Teachers' Pension Plan Corporation Newfoundland and Labrador

TPP

TEACHERS' PENSION PLAN

2016 Annual Report

Contents

About the Teachers' Pension Plan

The Newfoundland and Labrador Teachers' Pension Plan is the second largest public sector pension plan in the Province. The Plan is a defined benefit registered pension plan that offers you a lifetime pension benefit when you retire. Your pension benefit is funded by contributions made by you and your employer, as well as investment income generated by the Plan's investment assets. This Annual Report details the Plan's investment performance and financial health at December 31, 2016.

Contact Information

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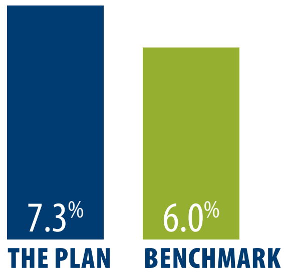
Pensions Division, Department of Finance
East Block, Confederation Building
PO Box 8700
St. John's, NL A1B 4J6
Tel: (709) 729 - 3931 or 729 - 3933

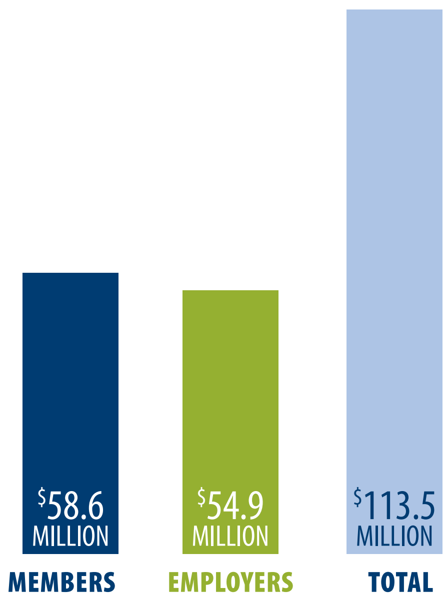
Contact information will change during the Fall of 2017 with the move to our new premises. We will keep you updated.

2016...AT A GLANCE

Investment Return 2016



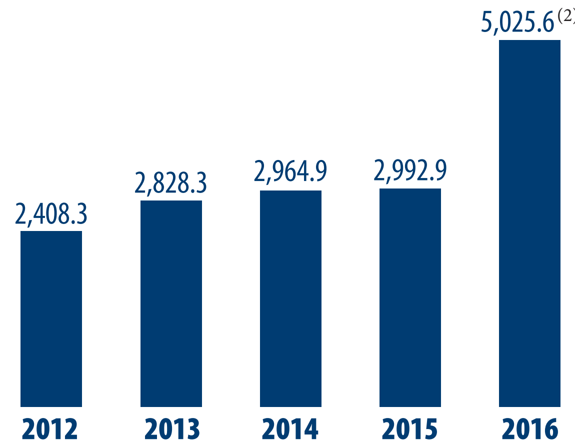
Contributions Made to the Plan in 2016:



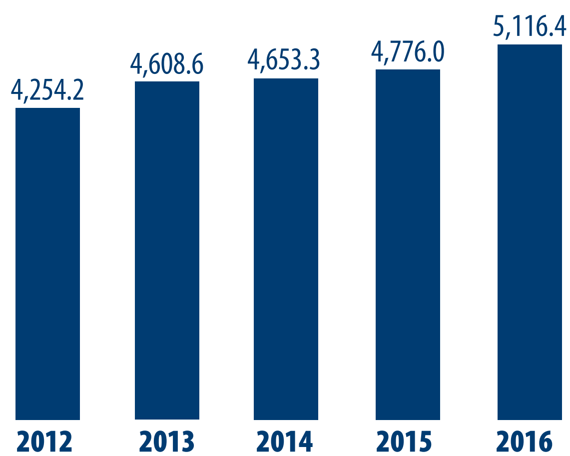
Pension Benefits Paid 2016

$288.2 million(1)

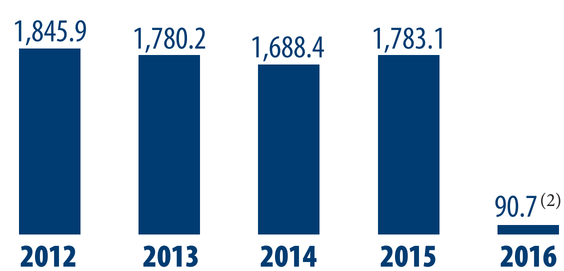
Net Assets Available for Benefits: $ millions
(as at December 31)



Accrued Benefit Obligations: $ millions
(as at December 31)



Unfunded Liability: $ millions
(as at December 31)

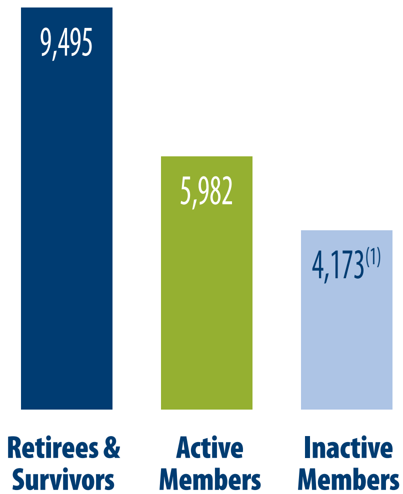


(1) Includes termination benefits (refunds and commuted value payments) of $7.0 million
(2) Includes Promissory Note of $1.862 billion from the Province

2016...AT A GLANCE

2016 Membership Facts

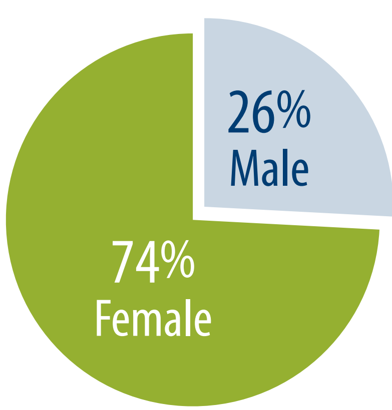
Membership Profile 2016
(as at December 31)



Over the next 5 years
2,144
active members will have reached pensionable age

FIVE YEARS

Gender Profile of Active Members



Average Age **43.5** WORKING TEACHER

Average Age **69.3** RETIRED TEACHER

Retirees over 100 years of age
6

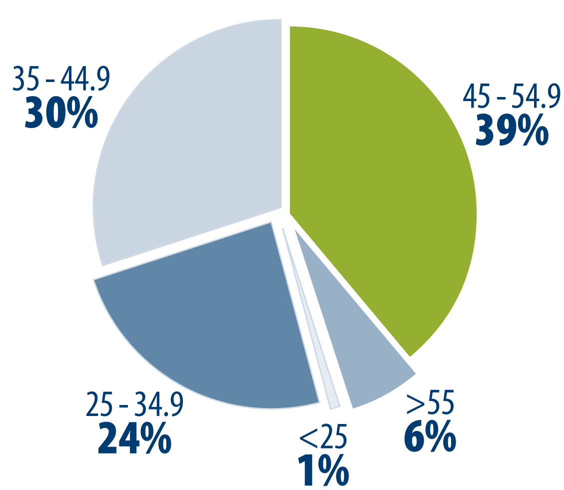
Average pensionable earnings of active members
$72,785

Retiree average lifetime pension
$27,180[2]

69.3%
of Plan obligations relate to retirees and survivors

0.63
active members for 1 retiree

Active Members by Age



[1] Includes Plan members who are not regular contributors to the Plan and have not retired or removed their funds from the Plan.
[2] From age 65 after CPP integration.

