Newfoundland
Labrador

Department of Finance

Pension Investment Committee

2011 Activity Report

June 2012

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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 Thomas W. Marshall, QC
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Marshall:

As the Chair of the Pension Investment Committee (PIC), I am pleased to submit the 2011 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.

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 the reduction in the unfunded liabilities of the five participating pension plans sponsored by government. Ensuring that the assets are invested in a prudent manner within acceptable risk tolerances has been the guiding principle for the PIC and its success is evident in the 9.1% annualized rate of return earned by the Fund since inception.

With the volatility and uncertainty experienced in the Canadian and international investment markets, 2011 proved to be a challenging year for the Fund. The negative 4.2% overall rate of return earned by the Fund was lower than the benchmark rate of return for the Fund, however it is anticipated that this short-term market volatility will not impact the long-term investment goals established by the PIC.

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

Sincerely,

Laurie Skinner

Laurie Skinner
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.

The PIC has 15 members comprised of representatives from Government and the plans' stakeholders, including employee groups and pensioners, with the Deputy Minister of Finance as the Chair. 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). 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.

Pension Investment Committee
(as of December 31, 2011)

Government Representatives:	
Terry Paddon, Chairperson	Deputy Minister of Finance
Glenn Grandy, Vice-Chair	Assistant Deputy Minister, Financial Planning and Benefits Administration, Department of Finance
Ron Williams	Comptroller General
Ramona Cole	Assistant Deputy Minister, Corporate Services, Department of Education
Maureen McCarthy	Director, Pension Administration
Paul Myrden	Director, Debt Management
Vacant, Secretary	Manager, Pension Investments
Employee/Pensioner Representatives:	
Bert Blundon	Newfoundland and Labrador Association of Public and Private Employees
Debbie Forward	Newfoundland and Labrador Nurses' Union
Edward Hancock	Newfoundland and Labrador Teachers' Association
Sharon King	Association of Allied Health Professionals
Cindy Christopher	Public Sector Managers' Association
Eric Salter	Newfoundland and Labrador Public Service Pensioners' Association
Dawn Learning	Canadian Union of Public Employees
Non-Government Representative:	
Roger Crosbie	Private Sector Representative

2.0 Mandate

The mandate of the PIC, pursuant to the *Pensions Funding Act,* is to review, monitor, administer and supervise all investment activities of the Province of Newfoundland and Labrador Pooled Pension Fund.

3.0 Line of Business

Oversight of the pension fund to maximize the returns on investments within acceptable risk tolerances.

4.0 Values

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.

5.0 Primary Clients and Stakeholders

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

6.0 Vision

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

7.0 Mission

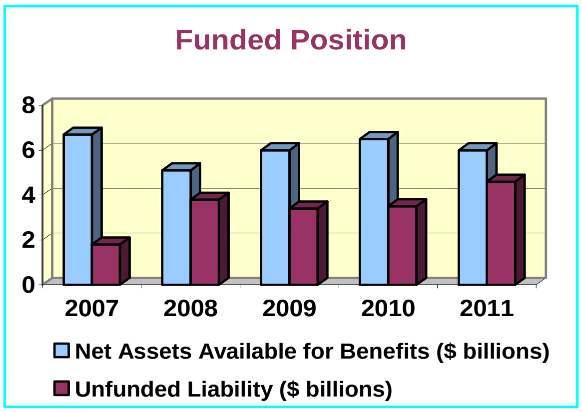
The mission statement identifies the priority focus areas of the PIC over the next two planning cycles. The mission of the PIC is to manage the Pooled Pension Fund by developing the optimum asset mix of equities, bonds and other investments for the portfolio and by retaining portfolio managers with investment styles that will add incremental returns relative to the market index for the specific asset class. These excess returns will slow the growth in the unfunded pension liability which will support the Department's commitment to fiscal sustainability and a healthy economy for the benefit of the people of the Province.

By 2016 the PIC will have continued to responsibly manage the Pooled Pension Fund.

Measure: **The Province of Newfoundland and Labrador Pooled Pension Fund is responsibly managed.**
Indicator: **Growth in the unfunded liability slows**

8.0 Key Statistics

As of December 31, 2011, total Fund assets were $6.0 billion and the total unfunded liability was $4.6 billion. This compares to assets of $6.5 billion and an unfunded liability of $3.5 billion as of December 31, 2010.



As detailed in the following table, Fund participation exceeded 68,000 members as of December 31, 2011.

Fund Participation as of December 31, 2011	
Active Members	38,792
Deferred Members	4,774
Pensioners	24,710
Total	**68,276**

As detailed in the following table, payments made from the Fund exceeded contributions to the Fund for the year ended December 31, 2011.

