ANNUAL REPORT 2018

Teachers' Pension Plan

NEWFOUNDLAND & LABRADOR

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Teachers' Pension Plan Corporation
NEWFOUNDLAND & LABRADOR

As the second largest public sector pension plan in the Province, our mission is to provide retirement security and outstanding services to our Plan members.

We begin and end by honouring our roots, richly grounded in the symbolism of our core values. Our brand identity embodies these as a reminder that our values will continue to guide us forward. The colour choice, and the iconic and symbolic representations – including a literary reference, and another that draws strength from nature – were intentional in its design.

Like an open book, we are built from transparency and education, while being of the Province's fabric: surrounded by sky and sea, our depth and stability is unwavering, as is our trust, loyalty, wisdom, faith and truth. Our quiet strength is built from the diverse expertise, skills and knowledge we possess, enabling us to govern the Plan and serve our members with excellence – a compelling reminder that there is more to us than initially meets the eye.

About the Teachers' Pension Plan

The Newfoundland and Labrador Teachers' Pension 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, 2018.

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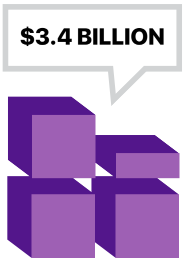
2018 | At a Glance

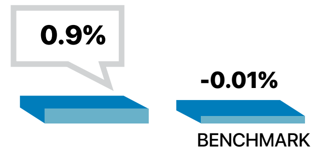
OVERVIEW



NET INVESTMENT ASSETS

as at December 31, 2018

RATE OF RETURN ON INVESTED ASSETS IN 2018

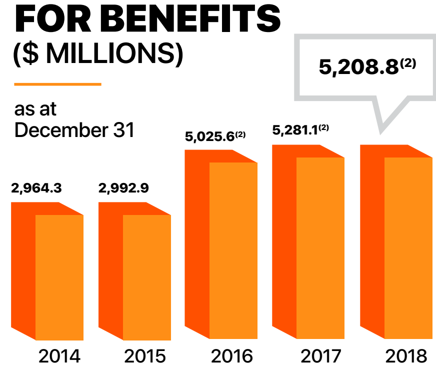


CONTRIBUTIONS OF $113.6M IN 2018

NET ASSETS FOR BENEFITS

($ MILLIONS)

as at December 31



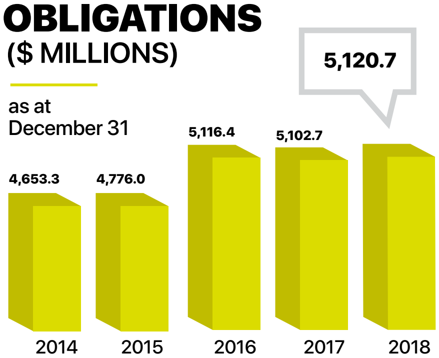
BENEFITS PAID IN 2018(1)

$304.3 M

ACCRUED BENEFIT OBLIGATIONS

($ MILLIONS)

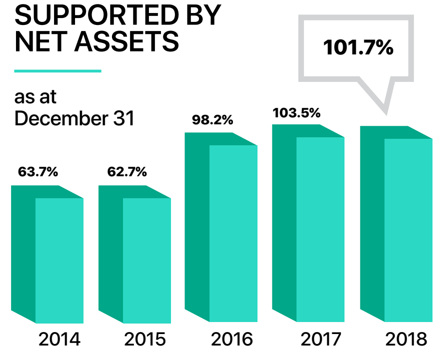
as at December 31



PERCENTAGE OF ACCRUED PENSION OBLIGATION

SUPPORTED BY NET ASSETS

as at December 31



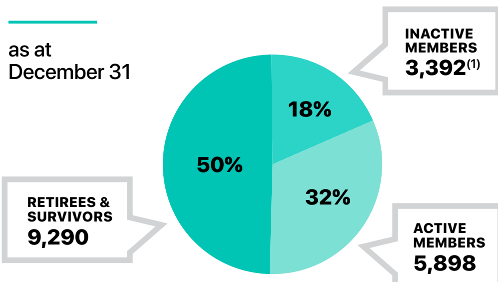
(1) Includes termination benefits (refunds and commuted value payments) of $8.8 million.
(2) Includes Promissory Note from the Province

2018 | At a Glance

MEMBERSHIP FACTS

MEMBERSHIP PROFILE 2018

as at December 31



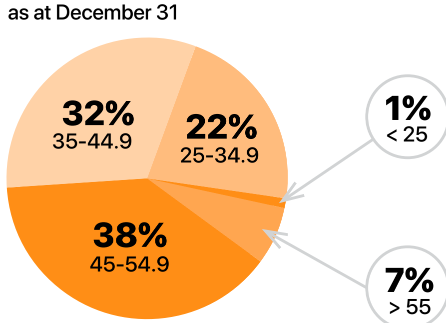
GENDER PROFILE OF ACTIVE MEMBERS

75% FEMALE

25% MALE

ACTIVE MEMBERS BY AGE

as at December 31



(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

Average Age **WORKING TEACHER** 43.0

Average Age **RETIRED TEACHER** 69.8

Average Age	2016	2017	2018
Active Member	42.5	42.9	**43.0**
Retirees	68.6	69.2	**69.8**

Accrued Benefit Obligations	%
Retirees and Survivors	70.2
Active Members	28.6
Inactive Members	1.2
	100.0

OVER THE NEXT FIVE YEARS

1,370 Active members will have reached pensionable age

Retirees over 100 years of age **5**

Average pensionable earnings of active members **$79,470**

$29,308(2) Retiree average lifetime pension

Active members for one retiree **0.63**

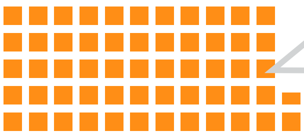
70.2% of accrued benefit obligations relate to retirees and survivors

2018 | At a Glance

MEMBERSHIP FACTS

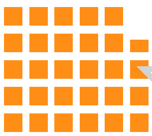
2018 RETIREES

Average age at retirement



56.6

Average years of service for members retiring in 2018



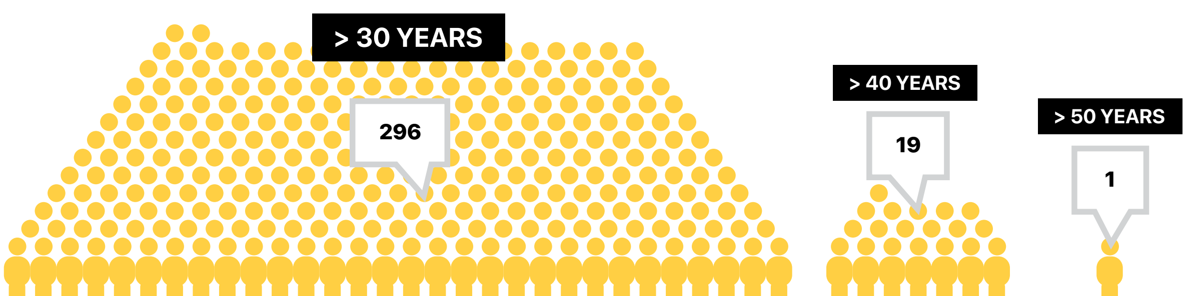
28.6

Average Number of **YEARS CONTRIBUTED TO PLAN** VS Expected **YEARS ON PENSION**

MEMBERSHIP SNAPSHOT

	2014	2015	2016	2017	2018
ACTIVE MEMBERS	6,181 32.5%	5,982 31.5%	5,998 31.5%	5,913 31.0%	**5,898 31.7%**
RETIREES + SURVIVORS	8,732 46.0%	8,853 46.6%	8,994 47.3%	9,140 47.9%	**9,290 50.0%**
INACTIVE MEMBERS	4,076 21.5%	4,173 21.9%	4,035 21.2%	4,041 21.1%	**3,392 18.3%**
TOTAL	**18,989**	**19,008**	**19,027**	**19,094**	**18,580**

Number of
PENSIONERS RECEIVING PAYMENTS
for



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 Annual Report of the Teachers' Pension Plan (the "Plan" or the "TPP") for the fiscal year ended December 31, 2018. This report provides you with details on the financial health of the Plan and a comprehensive review of its investment activities.

The funded ratio measures the Plan's assets, which include the promissory note received from the Government of Newfoundland and Labrador on August 29, 2016, against its projected obligations to its members. The funded ratio was 101.7% in 2018 compared to 103.5% in 2017. The decrease in the funded ratio was primarily the result of lower investment returns in 2018 partially offset by contributions to the plan exceeding the current service cost and a gain resulting from the Plan's experience relative to the actuarial assumptions.

In 2018, we commenced the implementation of the strategic asset allocation approved by the Board in late 2017. Our investment priorities are well aligned with the maturity of the Plan and its significant monthly benefit payments. These priorities include reducing equity risk, focusing on less volatile asset classes and increasing diversification of investments. We expect full implementation of the strategic asset allocation and deployment of capital will take approximately 36 to 48 months, dependent upon market opportunities and conditions. During 2018, heightened volatility became a reality. The Plan achieved a return on invested assets of 0.9% compared to a return of 11.3% in 2017. When the impact of the promissory note, which bears interest at a fixed rate of 6.0%, is included the 2018 return was 2.6% compared to 9.4% in 2017.

The past year has been one of significant change for the TPPC as we continued our transition from Government. Our focus during 2018 was on our members, our people, our technology and our processes. During 2019, we will continue implementing our strategic priorities and building a Corporation that provides retirement security and outstanding service to Plan members.

Plan members, of course, include those employees yet to retire and those who have retired after years of serving the teaching profession of Newfoundland and Labrador. The Board and management are committed to meeting its obligations to Plan members. We act in Plan members' best interest not only because we have a legal fiduciary duty to do so, but out of respect for Plan members and their service to the teaching profession.

I would like to thank the staff of the TPPC for all of their contributions during 2018. Your efforts have been critical to our success.

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 are 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 JSA sets out the responsibilities and duties of the Sponsor Body and the Corporation.

