Financial Statements of

PUBLIC SERVICE PENSION PLAN

For the year ended 31 December 2021

Public Service Pension Plan
Statement of Financial Position
31 December 2021
with comparative information for the year ended 31 December 2020

		2021		2020
		(000's)		(000's)
Assets				
Cash and cash equivalents	$	202,742	$	230,974
Accrued investment income		10,138		9,337
Contributions receivable:				
Employee		5,772		4,655
Employer		5,772		4,656
Harmonized Sales Tax receivable		559		498
Receivable from Provident[10] (note 13)		-		87
Receivable from pending trades		1,212		7,453
Investments (note 4)		9,122,080		8,243,658
Promissory note receivable (note 12)		2,364,447		2,411,911
Total assets		11,712,722		10,913,229
Liabilities				
Accounts payable and accrued liabilities		5,503		5,697
Payable for pending trades		595		7,716
Refunds payable		15,960		14,060
Due to Provident10 (note 13d)		337		-
Due to Province of Newfoundland and Labrador		1,716		2,277
		24,111		29,750
Net assets available for benefits		11,688,611		10,883,479
Accrued benefit obligation (note 9)		10,708,746		10,772,666
Commitments (note 14)				
Surplus	$	979,865	$	110,813

The accompanying notes to the financial statements are an integral part of this financial statement

On behalf of the Board of Trustees:

Director ______________________________ Director ______________________________

Public Service Pension Plan

Statement of Changes in Net Assets Available for Benefits
For the year ended 31 December 2021
with comparative information for the year ended 31 December 2020

	2021 (000's)	2020 (000's)
Increase in net assets:		
Investment income (note 5a)	$ 180,587	$ 172,999
Gain on sale of investments (note 5a)	380,763	270,458
Current period change in market value of investments (note 5a)	439,461	484,731
Interest on promissory note (note 12)	140,536	143,223
	1,141,347	1,071,411
Contributions: (note 10)		
Employee	194,439	199,224
Employer	170,043	167,776
	364,482	367,000
	1,505,829	1,438,411
Decrease in net assets:		
Pension payments (note 11)	(494,881)	(476,539)
Refund of contributions (note 11)	(171,567)	(147,624)
Administrative expenses (note 8)	(31,174)	(30,052)
Harmonized Sales Tax	(3,075)	(2,950)
	(700,697)	(657,165)
Increase in net assets available for benefits	805,132	781,246
Net assets available for benefits, beginning of period	10,883,479	10,102,233
Net assets available for benefits, end of period	$ 11,688,611	$ 10,883,479

The accompanying notes to the financial statements are an integral part of this financial statement

Public Service Pension Plan

Statement of Changes in Accrued Benefit Obligation
For the year ended 31 December 2021
with comparative information for the year ended 31 December 2020

	2021 (000's)	2020 (000's)
Actuarial present value of accrued benefit obligation, beginning of period	$ 10,772,666	$ 9,908,679
Change in actuarial assumptions (note 9)	(310,423)	614,852
Interest accrued on benefits	619,948	584,603
Experience gain	(17,865)	-
Benefits accrued	310,868	288,695
Benefits paid	(666,448)	(624,163)
Actuarial present value of accrued benefit obligation, end of period	$ 10,708,746	$ 10,772,666

The accompanying notes to the financial statements are an integral part of this financial statement

The Public Service Pension Plan (the "Plan") was established on 1 April 1967 by the *Public Service Pensions Act*. Amendments to the legislation have been made over the years, including the introduction of the latest replacement Act, the *Public Service Pensions Act, 2019* (the "Act"). In 2014, an agreement was reached between the Province of Newfoundland and Labrador (the "Province") and the five largest participating unions to reform the Plan. This included benefit and contribution changes, the issuance of a $2.685 billion Promissory Note by the Province to the Plan, and introduced a jointly trusteed governance structure, which was formally recognized under the Joint Sponsorship Agreement.

In accordance with the Joint Sponsorship Agreement, the Act established the Public Service Pension Plan Corporation (the "Corporation" or "Provident10") as the Administrator of the Registered Plan and Trustee of the Public Service Pension Plan Fund (the "Fund"). The Fund was created 31 March 2015 under the authority of the Act when the assets of the Plan were separated from the Newfoundland and Labrador Pooled Pension Fund. The Corporation officially changed its name to Provident10 as of August 2017.