2011 Contributions and Payments	
Contributions:	
Contributions from Active Members	$190,167,000
Regular Employer Contributions	$164,375,000
Total Contributions:	$354,542,000
Payments:	
Pension Benefit Payments	$519,590,000
Refunds to Members	$26,343,000
Administrative Expenses	$17,284,000
Total Payments:	$563,217,000

9.0 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.

9.1 Discount rate

In evaluating the long term pension obligations of the Province, the Province's actuary currently uses a long term annual interest rate of 7.25% to discount the obligations. Similarly, 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 7.25%.

9.2 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, 2011.

Asset Mix	*Actual (%)*		*Policy (%)*	
	2011	**2010**	**Target**	**Range**
Canadian Equities	35	39	35	30 – 40
U.S. Equities	23	21	20	10 – 20
Non North American Equities	19	20	20	10 – 20
Real Estate	3	2	5	-
Canadian Bonds	20	18	20	15 - 25

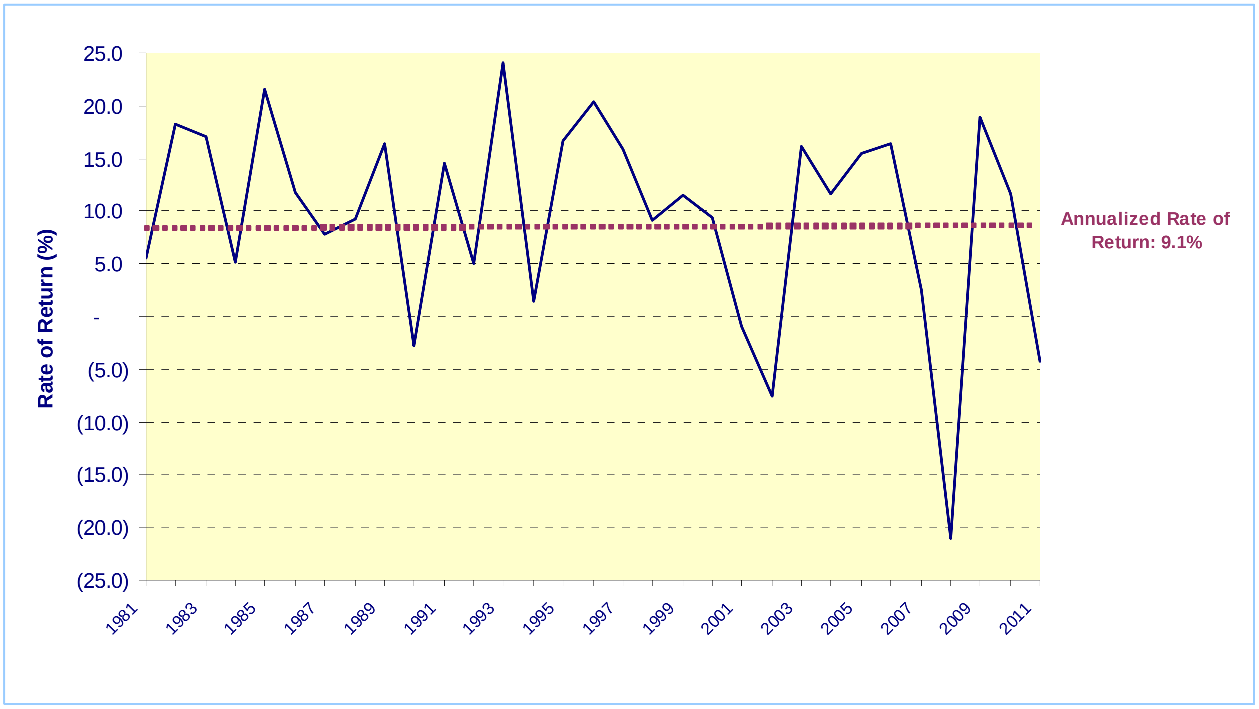
During 2011, the PIC approved a change in the structure of the asset mix policy with respect to foreign equities. The historical target allocation of 20% US equities and 20% non-North American equities was revised to an overall target allocation of 40% global equities. This change involves hiring investment managers that are benchmarked against the MSCI All Country World Index, which consists of US equities and non-North American equities in both developed and emerging markets. By making this change, the PIC has acknowledged that global equity managers have the expertise required to determine the allocations to the US, EAFE region or emerging markets. The global equity managers will become part of the investment management team from 2012 onwards.

9.3 Annual rates of return

The current asset mix strategy 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, since inception in 1981, the Fund has achieved an annualized rate of return of 9.1%.

The following graph illustrates the variability in annual rates of return, and shows the annualized rate of return since inception of the Fund.

Annual Rates of Return



10.0 2011 Objectives and Results

10.1 Issue 1: 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 by the Committee through the selection of managers whose investment style is designed to add value over the relevant market indices over a four year time horizon.

