the PIC.

The members of the PIC as of December 31, 2015 are identified below. However it should be noted that during 2015 recommendations were brought forward to adjust the structure and union representation of the Board. These recommendations were necessary to align the PIC with the terms of the Joint Sponsorship Agreement that was reached in 2014 between the Provincial Government and the five unions (AAHP, CUPE, IBEW, NAPE AND NLNU) representing employees of the Public Service Pension Plan. Under this agreement, the Public Service Pension Fund Corporation was established as the administrator of the PSPP and Trustee of the PSPP Fund. As such, PSPP assets were carved out of the NL Pooled Pension Fund (NLPPF) as of March 31, 2015 and recommendations were made to adjust the structure of the PIC to reflect the remaining major stakeholders of the Fund, which are the Teachers' Pension Plan and the Uniformed Services Pension Plan. It is anticipated that adjustments will be made during 2016.

<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
Ann Marie Miller	Comptroller General
Joan Morris	Assistant Deputy Minister, Corporate Services, Department of Education
Maureen McCarthy	Director, Pension Administration
Paul Myrden	Director, Debt Management
Natasha Trainor, Secretary	Manager, Pension Investments
<i>Employee/Pensioner Representatives:</i>	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Debbie Forward	Newfoundland and Labrador Nurses' Union
Don Ash	Newfoundland and Labrador Teachers' Association
Vacant	Association of Allied Health Professionals
Doug Laing	Newfoundland and Labrador Public Service Pensioners' Association
Dawn Learning	Canadian Union of Public Employees
<i>Non-Government Representative:</i>	
Vacant	Private Sector Representative

## 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 Values

Ensuring the assets of the Newfoundland and Labrador Pooled Pension Fund are invested in a prudent manner within acceptable risk tolerances is the guiding principle for the PIC. As such, the PIC has established the following values to help ensure this priority is realized:

**Inclusion:** Each member of the PIC acknowledges each others' views and perspectives and has the right/opportunity to express their own.

**Independence:** Each member, while representing the interests of diverse stakeholders, recognizes that the decisions of the PIC are in the best interests of all stakeholders.

## 4.0 Primary Clients and Stakeholders

The primary clients and stakeholders for the PIC include both the active and retired members of the various pension plans and various employers who participate in the plans.

## 5.0 Vision

The vision of the PIC is for all government sponsored plans to be fully funded.

## 6.0 Key Statistics

As of December 31, 2015, total Fund assets were \$3.2 billion and the total unfunded liability was \$2.06 billion. This compares to assets of \$8.4 billion and an unfunded liability of \$4.6 billion as of December 31, 2014, which was prior to the carve-out of the PSPP assets from the Fund. The assets remaining in the Pooled Fund are reflective of the establishment of the joint sponsor arrangement for the PSPP and the carve-out of the PSPP assets from the Fund.

As detailed in the following table, Fund participation was close to 17,000 members as of December 31, 2015. It should be noted that these numbers no longer include PSPP plan members.

<b>Fund Participation as of December 31, 2015</b>	
Active Members	6,706
Deferred Members	3,747
Pensioners	9,890
<b>Total</b>	<b>20,343</b>

As detailed in the following table, payments made from the Fund exceeded contributions to the Fund for the year ended December 31, 2015 and do not include any contributions and benefits in respect of PSPP members; it only includes contributions for members of the Teachers', Uniformed Services, MHAs and Provincial Court Judges' pension plans.

<b>2015 Contributions and Payments</b>	
<b>Contributions:</b>	
Contributions from Active Members	\$60,171,000
Regular Employer Contributions	53,046,000
Total Contributions:	\$113,217,000
<b>Payments:</b>	
Pension Benefit Payments	\$303,005,000
Refunds to Members	5,244,000
Administrative Expenses	10,324,000
Total Payments:	\$318,573,000

## **7.0 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.

### **7.1 Discount rate**

In evaluating the long term pension obligations of the Province at December 31, 2015, the Province's actuary used a long term annual interest rate of 6.50% 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 6.50%.