Message from the Chair

Paula McDonald

On behalf of the Teachers' Pension Plan Corporation (the "TPPC" or the "Corporation"), I am pleased to present the inaugural Annual Report of the Teachers' Pension Plan (the "Plan" or the "TPP") for the fiscal year ended December 31, 2016. This report provides you with details on the financial health of the Plan and a review of its investment activities.

The Board of Directors has a fiduciary duty to act in the best interests of members of the Plan. We take our duty seriously.

In 2016, the Plan's investment return was 7.3% compared to the actuarial discount rate of 6.0%. The funded ratio was 98.2% in 2016 compared to 62.7% in 2015, the increase attributable to a Promissory Note of $1.862 billion received from the Government of Newfoundland and Labrador on August 29, 2016.

The Board has been very busy since being appointed on August 31, 2016. This report includes background on the formation of the TPPC and what we have been working on since September 2016.

While the TPPC is still in its infancy, the Board is pleased with the success and pace of progress of the transition of pension plan assets and transitional administration and pension plan administration services to date. Communication and collaboration between the TPPC, Sponsor Body, the Newfoundland and Labrador Teachers' Association and the Government of Newfoundland and Labrador has been exceptional. Much work remains to be done, and the Board is committed to continuing its efforts to develop a Corporation that provides outstanding service to Plan members and achieves its primary objective of retirement security for TPP members, both those yet to retire, and those who have retired after years of serving the teaching profession of Newfoundland and Labrador.

Paula McDonald, BComm, FCPA, FCA, CMA
Chair

Teachers' Pension Plan Corporation

Pension Reform

A Pension Reform Agreement was reached between the Newfoundland and Labrador Teachers' Association ("NLTA") and the Government of Newfoundland and Labrador ("Government" or "Province") and signed on June 15, 2015. On March 15, 2016, a Joint Sponsorship Agreement ("JSA") was signed by the NLTA and Government. Under joint sponsorship, both Government and the NLTA will be responsible for the plan sustainability into the future. Both parties have appointed representatives to the Sponsor Body. The ultimate goal of the Pension Reform Agreement and the JSA is the creation of a world class TPPC to administer the TPP and its Pension Fund.

The assets of the Plan have been transferred from the Province to the Teachers' Pension Fund under the trusteeship of the TPPC. The $1.862 billion promissory note contained in the Pension Reform Agreement was provided to the Corporation on August 29, 2016 and is now an asset of the Plan.

Government no longer guarantees the pension deficiency; rather, future deficits and surpluses will be shared equally by the sponsors – Government and pension plan members as represented by the NLTA.

A funding policy was established for the Plan under the Pension Reform Agreement and the JSA which prescribes a path to full funding by 2042 and thereafter.

Board of Directors

On August 31, 2016, in accordance with the JSA, the Government and the NLTA announced that eight individuals were appointed to the TPPC Board of Directors as follows:

- Four directors appointed by the NLTA
- Four directors appointed by the Government

The eight expert Board members have fiduciary responsibilities and were selected based on specialized skills as outlined in the JSA. The directors have experience in governance, investments, finance, human resources, pensions, customer service and related administration, risk management, stakeholder involvement and regulatory matters. The Director's responsibilities include, but are not limited to, acting independently of the Plan sponsors and the management of the Corporation, and making decisions in the best interest of all Plan beneficiaries.

The TPPC Board of Directors, a governing body separate from the Sponsor Body, was established as Trustee for the Teachers' Pension Fund and oversees the management and prudent investment of the pension plan and direction of the TPPC.

The TPPC Board of Directors has established three standing committees as follows:

- Investment Committee (the "IC")
- Audit and Finance Committee (the "AFC")
- Governance and Human Resources Committee (the "GHRC")

The committees are responsible for providing expert advice to the Board, as per each committee's respective Terms of Reference; such advice will enable the Board to fulfill the TPPC's corporate goals, objectives, and responsibilities.

TPPC Board of Directors

Investment Committee
Assists the Board in overseeing all investment activities of the TPPC

Audit and Finance Committee
Assists the Board in fulfilling its oversight responsibility in relation to the TPPC's financial reporting, accounting systems, internal controls, and risk management

Governance and Human Resources Committee
Provides a focus and ongoing pursuit of best practices regarding corporate governance and human resource policy, procedures and practices

NLTA Board Member Appointees:

- **Don Ash**, BSc, BEd, MBA – Director, Member of IC
- **Robert Blais**, BSc, FSA, FCIA – Director, Member of IC and Member of AFC
- **Paula McDonald**, BComm, FCPA, FCA, CMA – Director, Chair of the Board, Member of IC, Member of GHRC and Member of AFC
- **Scott Perkin**, BComm, LLB – Director, Member of AFC and Member of GHRC

Provincial Government Board Member Appointees:

- **Richard Dixon**, BA, MIR, ICD.D – Director, Chair of GHRC
- **Janet Rabovsky**, BA, MBA – Director, Chair of IC
- **Gretchen Van Riesen**, BSc – Director, Member of GHRC
- **Eric Thoms**, BA, MBA, CPA, CMA – Director, Vice-Chair of the Board, Chair of AFC and Member of GHRC

The IC also includes two external members who bring additional subject matter expertise to the Board and are as follows:

- **Brad Rowe**, BA, CFA
- **James Clark**, BSc, CPA, CA, CFA

Plan Governance

The TPPC ensures that the Plan is operated with strong risk management practices, prudent management of the Plan's investment assets, strong controls and transparent reporting.

The Sponsors of the Plan are the NLTA and the Government. The JSA sets out the responsibilities and duties of the Sponsor Body which is comprised of representatives of the NLTA and the Government.

Sponsor Body – The Sponsor Body's responsibilities include:
- Making amendments to the Plan design, including eligibility, benefits and contributions
- Deciding the frequency of actuarial valuations of the Plan
- Amending the actuarial assumptions and methods for the Plan
- Implementing the Funding Policy that has been agreed in the JSA

The TPPC – The Corporation has the fiduciary responsibility for the Plan and the investment assets:
- Sets strategic direction and makes key decisions
- Responsible for the Plan's overall operations and investment decisions
- Sets policy framework and strategic direction for the investment assets
- Manages the day-to-day operations of the Plan investments and benefit administration

Teachers' Pension Plan Corporation Update

On August 31, 2016, a Service Level Agreement ("SLA") was signed between the TPPC and the Province that enables the Pensions Division, Department of Finance to continue to provide pension services to plan members until March 2018 unless terminated earlier by the TPPC. Since inception, the Corporation has been focused on activities that will ensure the seamless transition of the pension administration and investment responsibilities to the TPPC from the Department of Finance. Key priorities include:

- **Governing the organization by broad policies and objectives**
  - Approved the TPPC By-Laws
  - Developed and approved governance policies for the Code of Business Conduct and Privacy
  - Developed and approved Terms of Reference for the Committees of the Board
  - Reviewed, revised, and adopted a Statement of Investment Policy and Procedures (SIPP) that reflects the investment beliefs, risk tolerance, and desired operational state of the TPPC
  - Adopted an Interim Asset Allocation that reduces the equity exposure of the asset allocation in existence. This will immediately reduce the volatility and risk associated with the heavy equity exposure that has historically existed and to reduce exposure to rising interest rates
  - Secured insurance policies that protect the TPPC and the Plan Members with respect to fiduciary liabilities and crime

- **Ensuring sufficient resources are in place for transition and continued smooth operations**
  - Organization planning is underway
  - Two key staff members have been hired from the Pensions Division with pension administration and systems expertise
  - Consultants have been hired with expertise in Finance, Project Management, Investments and Information Technology to facilitate day-to-day operations and detailed transition planning from Government
  - New leased premises have been successfully negotiated and renovations are in progress

- **Providing the day-to-day management of the Plan administration and investment activities**
  - Effectively transitioned Investment Management Services to TPPC in January 2017, previously supplied under the SLA
  - Corporate legal counsel, bankers, and auditors have been appointed

- **Selecting and appointing a Chief Executive Officer**
  - Executive recruitment firm has been hired to assist in the executive search for a CEO

- **Reporting periodically to the Sponsors**
  - Updates have been given concerning the Corporation's progress, investments, areas of risk, corporate expenditures and Corporation policies
  - Audited Financial Statements were completed and presented by April 30, 2017

The Plan's Financial Position

Accrued Benefit Obligation (as at December 31, 2016)

The Accrued Benefit Obligation at December 31, 2016 was $5,116 million compared to $4,776 million in 2015. The calculation of this obligation is derived by using several key assumptions. The most significant assumption is the discount rate which is a forecast of the long-term rate of return from investment assets.

The following assumption changes have been made when compared to the December 31, 2015 disclosure basis:

- The discount rate assumption was changed from 6.50% per year to 6.00% per year. This change reflects the Plan's revised asset mix as discussed in "Investment Management – Discussion and Analysis".
- The assumed rate of post-retirement indexing has been changed from 1.20% per year to 1.00% per year for the year end disclosure of the obligation at December 31, 2016. The revised assumption of 1.00% is based on an analysis of the Consumer Price Index expectations, and the resulting increases that will then be granted under the Plan's post-retirement indexing formula.

Net Assets Available for Benefits (as at December 31, 2016)

Net Assets Available for Benefits were $5,025 million compared to $2,992 million in 2015, and the Plan funded ratio was 98.2%. The Plan funded ratio is the ratio of Plan assets to Plan liabilities. The funded ratio increase from 62.7% in 2015 is due to the promissory note of $1.862 billion received from the Province on August 29, 2016 and positive investment returns above the discount rate.

Investment Management – Discussion and Analysis

Overview

Objective

The primary objective of the Teachers' Pension Plan (the "Plan") is to ensure that the Plan can meet the pension obligations as they come due. This requires the assets to be invested in a way that balances risk and return and ensures the sustainability of the Plan longer term.

Statement of Investment Policies and Procedures

The Board of Directors of the TPPC is responsible for approving the Statement of Investment Policies and Procedures (the "SIPP"). The SIPP lays out the governance arrangements for the plan, along with the asset allocation strategy, risk tolerance, the permitted asset classes and risk constraints, conflict of interest policies and monitoring procedures. The SIPP provides guidance for all the plan's professional experts, in effect providing the framework for managing the pension plan.

Asset Allocation

Asset allocation is a key component in determining the Plan's return and risk profile. Asset liability studies help Plan fiduciaries consider the Fund's ability to meet liabilities as they come due. Potential asset mixes are tested under a range of market and economic environments to examine how they might behave; this helps the Board calibrate its tolerance for return variability. The selected asset mix usually balances off cost, return and risk of loss.

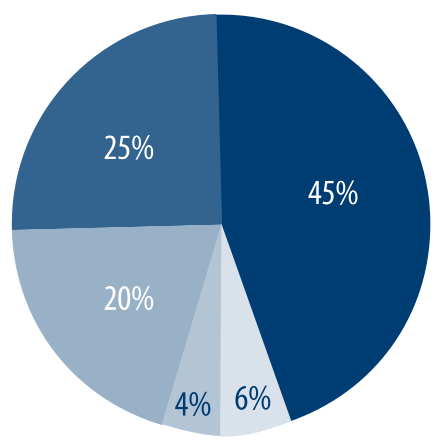
An asset liability study was completed in late 2016 that resulted in a revised strategic asset allocation. The revised asset allocation maintains a return equal to or greater than the assumed actuarial discount rate. It also:

(i) lowers the Plan's exposure to public equity markets;
(ii) increases the allocation to non-publicly traded companies (private equity), real estate and infrastructure; and
(iii) allocates money to higher income generating assets, like mortgages and private debt.

The transition to the strategic asset mix will be implemented over the next three years.

Actual Asset Mix at December 31, 2016

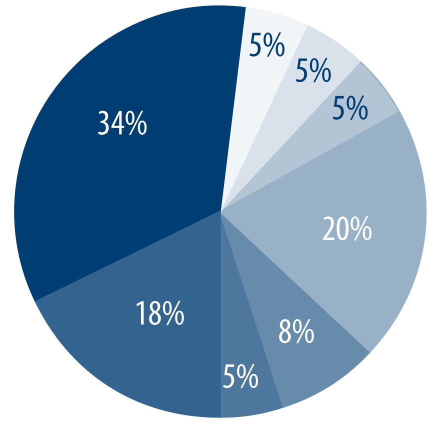
Return Seeking Assets	%
Global Equities	45
Canadian Equities	25
Infrastructure	6
Real Estate	4
Income Seeking Assets	
Fixed Income	20
	100%



Investment Management – Discussion and Analysis (Continued)

Strategic Asset Mix Allocation – To Be Implemented Over the Next 3 Years

Return Seeking Assets	%
Global Equities	34
Canadian Equities	18
Private Equity	5
Infrastructure	5
Real Estate	5
Income Seeking Assets	
Fixed Income	20
Mortgages	8
Private Debt	5
	100%



2016 Market Overview

As has been the case over the past few years, 2016 was a tale of two halves. Heightened economic and political concerns led to strong bond and weak equity markets during the first half of the year, as investors sought the safety of government and longer dated bonds. The second half of the year saw a greater appetite for risk and equity markets, as the US election was held and the fall-out from Brexit started to dissipate.

The Canadian equity market, the S&P TSX Composite Index, was one of the strongest in 2016, returning more than 21%. This was much stronger than many other developed markets, notably the US equity market, which returned 8% and the European equity market which lost 2%. The Emerging Markets saw improved returns, returning almost 8%. Unlike 2015, Canadian investors did not benefit from currency movements, as the Canadian dollar started the year at 72 cents and ended it at 74 cents. The Canadian dollar performed similarly against other major currencies (Yen, Euro).

During the first half of 2016, longer dated Canadian government bonds were among the best performing. This was reversed in the second half of the year, especially when investors bid up bond prices, concerned that President Trump's agenda and the implications from Brexit would be inflationary. Mid-term bonds returned just 1.7% in 2016, whereas longer dated bonds returned 2.5%. Bonds issued by corporations were among the best performing, returning 3.7%, as the relatively higher yields (when compared to government bonds) were attractive to yield hungry investors.

