

June 30, 2009

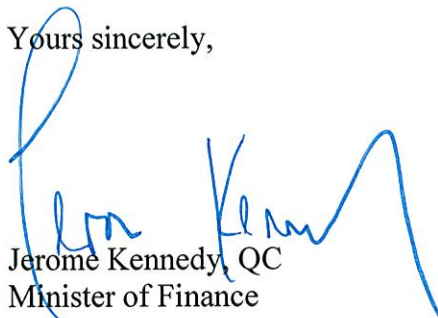
Mr. Bill Mackenzie
Clerk of the House of Assembly

Dear Mr. Mackenzie:

I wish to table the *2008 Activity Report for the Pension Investment Committee of the Province of Newfoundland and Labrador Pension Investment Committee*. The Report is being tabled in accordance with the *Transparency and Accountability Act*. You should note, however, that the report does not include the audited financial statements for the Pooled Pension Fund as they are not yet finalized. Once the statements are finalized, they will be forwarded to you for tabling.

I trust this is satisfactory.

Yours sincerely,



Jerome Kennedy, QC
Minister of Finance



Department of Finance
Pension Investment Committee
2008 Activity Report

June 2009

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

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

Honourable Jerome P. Kennedy, QC
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL A1B 4J6

Dear Minister Kennedy:

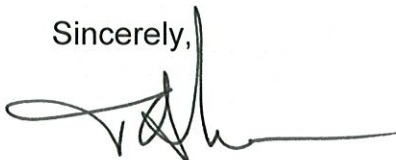
As the Chair of the Pension Investment Committee (PIC), I hereby submit the 2008 Annual Report for the Committee. This Report was prepared under the direction of the PIC and the PIC is accountable for the results contained herein.

The PIC of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund) has been overseeing the management of the Fund since its inception in 1981. Throughout that period, the performance of the Fund has contributed to the reduction in the unfunded liabilities of the five participating pension plans sponsored by government. Ensuring that the assets are invested in a prudent manner within acceptable risk tolerances has been the guiding principle for the PIC and its success is evident in the 9.7 percent average annual rate of return earned by the Fund.

With Canadian and international investment markets experiencing significant declines in response to the global financial crisis, 2008 proved to be the most challenging year in the history of the Fund. While the overall rate of return earned by the Fund was slightly below the composite rate of return for the key market indices, it is anticipated that this short-term market volatility will not impact the long-term investment goals established by the PIC.

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

Sincerely,



Terry Paddon
Chair of the Pension Investment Committee
Of the Province of Newfoundland and Labrador Pooled Pension Fund

1.0 Overview

1.1 Pension Investment Committee

The Pension Investment Committee (PIC) advises the Minister of Finance, as Trustee, on the operation and the investment of the Province of Newfoundland and Labrador Pooled Pension Fund (the Fund). The Fund was established to finance benefits under the various Government sponsored pension plans, including the Public Service Pension Plan, the Teachers' Pension Plan, the Uniformed Services Pension Plan, the Members of the House of Assembly Pension Plan and the Provincial Court Judges' Pension Plan.

The PIC has 15 members comprised of representatives from Government and the plans' stakeholders, including employee groups and pensioners, with the Deputy Minister of Finance as the Chair. Responsibilities of the PIC include the review of all the financial activities of the Fund; the development, review and implementation of Fund objectives and investment strategies; and the recommendations for the appointment of investment consultants, a custodian and investment managers as required.

The PIC also oversees the operations of Newvest Realty Corporation (Newvest). Newvest was established solely to facilitate the Fund's investment in real estate. The activities of Newvest are included as part of the activities of the PIC.