Objective 1

By December 31, 2011, the PIC will have responsibly managed the fund with the aim of earning annual returns in excess of the market index for the relevant category of investments.

Measure: Responsible management of the fund

Indicator: Rate of return in each category as compared to the relevant market indices (i.e. the S&P TSX Composite Index; S&P 500 Index; MSCI/EAFE Index; the DEX Bond Index and the ICREIM/IPD Canadian Property Index)

2011 Results

The broad decline in global stock markets combined with declining bond yields was reflected in the poor performance of the Fund in 2011. The Fund's overall return of negative 4.2% was 2.5% lower than the benchmark return of negative 1.7%. This underperformance versus the benchmark indices was observed across all equity classes and the bond market, with real estate being the only outperformer for the year.

The volatility in global stock markets due to uncertainty about the economic recovery in the U.S and continued fears of a European sovereign debt crisis made it very difficult for investment managers to choose stocks that would outperform the index. While the U.S. equity category posted a positive return of 1.6% for the year, it suffered the largest underperformance relative to its market index return of 4.6%. The Canadian equity category posted a negative return of 11.3% and underperformed its benchmark index by approximately 2.6%, while the non-North American equity category posted a negative return of 11.5%, which was 1.9% lower than its benchmark index. The Canadian bond category posted an 8.7% return for the year, but was 1% lower than its benchmark index. The Real Estate category was the only outperforming category for the year, and returned 11.8% for the year, which exceeded its market index by 1.2%.

Despite the underperformance for the calendar year 2011, the PIC remains focused on its long-term investment strategy. Negative performance may occur from time to time, but the PIC prefers to focus on long term investment results and does not react to short-term market volatility.

The Fund's annual investment results for the five years ending December 31, 2007 to 2011 are presented in the table below.

Investment Performance	*Annual Returns (%)*				
	2011	**2010**	**2009**	**2008**	**2007**
Total Fund	-4.2	11.6	18.9	-21.0	2.5
*Policy Benchmark Return**	-1.7	10.4	17.2	-20.6	1.9
Canadian Equities	-11.3	16.0	30.4	-28.2	11.2
S&P/TSX Index	-8.7	17.6	35.1	-33.0	9.8
U.S. Equity	1.6	11.5	11.7	-27.2	-10.1
S&P 500 Index	4.6	9.1	7.4	-21.2	-10.5
Non-North American Equity	-11.5	7.4	17.4	-32.0	-6.4
MSCI EAFE Index	-9.6	2.6	12.5	-28.8	-5.3
Real Estate (Newvest)	11.8	10.2	-10.3	1.6	21.8
ICREIM/IPD	10.6	7.5	-0.2	9.3	18.6
Canadian Bonds	8.7	7.4	9.7	5.9	3.8
DEX Bond Universe Index	9.7	6.7	5.4	6.4	3.7

*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.

10.2 Issue 2: Improved Governance

The current PIC was implemented in 1997 with the broad mandate to oversee the investment activities of the fund which has grown from $1.3 billion to $6.0 billion. Through that period, the complexity of the capital markets has changed considerably as well.

Recognizing the complex nature of the capital markets, the committee relies on an external pension investment consultant, Russell Investments, to assist with fulfilling its mandate. While this structure has worked satisfactorily in the past, it is incumbent on the PIC to review the structure to ensure that it is meeting is fiduciary obligations to plan members.

Objective 1

By December 31, 2011, the PIC will have reviewed its current governance practices and compared it with best practices in the industry.

Measure: Review of the current governance practices completed
Indicator: Report on current governance practices completed

2011 Results

The review of current governance practices was not completed in 2011. The process was delayed due to changes to the committee membership and shifting priorities within the Pensions Division. However, a consultant to lead the review of governance practices has now been identified with the review anticipated to commence in mid 2012.

11.0 2012 Objectives

11.1 Issue 1: Investment Performance

Objective 1

By December 31, 2012, the Pooled Pension Fund will have responsibly managed the fund with the aim of earning annual returns in excess of the market index for the relevant category of investments.

Measure: Responsible management of the fund
Indicator: Asset liability study completed and recommended changes to the asset mix implemented where feasible

11.2 Issue 2: Improved Governance

Objective 2

By December 31, 2012, the PIC will have recommended revised governance practices to the Minister of Finance

Measure: Changes recommended to governance practices
Indicator:
- Review of governance practices completed
- Minister presented with recommended changes to governance practices

11.3 Other Activities

Implementation of the Global Equity Strategy

During 2012, the PIC will oversee the transition to the Global Equity Strategy that was approved in 2011. This involves moving from three U.S. Equity managers and three EAFE Equity managers, to five Global Equity managers. The change will be handled by a transition manager, but the PIC will ensure that the transition is done smoothly and that the historical performance of the Fund is reported in an appropriate manner going forward. The PIC will also monitor the performance of the new global managers on an ongoing basis to evaluate the decision to move to the global equity strategy.