A rising oil price and benign economy helped spur on the Canadian economy in the second half of 2016, which was supported by relatively low inflation (1.5% as at December 2016). The Bank of Canada did not raise rates during 2016, as unemployment remained range bound at between 6.8% and 7%. While the oil price increased to over $50 a barrel during the year, oil producing provinces continued to see rising unemployment. Despite a lower dollar than a few years ago, exports have not increased as expected. Most economists do not believe the Bank of Canada will increase rates in the near term, despite the US Federal Reserve's 25 basis point increase in December 2016 and promised 2-3 increases during 2017.

Looking Forward to 2017

The Fund has begun to implement the strategic asset allocation in 2017.

During the first half of the year, considerable effort is being made to identify and retain investment managers for the private debt and mortgage mandates. As a first step, the Board terminated two existing investment managers, one bond, one equity, in order to provide a funding source for the new asset classes and to reduce the overall equity allocation. The proceeds from the two terminated managers have been invested in a short term corporate bond fund for the interim.

Glossary of Terms

Accrued Benefit Obligation	An estimate of the current value of the future obligations of the Plan. The Plan's future obligations refer to the pension commitments made to the retirees, current employees and future employees.
Actuarial Rate of Return	The assumed long term rate of return used by the Plan's external actuaries to determine the value of the Plan's liabilities. Also referred to as the Discount Rate.
Assets	The items owned by the Plan that have a monetary value and are available to pay the Plan's obligations. Examples of the Plan's assets are cash, stocks, bonds, real estate, infrastructure, etc.
Asset Allocation/Mix	The allocation of the Plan's Fund among the different asset classes that the Fund invests in such as cash, stocks, bonds, real estate, infrastructure, etc.
Asset Liability Study	A study that analyzes the future stream of liabilities of the Plan and helps determine an asset mix which will provide the return required to support the liabilities over the long term. The study also examines the amount of risk that the Plan must take to generate the return.
Discount Rate	The rate that reflects what the Plan's assets are expected to earn over the long term.
Equity(ies)	A stock or any other security representing an ownership interest in a company.
Fixed Income	A loan made by an investor to a company or a government. It is commonly referred to as a bond.
Funded Ratio	The Plan's assets divided by the Plan's liabilities and expressed as a percentage. If the percentage is above 100%, the Plan has a surplus which indicates that there are more than enough assets to fund the future estimated liabilities. If the percentage is below 100%, the Plan has a deficit or Unfunded Liability which indicates that the assets are not sufficient to fund the future liabilities.
Gross of Investment Management Fees	Refers to the fact that the investment return does not include any fees or expenses paid to the investment managers.
Net Assets Available for Benefits	Total assets less liabilities of the Plan that are available for the Accrued Benefit Obligation.
Return on Investment	A performance measure, expressed as a percentage, used to determine the return of an investment relative to the investment's cost. It evaluates the efficiency of the Plan's assets.
Unfunded Liability	See Funded Ratio. The unfunded liability is expressed in dollar terms.
Yield	The income return on an investment, such as interest, received from holding a particular security. A common term used for the return on bonds.

Financial Statements of

TEACHERS' PENSION PLAN

December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Teachers' Pension Plan

We have audited the accompanying financial statements of Teachers' Pension Plan, which comprise the statement of financial position as at December 31, 2016 and the statements of changes in net assets available for benefits and changes in accrued benefit obligation for the four-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Board of Trustee'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 the Board of Trustees determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Teachers' Pension Plan as at December 31, 2016 and its changes in net assets available for benefits and changes in pension obligations for the four-month period then ended in accordance with Canadian accounting standards for pension plans.

Comparative Information

The financial statements of Teachers' Pension Plan as at and for the periods ended August 31, 2016 and December 31, 2015 are unaudited. Accordingly, we do not express an opinion on them.

KPMG LLP

Chartered Professional Accountants

April 25, 2017

St. John's, Canada

Teachers' Pension Plan
Statement of Financial Position
December 31, 2016
With comparative information as at August 31, 2016 and December 31, 2015

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
	(000's)	(000's)	(000's)
Assets			
Cash	$ 82,506	$ 168,417	$ 12,184
Accrued investment income	46,836	10,244	10,593
Contributions receivable			
Employee	1,037	1,917	901
Employer	1,053	1,909	800
Other receivables	709	483	395
Investments (Note 4)	3,060,908	2,972,365	2,971,326
Promissory note receivable (Note 14)	1,838,448	1,838,448	-
Total assets	$ 5,031,497	$ 4,993,783	$ 2,996,199
Liabilities			
Accounts payable and accrued liabilities	$ 2,413	$ 1,422	$ 2,068
Payable to Teachers' Pension Plan Corporation (Note 14)	372	-	-
Payable to Newfoundland and Labrador Pooled Pension Fund	256	-	-
Termination benefits payable	2,808	247	680
Due to Province of Newfoundland and Labrador (Note 14)	3	280	505
	5,852	1,949	3,253
Net assets available for benefits	5,025,645	4,991,834	2,992,946
Accrued benefit obligation (Note 9)	5,116,380	5,147,215	4,776,036
Deficit	$ (90,735)	$ (155,381)	$ (1,783,090)

See accompanying notes to financial statements

On behalf of the Board:

________________________ Chair

________________________ Director

Teachers' Pension Plan
Statement of Changes in Net Assets Available for Benefits
For the four-month period ended December 31, 2016,
With comparative information for the eight-months ended August 31, 2016 and the Year ended December 31, 2015

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
	(000's)	(000's)	(000's)
Increase in net assets			
Investment income (Note 5)	$ 20,768	$ 49,089	$ 94,347
Gain (loss) on sale of investments (Note 5)	(6,539)	479,282	1,244,805
Current period change in market value of investments (Note 5)	48,446	(384,265)	(1,121,409)
Interest earned on promissory note (Note 14)	36,870	111,720	-
	99,545	255,826	217,743
Contributions (Note 11)			
Employee	18,654	39,972	54,012
Employer	17,704	37,192	47,916
Promissory note received (Note 14)	-	1,862,000	-
	36,358	1,939,164	101,928
	135,903	2,194,990	319,671
Decrease in net assets			
Pension payments (Note 12)	(94,289)	(184,351)	(277,132)
Termination benefits (Note 12)	(3,764)	(5,617)	(4,867)
Administrative expenses (Note 8)	(4,039)	(6,134)	(9,576)
	(102,092)	(196,102)	(291,575)
Increase in net assets available for benefits	33,811	1,998,888	28,096
Net assets available for benefits, beginning of period	4,991,834	2,992,946	2,964,850
Net assets available for benefits, end of period	$ 5,025,645	$ 4,991,834	$ 2,992,946

See accompanying notes to financial statements

Teachers' Pension Plan
Statement of Changes in Net Assets Accrued Benefit Obligation
For the four-month period ended December 31, 2016,
With comparative information for the eight-months ended August 31, 2016 and the
Year ended December 31, 2015