Under the Joint Sponsorship Agreement, which contains a detailed Funding Policy, any future actuarial surpluses or deficits in the Plan funding will be shared equally between the Province and members of the Plan. In accordance with the Act, the participating Employers' current funding requirement is to match employee contributions for current service. Matching of contributions may also occur for certain other types of prior service, which may be purchased under contract.

On 14 Feb 2020, Bill 56, which repealed and replaced the *Public Service Pensions Act, 1991*, was proclaimed and received royal assent. Specifically, the Bill, an Act respecting a pension plan for employees of the Province and others, allowed for the following:

- "…Continue the Public Service Pension Plan Corporation, the Public Service Pension Plan, the Public Service Pension Plan Fund and the Public Service Supplementary Plan Account (Supplementary Plan);
- prescribe government's obligations to the pension plan and supplementary account;
- prescribe the obligations of employers to the pension plan; and
- provide for Provident10 as the Administrator of the Public Service Pension Plan and the Trustee of the Public Service Pension Plan Fund".

1. Description of the Plan

(a) General:

The Plan is a contributory defined benefit pension plan covering full-time employees of the, the Legislature, various Crown corporations, agencies and commissions created by or under a statute of the Province, and Provident10.

The Plan is comprised of two components, a Registered Plan (registration number 0525360), which provides registered pension benefits allowable under the *Income Tax Act* (Canada) ("Income Tax Act"), and a Supplementary Plan, which provides benefits in excess of the Income Tax Act maximum benefit limits. Provident10 oversees the Registered Plan, and 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.

1. Description of the Plan (continued)

(b) Contributions:

As of 1 January 2015, employee contributions are equal to 10.75% of the Canada Pension Plan (the "CPP") basic exemption, plus 8.95% of the employee's salary between the CPP basic exemption and the Year's Maximum Pensionable Earnings (the "YMPE") under the CPP, plus 11.85% of the employee's salary in excess of the YMPE, up to the maximum allowed under the Income Tax Act. Amounts in excess of the maximum allowed are paid to the Supplementary Plan. Employers make matching contributions for current service.

(c) Pension amounts:

A pension is available from the Registered Plan based on the number of years of pensionable service times 2% of the member's highest average earnings. When a retired member reaches age 65, this pension is reduced by 0.6% of the member's highest average earnings up to the three-year average YMPE times years of pensionable service after 1 April 1967. The offset at age 65 is limited to a maximum of 35 years of service.

For the period from 1 April 1993 to 31 March 1996, certain participating employers were temporarily allowed to reduce their contributions to the Plan. In those cases, the accrual rate used to determine a member's pension is reduced proportionately from the standard 2% per year of service.

The highest average earnings in respect of service for years earned up to 31 December 2014 is the greater of:

i. the average of the member's pensionable earnings during any of the five calendar years, prior to 31 December 2014, which yield the highest average; and
ii. the average of the member's pensionable earnings during any of the six 12-month periods, prior to the date the member's participation ceases, which yield the highest average.

For service earned after 31 December 2014, the highest average earnings is the average of a member's pensionable earnings during any of the six 12-month periods, prior to the date the member's participation ceases, which yield the highest average.

For seasonal employees, the averaging periods used in the determination of the highest average earnings are limited to either the five-year period prior to 31 December 2014 or the six-year period immediately prior to the date the member's participation ceases.

The pension payable from the Registered Plan shall not exceed the maximum allowable benefit as determined under the *Income Tax Act*. Where the calculated amount exceeds the maximum allowable benefit as determined under the *Income Tax Act*, a member will receive a pension from the Supplementary Plan. The total pension received from both the Registered Plan and the Supplementary Plan equals the amount calculated based on the number of years of pensionable service times 2% of the member's highest average earnings, subject to the previously noted reduction at age 65 and any reductions in the accrual rate applicable during the period from 1 April 1993 to 31 March 1996.

(d) Retirement dates:

Employees who met the early unreduced retirement provisions that existed prior to 1 January 2015 by 31 December 2019 or who had at least 30 years of service by 31 December 2019 were grandparented under the early retirement rules that existed prior to 1 January 2015. In this case, employees can retire with an unreduced pension at age 55 if they have at least 30 years of service, or at age 60 if they have at least five years of service.