Completion of the Asset-Liability Study

During 2012, Russell Investments will complete an Asset-Liability Study for the Fund. An asset-liability study evaluates the appropriateness of the existing asset mix and investment goals in light of the current and projected liabilities of the Fund. The study will examine key financial outcomes under various asset allocations and examine the merit of changing the asset mix of the Fund. The PIC will ensure that the Asset-Liability study is completed in a timely manner, and work with Russell Investments to assess whether changes should be made to the overall asset allocation of the Fund.

12.0 Financial Statements

Province of Newfoundland and Labrador
Pooled Pension Fund

December 31, 2011

OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

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 31 December 2011, 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.

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 31 December 2011 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.

Sandra Russell

SANDRA RUSSELL, CA
Deputy Auditor General (A)

St. John's, Newfoundland and Labrador
26 June 2012

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

31 December	2011	2010
	(000's)	(000's) Restated (Note 1)
ASSETS		
Investments (Note 2)		
Short-term notes and deposits	$ 54,012	$ 74,020
Bonds and debentures	1,173,771	1,146,909
Equities - Canadian	2,057,927	2,446,976
- Foreign	2,489,944	2,622,333
Real estate	187,871	151,979
	5,963,525	6,442,217
Receivables		
Employee contributions	8,218	6,112
Employer contributions	7,022	5,440
Accrued investment income	13,774	12,485
Accounts receivable	531	635
	29,545	24,672
Cash	18,978	11,941
	6,012,048	6,478,830
LIABILITIES		
Accounts payable and accrued liabilities	5,199	4,803
Refunds payable	2,545	698
Due to Province of Newfoundland and Labrador	372	916
	8,116	6,417
NET ASSETS AVAILABLE FOR BENEFITS	$ 6,003,932	$ 6,472,413
ACCRUED BENEFITS OBLIGATION AND DEFICIT		
Accrued benefits obligation	$ 10,605,818	$ 9,960,099
Deficit	(4,601,886)	(3,487,686)
ACCRUED BENEFITS OBLIGATION AND DEFICIT	$ 6,003,932	$ 6,472,413

See accompanying notes

Signed on behalf of the Fund:

Marshall

Minister of Finance
and President of Treasury Board
Trustee

Laurie Skinner

Chairperson
Pension Investment Committee

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

	2011						2010
	Public Service Pension Plan (000's)	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)
Increase (decrease) in net assets from:							
Investments (Note 3)							
Investment income	$ 105,028	$ 69,828	$ 4,465	$ 391	$ 116	$ 179,828	$ 167,686
Gain on sale of investments	88,688	60,831	3,910	303	90	153,822	216,117
Current period change in market value of investments	(349,249)	(227,887)	(14,540)	(1,365)	(415)	(593,456)	301,801
	(155,533)	(97,228)	(6,165)	(671)	(209)	(259,806)	685,604
Contributions							
Employee	138,503	46,264	4,329	803	268	190,167	174,462
Employer (Note 9)	116,513	43,053	4,240	397	172	164,375	154,643
	99,483	(7,911)	2,404	529	231	94,736	1,014,709
Other changes in net assets							
Pensions	(256,965)	(242,507)	(19,549)	(531)	(38)	(519,590)	(494,165)
Refund of contributions with interest	(22,431)	(3,486)	(380)	(46)	-	(26,343)	(21,259)
Administrative costs (Note 6)	(10,225)	(6,559)	(431)	(48)	(21)	(17,284)	(16,890)
	(289,621)	(252,552)	(20,360)	(625)	(59)	(563,217)	(532,314)
Total increase (decrease) in net assets	(190,138)	(260,463)	(17,956)	(96)	172	(468,481)	482,395
Net assets available for benefits, beginning of year	3,726,623	2,565,668	163,432	12,972	3,718	6,472,413	5,990,018
Net assets available for benefits, end of period	$ 3,536,485	$ 2,305,205	$ 145,476	$ 12,876	$ 3,890	$ 6,003,932	$ 6,472,413

See accompanying notes

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

	Public Service Pension Plan (000's)	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)	2011 Total (000's)	2010 Total (000's)
Accrued benefits obligation at beginning of period	$ 5,770,723	$ 3,827,676	$ 343,543	$ 14,340	$ 3,817	$ 9,960,099	$ 9,390,140
Increase (decrease) in accrued benefits obligation							
Interest on accrued benefits	427,219	271,271	24,478	1,135	272	724,375	693,476
Benefits accrued	241,858	73,974	8,087	1,200	435	325,554	290,420
Impact of changes in actuarial assumptions	(37,472)	-	-	997	10	(36,465)	91,349
Impact of experience gains and losses	178,188	-	-	-	-	178,188	10,018
Benefits paid	(279,396)	(245,993)	(19,929)	(577)	(38)	(545,933)	(515,304)
Total increase in accrued benefits obligation	530,397	99,252	12,636	2,755	679	645,719	569,959
Accrued benefits obligation at end of period	$ 6,301,120	$ 3,926,928	$ 356,179	$ 17,095	$ 4,496	$ 10,605,818	$ 9,960,099