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
	(000's)	(000's)	(000's)
Actuarial present value of accrued benefit obligation, beginning of period	$ 5,147,215	$ 4,776,036	$ 4,653,300
Amendments to plan			(65,184)
Change in actuarial assumptions	(63,293)	299,112	124,637
Interest accrued on benefits	102,246	204,101	307,543
Experience gain (loss)	-	-	(50,036)
Benefits accrued	28,288	58,139	87,775
Benefits paid	(98,076)	(190,173)	(281,999)
Actuarial present value of accrued benefit obligation, end of period	$ 5,116,380	$ 5,147,215	$ 4,776,036

See accompanying notes to financial statements

The Teachers' Pension Plan (the "Plan" or "TPP") was established on May 31, 1991, with an effective date retroactive to January 1, 1991, by the Teachers (Pensions) Act (the "Act"). The Teachers' Pension Plan Fund (the "Fund") was created under the authority of the Act. The assets of the Plan were separated from the Newfoundland and Labrador Pooled Pension Fund (the "NLPPF") on September 1, 2016, as provided by Section 5.1 of the Pensions Funding Act. Section 9 of the Pensions Funding Act which references a deficiency guarantee of pension plans does not apply to the Plan.

The Act provides for two Plan components; a Registered Plan (registration number 0375709), 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. The Teachers' Pension Plan Corporation (the "Corporation") has been established as the Trustee of the Registered Plan, to manage the investments of and administer the Registered Plan. A service level agreement was signed between the Corporation and the Province of Newfoundland and Labrador (the "Province") to allow the Province to continue to administer the Plan for an interim period up to March 31, 2018 unless terminated by the Corporation.

1. Description of the Plan

a) General

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

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 of the Province. All public money over which the Legislature has power of appropriation, excepting money that is otherwise specially disposed of by the Legislature, shall form a Consolidated Revenue Fund to be appropriated to the public service of the province.

The Plan is not subject to income tax, but is subject to indirect taxes including the Harmonized Sales Tax. The Plan is in the process of reviewing its registration status and corresponding refund entitlement.

The separation of the Plan from the NLPPF has been accounted for at the carrying amount. The Teachers' Pension Plan continues under a separate fund. Prior period comparatives have been presented for the eight months ended August 31, 2016 and the twelve months ended December 31, 2015. Certain comparative balances have been pro-rated across the entire NLPPF in order to reflect the portion related to the Plan.

b) Employee contributions

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

1. Description of the Plan (continued)

c) Accrued service pensions

A service pension is available from the Plan based on 1/45th of the member's best five years average salary times years of pensionable service prior to January 1, 1991, plus 2% of the member's best five years average salary times years of pensionable service after January 1, 1991. When a member who retired after August 31, 1998 reaches age 65, this pension is reduced by 0.6% of the member's best five years average salary up to average Year's Maximum Pensionable Earnings ("YMPE") times years of pensionable service after April 1, 1967.

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

d) 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.

e) 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.

f) 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.

g) Termination benefits

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

h) Indexing

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

2. Basis of Preparation

(a) Basis of presentation

The financial statements are prepared in accordance with Canadian accounting standards for pension plans in Part IV of the Chartered Professional Accountants (CPA) Canada Handbook.

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Plan to comply on a consistent basis with either International Financial Reporting Standards (“IFRS”) in Part I of the CPA Canada Handbook, or Accounting Standards for Private Enterprises (“ASPE”) in Part II of the Handbook. The Plan has chosen to comply on a consistent basis with IFRS.

(b) Functional and presentation currency

The financial statements are presented in 000’s of Canadian dollars unless otherwise noted. The Canadian dollar is the Plan’s functional currency.

(c) Use of estimates and judgments

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the valuation and classification of investments, as well as assumptions used in the calculation of pension obligations. Actual results could differ from these estimates and the impact of any such differences will be recorded in future periods.

3. Significant Accounting Policies

(a) Financial assets and financial liabilities

(i) Non-derivative financial assets

Financial assets are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument. Upon initial recognition, attributable transaction costs are recognized in the statements of changes in net assets available for benefits as incurred.

Subsequently, the Plan measures all of its investments at fair value through the statement of changes in net assets available for benefits.

All other non-derivative financial assets including contributions and accounts receivable are measured at amortized cost.

The Plan de-recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Plan neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain on sale of investments.

3. Significant Accounting Policies (continued)

(a) Financial assets and financial liabilities (continued)

(ii) Non-derivative financial liabilities

All financial liabilities are recognized initially on the trade date at which the Plan becomes a party to the contractual provisions of the instrument.

The Plan de-recognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Plan considers all liabilities, except for derivative contracts payable, to be non-derivative financial liabilities.

(iii) Derivative financial instruments

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

Financial assets and liabilities are offset and the net amount presented in the statement of net assets available for benefits when, and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(b) Fair value measurement

As allowed under IFRS 13, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's-length basis.

If a market for a financial instrument is not active, then the Plan establishes fair value using a valuation technique. Valuation techniques include using recent arm's-length transactions between knowledgeable, willing parties (if available); reference to the current fair value of other instruments that are substantially the same; and discounted cash flow analyses.

All changes in fair value, other that interest and dividend income, and expense, are recognized in the statement of changes in net assets available for benefits as part of the change in net unrealized gains.

Fair values of investments are determined as follows:

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

Bonds and debentures are valued at the closing mid-price at the valuation date.

3. Significant Accounting Policies (continued)

(b) Fair value measurement (continued)

Publicly traded equities are valued at year-end quoted closing prices where available. Where quoted prices are not available on the valuation date, estimated fair values are calculated using the last trade date.

The Plan's investments in real estate are through its jointly-owned subsidiary, Newvest Realty Corporation ("Newvest"). All real properties have been subject to valuations by qualified independent property appraisers using market-based assumptions in accordance with recognized valuation techniques. The valuation techniques used include the direct capitalized net operation income method and the discounted cash flow method unless the property was acquired in the year and only then would the cost be applied as the fair value. Recent real estate transactions with similar characteristics and location to the assets are also considered. The direct capitalization income method applies a capitalization rate of property's stabilized net operating income which incorporates allowances for vacancy, management fees and structural reserves for capital expenditures for the property.

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Unrealized gains and losses on derivative financial instruments, net of premiums paid or received on options contracts, are included in derivative contracts investments.

The Plan holds private investments, such as non-traded pooled or closed funds, limited partnership interests, private placement bonds or equity investments, through the wholly-owned TPP Neptune Corporation. Private investment fund valuations are initially provided by the external fund managers, usually on a three month lagging basis. Such valuations are then adjusted to reflect cash contributions and cash distributions between the valuation date and the reporting date, including marking to market any publicly-traded securities held by the underlying private investment.

c) Investment income

Investment income is recorded on an accrual basis and includes interest income, dividends and other income.

Dividend income is recognized as of the date of record.

The net realized gain on sale of investments is the difference between proceeds received and the average cost of investments sold.

d) Foreign currency translation

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

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

3. Significant Accounting Policies (continued)

e) Contributions

Contributions from employers and members due to the Plan at the reporting date 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 due and paid, twice monthly. Commuted value payments and transfers to other pension plans are recorded when paid. Accrued benefits for members are recorded as part of the accrued pension obligation.