Key responsibilities of the Sponsor Body and the TPPC are:

Sponsor Body

- 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

- 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

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

Government no longer solely 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.

On December 5, 2018, Bill 45, *An Act Respecting A Pension Plan For Teachers* ("Bill 45"), received Royal Assent. Bill 45 clarified certain aspects of the JSA within the legislation, removed the administrative provisions relating to the TPP from the legislation and exempted the Plan from the Pension Benefits Act. We expect Bill 45 to be proclaimed during the Spring of 2019 and the *Teachers' Pensions Act, 2018,* SNL 2018 c.T-4.01 ("TPA 2018") will come into effect at that time.

Plan Governance

The TPPC's vision is to be an outstanding pension plan administrator and institutional investor, and its mission is to provide retirement security and outstanding service for our members – today and tomorrow.

Since our inception on August 31, 2016, the Plan has been overseen by independent, expert board members who are required to make decisions in the best interest of all beneficiaries of the Plan. In accordance with the JSA, the Plan sponsors each appointed four individuals to the TPPC Board of Directors. This governance structure is key to the Plan's success.

TPPC believes good governance is essential because it delivers long-term value to our members. As the Plan Administrator and Trustee, we measure ourselves against best practices for governance, risk management, internal controls, stewardship and reporting.

BOARD OF DIRECTORS

The eight 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 Directors' responsibilities include, but are not limited to, acting independently of the Plan sponsors and making decisions in the best interest of all Plan beneficiaries.

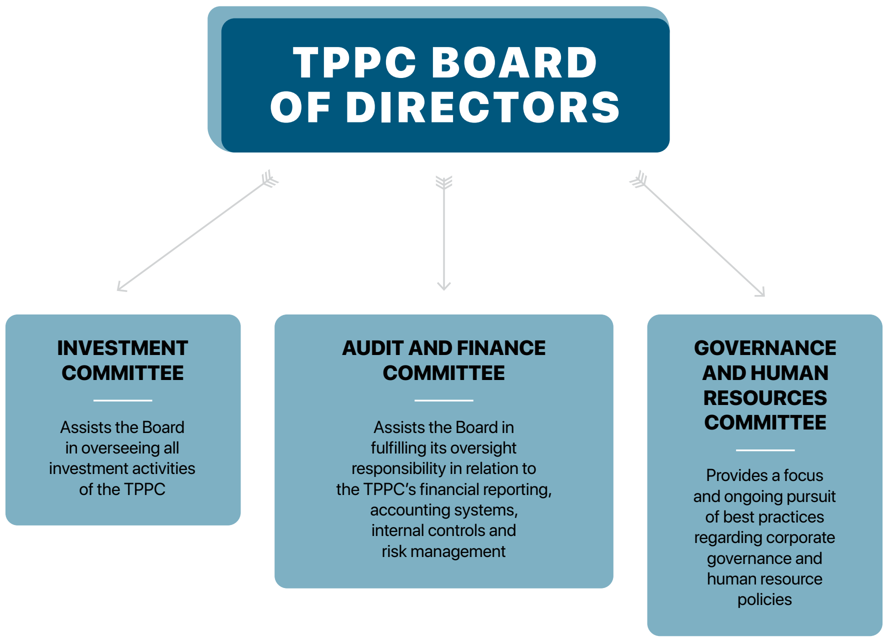
The TPPC Board of Directors, a governing body separate from the Sponsor Body, was established as Trustee for the Teachers' Pension Fund and oversees the management and prudent investment of the pension plan and direction of the TPPC.

A robust governance structure has been established by the Board.

There are three standing committees:

- Investment Committee
- Audit and Finance Committee
- Governance and Human Resources Committee

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



MEMBERSHIP OF THE BOARD OF DIRECTORS AND COMMITTEES
as at December 31, 2018

Paula McDonald, BComm, FCPA, FCA, CMA – Board Chair ∗ ▲ ●
Eric Thoms, BA, MBA, CPA, CMA – Board Vice-Chair, Audit and Finance Committee Chair ●
Don Ash, BSc, BEd, MBA ∗
Robert Blais, BSc, FSA, FCIA ∗ ▲
Richard Dixon, BA, MIR, ICD.D – Governance and Human Resources Committee Chair
Scott Perkin, BComm, LLB ▲ ●
Janet Rabovsky, BA, MBA – Investment Committee Chair
Gretchen Van Riesen, BSc ●

∗ Member of the Investment Committee
▲ Member of the Audit and Finance Committee
● Member of the Governance and Human Resources Committee

EXTERNAL INVESTMENT COMMITTEE MEMBERS
as at December 31, 2018

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

James Clark, BSc, CPA, CA, CFA
Kevin Fahey, BComm, LLB, CFA

Our Good Governance Practices

DIRECTOR EDUCATION

TPPC believes the ongoing development and education of its Board members is integral to achieving a high level of Board effectiveness. During 2018, the Board and its committees participated in several presentations on a variety of topics. The sessions were delivered by industry experts. Topics for 2018 included cyber risk, privacy, governance, alternative investments and pension industry trends.

MONITORING

This practice includes the quarterly review of investment performance and funded ratios, as applicable. Investment compliance checklists, service performance, service provider contracts, investment managers, and service level agreements are also monitored regularly.

RISK MANAGEMENT

The Board has established a risk management framework that defines the risk tolerance for the Plan in matters of administration and investment. The framework guides the development of strategies to meet overall objectives. For all risks the Board provides oversight, and the various committees review management's assessment of pertinent risks on a quarterly basis.

POLICIES

In carrying out their responsibilities, the Directors are guided by numerous policies including Code of Conduct, Privacy and Information Management. All policies are reviewed annually to ensure they remain relevant and current with the environment in which the Plan operates.

AUDIT

An annual audit is conducted by independent external auditors.

FUNDING VALUATIONS

The Board conducts regular funding valuations to assess the Plan's long-term financial health. Our most recent funding valuation was completed as at August 31, 2018.

BOARD GENDER DIVERSITY

Women comprise 37.5% of the Board's membership.

BOARD ATTENDANCE

Board members are expected to attend Board meetings and meetings of Committees of which they are a member. Board members met five times in 2018 for Board meetings. In addition, the Investment Committee met ten times, the Audit and Finance Committee met four times and the Governance and Human Resources Committee met five times.

Name	Attendance	Board Meetings	Committee Meetings
Paula McDonald	100%	5	19
Eric Thoms	100%	5	9
Don Ash	100%	5	10
Robert Blais	100%	5	14
Richard Dixon	100%	5	5
Scott Perkin	100%	5	9
Janet Rabovsky	100%	5	10
Gretchen Van Riesen	80%	3	5

Continuing our Progress

On August 31, 2016, a Service Level Agreement ("SLA") was signed between the TPPC and the Province that enabled the Pensions Division, Department of Finance, to continue to provide pension services to Plan members until March 31, 2018. We effectively transitioned investment management services and the pension administration services from the Department of Finance in January 2017 and March 2018, respectively. All investment and pension administration services now reside exclusively with the TPPC. The SLA, for the continued provision of pensioner payroll and contribution refund services, was extended to October 2019 and we expect that it will be further extended.

The TPPC has been set up to operate as a cost effective, agile and nimble organization. The team is responsible for plan administration, investment management, information technology, accounting and finance, tax, treasury management, human resources and risk management.

Our values are paramount in everything we do:

- ***Integrity*** – We do the right thing
- ***Service*** – We make every interaction count
- ***Performance*** – We are driven to succeed
- ***Accountability*** – We take responsibility for our actions and results
- ***Partnership*** – We build strong and collaborative relationships

As we worked towards becoming an independent corporation, we focused on activities that ensured the seamless transition of the pension administration and investment responsibilities from the Department of Finance. We established strategic priorities and goals for what we wanted to achieve and the associated timeline. By focusing our energy and passion on these goals and strategic priorities, we were able to advance our business transformation to a high functioning service organization. The three pillars of our transition and transformation planning were our people, technology and processes. Change management and project management have been at the forefront of our efforts.

PEOPLE

In 2017, the Board engaged Chair Paula McDonald as Chief Executive Officer to develop and implement the corporate strategy, transition services from the Province, recruit and develop a team, and develop a proactive organization. An experienced executive team with significant corporate and financial expertise joined the Corporation during the Fall of 2017. Their teams are comprised of qualified professionals who have the knowledge, skills, information resources and expertise to fulfill their specialized functions. In addition to our team, we also select reputable external investment managers to execute our investment mandates in accordance with our Statement of Investment Policies and Procedures. We also use other external service providers with specialized expertise, such as actuarial, investment consulting, legal and taxation, as required. Our team, with the support of our service providers, is focussed on providing exceptional service to our members and ensuring the security and sustainability of the Plan.

TECHNOLOGY

The implementation of our new systems and technology is proceeding according to plan. The accounting system was implemented in 2017 and the pension administration system was implemented in May 2018. In April 2018 we launched our website which provides all members with online access to information about the Corporation and the Plan as well as various forms and resources. This was followed in November 2018 by the launch of a Member Self Service ("MSS") Portal, a secure, web-based application designed to provide active members with enhanced on-line services available at their convenience. The MSS Portal is integrated with the TPPC pension administration system, and provides active members with access to their personal data, retirement modeling tools to assist them with understanding their retirement benefit options, and the ability to create a personalized retirement plan. This integration provides active members access to their most recent service information and personal calculations. As of December 31, 2018, 335 active members had registered and used the portal. Increased functionality for the MSS portal is planned for 2019.

PROCESSES

Significant achievements have also been made regarding our processes. Key performance indicators were developed and monitored to improve processes resulting in efficient, cost effective and timely service to our members.

A significant milestone was reached during the 2018 Fall sitting of the House of Assembly when Bill 45 received Royal Assent. Once proclaimed during the Spring of 2019, TPA 2018 will come into effect. This act provides for the continued operation of the TPPC, commits government to continue its special payments to the TPP fund along with regular contributions and generally outlines government's obligations to the TPP.