See accompanying notes

Authority and description

The Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) was created 1 July 1980 under the authority of the *Pensions Funding 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 following pension plans participate in the Fund: Public Service Pension Plan, Teachers' Pension Plan, Uniformed Services Pension Plan, Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

(a) Public Service Pension Plan

(i) General

The Plan is a contributory defined benefit pension plan covering full-time employees of the Government of the Province of Newfoundland and Labrador, the Legislature and various Crown corporations, agencies and commissions created by or under a statute of the Province.

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 8.6% of the Canada Pension Plan (CPP) basic exemption, plus 6.8% of the employee's salary between the CPP basic exemption and the Year's Maximum Pensionable Earnings (YMPE) under the CPP, plus 8.6% of the employee's salary in excess of the YMPE, up to a maximum allowed under the *Income Tax Act* (Canada). Amounts in excess of the maximum allowed are paid to the Supplementary Plan.

Authority and description (cont.)

(a) Public Service Pension Plan (cont.)

(iii) Accrued service pensions

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

Employees who have reached age 50 and have at least 30 years of service are permitted to retire with a 0.5% reduction in pension benefit for each month under age 55.

Employees who have reached age 55 and have 30 years of service may retire with an unreduced pension. Employees age 55 or greater with less than 30 years service and with age and service equal to 85 may retire with a pension reduced by 0.5% for each month under age 60.

(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.

Authority and description (cont.)

(a) Public Service 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 commuted value.

(viii) Indexing

Effective 1 October 2002 and each 1 October 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.

(b) 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.

Authority and description (cont.)

(b) Teachers' Pension Plan (cont.)

(ii) Employee contributions

Employee contributions are equal to 9.35% 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.

(iii) Accrued service pensions

A service pension is available from the Registered Plan based on $1/45^{th}$ of the member's best five years average salary times years of pensionable service prior to 1 January 1991, plus 2% of the member's best five years average salary times years of pensionable service after 1 January 1991. When a member who retired after 31 August 1998 reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average YMPE times years of pensionable service after 1 April 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 $1/45^{th}$ of the member's best five years average salary times years of pensionable service prior to 1 January 1991, plus 2% of the member's best five years average salary times years of pensionable service after 1 January 1991.

(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.

Authority and description (cont.)

(b) 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.

(viii) Indexing

Effective 1 September 2002 and each 1 September 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 31 August 1998.

(c) 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.

(ii) Employee contributions

Employee contributions are equal to 9.95% of the 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.

Authority and description (cont.)

(c) Uniformed Services Pension Plan (cont.)

(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 1 April 1967.

(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, the survivor pension is 55% of the member's accrued service pension.

(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.

Authority and description (cont.)

(d) 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 43rd General Assembly and after twenty years of service if elected since that time.

On 22 December 2009, the Province amended the *Members of the House of Assembly Retiring Allowances Act*. This amendment provided that for Members elected prior to 1 January 2010, their pensionable salary effective 1 July 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 31 December 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 43rd 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 43rd General Assembly and prior to 1 January 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.

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

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

On 22 December 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 31 December 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 1 January 1998 and 31 December 2004. The amount of the registered allowance shall not exceed the maximum allowable benefit as determined under the *Income Tax Act* (Canada).

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 1 April 1967 (service between 1 January 1998 and 31 December 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.

Authority and description (cont.)

(d) Members of the House of Assembly Pension Plan (cont.)

(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.

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.

(e) 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 1 April 2002, and to a judge who elected on or before 1 April 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.

(e) Provincial Court Judges' Pension Plan (cont.)

(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 on ceasing to be a judge, multiplied by the number of years of service as a judge, to a maximum of 20 years.

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 on 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^{th} 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.

(e) Provincial Court Judges' Pension Plan (cont.)

(vii) Indexing

Effective 1 October 2002 and each 1 October 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.

1. Summary of significant accounting policies

As of 1 January 2011, the Fund's management has implemented the requirements of the Canadian Institute of Chartered Accountants (CICA) 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 CICA Section 4600.

CICA 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 CICA Handbook, or Accounting Standards for Private Enterprises in Part II of the CICA 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 CICA Handbook, hereafter referred to as "ASPEs".