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 professional fees. External investment management expenses represent payments to the investment managers. A portion of the administrative expenses are incurred directly by the Corporation, while the remaining administrative expenses are allocated to the Plan, the Public Service Pension Plan, and the plans in the NLPPF 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. Under the Service Level Agreement between the Corporation and the Government of Newfoundland and Labrador the Province continues to administer the Plan for an interim period. Certain salaries, overhead and administrative expenses of the Department of Finance, Pensions Division are to be charged to the Plan on a cost recovery basis.

h) Cash

Cash includes balances with banks and investment managers.

4. Investments and Derivatives

a) Investment portfolio:

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

	As at December 31, 2016			As at August 31, 2016 (unaudited)			As at December 31, 2015 (unaudited)		
	Assets	%	Cost	Assets	%	Cost	Assets	%	Cost
	(000's)		(000's)	(000's)		(000's)	(000's)		(000's)
Money Market									
Canadian	$39,120	1.3	$39,120	$39,089	1.3	$39,087	$58,738	2.0	$58,852
US							351	-	351
Fixed Income									
Canadian	578,413	18.9	600,697	602,062	20.3	577,622	484,060	16.3	477,628
US							88,012	3.0	87,312
Equities									
Canadian	769,684	25.1	736,054	940,484	31.6	786,987	864,589	29.1	791,670
US	657,165	21.5	625,207	779,629	26.2	606,402	853,003	28.7	656,633
Global	676,337	22.1	666,348	489,971	16.5	440,729	523,382	17.6	441,893
Private equity	39,751	1.3	39,597	7,244	0.3	7,244	-	-	-
Pooled Funds	190,323	6.2	199,139	-	-	-	-	-	-
Real Estate	114,676	3.7	112,776	113,886	3.8	80,944	99,191	3.3	70,511
Futures	(4,561)	(0.1)	-	-	-	-	-	-	-
Total	$3,060,908	100	$3,018,938	$2,972,365	100	$2,539,015	$2,971,326	100	$2,584,850

4. Investments and Derivatives (continued)

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.

(i) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities.

(ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly.

(iii) Level 3 - inputs for assets and liabilities that are not based on observable market data.

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

As at December 31, 2016	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Money Market				
Canadian	$ –	$ 39,120	$ –	$ 39,120
Fixed income				
Canadian	–	578,413	–	578,413
Equities				
Canadian	769,684	–	–	769,684
US	655,405	–	1,760	657,165
Global	676,337	–	–	676,337
Private equity	–	–	39,751	39,751
Derivatives	–	(4,561)	–	(4,561)
Pooled funds	–	190,323	–	190,323
Real estate	–	–	114,676	114,676
Total	$ 2,101,426	$ 803,295	$ 156,187	$ 3,060,908

4. Investments and Derivatives (continued)

b) Fair value measurement (continued)

As at August 31, 2016	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Money Market				
Canadian	$ –	$ 39,089	$ –	$ 39,089
Fixed income				
Canadian	–	602,062	–	602,062
Equities				
Canadian	940,484	–	–	940,484
US	777,863	–	1,766	779,629
Global	489,971	–	–	489,971
Private equity	–	–	7,244	7,244
Real estate	–	–	113,886	113,886
Total	$ 2,208,318	$ 641,151	$ 122,896	$ 2,972,365

As at December 31, 2015	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Money Market				
Canadian	$ –	$ 58,738	$ –	$ 58,738
US	–	351	–	351
Fixed income				
Canadian	–	484,060	–	484,060
US	–	88,012	–	88,012
Equities				
Canadian	725,393	139,196	–	864,589
US	853,003	–	–	853,003
Global	523,382	–	–	523,382
Real estate	–	–	99,191	99,191
Total	$ 2,101,778	$ 770,357	$ 99,191	$ 2,971,326

There have been no transfers between levels in any of the periods presented.

4. Investments and Derivatives (continued)

b) Fair value measurement (continued)

The following table reconciles the Plan's level 3 fair value measurements from period to period:

		(000's)
Fair value, December 31, 2015	$	99,191
Acquisitions		18,066
Transfer in		1,641
Realized gain / loss		–
Net change in unrealized gain / loss		–
Change in unrealized gain / loss on assets held		3,998
Fair value August 31, 2016	$	122,896
Fair value, August 31, 2016	$	122,896
Acquisitions		34,253
Dispositions		(1,110)
Transfer in		–
Realized gain / loss		–
Net change in unrealized gain / loss		–
Change in unrealized gain / loss on assets held		148
Fair Value December 31, 2016	$	156,187

c) Derivatives

Derivatives are financial contracts, the value of which is derived from the value of underlying assets or interest or exchange rates. Derivatives provide flexibility in implementing investment strategies. The Plan uses such contracts to enhance investment returns and for managing exposure to foreign currency volatility.

Notional amounts of derivative contracts are the contract amounts used to calculate the cash flow to be exchanged. They represent the contractual amounts to which a rate or price is applied for computing the cash to be paid or received. Notional amounts are the basis on which the returns from and fair value of the contracts are determined. They are not recorded as financial assets or liabilities on the annual statement of financial position and change in net assets available for benefits. They are a common measure of volume of outstanding transactions but do not represent credit or market risk exposure. The aggregate notional amounts and fair value of derivative contracts can fluctuate significantly.

Derivative contracts transacted on either regulated exchange market or in the over the counter market directly between two counterparts include the following:

(i) Futures:

Futures are transacted in standard amounts on regulated exchanges and are subject to daily cash managing.

4. Investments and Derivatives (continued)

c) Derivatives (continued)

(ii) Currency forwards

Currency forward are contractual obligations to exchange one currency for another at a specified price or settlement at a predetermined future date. Forward contracts are used to manage the currency exposure of investments held in foreign currencies. The notional amount of a currency forward represents the contracted amount purchased or sold for settlement at a future date. The fair value is determined by the difference between the market value and the notional value upon settlement.

The following table sets out the notional values of the Plans' derivatives and their related assets and liabilities:

	Notional amount (000's)	Fair value asset (000's)	Fair value liability (000's)	Fair value net (000's)
31 December 31 2016				
Currency forwards	$ 162,773	$ 582	$ 615	$ (33)
31 August 31 2016				
Currency forwards (unaudited)	55,060	615	615	-
31 December 31 2015				
Currency forwards (unaudited)	17,543	(316)	(316)	-

d) Securities lending

The Plan 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.