1. Description of the Plan (continued)

(d) Retirement dates (continued):

Following 31 December 2019, employees are eligible to retire with an unreduced pension at age 58 if they have at least 30 years of service, age 60 if they have at least 10 years of service, or at age 65 if they have at least five years of service.

Employees can also retire with a reduced pension in certain circumstances. During the period to 31 December 2019, employees who were age 50 with at least 30 years of service or who were age 55 and whose age plus service total at least 85 could have retired with a reduction of 0.5% for each month prior to age 55 or 60, respectively. After 31 December 2019, employees who are age 53 with at least 30 years of service or who are age 58 and whose age plus service total at least 88 may retire with a reduction of 0.5% for each month prior to age 58 or 60, respectively. In any case, an employee who has reached age 55 with at least five years of service may retire with an actuarially reduced pension.

(e) Disability Pensions:

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

(f) Survivor pensions:

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

(g) Pre-retirement death benefits:

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

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

(h) Termination benefits:

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

(i) Indexing:

For persons in receipt of a pension or a survivor benefit as at 31 December 2014, each 1 October, 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. For all others, pensions in respect of service that was earned up to 31 December 2014 will continue to be indexed in the same manner, but no guaranteed post-retirement indexing will be provided in respect of service credited in the Plan after 31 December 2014.

2. Basis of preparation

(a) Basis of presentation:

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

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

(b) Functional and presentation currency:

The financial statements are presented in thousands of Canadian dollars unless otherwise noted. Canadian dollars is the Plan's functional currency.

(c) Use of estimates and judgments:

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

3. Significant accounting policies

(a) Financial assets and liabilities:

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.

3. Significant accounting policies (continued)

Financial assets at amortized cost include cash and cash equivalents, accrued investment income, contributions receivable, receivable from pending trades, Harmonized Sales Tax receivable, receivable from Provident[10], receivable from pending trades and Promissory note receivable. Financial liabilities at amortized cost include accounts payable and accrued liabilities, payable for pending trades, refunds payable, due to Provident[10] and due to the Province of Newfoundland and Labrador

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 (loss) 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.

(b) Fair value measurement:

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

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

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

All changes in fair value, other 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.

3. Significant accounting policies (continued)

(b) Fair value measurement (continued):

Fair values of investments are determined as follows:

Short-term notes, treasury bills and term deposits maturing within a year, and cash held by investment managers 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 year-end quoted closing prices where available. Where quoted prices are not available on the valuation date, estimated fair values are calculated using the last trade date.

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

Private equity, private infrastructure, private debt and hedge fund investments are held through ownership in limited partnership arrangements. Fair value is determined by the general partner, using the most recent financial information obtained from the underlying investments and/or forecasts of future financial performance and then applying appropriate valuation techniques such as market comparables and/or discounted cash flows.

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

Investments in derivative financial instruments, including futures, forwards and option contracts, are valued at year-end quoted market prices where available. Where quoted prices are not available, values are determined using pricing models, which take into account current market and contractual prices of the underlying instruments, as well as time value and yield curve or volatility factors underlying the positions. Unrealized gains and losses on derivative financial instruments, net of premiums paid or received on options contracts, are included in derivative contracts investments. The Plan holds private investments, such as non-traded pooled or closed funds, limited partnership interests, private placement bonds or equity investments. Private investment fund valuations are initially provided by the external fund managers, usually on a three-month lagging basis. Such valuations are then adjusted to reflect cash contributions and cash distributions between the valuation date and the reporting date, including marking to market any publicly-traded securities held by the underlying private investment.

(c) Investment Income

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

3. Significant accounting policies (continued)

Dividend income is recognized as of the date of record.

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

(d) Foreign currency translation:

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

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

(e) Contributions:

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

(f) Benefits:

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

(g) 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.