We have had much success to date in achieving our goals and meeting our strategic priorities. Much more remains to be done to complete the development of a cost-effective first-class pension corporation. The TPPC Board of Directors and staff will continue to communicate and work collaboratively with the Sponsor Body and our stakeholders to achieve our mission – **Retirement security and outstanding service for our members – today and tomorrow.**

Investment Management – Discussion and Analysis

OVERVIEW

The Plan's investment strategy aims to deliver a well-diversified portfolio that balances risk and return and ensures the long-term sustainability of the Plan. This strategy is core to the Plan's primary objectives to fulfill the funding requirements outlined in the JSA and to ensure the Plan can meet the pension obligations as they come due.

INVESTMENT GOVERNANCE

The Plan's investment strategy is formally articulated in and governed by the TPPC's Statement of Investment Policies and Procedures (the "SIPP"). The SIPP outlines the governance arrangements for the Plan, together with the asset allocation strategy, risk tolerance, permitted asset classes and risk constraints, conflict of interest policies, monitoring procedures and the Plan's responsible investing strategy.

The SIPP addresses the various roles and responsibilities for those involved in the investment and administering of the Plan.

- The TPPC Board of Directors is responsible for all investment activities of the Plan, including approval of the SIPP on an annual basis; the most recent SIPP was approved by the Board of Directors in March 2019.
- The Investment Committee of the TPPC Board of Directors plays an integral role in assisting the Board of Directors in discharging its duties and has been delegated specific tasks by the Board of Directors as outlined in the SIPP.
- TPPC's Investment team implements the investment policies within the delegated constraints and limits approved by the TPPC Board of Directors as contained within the SIPP.

The Plan's investment strategy is actively managed and implemented through a combination of external investment manager relationships chosen for their expertise in a particular asset class or strategy.

The TPPC Investment team follows a disciplined approach to evaluating investment opportunities prior to making a decision. The processes and factors considered include the following:

- Stability of the investment manager organization;
- Alignment with the interests of the Plan;
- Experience, credibility and integrity of the investment manager's team;
- Established and proven track record of the investment strategy;
- Consideration of how environmental, social and governance related factors are addressed within the investment strategy;
- Competitive fee structure;
- Securing appropriate protections for the Plan;
- Assessment of potential tax risks impacting the Plan.

The disciplined approach continues once an investment decision has been made through the TPPC Investment team's on-going monitoring and oversight procedures and activities.

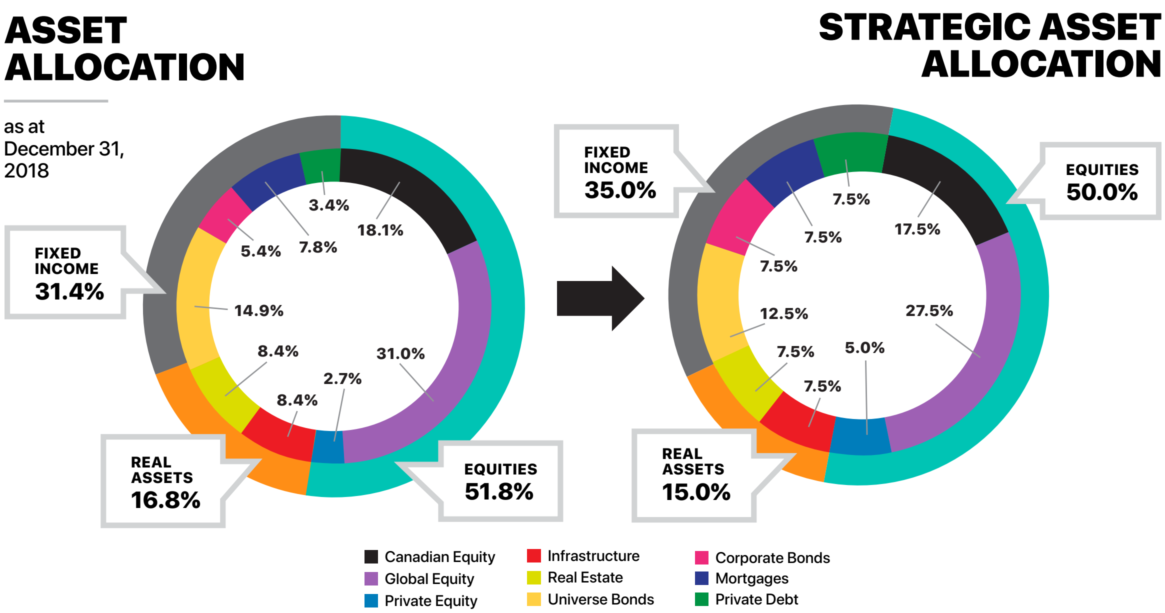
ASSET ALLOCATION STRATEGY

Based on the guidelines and parameters contained within the SIPP, since its inception in 2016, the TPPC has been focused on maintaining a return equal to or greater than the assumed actuarial discount rate of 6%, but with lower volatility of return than had been the case previously. This is being achieved through continued investment and asset class diversification.

The path towards greater diversification and the underlying asset allocation strategy, is supported by and based on the Asset Liability study undertaken by the TPPC in 2017, which culminated in the approval by the TPPC Board of Directors of a strategic asset allocation in November 2017 ("Strategic Asset Allocation").

The following summarizes the Plan's Strategic Asset Allocation, with a comparison to the actual asset allocation at December 31, 2018 and December 31, 2017:

ASSET CLASS	STRATEGIC ASSET ALLOCATION	AT DECEMBER 31, 2018	AT DECEMBER 31, 2017
Equities			
Canadian equity	17.5%	18.1%	20.9%
Global equity (Developed & Emerging Markets)	27.5%	31.0%	37.9%
Private equity	5.0%	2.7%	0.7%
Real Assets			
Real estate	7.5%	8.4%	3.5%
Infrastructure	7.5%	8.4%	7.2%
Fixed Income			
Universe bonds (and money market)	12.5%	14.9%	16.2%
Corporate bonds	7.5%	5.4%	7.1%
Mortgages	7.5%	7.7%	5.7%
Private debt	7.5%	3.4%	0.8%



Throughout 2018, the TPPC was focused on implementation of the Strategic Asset Allocation. New commitments were made in the infrastructure, real estate, private equity and private debt asset classes. As well, the Plan's Canadian and global equity investment portfolios were restructured, and the minority real estate investment interest in Canada was sold. These changes were all aligned with the objective of de-risking the Plan's investments. The Plan's asset mix at the end of 2018 represents much greater diversification in comparison to the inception of the TPPC in 2016, with exposure to a broad range of asset classes and a more balanced risk / return profile.

The timelines to reach the Strategic Asset Allocation for certain private market investments, such as private equity and private debt, will vary depending on market opportunities and conditions, and the ability of the investment managers retained by the TPPC to deploy capital commitments based on the TPPC's risk parameters. Canadian equity, global equity and universe bonds asset classes will be reduced as these asset classes also move towards the Strategic Asset Allocation. The TPPC anticipates it will take 36-48 months from the beginning of 2018 to fully deploy capital and achieve the Strategic Asset Allocation; this timeline can be fluid and subject to change due to the market factors and constraints noted above.

Asset Liability Studies – An Element of Our Enterprise Risk Management

Asset Liability studies are a critical risk management tool utilized by pension plan sponsors and fiduciaries to consider the pension plan's ability to meet pension liabilities as they come due. Such studies consider a range of market and economic environments and demographic assumptions. Based on the range of potential outcomes, the Asset Liability study provides asset mixes to consider. The goal of the selected asset mix arising from the study is to balance cost, return and risk of loss.

The Asset Liability study completed by the TPPC in 2017 considered certain key priorities and variables including maximizing the likelihood of the Plan being fully funded within thirty years and not altering any pension benefits or contributions rates, all of which were key tenents through the pension reform process and establishment of the JSA. These priorities translate into an overall continued objective of de-risking the Plan's investment strategy.

The funding position of any plan is based on a measurement at a point in time, and given the inherent risks associated with any investment strategy (e.g., market volatility, interest rate risk, liquidity risk, credit risk, etc.), a plan's funding position is continually subject to change. Accordingly, it is critical for plan sponsors to maintain focus on the long-term sustainability of its plan.

The process relating to the Asset Liability study and approval of the Strategic Asset Allocation supports the TPPC Investment Committee and Board of Directors in calibrating its tolerance for return variability.

From a risk tolerance and risk constraints perspective, the TPPC's SIPP permits the asset class allocations to deviate from the approved asset mix allocations by plus or minus 10% of the stated targets for public equity, universe and corporate bonds, and by plus or minus 5% for the remainder of the asset classes. Ranges are important since markets do not move in tandem and allowing some flex in the allocation within the permitted ranges reduces unnecessary portfolio disruption and cost. The Board of Directors of the TPPC reserves the right to permit the asset mix allocations to vary temporarily above or below the stated ranges.

2018 MARKET OVERVIEW

To understand and calibrate the Plan's investment performance and returns during 2018, it is important to first take a more macro reflection of the 2018 global markets. 2018 was a challenging year for investors with global markets falling 10% overall; all major developed economies' equity markets finished 2018 in negative territory.

The optimism that helped drive strong returns for investors in 2016 and 2017 waned significantly during 2018, and heightened volatility became the new reality for investors.

Financial markets stumbled amid tightening financial conditions, rising protectionism and trade-wars, concerns around Brexit, and overall slowing global growth. Financial conditions worsened due to rising interest rates, widening credit spreads, falling stock prices and a stronger U.S. dollar. The longest bull market in the U.S. in several decades came to a grinding halt in October and the S&P 500 experienced its worst month of December since the great Depression.

The U.S. equity market returned negative 4.4% in local currency (U.S.$). However, a strengthening U.S. dollar relative to the Canadian dollar offset these losses for Canadian investors as the market returned 4.2% in Canadian dollars. In Canadian dollars, international-developed and emerging markets experienced negative returns of 6.0% and 6.9% respectively, a significant shift from the 2017 returns of 17% for International-developed markets and 29% for emerging markets. Higher U.S. interest rates have drawn capital out of emerging economies into the US, negatively impacting demand for emerging market assets. This, combined with the continued protectionism theme and home-grown problems in a host of emerging economies (e.g., Russia, Argentina, Turkey, Iran, etc.) have added to investors' caution.