## 7.2 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, 2015.

<i>Asset Mix</i>	<i>Actual (%)</i>		<i>Policy (%)</i>	
	<b>2015</b>	<b>2014</b>	<b>Target</b>	<b>Range</b>
<i>Canadian Equities</i>	29	34	35	30-40
<i>Global Equities</i>	47	44	40	35-45
<i>Real Estate</i>	3	3	5	2-6
<i>Canadian Bonds</i>	21	19	20	15-25

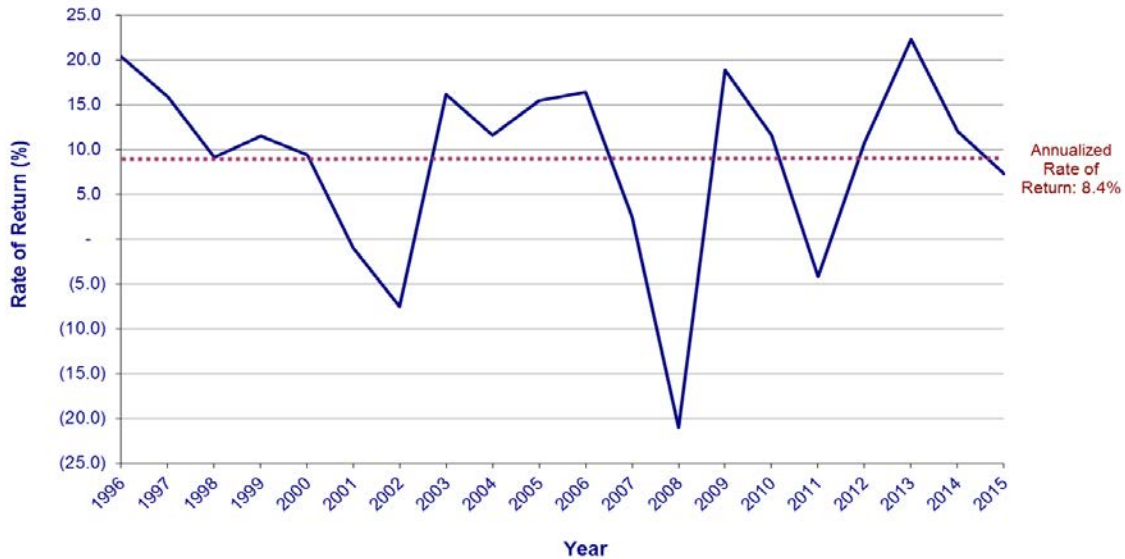
The long-term asset mix policy shown in the table above has been revised to include Global Infrastructure and Global Private Equity at allocations of 5% each, with the assets to be transitioned from Canadian and Global equity once the asset/liability study of the plans has been completed. This policy mix will be gradually revised to reflect the changes in asset allocation as funding of these new asset classes takes place.

## 7.3 Annual rates of return

The asset mix strategy as of December 31, 2015 of 75% equities, 20% fixed income and 5% real estate was adopted based on the plans' going concern funded ratio and the need to manage the growth of the unfunded liabilities. To further diversify the impact of investment volatility and enhance expected returns, specific investments are allocated among broad asset classes. 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 8.4%. This is higher than both the policy benchmark return of 7.5% and the discount rate of 6.75% used in the 2012 actuarial valuations. The Fund's annualized return over 10 years is 7.0% versus the policy benchmark of 6.0%, and over 5 years the Fund returned 9.4% versus the policy benchmark return of 8.2%. The following graph illustrates the variability in annual rates of return over the past 20 years.



### Annual Rates of Return (1995 – 2015)



#### 7.4 2015 Performance

Despite volatility in global equity markets, positive returns in bond markets and the weakness in the Canadian dollar resulted in a favourable year for the Fund in 2015. The Fund's overall return of 7.3% was 2.4% higher than the benchmark return of 4.9%. The Fund's outperformance versus the benchmark policy was due mainly to the strong outperformance of the Canadian Equity investment managers selected by the PIC.

The global equity category posted a positive return of 17.5% for the year, slightly behind its market index return of 17.7%. The Canadian equity category posted a return of -4.2%, which was 4.1% higher than its benchmark index. While the Canadian bond category posted a 3.2% return for the year, it was slightly behind its benchmark index by 0.3%. The Real Estate category returned 6.1% for the year, also lagging its market index by 0.3%.

This strong investment performance resulted in the slowing of the growth in the unfunded liability in 2015. The unfunded liability increased from \$1.9 billion at December 31, 2014 to \$2.1 billion at December 31, 2015. Part of this increase would be attributable to a decrease in the discount rate from 6.75% to 6.5%.

The Fund's annual investment results for the five years ending December 31, 2011 to 2015 are presented in the following table.