(h) Administrative expenses:

Administrative expenses are incurred for direct pension administration and external investment management and are recorded on an accrual basis. Direct pension administration expenses represent expenses to provide direct services to Plan members and employers and include actuarial consulting, disability pension adjudication and professional fees. External investment management expenses represent payments to the investment managers. The administrative expenses include charges from the Corporation as well as charges from the Province under a service level agreement between the Corporation and the Province. Under the service level agreement, charges from the Province are allocated to the pension plans it administers on a pro-rata basis. An allocation of salaries, overhead and administrative expenses is charged on a cost recovery basis.

(i) Cash and cash equivalents:

Cash and cash equivalents includes cash on hand, balances with banks and investment managers, and highly liquid financial assets with maturities of three months or less that are subject to an insignificant risk of changes in their fair value and are used by the Plan in the management of short-term commitments.

4. Investments

(a) Investment portfolio:

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

	31 December 2021			31 December 2020		
	Assets	%	Cost	Assets	%	Cost
	(000's)		(000's)	(000's)		(000's)
Fixed income	2,970,477	32.6	2,880,179	2,861,618	34.7	2,652,591
Equities						
Canadian	1,039,451	11.4	832,068	866,063	10.5	735,936
Global	2,896,491	31.8	2,134,477	2,822,870	34.3	2,169,149
Private	577,818	6.3	266,878	461,747	5.6	315,992
Real assets						
Private infrastructure	646,505	7.1	453,429	451,213	5.5	373,448
Listed infrastructure	310,781	3.4	314,187	406,640	4.9	450,718
Real estate	430,006	4.7	282,286	373,509	4.5	277,906
Absolute return						
Hedge funds	250,551	2.7	251,600	-	-	-
Forwards	-	-	-	(2)	-	-
Total	$9,122,080	100.0	$7,415,104	$8,243,658	100.0	$6,975,740

(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.

4. Investments (continued)

(b) Fair value measurement (continued):

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

As at 31 December 2021	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Fixed income	-	2,934,084	36,393	2,970,477
Equities				
Canadian	1,002,578	36,873	-	1,039,451
Global	2,894,750	1,741	-	2,896,491
Private	-	-	577,818	577,818
Real assets				
Private infrastructure	-	-	646,505	646,505
Listed infrastructure	-	310,781	-	310,781
Real estate	-	-	430,006	430,006
Absolute return				
Hedge funds	-	-	250,551	250,511
	$ 3,897,328	$ 3,283,479	$ 1,941,273	$ 9,122,080

As at 31 December 2020	Level 1 (000's)	Level 2 (000's)	Level 3 (000's)	Total (000's)
Fixed income	-	2,861,618	-	2,861,618
Equities				
Canadian	837,225	28,838	-	866,063
Global	2,821,227	1,643	-	2,822,870
Private	-	-	461,747	461,747
Real Assets				
Private infrastructure	-	-	451,213	451,213
Listed infrastructure	-	406,640	-	406,640
Real estate	-	-	373,509	373,509
Forwards	(2)	-	-	(2)
	$ 3,658,450	$ 3,298,739	$ 1,286,469	$ 8,243,658

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

4. Investments (continued)

(b) Fair value measurement (continued):

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

	(000's)
Fair value, 31 December 2019	$ 1,022,488
Acquisitions	174,686
Dispositions	(21,375)
Realized loss	(18,523)
Change in unrealized loss on assets sold	(9,856)
Change in unrealized gain on assets held	139,049
Fair value, 31 December 2020	$ 1,286,469
Fair value, 31 December 2020	$ 1,286,469
Acquisitions	388,130
Dispositions	(103,817)
Realized gain	37,634
Change in unrealized loss on assets sold	(22,597)
Change in unrealized gain on assets held	355,454
Fair value, 31 December 2021	$ 1,941,273

Level 3 financial instruments are valued using various methods. The fair value of private equity, private infrastructure, private debt and hedge fund holdings is determined by the general partners using the most recent financial information obtained from the underlying investments and/or forecasts of future financial performance and then applying appropriate valuation techniques such as recent arms's length market transactions, earnings multiples of comparable publicly traded companies and/or discounted cash flows. Given the limited availability to other unobservable inputs, no other reasonably possible alternative assumptions could be applied to determine the fair value.

Real estate holdings are valued based on discounted cash flow analysis and direct capitalization income. The following analysis illustrates the sensitivity of the Level 3 valuations to reasonably possible capitalization rate assumptions for real estate properties where reasonable possible alternative assumptions would change the fair value significantly.