The Canadian equity market finished the year down 8.9%, largely driven by declines in the energy and healthcare sectors.

Relative to the U.S. dollar, the Canadian dollar started the year at 80 cents and ended it at 73 cents, reflecting a depreciation of 8.8%. In comparison to other major currencies, the Canadian dollar depreciated by 10.0%, 3.0% and 3.4% relative to the Yen, Euro and Pound Sterling, respectively. Canadian investors in global markets benefited from the weakened Canadian dollar; currency gains offset local market losses in several international markets.

Crude oil prices, as measured by the West Texas Intermediate (WTI), often a world reference price, closed the year at just above US$49 a barrel, in comparison to US$58 a barrel a year earlier. Western Canada Select (WCS), the price obtained for many Canadian producers of oil, fell to US $6 a barrel at the end of 2018, a decline of 86% in comparison to the prior year. Higher than expected production in several jurisdictions and fears over global demand have depressed prices. The Canadian market was further impacted by uncertainty and challenges in transporting Canadian crude to ultimate export destinations due to lacking pipeline capacity and rail transportation, thus leading to a stockpile in Alberta.

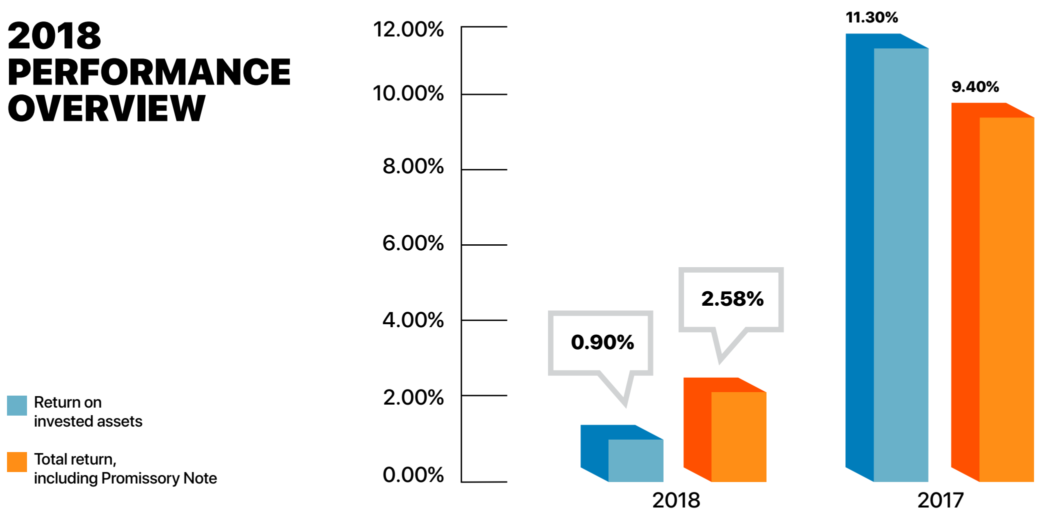
For much of 2018, equities sold off, spreads widened, and rates moved higher in-hand, muting the opportunity to find yield without taking on excess risk. Bond yields fell as investors priced in the prospects of lower inflation and lower growth. Canadian bond yields fell across the curve with both the Canadian 2-year and 10-year government bond yield falling approximately 30 basis points. Yield curves are relatively flat, meaning investors are not being compensated for loaning their money out for longer periods of time. Credit spreads, particularly US high yield and emerging markets debt spreads, widened by approximately 100 basis points and approximately 25 basis points respectively, detracting from performance. The Bank of Canada delivered three rate hikes during the year, ending 2018 with a decision to hold the rate at 1.75% due to concerns relating to the impact of trade issues with the U.S., as well as the continued decline of oil prices.

2018 PLAN PERFORMANCE

Benchmarks – In addition to comparing performance against the Plan's assumed actuarial discount rate of 6%, the TPPC also compares its performance against relative benchmarks on a total-fund and individual asset class basis. This benchmarking process is critical as it allows TPPC Management, members of the Investment Committee and Board of Directors to evaluate the effectiveness of the Plan's investment strategy and implementation. TPPC's benchmarks are approved by TPPC's Board of Directors, with the input of TPPC's investment team and investment consultant.

On a total-fund basis and for each asset class, the Fund seeks to outperform the benchmark rates of return, and this outperformance is described as "value-add". A discussion of the Plan's performance will always be anchored back to a comparison to the assumed actuarial discount rate and the Plan's established policy benchmarks.

2018 PERFORMANCE OVERVIEW



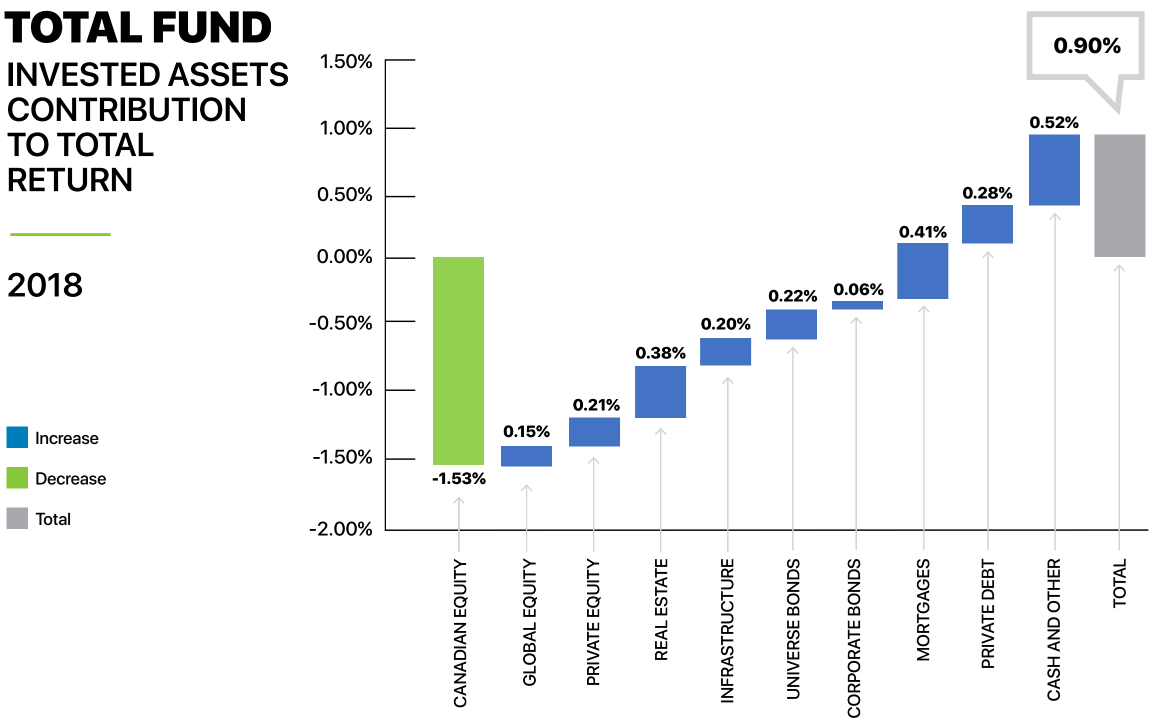
During 2018, the Plan achieved a return on invested assets of 0.90% gross of investment management fees (0.40% net of investment management fees).

These return figures only reflect the Plan's invested assets and do not incorporate the $1.8 billion promissory note received from the Government of Newfoundland and Labrador. The promissory note bears interest at a rate of 6% per annum and is a further fixed income investment of the Plan. Through the pension reform process, a primary objective of the establishment of the promissory note was to stabilize the Plan's returns.

When considering the impact of the promissory note during 2018, the return increases to 2.58% gross of investment management fees (2.25% net of investment management fees), which clearly illustrates the stabilizing effect of the promissory note.

Total invested assets were consistent with the prior year at approximately $3.4 billion.

The following graphic illustrates the relative contribution from each of TPP's asset classes to the Plan's total return on invested assets:



As the chart indicates, with the exception of the Canadian equity asset class, all asset classes provided a positive contribution to total return for 2018.

Throughout 2018, the Plan's investment strategy was unhedged from a currency perspective at the total Plan level and benefitted from the depreciation of the Canadian dollar relative to other major currencies, especially the U.S. dollar. The TPPC has estimated that the 0.90% total return can be broken down into local market losses of approximately 1.87%, offset by currency gains of approximately 2.77%.