The adoption of CICA Section 4600 had no material impact on the Fund's financial position, the accrued pension obligations and deficits or total investment income. Consistent with CICA Section 4600, investment assets are presented on a non consolidated basis even when the investment is in an entity over which the Fund has effective control, i.e. Newvest Realty Corporation (Newvest). Earnings of Newvest are recognized as dividends are received. The Fund's total investment includes valuation adjustments required to bring the investment to its fair value.

1. Summary of significant accounting policies (cont.)

In preparing its first financial statements in accordance with CICA Handbook Section 4600 - Pension Plans and ASPEs, the Fund has adjusted amounts that were previously recorded in accordance with previous CICA standards. An explanation of how the transition has affected the Fund's financial position is set out in the following table.

As at 31 December 2010

	Reporting under previous CICA standards (000's)	Effect of Transition to CICA Section 4600 and ASPEs (000's)	Reporting under CICA Section 4600 and ASPEs (000's)
Net assets available for benefits			
Assets			
Investments	$ 6,523,380	$ (81,163)	$ 6,442,217
Receivables			
Employee Contributions	6,112	-	6,112
Employer Contributions	5,440	-	5,440
Accrued Investment Income	12,485	-	12,485
Accounts Receivable	1,011	(376)	635
	25,048	(376)	24,672
Cash	18,109	(6,168)	11,941
Prepaid Expenses	189	(189)	-
Deferred Charges	3,441	(3,441)	-
	21,739	(9,798)	11,941
Total assets available for benefits	6,570,167	(91,337)	6,478,830
Liabilities			
Accounts payable and accrued liabilities	7,953	(3,150)	4,803
Refunds payable	698	-	698
Due to Province of Newfoundland and Labrador	916	-	916
Mortgages payable	84,383	(84,383)	-
Total liabilities	93,950	(87,533)	6,417
Net assets available for benefits	$ 6,476,217	$ (3,804)	$ 6,472,413

1. Summary of significant accounting policies (cont.)

Outlined below are the significant accounting policies followed.

(a) Investments

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

Investments are classified as held-for-trading. All investments 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 bid price is quoted.

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.

Real estate investments are held through the Fund's sole ownership interest in Newvest Realty Corporation. Income producing properties are recorded at their appraised values in accordance with the Corporation's appraisal policy which requires that properties be appraised at least once every two years by professionally qualified independent appraisers. The external appraisals are completed in six month cycles on approximately one half of the Corporation's portfolio. The properties that are not externally appraised during each six month cycle are appraised by Bentall Kennedy. Any properties acquired by the Corporation in the current year have not been appraised and are therefore recorded at cost.

(b) 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

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

(b) Investment income (cont.)

(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.

(c) Accrued pension benefits and accrued pension obligations

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 pension obligation is measured in accordance with accepted actuarial methods, using actuarial assumption 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.

(d) 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 pension obligation. For funding purposes, the Plans' surplus/deficit is based on the difference between the Plans' actuarial value of net assets and the Plans' accrued pension obligation.

(e) Contributions

Contributions from employers and members due to the Plans at the end of the year are recorded on an accrual basis. Service purchases that include, but are not limited to leaves of absence, periods of reduced accrual and transfer from other pension plans are recorded and service is credited when the signed contract to purchase is received.

(f) Benefits

Benefit payments to retired members are recorded as they are 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.

1. Summary of significant accounting policies (cont.)

(g) 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, disability pension adjudication and audit fees. 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.

2. Investments

(a) Investment portfolio

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

	As at 31 December 2011 Assets			As at 31 December 2010 Assets		
	FMV	**% FMV**	**Cost**	FMV	% FMV	Cost
	(000's)		(000's)	(000's)		(000's)
Money Market	**$ 54,012**	**0.9**	**$ 54,037**	$ 74,020	1.1	$ 74,089
Fixed Income						
Canadian	**1,173,771**	**19.7**	**1,108,926**	1,146,909	17.8	1,112,579
Equities						
Canadian	**2,057,927**	**34.5**	**2,004,386**	2,446,976	38.0	2,000,116
US	**1,347,183**	**22.6**	**1,293,932**	1,331,097	20.7	1,211,782
EAFE	**1,142,761**	**19.2**	**1,541,075**	1,291,236	20.0	1,505,226
Real estate	**187,871**	**3.1**	**132,850**	151,979	2.4	116,650
Total	**$ 5,963,525**	**100**	**$ 6,135,206**	$ 6,442,217	100	$ 6,020,442

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:

As at 31 December 2011	**Level 1**	**Level 2**	**Level 3**	**Total**
	(000's)	(000's)	(000's)	(000's)
Money Market	$ -	$ 54,012	$ -	**$ 54,012**
Fixed Income				
Canadian	-	1,173,771	-	**1,173,771**
Equities				
Canadian	2,010,937	46,990	-	**2,057,927**
US	1,347,183	-	-	**1,347,183**
EAFE	-	1,142,761	-	**1,142,761**
Real estate	-	-	187,871	**187,871**
Total	**$ 3,358,120**	**$ 2,417,534**	**$ 187,871**	**$ 5,963,525**

2. Investments (cont.)

(b) Fair value measurement (cont.)