	2021 (000s)	2020 (000s)
Real estate		
Minimum capitalization rate	3.73%	3.75%
Maximum capitalization rate	10.32%	9.25%
Increase of 25 basis points	$(25,748)	$(22,244)
Decrease of 25 basis points	$ 28,664	$ 24,610

4. Investments (continued)

(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 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) Currency forwards:
Currency forwards 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 Plan's derivatives and their related assets and liabilities at 31 December:

	Notional amount (000's)	Fair value asset (000's)	Fair value liability (000's)	Fair value net (000's)
31 December 2021				
Currency forwards	$ (239)	$ (2)	$ 2	$ -
31 December 2020				
Currency forwards	1,620	(4)	2	(2)

(ii) Futures:

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

Futures contracts are specifically used for reducing the cash exposure in the operating accounts. This is accomplished by converting cash exposure to capital markets exposure in accordance with the Plan's long-term asset mix.

4. Investments (continued)

(d) Securities lending:

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

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

	2021 (000's)	2020 (000's)
Securities lent	$ 639,241	$ 720,543
Securities contractually receivable	675,545	755,431

5. Investment income

(a) Investment income is as follows:

	2021 (000's)	2020 (000's)
Dividend income	$ 94,306	$ 84,872
Interest income	85,069	85,999
Security lending income	1,035	2,073
Commission recapture income	177	55
	180,587	$ 172,999
Gain on sale of investments	380,763	270,458
Current period change in market value of investments	439,461	484,731
	$ 1,000,811	$ 928,188

5. Investment income (continued)

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

	Investment Income	Gain (loss) on sale of investments	Current period change in market value of investments	2021 Total	2020 Total
	(000s)	(000s)	(000s)	(000s)	(000s)
Cash and cash equivalents	$ 4,939	$ (244)	$ 403	$ 5,098	$ 3,370
Fixed income	78,252	13,224	(118,729)	(27,253)	253,675
Equities	76,638	367,448	350,734	794,820	668,421
Real assets	20,758	335	208,100	229,193	3,233
Absolute return	-	-	(1,049)	(1,049)	-
Forwards	-	-	2	$ 2	(511)
Total	**$ 180,587**	**$ 380,763**	**$ 439,461**	**$1,000,811**	**$ 928,188**

Net loss from derivatives, including realized and unrealized gains or losses is $nil (2020 - net loss $0.5 million), while income from other assets, excluding dividend and interest income is $5.1 million (2020 - $3.3 million).

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 interest rate risk, market price risk, credit risk, foreign currency risk and liquidity risk. The Plan's Statement of Investment Policies and Procedures (SIP&P) outlines policies and operating procedures that establish a diversified asset mix consisting of investments in equity, fixed income, real estate, infrastructure and private equity. The asset mix policy requires diversification of investments within these categories and sets limits on the size of exposure to individual investment and counterparties. Board of 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.

6. Investment risk management (continued)

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

	2021 (%)	2020 (%)
Within 1 year	6.5	8.0
Short (1 - 5 years)	27.1	25.6
Medium (5 - 10 years)	32.0	28.3
Long (10 + years)	34.4	38.1
	100.0	100.0

Assuming a parallel change in the long and short-term yields, a 1% increase in interest rates would have the effect of decreasing the fair value of the Plan's fixed income investments by approximately $201.5 million or 8.08% (2020 - $198.5 million or 8.13%). A 1% decrease in interest rates would have resulted in an equal but opposite effect to the amounts shown.

(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. The Plan is exposed to changes in equity prices in Canadian and global markets. Equities comprise 46.9% of the market value of the Plan's total investments. Equity investments are diversified by geography, industry type and corporate entity. If equity market indices (S&P/TSX and MSCI ACWI) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately $424.6 million, or 4.70% of total investment assets (2020 - $409.6 million or 4.99%).