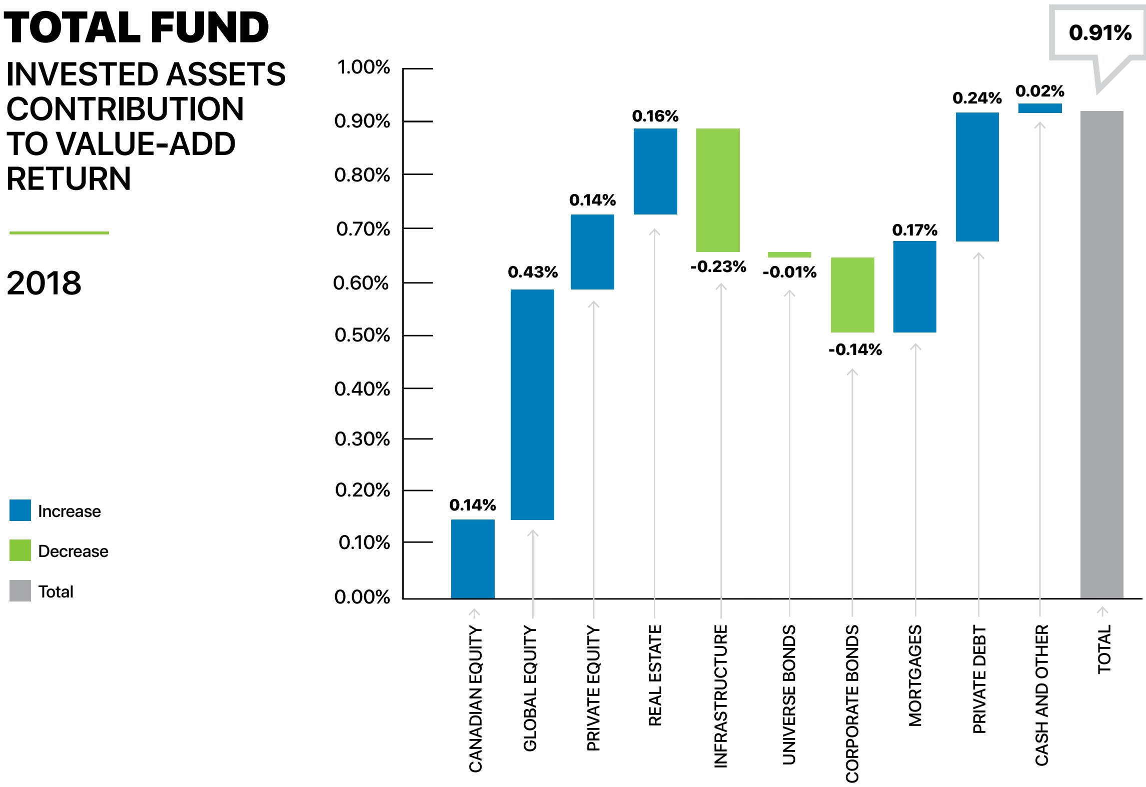
Although the Plan's return lagged the assumed actuarial discount rate of 6%, the gross return on invested assets of 0.90% exceeded the Plan's policy benchmark of -0.01%.

The Plan achieved a value-added return of 0.91% due to active management undertaken by the Plan's investment managers. The following chart breaks down this 0.91% value-add by individual asset class:

TOTAL FUND

INVESTED ASSETS CONTRIBUTION TO VALUE-ADD RETURN

2018



The negative value add stemming from the infrastructure asset class was due to poor performance of some assets and the immature nature of others whose returns will increase over time as the investment matures. The negative value add stemming from the corporate bond asset class largely stems from the asset class being underweight during 2018.

LOOKING AHEAD TO 2019

The general sentiment as we head into 2019 is one of cautious optimism for global growth. The view on the overall business cycle and expansion that has spurred global markets, particularly during 2016 and 2017, is that this cycle, particularly in the U.S., is in its latter stages. Further, European policies, rising interest rates, firming inflation and troubles besetting emerging market countries are all threats to the expansion. But, the largest macroeconomic risk at a global level is considered to be protectionism, primarily with respect to U.S. – China relations. The volatility witnessed throughout 2018 is likely more the new reality and a steadfast focus on the long-term investment strategy is paramount.

The various changes made to the Plan's investment strategy throughout 2018 and 2017, with the focus on de-risking the Plan and long-term sustainability, will serve to appropriately position the Plan to fulfill the funding requirements outlined in the JSA, meet the pension obligations as they come due, and support our members today and in the future.

Throughout 2019, the TPPC will continue its focus on the implementation of the Strategic Asset Allocation in a measured and balanced manner, and on the governance and oversight of the Plan's existing investment manager and fund relationships.

Financial Reporting

The Financial Reporting section highlights certain aspects of the financial statements that management views as key to understanding the financial position and operations of the Plan.

Included in the pages preceding the financial statements are three letters that outline the responsibility of management, the auditors and the actuaries.

- Management's Responsibility for Financial Reporting – identifies management's responsibility for preparation of financial statements. The financial statements are prepared according to Canadian accounting standards for pension plans. The board has ultimate responsibility for the financial statements and is assisted in its responsibility by the Audit and Finance Committee.
- Auditors' Report to the Administrator – the formal opinion issued by an external auditor on the financial statements.
- Actuaries' Opinion – identifies that valuation methods are appropriate, data is sufficient and reliable, and the assumptions are in accordance with accepted actuarial practices. The actuarial valuation is based on membership data, actuarial and accounting standards and long-term interest rates.

FINANCIAL STATEMENT VALUATION

The financial statement valuation measures the fair value of the Plan's net assets available for benefits and pension liabilities at a point in time. The financial statement valuation provides a snap shot of the financial health of the Plan and it does not assume any future contributions and does not project the cost of benefits that members have not yet earned. Therefore, the financial statement valuation is not considered an indication of the long-term sustainability of the Plan.

The financial statement valuation is prepared in accordance with guidance from Chartered Professional Accountants of Canada ("CPA Canada"). The pension liabilities, prepared by an independent actuary, take into account pension credit earned to date by all Plan members and contributions already received by the Plan. Valuation of investments, estimates and pension liabilities are described further in the notes to the financial statements.

The actuarial assumptions used in determining the pension liabilities reflect best estimates of future economic and non-economic factors proposed by management and approved by the Plan's Board. Actual experience typically differs from these assumptions, and the differences are recognized as experience gains and losses in future years.

FINANCIAL POSITION AS AT DECEMBER 31, 2018

(As at December 31) (millions of dollars)	**2018**	2017
Net assets available for benefits	**$ 5,209**	$ 5,281
Accrued benefit obligation	**5,121**	5,103
Surplus	**$ 88**	$ 178
Funded ratio	**101.7%**	103.5%

The Plan ended 2018 with a financial statement surplus of $88 million compared to a surplus of $178 million at December 31, 2017. The surplus represents the difference between the net assets available for benefits of $5,209 million and accrued benefit obligation at year end of $5,121 million. This results in a funded ratio of 101.7% at December 31, 2018 compared to 103.5% at December 31, 2017.

The decrease in funded ratio was primarily a result of the investment return of 0.9% being lower than the discount rate of 6%. This resulted in interest on accrued benefits of $302 million exceeding the investment income and interest on the promissory note from the Government of Newfoundland and Labrador of $134 million. This was partially offset by Plan experience, relative to actuarial assumptions, resulting in a net gain of $48 million and contributions received by the Plan of $114 million exceeding the current service cost (the cost of benefits accrued during the year) of $92 million.

NET ASSETS AVAILABLE FOR BENEFITS

(As at December 31) (millions of dollars)	**2018**	2017
Net assets available for benefits, beginning of year	**$ 5,281**	$ 5,026
Investment income	**26**	346
Interest earned on promissory note	**108**	110
Contributions	**114**	110
Benefits paid	**(304)**	(294)
Investment related expenses	**(10)**	(10)
Management fees	**(4)**	(5)
Non-refundable HST	**(2)**	(2)
Increase (decrease) in net assets available for benefits	**(72)**	255
Net assets available for benefits, end of year	**$ 5,209**	$ 5,281

Net assets available for benefits decreased during the year by $72 million. This increase was a result of decreases for benefits paid of $304 million, investment related expenses of $10 million, management fees from Teachers' Pension Plan Corporation for the administration of the Plan of $4 million and non-refundable HST of $2 million, partially offset by increases from investment income of $26 million, interest earned on promissory note of $108 million and contributions of $114 million.

Further detail on the investment income and returns are discussed in the Investment Section.

ACCRUED BENEFIT OBLIGATION

(As at December 31) (millions of dollars)	**2018**	2017
Accrued benefit obligation, beginning of year	**$ 5,103**	$ 5,117
Interest on accrued benefits	**302**	301
Benefits accrued	**92**	87
Benefits paid	**(304)**	(294)
Experience gains	**(48)**	(96)
Changes in actuarial assumptions	**(24)**	(12)
Increase (decrease) in accrued benefit obligation	**18**	(14)
Accrued benefit obligation, end of year	**$ 5,121**	$ 5,103

Accrued benefit obligation increased by $18 million during the year to $5,121 million. The increase was a result of interest on accrued benefits of $302 million and benefits accrued of $92 million, partially offset by benefits paid during the year of $304 million, experience gains of $48 million and changes in actuarial assumptions of $24 million. The changes in actuarial assumptions in 2018 are primarily related to changes in assumptions regarding salary scales and mortality improvement scale.

Management's Responsibility for Financial Reporting

The financial statements of the Teachers' Pension Plan (the "Plan") have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must, of necessity, be based on estimates and judgments. The accounting policies followed in the preparation of these financial statements conform to Canadian accounting standards for Pension Plans. Where appropriate, the financial statements include amounts based on management's best estimates and judgments.

In support of its responsibilities, management maintains systems of internal control and supporting procedures to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. These controls include quality standards in hiring and training, a code of conduct, the establishment of an organizational structure that provides a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization.

Ultimate responsibility for the financial statements rests with the Teachers' Pension Plan Corporation Board of Directors. The Board of Directors ensures that management fulfills its responsibilities for financial reporting and internal control principally through the Audit and Finance Committee (the "Committee") consisting of four Board members. In carrying out its duties and responsibilities, the Committee meets with management and the external auditors to review the scope and timing of the audit, to review their findings and to satisfy itself that their responsibilities have been properly discharged. The Committee reviews the annual financial statements and the external auditors' report and recommends them to the Board of Directors for approval.

The Plan's actuary, Eckler Ltd., completed an actuarial assessment of the going-concern accrued benefit obligation of the Plan as of December 31, 2018, for inclusion in the Plan's financial statements. The results of the actuaries' assessment are set out in the Actuarial Opinion. This assessment was performed in accordance with accepted actuarial practice. The actuarial assumptions used in these financial statements reflect management's best estimate of future economic events.

The Plan's external auditors, KPMG LLP, is directly accountable to the Committee and has full and unrestricted access to the Committee. They discuss with the Committee their audit and related findings as to the fairness of the Plan's financial reporting and any internal control recommendations observed during the audit. The Plan's external auditors conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards and performed such tests and other procedures as they considered necessary to express an opinion.