Pension Investment Committee

(as of December 31, 2008)

Government Representatives:

Terry Paddon, Chairperson
Donna Brewer, Vice-Chair

Ron Williams
Rick Hayward

Maureen McCarthy
Paul Myrden
Gerald Dawe, Secretary

Deputy Minister of Finance
Assistant Deputy Minister, Financial Planning and Benefits
Administration, Department of Finance
Comptroller General
Assistant Deputy Minister, Corporate Services, Department
of Education
Director, Pension Administration
Director, Debt Management
Manager, Pension Investments

Employee/Pensioner Representatives:

Bert Blundon

Debbie Forward
Edward Hancock
Sharon King
Doug Laing
Eric Salter
Dawn Learning

Newfoundland and Labrador Association of Public and
Private Employees
Newfoundland and Labrador Nurses' Union
Newfoundland and Labrador Teachers' Association
Association of Allied Health Professionals
Public Sector Managers' Association
Newfoundland and Labrador Public Service Pensioners' Association
Canadian Union of Public Employees

Non-Government Representative:

Roger Crosbie

Private Sector Representative

1.2 Mandate

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

1.3 Legislation

While the plan provisions are governed by the specific enabling legislation for each plan and the *Pensions Funding Act*, pension plans, in general, are closely regulated and monitored by the Provincial pension authority under the *Pension Benefits Act, 1997* (PBA) and by the Canada Revenue Agency under the *Income Tax Act* (ITA). These regulatory bodies, jointly, provide for equitable treatment of all employees who participate in pension plans. Pension Benefit Standards legislation, which is established in the PBA, ensures that all employees under a plan receive similar or equal treatment, while the ITA establishes the level of tax assistance pension plans can provide to their members.

1.4 Lines of Business – Investment of Pension Plan Contributions

Ensure that the pension fund contributions are invested in a prudent manner to maximize investment returns on those contributions within reasonable risk tolerances.

1.5 Values

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

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

1.6 Primary Clients and Stakeholders

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

1.7 Vision

The vision of the PIC is the reduction/elimination of the unfunded liability of the Government sponsored pension plans.

1.8 Mission

The mission statement identifies the priority focus areas of the PIC over the next planning cycle. Consistent with Government's strategic direction to improve the financial position of the Province, the PIC's mission is to maintain a long term investment strategy that will produce long term average investment returns in excess of those assumed by the Province's actuary in valuing the plans' liabilities, but with an acceptable level of risk. Excess returns will lead to a positive improvement in the funded ratio of the pension plans which will have a positive impact on the total debt of the Province. Over the next year, the PIC will continue to monitor the performance of the pension fund and make adjustments where necessary.

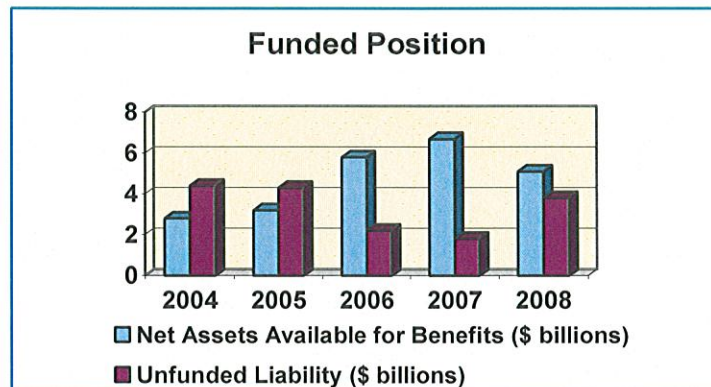
By 2010, the PIC will have continued to prudently managed the Pooled Pension Fund.

Measure: Average annual performance of the pension fund in excess of the interest rate assumed by the actuary in measuring plan liabilities.

Indicator: Funded ratios of plans increase.

1.9 Key Statistics

As of December 31, 2008, total Fund assets were \$5.1 billion. The total unfunded liability was \$3.8 billion. This compares to assets of \$6.7 billion and an unfunded liability of \$1.8 billion in 2007.



As detailed in the following table, Fund participation exceeded 62,000 members as of December 31, 2008.

Fund Participation as of December 31, 2008	
Active Members	36,105
Deferred Members	4,180
Pensioners	22,241
Total	62,526

1.10 Contributions and Payments

2008 Contributions and Payments	
Contributions:	
Contributions from Active Members	\$141,444,000
Regular Employer Contributions	\$135,147,000
Total Contributions:	\$276,591,000
Payments:	
Pension Benefit Payments	\$444,736,000
Refunds to Members	\$29,007,000
Administrative Expenses	\$16,980,000
Total Payments:	\$490,723,000

2.0 Activities

The Fund was established as a vehicle to invest employee and employer pension plan contributions in the capital markets with a long term goal to achieve investment returns on those contributions sufficient to meet the cost of the pension obligations as they become due. As the obligations of the participating pension plans are not fully funded, any excess returns achieved in the portfolio will slow the growth in the unfunded portion.