(c) Credit risk:

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

Fixed Income portfolio:

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

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

	2021 (%)	2020 (%)
Federal government	21.3	15.6
Provincial government	24.8	26.1
Municipal government	1.2	1.9
Corporate	49.8	53.3
Other	2.9	3.1
	100.0	100.0

6. Investment risk management (continued)

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

	2021 (%)	2020 (%)
AAA to A-	56.3	61.5
BBB to BBB-	24.8	22.7
BB+ and below	11.7	8.3
Not rated	7.2	7.5
Total	100.0	100.0

Real estate:

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

Securities lending:

The Plan lends securities for a fee to approved borrowers. High quality collateral is provided by borrowers to alleviate the credit risk. Regular reporting of the securities lending program ensure that its various components are continuously being monitored.

(d) Foreign currency risk:

Foreign currency exposure arises through holdings of securities and other 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. Foreign currency positions arising from investments in fixed income, real estate or infrastructure are generally hedged, while investments in global public and private equity generally are not hedged. In addition, the investment managers of the Plan are given flexibility through their mandate to periodically hedge currency for opportunistic or defensive purposes.

The Plan's currency exposure from public market investment assets is summarized in the following table:

	2021 (%)	2020 (%)
Canadian Dollar	42.6	44.8
US Dollar	39.7	36.4
Euro	5.0	5.3
Other Asia / Pacific currencies	4.4	4.8
British Pound	2.3	2.5
Other European currencies	2.2	2.2
Other currencies *	2.0	1.4
Japanese Yen	1.8	2.6
Total	100.0	100.0

* Other currencies include those from regions within Africa, the Middle East and Latin America

6. Investment risk management (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 $392.2 million, or 5.74% of public market investment assets (2020 - $370.3 million or 5.52%). A reduction in the value of the Canadian dollar of the same amount in relation to all other foreign currencies would result in an equal but opposite effect to the amounts shown.

(e) Liquidity risk:

Liquidity risk is the risk that the Plan is unable to meet its financial obligations as they come due. Cash obligations are fulfilled from contributions to the Plan, cash income of the Plan and planned dispositions of Plan assets as required. Cash requirements of the Plan are reviewed on an ongoing basis to provide for the orderly availability of resources to meet the financial obligations. In general, the Plan's investments in cash and cash equivalents, debt and public equities are expected to be highly liquid and are invested in securities that are actively traded. Investments in private equity, infrastructure and real estate are considered highly illiquid due to their private nature and longer term to maturity.

(f) COVID-19 impact and geopolitical risks:

With the outbreak of the novel strain of the coronavirus ("COVID -19"), there has been significant volatility in equity prices, interest rates, bond yields and foreign exchange rates. The geopolitical risks currently being experienced create further uncertainty and volatility.

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 with a long-term goal to achieve investment returns. The primary investment objective of the Plan is to meet its long-term funding requirements and pension payment obligations, and the secondary objective is to manage the volatility of the Plan's funded ratio.

The Plan is jointly sponsored by the Province and the five unions representing plan members. The Corporation's Board of Trustees, as Trustee of the Plan, is responsible to review, monitor, administer and supervise all investment activities of the Plan.

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 alignment with the investment structure and objectives of the Plan. In addition, external custodial and investment counseling advisory firms are engaged to support Plan management.

7. Capital management (continued)

Asset mix policy:

The long-term asset mix policy of the Plan, approved in January 2019, is as follows:

Equities:	
Canadian Equity	10%
Global Equities	10%
Global Low Volatility	10%
Global Small Cap	5%
Emerging Markets	5%
Private Equity	5%
Fixed Income:	
Canadian Core-Plus Bonds	15%
Commercial Mortgages	5%
Emerging Market Debt	5%
Multi Asset Credit	5%
Private Debt	5%
Real Assets:	
Real Estate	7.5%
Global Infrastructure	7.5%
Absolute Return:	
Hedge Funds	5%

The asset mix policy was adopted after evaluating the potential impact of alternative policies on the ability to achieve sufficient asset growth on a risk-controlled basis. Factors evaluated before adopting the asset mix policy included the Plan's going-concern funded ratio, demographics, cash-flow requirements, actuarial assumptions, prospective benefit improvements and liquidity requirements.