Signed: March 20, 2019

Paula McDonald

Paula McDonald
Chief Executive Officer

Levi May

Levi May
Chief Financial Officer

Actuarial Opinion

Eckler Ltd. (Eckler) was retained by the Board of the Newfoundland and Labrador Teachers' Pension Plan Corporation (the TPPC), Administrator of the Newfoundland and Labrador Teachers' Pension Plan to perform an actuarial valuation of the Plan as at August 31, 2018. The results of this valuation were extrapolated to estimate the accrued benefit obligation as at December 31, 2018. The purpose of the extrapolation was to determine the pension obligation and benefit accrual of the Plan for inclusion in the Plan's financial statements in accordance with Section 4600 of Part IV of the Chartered Professional Accountants of Canada (CPA Canada) Handbook.

As this extrapolation was undertaken for purposes of the Plan's financial statements as at December 31, 2018 under the CPA Handbook Section 4600, it may not be appropriate for other purposes and should not be relied upon or used for any other purpose. Specifically, the objective of this extrapolation was different than the triennial valuations required for funding purposes, as per the terms of the Plan's Joint Sponsorship Agreement.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the TPPC as at August 31, 2018;
- methods prescribed by Section 4600 of the CPA Canada Handbook for pension plan financial statements; and
- assumptions regarding future investment returns, inflation, salary growth and demographic experience, with a margin for conservatism where appropriate;

We have reviewed the data used for the valuation and have performed tests of reasonableness and consistency, and it is our opinion that the membership data on which the valuation are based are sufficient and reliable for the purpose of the valuation. Additionally, it is our opinion that the assumptions and the methods employed in the valuation are appropriate for the purpose fo the valuation.

Notwithstanding the foregoing opinion, emerging experience differing from the assumptions will result in gains or losses which will be revealed in future valuations.

This report has been prepared, and our opinions given, in accordance with accepted actuarial practice in Canada.

Jill Wagman
Fellow, Canadian Institute of Actuaries

Jennifer Urquhart
Fellow, Canadian Institute of Actuaries

March 20, 2019

AUDITED

Financial Statements

FOR THE YEAR ENDED
DECEMBER 31, 2018

KPMG

KPMG LLP
TD Place
140 Water St, Suite 1001
St. John's NL A1C 6H6
Canada
Tel 709-733-5000
Fax 709-733-5050

Independent auditors' Report

To the Administrator of the Teachers' Pension Plan

Opinion

We have audited the financial statements of the Teachers' Pension Plan (the Entity), which comprise:

- the statement of financial position as at December 31, 2018
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in accrued benefit obligation for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its changes in net assets available for benefits and its changes in accrued benefits obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

St. John's, Canada

March 20, 2019

Teachers' Pension Plan

Statement of Financial Position
As at December 31
(in thousands of dollars)

		2018		2017
Assets				
Cash	$	24,174	$	21,393
Accrued investment income		45,604		47,841
Contributions receivable:				
Employee		2,395		2,078
Employer		2,368		2,129
Receivable from pending trades		215		5,832
Harmonized Sales Tax and other receivables		1,078		1,027
Investments (note 4)		3,352,006		3,398,149
Promissory note receivable (note 14)		1,787,019		1,813,482
Total assets	**$**	**5,214,859**	**$**	**5,291,931**
Liabilities				
Accounts payable and accrued liabilities	$	2,800	$	4,329
Payable for pending trades		2,808		4,803
Payable to Teachers' Pension Plan Corporation		467		1,676
Total liabilities	**$**	**6,075**	**$**	**10,808**
Net assets available for benefits	**$**	**5,208,784**	**$**	**5,281,123**
Accrued benefit obligation (note 9)		5,120,662		5,102,741
Surplus	**$**	**88,122**	**$**	**178,382**

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 year ended December 31
(in thousands of dollars)

	2018	2017
Increase in net assets		
Investment income (note 5)	$ 26,044	$ 345,793
Interest earned on promissory note (note 14)	108,278	109,806
	134,322	455,599
Contributions (note 11)	113,641	110,411
Total increase in net assets	**247,963**	**566,010**
Decrease in net assets		
Benefits paid (note 12)	(304,313)	(294,048)
Investment related expenses (note 8)	(10,123)	(9,573)
Management fees (note 14)	(4,369)	(5,044)
Non-refundable Harmonized Sales Tax	(1,497)	(1,867)
Total decrease in net assets	**(320,302)**	**(310,532)**
Increase (decrease) in net assets available for benefits	**(72,339)**	**255,478**
Net assets available for benefits, beginning of year	5,281,123	5,025,645
Net assets available for benefits, end of year	**$ 5,208,784**	**$ 5,281,123**

See accompanying notes to financial statements

Teachers' Pension Plan

Statement of Changes in Accrued Benefit Obligation
For the year ended December 31
(in thousands of dollars)

	2018	2017
Actuarial present value of accrued benefit obligation, beginning of year	**$ 5,102,741**	**$ 5,116,380**
Increase in accrued benefit obligation		
Interest on accrued benefits	302,529	300,680
Benefits accrued	91,570	86,780
	394,099	387,460
Decrease in accrued benefit obligation		
Benefits paid	(304,313)	(294,070)
Experience gains	(48,363)	(95,466)
Changes in actuarial assumptions	(23,502)	(11,563)
	(376,178)	(401,099)
Net increase (decrease) in accrued benefit obligation	**17,921**	**(13,639)**
Actuarial present value of accrued benefit obligation, end of year (note 9)	**$ 5,120,662**	**$ 5,102,741**

See accompanying notes to financial statements

The Teachers' Pension Plan (the "Plan" or "TPP") was continued 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, at carrying value, from the Newfoundland and Labrador Pooled Pension Fund 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 Supplementary Plan is not included in the TPP. 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, and subsequently extended, between the Corporation and the Province of Newfoundland and Labrador (the "Province") to allow the Province to continue to provide pensioner payroll service for the Plan for an interim period up to October 1, 2019 and the Corporation expects that it will be extended.

1. Description of the Plan

a) General

The Plan is a contributory defined benefit pension plan covering teachers as defined under the Act ("Teachers" or "Employees").

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.

The Plan is not subject to income tax, but is subject to indirect taxes including the Harmonized Sales Tax.

b) Funding policy

The employer funding requirement is to match the Employee contributions for current service. Matching of contributions may also occur for other types of past service, which may be purchased under contract.

c) 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.

d) 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.

1. Description of the Plan (continued)

e) 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.

f) Death benefits

Upon the death of a Teacher, deferred pensioner or pensioner, benefits may be payable to a principal beneficiary, dependent child(ren), other dependents, a designated beneficiary or the person'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, commuted value or a combination of commuted value and refund of the Teacher's own contributions with interest based on certain service requirements. 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 Canadian dollars, which is the Plan's functional currency, in accordance with Canadian accounting standards for pension plans in Part IV of the Chartered Professional Accountants ("CPA") Canada Handbook (Section 4600). Section 4600 provides specific accounting guidance on investments and pension obligations.

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. To the extent that IFRS in Part I is inconsistent with Section 4600, Section 4600 takes precedence.

Consistent with Section 4600, investment assets and liabilities are presented on a non-consolidated basis even when the investment is in an entity over which the Plan has effective control. Earnings of such entities are recognized as income is earned and as dividends are declared. The Plan's total investment income includes valuation adjustments required to bring the investments to their fair value.

b) 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 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) Changes in Accounting Policies

The Plan has adopted IFRS 9 – Financial Instruments, issued in July 2014 with a date of initial application of January 1, 2018. There was no measurement impact from the adoption.

i. Recognition and initial measurement

Financial assets and financial liabilities at fair value through profit and loss ("FVTPL") are recognized in the statement of financial position on the trade date, which is the date on which the Plan becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities at FVTPL are initially measured at fair value, with transaction costs recognized in profit or loss.

ii. Classification

Financial assets are required to be classified as measured at amortized cost, fair value through other comprehensive income or FVTPL according to the business model used for managing them and their contractual cash flow characteristics. Financial liabilities are classified as measured through amortized cost unless they are measured at FVTPL.

The Plan makes an assessment of the objective of a business model because this best reflects the way the business is managed and information is provided. Investments are managed and their performance is evaluated on a fair value basis. As such, the Plan classifies all investments and derivative assets as FVTPL with changes in fair value being recognized in net investment income in the statement of changes in net assets available for benefits.

Financial assets at amortized cost include cash, accrued investment income, contributions receivable, receivable from pending trades, Harmonized Sales Tax and other receivables and Promissory note receivable. Financial liabilities at amortized cost include accounts payable and accrued liabilities, payable for pending trades and payable to Teachers' Pension Plan Corporation.

iii. De-recognition

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.

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.

iv. 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.

3. Significant Accounting Policies (continued)

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 analysis.

All changes in fair value, other than 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 market value of investments.

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.

Publicly traded equities are valued at period-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.

Pooled fund investments include investments in fixed income and equity securities, and are valued using net asset values obtained from fund managers which are determined with reference to the fair value of the underlying investments of the fund.

Private equity, private debt, mortgages, real estate and infrastructure investments are held through ownership in limited partnership and private fund investment arrangements. The Plan's ability to access information on underlying individual fund investments is generally limited. Fair value is determined by the limited partnership manager, using the most recent financial information obtained from underlying investments, and/or forecasts of future financial performance and then applying appropriate valuation techniques such as market comparables or discounted cash flows.

The Plan's investments in real estate that were through its jointly-owned subsidiary, Newvest Realty Corporation ("Newvest"), included real properties that were subject to valuations by qualified independent property appraisers using market-based assumptions in accordance with recognized valuation techniques. The valuation techniques used included the direct capitalization net operating 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 were also considered. The direct capitalization income method applied a capitalization rate of property's stabilized net operating income which incorporated allowances for vacancy, management fees and structural reserves for capital expenditures for the property.

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at period-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.

3. Significant Accounting Policies (continued)

c) Receivable/payable for pending trades

For securities transactions, the fair value of receivable from pending trades and payable for pending trades approximate their carrying amounts due to their short term nature.

d) Investment income

Investment income is recorded on an accrual basis and includes interest income, dividends and other income as well as gains and losses that have been realized on the sale of investments and unrealized current period change in market value of investments.