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

	December 31, 2016 (000's)	August 31, 2016 (unaudited) (000's)	December 31, 2015 (unaudited) (000's)
Securities lent	$ 715,891	$ 451,844	$ 760,432
Securities contractually receivable	756,339	471,937	800,898

5. Investment Income (Loss)

(a) Investment income (loss) is as follows:

	December 31, 2016 (000's)	August 31, 2016 (unaudited) (000's)	December 31, 2015 (unaudited) (000's)
Dividend income	$ 16,393	$ 44,035	$ 68,301
Interest income	3,849	3,422	23,431
Security lending income	523	1,585	2,522
Commission recapture income	3	47	93
Investment income	20,768	49,089	$ 94,347
Gain (loss) on sale of investments	(6,539)	479,282	1,244,805
Current period change in market value of investments	48,446	(384,265)	(1,121,409)
Investment income (loss)	$ 62,675	$ 144,106	$ 217,743

(b) Investment income (loss) by asset mix, is as follows:

	Investment Income	Gain (Loss) on sale of investments	Current period change in market value of investments	4 months ended December 31, 2016 Total	8 months ended August 31, 2016 Total (unaudited)	December 31 2015 Total (unaudited)
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
Canadian equities	$ 834	$(1,114)	$33,014	$32,734	$(77,690)	$191,006
Foreign equities	12,504	(8,284)	35,662	39,882	210,642	(61,084)
Bonds and debentures	3,630	2,811	(22,284)	(15,843)	2,043	76,738
Short term notes and deposits	745	48	-	793	1,632	6,643
Real estate	3,055	-	1,900	4,955	7,479	4,440
Private equity	-	-	154	154	-	-
Total	$20,768	$(6,539)	$ 48,446	$62,675	$144,106	$217,743

6. 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 Plan to credit and liquidity risks, interest rate volatility, and market risks including foreign exchange and market price fluctuations and volatility. The Plan has policies and operating procedures that establish an asset mix among equity, fixed income, real estate and private equity 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 Plan processes to achieve consistent controls and mitigate operational risk.

(a) Interest rate risk

Interest rate risk refers to the fact that the Plan'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 Plan's assets and cash flows related to the Plan's liabilities.

The fair value of the Plan 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, are as follows:

	December 31, 2016 (%)	August 31, 2016 (unaudited) (%)	December 31, 2015 (unaudited) (%)
Within 1 year	6.3	7.3	7.1
Short (1 -5 years)	31.0	31.1	31.7
Medium (5 – 10 years)	30.4	29.5	29.0
Long (10+ years)	32.3	32.1	32.2
Total	100.0	100.0	100.0

Assuming a parallel change in the long and short-term yields, a 1% increase in interest rates would have the effect of decreasing the fair value of the Plan's fixed income investments by approximately $45.3 million or 7.64% (2015 - $42.2 million or 6.86%).

(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 Plan through the construction of a diversified portfolio of instruments traded on various markets and across various industries. If equity market indices (S&P/TSX and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $232.9 million, or 7.61% (2015 - $224.1 million or 7.54%).

6. Investment Risk Management (continued)

(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 Plan's exposure in two ways: by sector (government versus corporate) and by credit quality.

The Plan is exposed to credit risk from the following interest earning investments, classified by sector as at period end:

	December 31, 2016 (%)	August 31, 2016 (unaudited) (%)	December 31, 2015 (unaudited) (%)
Federal government	17.9	17.0	19.0
Provincial government	32.5	31.8	29.9
Municipal government	1.1	1.1	1.2
Corporate	44.9	45.0	47.4
Other	3.6	5.1	2.5
Total	100.0	100.0	100.0

The Plan's risk by credit rating as at period end is as follows:

	December 31, 2016 (%)	August 31, 2016 (unaudited) (%)	December 31, 2015 (unaudited) (%)
AAA to A-	75.6	73.3	67.0
BBB to BBB-	15.7	16.2	14.5
BB+ and below	0.6	0.7	0.6
Not rated	8.1	9.8	17.9
Total	100.0	100.0	100.0

Real estate

Real estate investment managers manage risk through monthly monitoring of tenant performance and arrears. Tenant exposure is managed by limiting concentration to a specific economic sector and geographic area. Transactions that involve assuming a new tenant exposure are vetted by an appropriate due diligence and approval process.

Securities lending

The Plan 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.

6. Investment Risk Management (continued)

(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 Plan's exposure to foreign currencies provides diversification benefits that should be assessed by asset class. Foreign currency positions arising from investments in real estate or infrastructure are generally hedged, while investments in global public and private equity generally are not hedged. In addition, the investment managers of the Plan are given flexibility through their mandate to periodically hedge currency for opportunistic or defensive purposes.

The Plan's unhedged currency exposure from net investment assets as at period end is summarized in the following table:

	December 31, 2016 (%)	August 31, 2016 (unaudited) (%)	December 31, 2015 (unaudited) (%)
Canadian Dollar	61.2	57.4	56.4
US Dollar	23.9	26.3	25.7
Euro	3.8	4.3	4.6
British Pound	3.0	3.3	3.4
Other Asia / Pacific currencies	3.0	3.1	3.8
Other European currencies	2.5	2.7	2.8
Japanese Yen	1.6	2.2	2.2
Other currencies *	1.0	0.7	1.1
Total	100.0	100.0	100.0

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

A 10% increase in the value of the Canadian dollar in relation to all other foreign currencies, with all other variables held constant, would result in an unrealized investment loss of $121.4 million, or 3.88% (2015 - $149.1 million or 4.66% (unaudited)).

(e) Liquidity risk

Liquidity risk corresponds to the Plan'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 Plan, cash income of the Plan and planned dispositions of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations. In general, the Plan'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. Investments in private equity and real estate are considered highly illiquid due to their private nature and longer term to maturity.

7. Capital Management

The capital of the Plan is defined as the net assets available for benefits. The Plan 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 Plan 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 Plan is jointly sponsored by the Government of Newfoundland and Labrador and the plan members. The Investment Committee appointed by the Board of Directors of the TPP Corporation, the Trustee of the Plan, has been tasked with the responsibility to review, monitor, administer and supervise all investment activities of the Plan.

(a) Portfolio management

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

Baillie Gifford Overseas Limited
Bentall Kennedy
Beutel, Goodman & Company Ltd.
Caledon Neptune Infrastructure Investments II, L.P.
Caledon Neptune PE Investments II, L.P.
Connor, Clark & Lunn Investment Management Ltd.
Fiera Capital Corporation
Global Thematic Partners, LLP
Phillips, Hager & North Investment Management Ltd.
(Pyramis) Fidelity Investments Canada ULC
QV Investors Inc
Russell Investments Canada
Sprucegrove Investment Management Ltd.
T. Rowe Price
Wellington Management Company, LLP

Subsequent to year end, the Plan terminated its Global equity mandate with Sprucegrove Investment Management Ltd and its Fixed Income mandate with Beutel, Goodman and Company Ltd. The Plan also signed a new agreement for a Fixed Income mandate with Blackrock Asset Management Canada Limited.

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

(b) Interim asset mix

The interim asset mix policy of the Plan is as follows:

Return Seeking Assets	
Canadian Equity	18%
Global Equities	34%
Private Equity	5%
Real Estate	5%
Infrastructure	5%

7. Capital Management (continued)

Income Seeking Assets	
Canadian Bonds	20%
Mortgages	8%
Private Debt	5%

The interim asset mix policy was adopted by the Board after evaluating a number of options. Factors considered included the Plan's going-concern funded ratios, member demographics, existing and future pension obligations, actuarial assumptions and liquidity requirements. The goal of the interim asset mix is to improve the Plan's financial position in a risk controlled manner.

8. Administrative Expenses

Administrative expenses include investment related and other expenses. Other expenses for the periods ending August 31, 2016 and December 31, 2015 include an allocation of costs of the Department of Finance, Pensions Division. These costs are allocated to the various pension plans which the Division administers based on the previous month's equity balance of each plan related to the total combined assets of the plans. Any direct costs related to a specific plan are charged accordingly. Other expenses for the four month period ended December 31, 2016 include an allocation of costs of the Department of Finance, Pensions Division under the Service Level Agreement with the Corporation, as well as direct costs incurred by the Corporation.