8. Administrative expenses

Administrative expenses include direct expenses incurred by the Plan, and administrative costs incurred by the Corporation and billed to the Plan. Administrative expenses were as follows:

	2021 (000's)	2020 (000's)
Direct expenses:		
Investment management fees	$ 18,264	$ 18,211
Custodian and transaction fees	836	871
Actuarial consulting fees	355	362
Investment consulting fees	153	169
Other direct expenses	139	167
	19,747	19,780
Charges from Plan Administrator, Provident10 (note 13d)	11,427	10,272
	$ 31,174	$ 30,052

9. Accrued benefit obligation

The actuarial present value of the accrued benefit obligation is an estimate of the value of Plan benefits accrued to date for all active and inactive members including pensioners and survivors. As the experience of the Plan unfolds, and as underlying conditions change over time, the measured value of these benefits may change materially.

The Plan uses the triennial actuarial funding valuation as the basis for measuring the accrued benefit obligation, using various economic and demographic assumptions and based on membership data as at the valuation date. Extrapolations of the Plan's funding valuation are conducted annually to estimate the accrued benefit obligation. The most recent funding valuation was conducted as at 31 December 2021.

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

Salaries are assumed to increase over the long-term based on an assumed real rate increase (i.e. to increase in excess of the assumed inflation rate).

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

Two major demographic assumptions have been updated for the 2021 valuation. The active member termination rates have been updated, following on a review of recent experience. The mortality rates have also been changed, with updates to the size adjustment factors applied under the CPM tables for males and females reflecting the socio-economic profile of the membership. The only 2021 economic assumption change includes an increase in the discount rate to 6% from 5.85%. The remaining economic assumptions are unchanged .

9. Accrued benefit obligation (continued)

	As of 31 December 2021	As of 31 December 2020
Inflation	2.00% per annum	2.00% per annum
Post-retirement indexing (payable from age 65)	1.00% per annum	1.00% per annum
Salary escalation	3.50% per annum	3.50% per annum
Total rate of return on assets (i.e. Discount Rate)	6.00% per annum	5.85% per annum
YMPE escalation (as defined under the Canada Pension Plan)	2.75% per annum	2.75% per annum
Retirement rates	For members who are grandparented or who qualify for early unreduced retirement by 31 December 2019: • 50% at earliest age they are entitled to unreduced pension. • The remainder at their normal retirement age (the earlier of 65 or 55 with 35 years of service). For all other members: • 57.5% at the earliest age they are entitled to unreduced pension. • The remainder at normal retirement age (the earlier of 65 or age 58 with 35 years of service). Members who have already reached early unreduced retirement age are assumed to retire at their normal retirement age.	For members who are grandparented or who qualify for early unreduced retirement by 31 December 2019: • 50% at earliest age they are entitled to unreduced pension. • The remainder at their normal retirement age (the earlier of 65 or 55 with 35 years of service). For all other members: • 57.5% at the earliest age they are entitled to unreduced pension. • The remainder at normal retirement age (the earlier of 65 or age 58 with 35 years of service). Members who have already reached early unreduced retirement age are assumed to retire at their normal retirement age.
Termination rates	Age / Percentage 25 / 6.03% 30 / 4.12% 35 / 2.81% 40 / 1.92% 45 / 1.31% 50 / 2.12% 55 / 3.11% 60 / Nil	Age / Percentage 25 / 6.24% 30 / 4.24% 35 / 3.12% 40 / 1.92% 45 / 1.33% 50 / 1.98% 55 / 2.83% 60 / Nil
Termination form of payment	To age 49: 35% lump-sum; 65% deferred pension Age 50-59: 80% lump-sum; 20% deferred pension	To age 49: 35% lump-sum; 65% deferred pension Age 50-59: 80% lump-sum; 20% deferred pension
Mortality rates	CPM RPP 2014 Public (Sex Distinct) CPM Improvement Scale B Size adjustment factors of 1.21 for males and 1.06 for females	CPM RPP 2014 Public (Sex Distinct) CPM Improvement Scale B Size adjustment factors of 1.08 for males and 1.01 for females

10. Contributions

		2021 (000's)		2020 (000's)
Employee:				
Current service	$	168,610	$	165,502
Past service		5,387		5,920
Reciprocal transfers		20,442		27,802
	$	194,439	$	199,224

		2021 (000's)		2020 (000's)
Employer:				
Current service	$	168,509	$	165,516
Past service		1,534		2,260
	$	170,043	$	167,776

11. Pension payments

		2021 (000's)		2020 (000's)
Retirement benefit payments	$	464,364	$	446,477
Disability benefit payments		30,517		30,062
	$	494,881	$	476,539