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.

e) 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.

f) 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.

g) Benefits

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

h) Administration expenses

Administration expenses are incurred for direct pension administration and external investment management and are recorded on an accrual basis. Direct pension administration expenses represent costs to provide direct services to plan members and employers that are incurred by the Corporation and charged to the Plan as a management fee. External investment management expenses represent payments to the investment managers. Under the Service Level Agreement between the Corporation and the Government of Newfoundland and Labrador the Province continues to provide pensioner payroll service for the Plan. Certain related salaries, overhead and administrative expenses are charged to the Plan on a cost recovery basis.

i) Cash

Cash includes balances with banks and investment managers.

(in thousands of dollars)

4. Investments

a) Investment portfolio:

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

			2018			2017
	Fair Value	%	Cost	Fair Value	%	Cost
Money market	$ 29,428	0.9	$ 29,428	$ 89,193	2.6	$ 89,193
Equities						
Canadian equity	605,786	18.1	608,073	722,931	21.3	655,815
Global equity	1,028,265	30.7	996,108	1,258,242	37.0	1,093,008
Private equity	92,579	2.8	82,940	25,221	0.8	22,857
Real assets						
Real estate	284,277	8.5	281,559	121,546	3.6	111,958
Infrastructure	282,988	8.4	281,971	245,445	7.2	249,087
Fixed income						
Canadian bonds	651,828	19.4	667,649	711,026	20.9	730,751
Mortgages	262,046	7.8	260,623	196,473	5.8	195,779
Private debt	114,809	3.4	107,193	28,072	0.8	27,934
	$ 3,352,006	**100**	**$ 3,315,544**	**$ 3,398,149**	**100**	**$ 3,176,382**

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 - unadjusted quoted prices in active markets for identical assets or liabilities.

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

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

(in thousands of dollars)

4. Investments (continued)

b) Fair value measurement (continued)

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

2018

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 29,428	$ -	$ 29,428
Equities				
Canadian equity	589,576	16,210	-	605,786
Global equity	741,422	286,177	666	1,028,265
Private equity	-	-	92,579	92,579
Real assets				
Real estate	-	125,873	158,404	284,277
Infrastructure	-	174,372	108,616	282,988
Fixed income				
Canadian bonds	-	651,828	-	651,828
Mortgages	-	-	262,046	262,046
Private debt	-	-	114,809	114,809
Total	$ 1,330,998	$ 1,283,888	$ 737,120	$ 3,352,006

2017

	Level 1	Level 2	Level 3	Total
Money market	$ -	$ 89,193	$ -	$ 89,193
Equities				
Canadian equity	710,091	12,840	-	722,931
Global equity	1,256,398	-	1,844	1,258,242
Private equity	-	-	25,221	25,221
Real assets				
Real estate	-	-	121,546	121,546
Infrastructure	-	201,660	43,785	245,445
Fixed income				
Canadian bonds	-	711,026	-	711,026
Mortgages	-	-	196,473	196,473
Private debt	-	-	28,072	28,072
Total	$ 1,966,489	$ 1,014,719	$ 416,941	$ 3,398,149

There have been no transfers between levels in 2017 or 2018.

(in thousands of dollars)

4. Investments (continued)

b) Fair value measurement (continued)

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

Fair value, December 31, 2016	$	156,187
Acquisitions		262,212
Settlements		(11,199)
Change in unrealized gain		9,741
Fair value, December 31, 2017	$	416,941

Fair value, December 31, 2017	$	416,941
Acquisitions		433,017
Settlements		(132,620)
Change in unrealized gain		19,782
Fair value, December 31, 2018	**$**	**737,120**

The Plan's private equity, infrastructure, private debt, real estate and mortgage investments are structured as indirect investments in private funds; these funds are valued using various methods including the discount rate method. Based on the structure of these investments, the Plan's ability to access information on underlying individual fund investments is limited. Accordingly, the fair value of these investments is based on the net asset value provided by the fund's general partner or investment manager, and therefore, in the absence of specific information to support deviating from this value, no other reasonably possible alternative assumptions could be applied.

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 management.

(in thousands of dollars)

4. Investments (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:

Currency forwards	Notional amount	Fair value asset	Fair value liability	Fair value net
December 31, 2018	$ 14,883	$ 549	$ 760	$ (211)
December 31, 2017	$ 22,775	$ (377)	$ (92)	$ (285)

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 year end are as follows:

	2018	**2017**
Securities lent	$ 370,872	$ 637,869
Securities contractually receivable	$ 386,531	$ 671,954

(in thousands of dollars)

5. Investment Income

a) Investment income is as follows:

	2018	2017
Dividend income	$ 45,148	$ 59,481
Interest income	18,131	25,625
Securities lending income	1,503	1,727
Other income	2,254	472
Dividend, interest and other investment income	67,036	87,305
Realized gains	143,905	85,519
Current period (decrease) increase in market value of investments	(184,897)	172,969
Investment income	$ 26,044	$ 345,793

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

	Investment income	Realized gains (losses)	Current period change in market value of investments	2018
Money market	$ 6,957	$ 169	$ -	$ 7,126
Equities				
Canadian equity	17,796	(2,320)	(69,402)	(53,926)
Global equity	19,340	134,340	(133,076)	20,604
Private equity	-	72	7,274	7,346
Real assets				
Real estate	838	17,663	(6,869)	11,632
Infrastructure	2,032	(869)	4,659	5,822
Fixed income				
Canadian bonds	17,160	(11,477)	3,858	9,541
Mortgages	-	8,623	730	9,353
Private debt	1,347	497	7,478	9,322
Derivatives	-	(2,793)	451	(2,342)
Securities lending	1,503	-	-	1,503
Other	63	-	-	63
	$ 67,036	$ 143,905	$ (184,897)	$ 26,044

(in thousands of dollars)

5. Investment Income (continued)

b) Investment income (loss) by asset mix (continued)

	Investment income	Realized gains (losses)	Current period change in market value of investments	2017
Money market	$ 3,358	$ -	$ -	$ 3,358
Equities				
Canadian equity	18,151	1,446	34,332	53,929
Global equity	20,755	112,639	116,347	249,741
Private equity	-	-	2,364	2,364
Real assets				
Real estate	796	(1,466)	7,688	7,018
Infrastructure	17,113	(8)	4,575	21,680
Fixed income				
Canadian bonds	24,982	(11,071)	2,558	16,469
Mortgages	-	-	693	693
Private debt	83	153	137	373
Derivatives	-	(16,174)	4,275	(11,899)
Securities lending	1,727	-	-	1,727
Other	340	-	-	340
	$ 87,305	$ 85,519	$ 172,969	$ 345,793

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 (public and private), real assets and fixed income asset classes require diversification of investments within asset class 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.

(in thousands of dollars)

6. Investment Risk Management (continued)

a) Interest rate risk (continued)

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

	2018 (%)	**2017** (%)
Within 1 year	4.5	2.6
Short (1-5 years)	50.2	53.3
Medium (5-10 years)	20.0	19.9
Long (10+ years)	25.3	24.2
Total	100.0	100.0

Assuming a parallel change in the long and short-term yields, a 1% increase or decrease in interest rates would have the effect of decreasing or increasing, respectively, the fair value of the Plan's fixed income investments by approximately $48.3 million or 7.45% (2017 - $52.1 million or 7.33%).

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 or decrease in net assets available for benefits. Market price risk is managed by the Plan through the construction of a diversified portfolio of instruments including public market instruments (traded on various markets) and private market investments, representing 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 $172.7 million or 5.15% (2017 - $200.6 million or 5.90%).

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.

<u>Fixed Income portfolio</u>
Credit risk in the fixed income portfolio is monitored by evaluating the Plan's exposure 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 year end:

	2018 **(%)**	**2017** **(%)**
Federal government	18.6	20.1
Provincial governments	20.0	17.9
Municipal governments	0.7	0.9
Corporate	57.5	58.6
Other	3.2	2.5
Total	100.0	100.0

(in thousands of dollars)

6. Investment Risk Management (continued)

c) Credit risk (continued)

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

	2018 (%)	2017 (%)
AAA to A-	80.1	80.6
BBB to BBB-	15.5	15.8
BB+ and below	0.2	0.3
Not rated	4.2	3.3
Total	100.0	100.0

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.

d) Foreign currency risk

Foreign currency exposure arises through holdings of non-Canadian dollar denominated investments 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. Certain 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 year end is summarized in the following table:

	2018 (%)	2017 (%)
Canadian Dollar	64.2	62.1
US Dollar	23.5	24.3
Euro	3.5	4.1
Other Asia / Pacific currencies	3.3	2.4
Japanese Yen	1.7	1.7
British Pound	1.6	2.1
Other European currencies	1.6	2.3
Other currencies	0.6	1.0
Total	100.0	100.0

6. Investment Risk Management (continued)

d) Foreign currency risk (continued)

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 $120.6 million, or 3.59% (2017 - $126.7 million or 3.79%).

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, bonds and public equities are expected to be highly liquid and are invested in securities that are actively traded. Investments in private equity, private debt, certain infrastructure and real estate funds 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 long-term contributions and manage the variability of contributions.

The Plan is jointly sponsored by the Government of Newfoundland and Labrador and the Newfoundland and Labrador Teachers' Association. The Board of Directors of the Corporation has overall responsibility for all investment activities of the Plan, and is supported by the Investment Committee appointed by the Board of Directors. The Investment Committee has been delegated certain duties by the Board of Directors as outlined in the Statement of Investment Policies and Procedures (SIPP), and the Board of Directors has also delegated certain duties relating to day to day administration, operations and investment of the Plan to Corporation management. The SIPP outlines the governance arrangement, and roles and responsibilities in respect 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.