As at 31 December 2010	**Level 1** (000's)	**Level 2** (000's)	**Level 3** (000's)	**Total** (000's)
Money Market	$ -	$ 74,020	$ -	**$ 74,020**
Fixed Income				
Canadian	-	1,146,909	-	**1,146,909**
Equities				
Canadian	2,380,350	66,626	-	**2,446,976**
US	1,331,097	-	-	**1,331,097**
EAFE	-	1,291,236	-	**1,291,236**
Real estate	-	-	151,979	**151,979**
Total	**$ 3,711,447**	**$ 2,578,791**	**$ 151,979**	**$ 6,442,217**

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

	(000's)
Fair value, 31 December 2010	**$ 151,979**
Acquisitions	22,859
Dispositions	(6,701)
Realized gain/loss	42
Net change in unrealized gain/loss	19,692
Fair value, 31 December 2011	**$ 187,871**

(c) Securities lending

The Fund participates 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.

2. Investments (cont.)

(c) Securities lending (cont.)

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

	2011	2010
	(000's)	(000's)
As at 31 December		
Securities lent	**$ 1,177,627**	$ 793,041
Securities contractually receivable	**1,241,849**	821,915

3. Investment income (loss)

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

As at 31 December	**2011**	2010
	(000's)	(000's)
Interest income	**$ 51,653**	$ 51,768
Dividend income	**126,456**	114,708
Security lending income	**1,048**	871
Commission recapture income	**671**	339
	179,828	167,686
Net realized gain (losses)	**153,822**	216,117
Net unrealized gain (losses)	**(593,456)**	301,801
Investment income (loss)	**$ (259,806)**	$ 685,604

3. Investment income (loss) (cont.)

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

	Investment income	Gain on sale of investments	Current period change in market value of investments	2011 Total	2010 Total
	(000's)	(000's)	(000's)	(000's)	(000's)
Canadian equities	$ 53,786	$ 80,553	$ (393,320)	**$ (258,981)**	$ 351,787
U.S. equities	-	-	(66,064)	**(66,064)**	72,839
Foreign equities	63,270	58,787	(184,323)	**(62,266)**	160,142
Bonds and debentures	50,949	14,482	30,514	**95,945**	78,814
Short term notes & deposits	2,423	-	45	**2,468**	1,567
Real estate	9,400	-	19,692	**29,092**	20,455
Total	**$ 179,828**	**$ 153,822**	**$ (593,456)**	**$ (259,806)**	**$ 685,604**

(c) Investment returns

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

As at 31 December	**2011**	2010
	(%)	(%)
Canadian equity	**(11.32)**	16.02
US equity	**1.59**	11.45
Non-north American equity	**(11.50)**	7.42
Fixed income	**8.69**	7.40
Real estate	**11.76**	10.18
Total portfolio return	**(4.19)**	11.60

The Fund's net return after all investment management costs for the year ended 31 December 2011 was (4.40)% (2010 - 11.35%).

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.

4. Investment risk management (cont.)

(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 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 31 December are as follows:

As at 31 December	**2011**	2010
	(%)	(%)
Within 1 year	**14.4**	13.0
Short (1 - 5 years)	**28.7**	27.3
Medium (5 - 10 years)	**23.7**	33.7
Long (10+ years)	**33.2**	26.0
Total	**100.0**	100.0

(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.

4. Investment risk management (cont.)

(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 31 December:

As at 31 December	**2011**	2010
	(%)	(%)
Federal government	**21.6**	25.6
Provincial government	**20.8**	20.6
Municipal government	**1.1**	1.0
Corporate	**52.7**	50.8
Other	**3.8**	2.0
Total	**100.0**	100.0

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

As at 31 December	**2011**	2010
	(%)	(%)
AAA to A-	**74.3**	75.0
BBB to BBB-	**11.8**	9.5
BB+ and below	**0.6**	0.1
Not rated	**13.3**	15.4
Total	**100.0**	100.0

4. Investment risk management (cont.)

(c) Credit risk (cont.)

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.

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.

(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.

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

As at 31 December	**2011**	2010
	(%)	(%)
Canadian dollar	**58.3**	59.4
US dollar	**23.0**	20.8
British pound	**4.4**	4.4
Japanese yen	**3.4**	3.8
Euro	**3.3**	3.8
Other European currencies	**3.2**	3.2
Other Asia / Pacific currencies	**3.6**	3.5
Other currencies *	**0.8**	1.1
Total	**100.0**	100.0

* Other currencies include Africa, Middle East and Latin America

4. Investment risk management (cont.)

(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.