Refund of contributions

		2021 (000's)		2020 (000's)
Termination benefit payments	$	155,530	$	136,442
Transfers to other pension funds		8,764		5,312
Death benefit payments		7,273		5,870
	$	171,567	$	147,624

12. Promissory note

The Province issued a $2.685 billion promissory note to the Corporation on 31 March 2015 as part of pension reform. The Plan has a right to receive the proceeds of the promissory note from the Province held by the corporate trustee. The note is receivable over 30 years in quarterly blended installments of principal and interest of $47 million. The promissory note bears interest of 6%. The payments will be made, regardless of the funded status of the Plan. The promissory note is non-marketable. As at 31 December 2021, the balance receivable is $2.364 billion (2020 - $2.412 billion).

Principal repayments of the promissory note by the Province to the Corporation and by the Corporation to the Plan over the next five years (in thousands) are as follows:

2022	$50,312
2023	$53,331
2024	$56,530
2025	$59,922
2026	$63,518

13. Related party transactions

(a) Fixed income investments:

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

Description	2021 Cost (000's)	2021 Market Value (000's)	2020 Cost (000's)	2020 Market Value (000's)
Province of Newfoundland and Labrador Debentures - Series maturing 2 June 2028	$ 2,882	$ 2,882	$ 3,950	$ 3,950
Province of Newfoundland and Labrador Debentures - Series 6X maturing 17 October 2046	1,779	2,041	1,964	2,422
Province of Newfoundland and Labrador Debentures - Series 6Z maturing 2 June 2026	977	977	1,078	1,078
Newfoundland and Labrador Hydro Debentures - Series AF maturing 1 December 2045	526	520	589	589
Province of Newfoundland and Labrador Debentures - Series maturing 17 October 2029	40	40	45	45
Province of Newfoundland and Labrador Debentures - Series maturing 17 October 2030	7	7	8	8
Province of Newfoundland and Labrador Debentures - Series maturing 2 June 2027	-	-	1,357	1,376
Province of Newfoundland and Labrador Debentures - Series maturing 17 October 2033	-	-	1,265	1,281
Province of Newfoundland and Labrador Debentures - Series 7G maturing 2 June 2029	-	-	961	1,018
Province of Newfoundland and Labrador Debentures - Series maturing 2 June 2030	-	-	398	410

	$	6,211	$	6,467	$	11,615	$	12,177

13. Related party transactions (continued)

(b) Real estate investments:

The Plan manages its real estate through Newvest Realty Corporation, a wholly-owned subsidiary incorporated under the provisions of the *Canada Corporations Act.* It is also registered under the *Corporations Act* of the Province of Newfoundland and Labrador. All of the shares of Newvest Realty Corporation are held by the Plan.

(c) Private equity and private infrastructure investments:

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

(d) Plan administration:

The Corporation manages the Plan on a cost recovery basis. The cost of the services in 2021 totalled $11.4 million (2020 - $10.3 million) and included certain direct expenses as well as costs charged to the Corporation by the Province including services for disbursement of pension payments.

(e) Hedge Funds and Private Debt

The Plan manages its hedge funds and private debt investments through PSPP Jupiter Corporation, a wholly-owned subsidiary incorporated under the provisions of the *Canada Corporations Act*. All of the Shares of PSPP Jupiter Corporation are held by the Plan.

14. Commitments

The Plan has committed to invest in certain private equity and infrastructure funds which will be funded in accordance with agreed upon conditions over the next several years. As at 31 December 2021, the unfunded portion of these commitments totalled $284.1 million (2020 - $433.8 million). This investment is made through PSPP Neptune Corporation, a wholly-owned subsidiary of the Plan.

In addition, the Plan has committed to invest in commercial mortgages which will be funded upon conditions over the next several years. As at 31 December 2021, the unfunded portion of these commitments totalled $nil (2020 - $0.4 million). This investment is made through Greystone Mortgage Fund.

During 2021, the Plan has committed to invest in private debt and hedge funds. As at 31 December 2021, the unfunded portion of these commitments totalled $513.3 million. These investments are made through PSPP Jupiter Corporation, a wholly-owned subsidiary of the Plan.