Administrative expenses were as follows:

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
	(000's)	(000's)	000's)
Investment related expenses:			
Investment management fees	$ 2,685	$ 4,944	$ 7,573
Miscellaneous foreign fees	616	–	–
Custodian fees	181	403	731
Investment consulting fees	67	123	114
Actuarial consulting fees	2	75	23
	3,551	5,545	8,441
Other expenses:			
Salaries and benefits	$ 284	$ 544	$ 953
Computer charges	16	22	27
Rent	22	–	–
Insurance	37	–	–
Other expenses	65	18	149
Professional fees	64	5	6
Total	$ 4,039	$ 6,134	$ 9,576

9. Accrued Benefit Obligation

The actuarial present value of the accrued pension obligation is an estimate of the value of pension obligations of the Plan in respect of benefits accrued to date for all active and inactive members including pensioners and survivors. As the experience of the Plan unfolds, and as underlying conditions change over time, the actual value of accrued benefits payable in the future could be materially different than the actual present value.

Extrapolations of the triennial actuarial valuations of the Plan are conducted annually, and provide an estimate of the accrued pension obligation (Plan liabilities) calculated using various economic and demographic assumptions, based on membership data as at the valuation date.

The actuarial valuation calculates liabilities for each member on the basis of service earned to date and the employee's projected five-year highest average salary at the expected date of retirement or on the pension in pay, for retired members and survivors. The plan uses the funding valuation.

The assumed increases in the real rate of pensionable earnings (i.e. increase in excess of the assumed inflation rate) are dependent on the attained age of the members. These rates are based on recent experience of the Plan and current expectations for future years.

Demographic assumptions are used to estimate when future benefits are payable to members and beneficiaries, including assumptions about mortality rates, termination rates, and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience on the Plan and on the expectations of future trends.

	Extrapolation As of 31 December 2016	**Extrapolation As of 31 August 2016**	**Extrapolation As of 31 December 2015**
Inflation	2.25% per annum	2.25% per annum	2.25% per annum
Indexing	1.00%	1.20%	1.20%
Salary escalation	3.75%	3.75%	3.75%
Total rate of return on assets (i.e. Discount Rate)	6.00% per annum	6.00% per annum	6.50% per annum
Year's Maximum Pensionable Earnings	3.00% per annum	3.00% per annum	3.00% per annum
Average age of retirement	Earliest age member is entitled to unreduced pension	Earliest age member is entitled to unreduced pension	Earliest age member is entitled to unreduced pension
Mortality	CPM RPM 2014 Public (Sex Distinct) CPM Improvement Scale B Size adjustment factors of 1.02 for males and 0.96 for females	CPM RPM 2014 Public (Sex Distinct) CPM Improvement Scale B Size adjustment factors of 1.02 for males and 0.96 for females	CPM RPM 2014 Public (Sex Distinct) CPM Improvement Scale B Size adjustment factors of 1.02 for males and 0.96 for females

10. Actuarial Valuations

Triennial actuarial valuations are performed by the actuarial consulting firm of Morneau Shepell. The last full actuarial valuation for funding purposes was completed effective August 2015. An extrapolation of the pension obligation as at August 2016 and December 2016 was estimated using the results of the 2015 valuation. The next required valuation will be as of August 31, 2018.

11. Contributions

	December 31, 2016 (000's)	August 31, 2016 (unaudited) (000's)	December 31, 2015 (unaudited) (000's)
Employee:			
Current service	$ 17,591	$ 36,509	$ 47,195
Past service	781	2,087	4,813
Reciprocal transfers	282	1,376	2,004
	$ 18,654	$ 39,972	$ 54,012

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
Employer:			
Current service	$ 17,529	$ 36,494	$ 47,158
Past service	175	698	758
	$ 17,704	$ 37,192	$ 47,916

12. Pension Payments

	December 31, 2016 (000's)	August 31, 2016 (unaudited) (000's)	December 31, 2015 (unaudited) (000's)
Retirement benefit payments	$ 90,976	$ 177,726	$ 267,221
Disability benefit payments	3,313	6,625	9,911
	$ 94,289	$ 184,351	$ 277,132

	December 31, 2016	August 31, 2016 (unaudited)	December 31, 2015 (unaudited)
Termination benefits payments (including commuted value payments, contribution refunds)	$ 2,973	$ 4,016	$ 3,188
Transfers to other pension funds	344	553	1,004
Death benefit payments	447	1,048	675
	$ 3,764	$ 5,617	$ 4,867

13. Funding Policy

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

14. Related Party Transactions

Amounts due to the Province are non-interest bearing and payable on receipt of invoice.

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

Description	Cost	Market Value
	(000's)	(000's)
Province of Newfoundland and Labrador Debentures:		
Series maturing October 17, 2033	$ 1,037	$ 966
Series maturing October 17, 2046	974	874
Newfoundland and Labrador Hydro Debentures:		
Maturing July 14, 2017	65	63
	$ 2,076	$ 1,903

Also, as indicated in Note 3, the Plan manages its real estate through Newvest Realty Corporation, a jointly-owned subsidiary incorporated under the provisions of the *Canada Corporations Act.* It is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. All of the shares of the Corporation are held by the TPP (37.53%) and the Public Service Pension Plan (62.47%).

The Plan manages its private equity (and private infrastructure) investments through TPP Neptune Corporation, a wholly-owned subsidiary incorporated under the provisions of the *Canada Corporations Act.* It is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. All of the shares of the Corporation are held by TPP.

As part of the pension reform process, the Province issued a promissory note to the Corporation on August 29, 2016, for the benefit of the Plan. The principal sum of $1.862 billion, valued at September 1, 2015, together with interest at 6% per annum, is payable in annual blended payments of principal and interest of $135 million on August 31 of each year, with the first payment made on August 31, 2016 and continuing for 29 years. Payments under the promissory note are fixed and will be made regardless of the funded status of the Plan in the future. The promissory note is non-marketable. In addition, the promissory note and the payments due are not assignable or transferrable by the Corporation.

Principal repayments of the promissory note by the Province to the Corporation and by the Corporation to the Plan for the next five years are as follows:

	(000's)
2017	$24,965
2018	$26,463
2019	$28,051
2020	$29,734
2021	$31,518

14. Related Party Transactions (continued)

The Corporation manages the Plan on a cost recovery basis. Management fees of $0.60 million were charged to the Plan for the four months ended December 31, 2016.

On August 31, 2016, the Corporation entered into a Service Level Agreement with the Province for management services to be provided on a cost recovery basis during the interim period. The cost of the services for the four months ended December 31, 2016 was $0.42 million.

15. Commitments

The Plan has committed to invest in certain private equity and infrastructure funds which may be funded in accordance with agreed upon conditions over the next several years. As at December 31, 2016, these commitments totaled $261 million (December 31, 2015 - $300 million (unaudited)). This investment will be made through TPP Neptune Corporation, a wholly owned subsidiary of the Plan. The commitments are expected to be funded in equal amounts of $65.25 million over the next four years.