5. Capital management

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 31 December 2011, the external investment fund management group was comprised of the following firms:

Aurion Capital Management Inc.
Baillie Gifford Overseas Limited
Bentall Kennedy
Beutel, Goodman & Company Ltd.
Connor, Clark & Lunn Investment Management Ltd.
Genus Capital Management Inc.
Jacobs Levy Equity Management Inc.
Phillips, Hager & North Investment Management Ltd.
Sanford C. Bernstein and Company, LLC
Sprucegrove Investment Management Ltd.
Systematic Financial Management Limited Partnership
UBS Global Asset Management (Canada) Co.

5. Capital management

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	35%
US equities	20%
Non-North American equities	20%
Fixed income	20%
Real estate	5%

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 5.0% annualized over the long term.

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 were comprised as follows:

As at 31 December	**2011**	2010
	(000's)	(000's)
Investment management fees	**$ 13,785**	$ 13,696
Custodian fees	**234**	228
Investment consulting fees	**199**	199
Actuarial consulting fees	**138**	58
	14,356	14,181
Salaries and benefits	**2,239**	2,095
Computer charges	**165**	230
Other expenses	**373**	203
Medical and professional fees	**117**	164
Audit fee	**25**	17
Other investment expenses	**9**	-
	$ 17,284	$ 16,890

7. Accrued benefits obligation

(a) Actuarial assumptions

The actuarial assumptions used in determining the value of accrued pension benefits of $10.6 billion 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 31 December is as follows:

	PSPP		TPP		USPP		MHAPP		PCJPP	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Discount Rate	7.25%	7.50%	7.25%	7.25%	7.25%	7.25%	7.25%	7.5%	6.75%	7.00%
Salary escalation rate	4.00%	4.5%	4.00%	4.00%	4.00%	4.00%	3.25%	3.75%	3.50%	4.00%
Inflation rate	2.50%	3.00%	2.50%	2.50%	2.50%	2.50%	2.50%	3.00%	2.50%	3.00%

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
Public Service	31 December 2009	31 December 2012
Teachers'	31 August 2009	31 August 2012
Uniformed Services	31 December 2008	31 December 2011
Members of the House of Assembly	31 December 2009	31 December 2012
Provincial Court Judges'	31 December 2007	31 December 2010

9. Funding policy

In accordance with legislation, the Province's funding requirement is to match 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 required 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 1 September 2002 shall be deposited to a separate account. As at 31 December 2011 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:

	2011 (000's)	2010 (000's)
Teachers' Indexing Fund:		
Increases in net assets		
Contributions	**$ 7,634**	$ 7,283
Investment income (loss)	**(2,799)**	6,650
	4,835	13,933
Decreases in net assets		
Pensions	**36**	25
Administrative costs	**188**	166
	224	191
Increase in net assets	**4,611**	13,742
Teachers' Indexing Fund balance, beginning of year	**67,947**	54,205
Teachers' Indexing Fund balance, end of year	**72,558**	67,947
Teachers' Regular Fund balance	**2,232,647**	2,497,721
Teachers' Pension Plan combined balance	**$ 2,305,205**	$ 2,565,668

11. Related party investments

The following related party investments were held by the Fund as at 31 December 2011.

Description	Face Value (000's)	Market Value (000's)
Province of Newfoundland and Labrador Debentures		
- Series maturing 17 October 2033	$ 6,859	$ 8,733
Newfoundland and Labrador Hydro Debentures		
- Maturing 14 July 2017	1,377	1,303
	$ 8,236	$ 10,036

Also, as indicated in Note 1, the Fund manages its real estate through Newvest Realty Corporation, a wholly-owned subsidiary incorporated under the provisions of the *Canada Business Corporations Act* to invest money received from the Fund in Canadian real estate property. It is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. The value of the investment at 31 December 2011 was $187,871,242.

12. 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

Plan	Public Service	Teachers'	Uniformed Services	Members of the House of Assembly	Provincial Court Judges'
	(000's)	(000's)	(000's)	(000's)	(000's)
2011	$ 18,995	$ 9,454	$ 794	$ -	$ -
2010	$ 18,424	$ 9,528	$ 804	$ -	$ -

Payments on Pre-retirement death

Plan	Public Service	Teachers'	Uniformed Services	Members of the House of Assembly	Provincial Court Judges'
	(000's)	(000's)	(000's)	(000's)	(000's)
2011	$ 4,496	$ 183	$ -	$ -	$ -
2010	$ 3,476	$ 851	$ -	*	$ -

* Figure not shown to protect confidentiality

13. Income taxes

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.

14. Comparative figures

Certain figures in the 2010 financial statements have been restated to conform with the basis of presentation used in 2011.

13.0 Contact Information

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