<i>Investment Performance</i>	<i>Annual Returns (%)</i>				
	2015	2014	2013	2012	2011
Total Fund	7.3	12.0	22.4	10.8	-4.2
<i>Policy Benchmark Return*</i>	4.9	11.5	16.9	9.5	-1.7
Canadian Equities	-4.2	11.8	22.7	9.3	-11.3
<i>S&amp;P/TSX Composite Index</i>	-8.3	10.6	13.0	7.2	-8.7
Global Equities	17.5	14.2	33.9	14.9	-
<i>MSCI All Country World Index</i>	17.7	14.1	31.7	14.2	-
U.S. Equity	-	-	-	-	1.6
<i>S&amp;P 500 Index</i>	-	-	-	-	4.6
Non-North American Equity	-	-	-	-	-11.5
<i>MSCI EAFE Index</i>	-	-	-	-	-9.6
Real Estate (Newvest)	6.1	3.9	9.4	15.6	11.8
<i>ICREIM/IPD Cdn Property Index</i>	6.4	5.6	9.2	10.9	10.6
Canadian Bonds	3.2	8.5	-0.8	4.1	8.7
<i>FTSE TMX Bond Universe Index</i>	3.5	8.8	-1.2	3.6	9.7

\*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.

## 8.0 2015 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, 2015 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. The results of the actuarial valuation of the Teachers' Pension Plan, as of August 31, 2015, is expected in early 2016 at which time the Committee will determine if new Fund objectives are required. Until then, the Committee continues to review its Fund objectives and investment strategies to ensure the Fund continues to earn annual reviews in excess of the market index for the relevant investment categories. As detailed in the table on page 7, during 2015, the Total Fund performance of 7.3% exceeded the Policy Benchmark Return by 2.4%.

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

The Pension Reform Initiative outlined in Section 10 required extensive analysis of the pension fund, including the assets and the liabilities for each plan, to determine the appropriate long term asset mix required to achieve the objective of ensuring the sustainability of the plans. An asset/liability study for the Teachers' and the Uniformed Services Pension Plans will be undertaken in 2016 to confirm the suitability of the current asset mix.

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

In November 2015, the PIC moved forward with implementation of the long-term asset mix policy allocation to Global Infrastructure and Global Private Equity by entering a limited partnership agreement with a specialized private market investment consultant. After a comprehensive search process, the Committee recommended the appointment of Caledon Capital Management to facilitate the Fund's investment in these asset classes.

## 9.0 2016 Objective, Measure and Indicators

As noted in the 2014-16 Activity Plan, the 2016 annual objective for the PIC is 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:

- *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 and the ICREIM/IPD Canadian Property Index)*

- Reviewed the financial activities of the Fund and advised the responsible Minister as appropriate
- Recommended appointments of investment consultants, a custodian and investment managers, as required

## **10.0 Opportunities and Challenges**

On September 2, 2014, the Provincial Government and the five unions (AAHP, CUPE, IBEW, NAPE AND NLNU) representing employees of the Public Service Pension Plan (PSPP) signed an agreement that will ensure the sustainability of the PSPP. This agreement included a joint management of the PSPP; an equal sharing between Government and plan members in any future surpluses and deficits; the issuance by Government for a \$2.685 Billion promissory note to address the unfunded liability of the plan; and other plan changes designed to have a positive impact on the Fund. The Pension Reform Agreement also included the establishment of the Public Service Pension Fund Corporation as the administrator of the PSPP and Trustee of the PSPP Fund. In accordance with the agreement, PSPP assets were carved out of the NL Pooled Pension Fund (NLPPF) as of March 31, 2015.

Continuing with its pension reform initiative, Government entered into an agreement with the Newfoundland and Labrador Teachers' Association on June 15, 2015. Similar to the PSPP agreement, this agreement includes joint management of the TPP; 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, it is anticipated that the joint trusteeship will be established during 2016.

During 2016, the PIC will therefore continue to oversee the management of the Newfoundland and Labrador Pooled Pension Fund, pursuant to its mandate and work with Government to support the implementation of the joint trusteeship agreement with the Teacher's Pension Plan. As noted above however, the Fund will no longer include contributions to the Public Service Pension Plan. As of April 1, 2015, the Fund included the Teachers' Pension Plan; the Uniformed Services Pension Plan; the Members of the House of Assembly Pension Plan; and the Provincial Court Judges' Pension Plan. The 2016 Activity Report of the Pensions Investment Committee will reflect these changes.

## **11.0 Financial Statements**

### **Province of Newfoundland and Labrador Pooled Pension Fund**

**December 31, 2015**

Pursuant to Section 9(6) of the *Transparency and Accountability Act*, annual reports of the Pensions Investment Committee are to include the audited financial statements. Furthermore, the annual reports are required to be presented to the House of Assembly no later than June 30<sup>th</sup> of each fiscal year.

The audited financial statements for fiscal year ending December 31, 2015 are presently unavailable. In keeping with the spirit and intent of the *Transparency and Accountability Act*, the 2015 Annual Report is presented to the House of Assembly at this time, without the audited financial statements. Upon finalization, these statements will be added to the annual report and tabled in the House of Assembly.

## 12.0 Contact Information

Pension Investment Committee

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