CIBC Mellon Global Securities Services provides all custodial and administrative services for the Plan, and effective July 1, 2017 Eckler Ltd. began providing investment counselling services to the Plan.

b) Asset mix policy

During 2017, the Corporation's Board of Directors completed an updated asset/liability study (the "Study") and as a result of the Study, a new asset mix was approved by the Board of Directors in November 2017. Factors considered in determining the asset mix included the Plan's going concern funded ratio, member demographics, existing and future pension obligations, actuarial assumptions and liquidity requirements. The following summarizes the asset mix policy approved in November 2017:

(in thousands of dollars)

7. Capital Management (continued)

b) Asset mix policy (continued)

	Strategic asset mix (%)
Equities	
Canadian	17.5
Global	17.5
Emerging market	10.0
Private equity	5.0
Real assets	
Real estate	7.5
Infrastructure	7.5
Fixed income	
Universe bonds	12.5
Corporate bonds	7.5
Mortgages	7.5
Private debt	7.5

8. Investment Related Expenses

Investment related expenses consist of management fees and expenses charged by the external investment management firms, the custodian and the investment consultant and are as follows:

	2018	2017
Investment management fees	$ 9,424	$ 8,760
Custodian fees	579	675
Investment consulting fees	91	82
Miscellaneous foreign fees	29	56
Total	$ 10,123	$ 9,573

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 December 31, 2018 for all active and inactive members including pensioners and survivors. In accordance with Section 4600, the obligation is measured using the projected unit credit method, prorated on service. This method calculates the actuarial value of the benefits accrued up to the financial reporting date, after the projected benefits have been attributed equally to each year of a member's service.

The actuarial valuation of the Plan was performed as at August 31, 2018, based on plan membership as at this date, and results were extrapolated to December 31, 2018.

The actuarial assumptions used in determining the value of the accrued benefit obligation at December 31, 2018 of \$5.1207 billion (2017 - \$5.1027 billion) were determined using a methodology that is consistent with the methodology used to determine the assumptions made in the funding valuation, with adjustments where appropriate for future economic and non-economic events.

(in thousands of dollars)

9. Accrued Benefit Obligation (continued)

The primary economic assumptions include the discount rate, the salary escalation rate and the inflation rate. The discount rate was developed by calculating the expected average annual gross rate of return for the Plan's assets, net of estimated fees, and adding back any expected value-added return resulting from active management, less a provision for adverse deviation. The salary increase assumptions incorporates the underlying inflation assumption, and includes an additional margin of 0.50% for productivity. The salary increase assumption also includes a service based merit component and a component for promotional increases.

The key assumptions used in the valuation are summarized in the table below:

	2018	**2017**
Net of expense discount rate	6.00 % per annum	6.00% per annum
Inflation	2.00% per annum	2.25% per annum
Pensioner indexing	1.00% per annum	1.00% per annum
Annual salary increase		
- Service based merit	< 10 years of service: 3.20% per annum 10+ years of service: 0.00% per annum	< 10 years of service: 4.00% per annum 10+ years of service: 0.75% per annum
- Promotional increase	Dependent on certificate level and time from valuation	N/A
- Contractual	2.50% per annum	3.00% per annum
Maximum pension and YMPE	2018: $2,944.44 and $55,900 2019+: Increase at 2.50% per annum	2017: $2,914.44 and $55,300 2018+: Increase at 3.00% per annum
Retirement age	100% at earliest age member is eligible for an unreduced pension	100% at earliest age member is eligible for an unreduced pension
Mortality	CPM Public Sector Mortality Table projected generationally with CPM Improvement Scale MI-2017	CPM 2014 Public Sector Mortality Table projected generationally with CPM Improvement Scale B

10. Actuarial Valuations

As per the Plan's Joint Sponsorship Agreement, triennial actuarial valuations are required for plan funding purposes, with off-cycle valuations performed as directed to be used for monitoring the position of the pension plan. The results of these off-cycle valuations do not impact funding requirements of the plan.

A triennial valuation required for funding purposes was performed as at August 31, 2018 by the consulting firm of Eckler Ltd. and the liabilities were extrapolated to December 31, 2018 to determine the accrued benefit obligation contained herein.

An off-cycle valuation for funding purposes was performed as at August 31, 2017 by the consulting firm of Eckler Ltd. The valuation as at August 31, 2017 was re-run with assumptions adjusted as deemed appropriate and the liabilities were extrapolated to December 31, 2017 to determine the accrued benefit obligation at that date.

The next triennial valuation required for funding purposes will be as of August 31, 2021. A review of the appropriateness of the assumptions used for funding purposes will be completed as part of the process for this valuation.

(in thousands of dollars)

11. Contributions

		2018		2017
Employee				
Current service	$	53,797	$	52,531
Past service		4,152		2,231
Reciprocal transfers		1,051		2,362
		59,000		57,124
Employer				
Current service	$	53,795		52,531
Past service		846		756
		54,641		53,287
Total contributions	$	113,641	$	110,411

12. Benefits Paid

		2018		2017
Retirement benefit payments	$	281,227	$	276,060
Disability benefit payments		8,904		8,922
Termination benefit payments (including commuted value payments and contribution refunds)		8,827		4,451
Transfers to other pension funds		2,691		3,123
Death benefit payments		2,664		1,492
	$	304,313	$	294,048

13. Interest in Subsidiaries

The Plan's subsidiaries were created for the purposes of providing investment earnings from real estate, infrastructure and other private market investment arrangements. The Plan's subsidiaries are presented on a non-consolidated basis. The following table shows the fair value of the Plan's subsidiaries:

	Purpose	Ownership		2018		2017
Newvest Realty Corporation	Real estate	37.53%	$	-	$	121,546
TPP Neptune Corporation	Private equity, Infrastructure and Private debt	100.00%	$	233,196	$	94,033
TPP Investment Corporation	Private debt	100.00%	$	11,400	$	-

Funding is made by capital investment from the Plan via share capital or contributed surplus. TPP Neptune Corporation and TPP Investment Corporation have commitments that must be funded directly through capital investment by the Plan. These amounts are included in the Plan's commitments (note 15). On June 27, 2018, TPP sold its interest in Newvest Realty Corporation to the controlling shareholder for cash proceeds of $128.0 million. TPP invested the proceeds from this sale in a pooled real estate investment fund. TPP Investment Corporation was incorporated on July 31, 2018.

(in thousands of dollars)

14. Related Party Transactions

Administration expenses are incurred by the Corporation for direct pension administration and charged to the Plan as a management fee. Expenses for the year ended December 31, 2018 and the year ended December 31, 2017 include an allocation of costs of the Government of Newfoundland and Labrador under the Service Level Agreement with the Corporation, as well as direct costs incurred by the Corporation. A breakdown of the expenses included in the management fee are as follows:

	2018	2017
Consulting and other professional services	$ 1,519	$ 1,756
Salaries and benefits	1,493	874
Other expenses	528	869
Insurance	258	261
Board and committee fees and expenses	227	271
Premises and equipment	175	963
Rent	169	50
	$ 4,369	$ 5,044

The following related party investments were held by the Plan at year end:

	2018		2017	
	Cost	Market Value	Cost	Market Value
Province of Newfoundland and Labrador Debentures				
Series maturing October 17, 2033	$ 1,037	$ 988	$ 1,037	$ 1,023
Series maturing October 17, 2046	974	927	974	972
	$ 2,011	$ 1,915	$ 2,011	$ 1,995

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.

The amount of the promissory note outstanding at December 31, 2018 was $1.787 billion (2017 - $1.813 billion)

(in thousands of dollars)

14. Related Party Transactions (continued)

Principal repayments of the promissory note by the Province to the Corporation and by the Corporation to the Plan for the next five fiscal years ending December 31 are as follows:

2019	$28,051
2020	$29,734
2021	$31,518
2022	$33,409
2023	$35,414

A Service Level Agreement was signed, and subsequently extended, between the Corporation and the Province for administrative services to be provided on a cost recovery basis for an interim period. The cost of the services for the year at December 31, 2018 was $0.19 million (2017 - $0.70 million).

15. Commitments

The Plan has committed to invest in certain private market investments, including private equity, private debt, infrastructure and mortgages. As at December 31, 2018, these commitments totaled $561.1 million (2017 - $356.4 million) of which $343.0 million will be made through TPP Neptune Corporation and $38.6 million will be made through TPP Investment Corporation. The commitments are expected to be funded over the next four years.

16. Comparative information

Certain 2017 comparative information has been reclassified to conform to the financial statement presentation adopted for the current year.

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.

BENCHMARK
A standard against which the performance of the Plan's return on investment can be measured.

DEVELOPED MARKETS
These countries are the most advanced economically, have highly developed capital markets, high levels of liquidity, meaningful regulatory bodies, large market capitalization and high levels of per capital income, such as the United States, Canada, Japan, Germany, the UK, Australia, etc.

DISCOUNT RATE
The rate that reflects what the Plan's assets are expected to earn over the long term.

EMERGING MARKETS
A country's economy that is progressing toward becoming advanced and has some characteristics of a developed market, as shown by some liquidity in local debt and equity markets, and the existence of some form of market exchange and regulatory body but does not meet standards to be a developed market. They do not have the level of market efficiency and strict standards in accounting and securities regulation as more advanced economies. Such markets include Brazil, Chile, China, Columbia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.

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 has been calculated before 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.

NET OF INVESTMENT MANAGEMENT FEES
Refers to the fact that the investment return includes fees or expenses paid to the investment managers and has been deducted from the investment return calculation.

OVERWEIGHT/UNDERWEIGHT
Refers to the difference in the actual asset mix at a point in time compared to the Strategic Asset Allocation. Underweight indicates less than the Strategic Asset Allocation, while overweight indicates more than the Strategic Asset Allocation.

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.

STRATEGIC ASSET ALLOCATION
The Plan's target asset allocation based on the Asset Liability study conducted in 2017.

UNFUNDED LIABILITY
See Funded Ratio. The unfunded liability is expressed in dollar terms.

UNIVERSE BONDS
Represent the broad Canadian fixed income market consisting of marketable issues that are widely covered. The universe is weighted by size to its various components across the federal, provincial and municipal goverment sectors as well as corporate issues.

VOLATILITY
A measure of the variation in the price of a security or the returns of the Plan. High volatility indicates increased risk.

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.

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