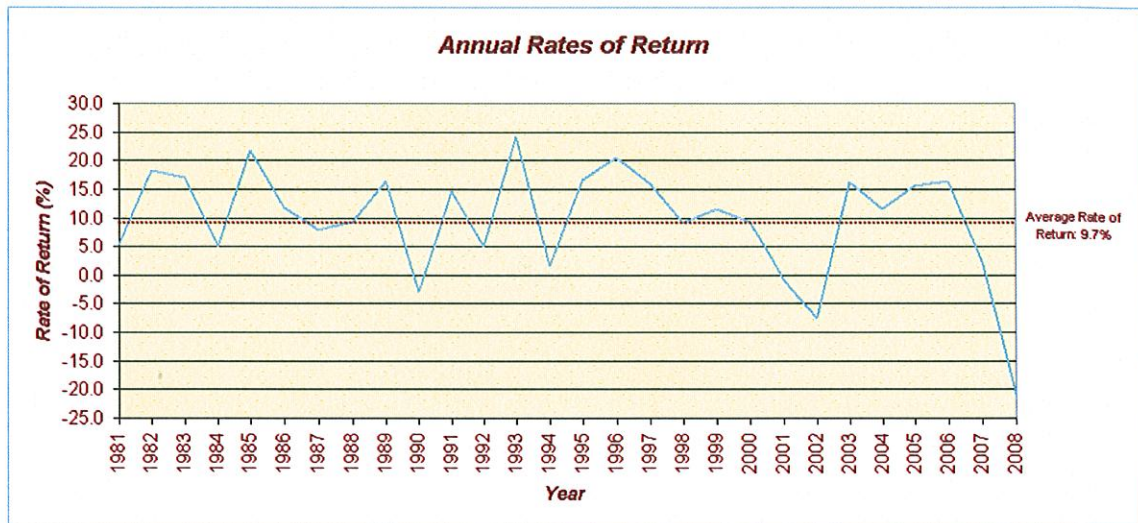
2.1 Issue

In evaluating the long term pension obligations of the Province, the Province's actuary currently uses a long term annual interest rate of 7.5% to discount the obligations. Similarly, in determining the cash flow requirements of the plans over the valuation period, the actuary assumes that the assets will achieve a similar rate of return. The PIC is mandated to develop and implement an investment strategy with the primary objective of securing the promised pension benefits at a manageable cost to both government and employees. The long term average targeted rate of return is currently 7.5%.

The PIC has implemented an asset mix policy and selected investment managers with a view to achieving annual investment returns that exceed the annual returns earned by the relevant capital market indices. It is hoped that this investment strategy will result in a long term return that exceeds the actuarial discount rate.

<i>Asset Mix</i>	<i>Actual (%)</i>		<i>Policy (%)</i>	
	2008	2007	Target	Range
<i>Canadian Equities</i>	35	39	45	40 – 50
<i>U.S. Equities</i>	18	19	15	10 – 20
<i>Non North American Equities</i>	17	19	15	10 – 20
<i>Real Estate</i>	2	1	5	-
<i>Canadian Bonds</i>	28	22	20	15 - 25

The current asset mix strategy of 75% equities, 20% fixed income and 5% real estate was adopted based on the plans' going concern funded ratio and the need to manage the growth of the unfunded liabilities. To further diversify the impact of investment volatility and enhance expected returns, equity and debt investments are allocated among broad asset classes. While returns in excess of the discount rate will not be achievable every year, since the inception of the Fund in 1981, the annual rate of return has averaged 9.7%.



2.2 2008 Objective

The PIC is mandated to develop a long term investment strategy with its primary goal to secure the promised pension benefits. On an annual basis, the PIC strives to achieve returns on assets that exceed the market returns of the various asset classes in which the Fund is invested.

Objective: By December 31, 2008, the Pooled Pension Fund will earn annual returns in excess of the market index for the relevant category of investments.

Measure: Capital market returns i.e., the S&P TSX Composite Index; S&P 500 Index; MSCI/EAFE Index; the DEX Bond Index and the ICREIM/IPD Canadian Property Index.

Indicator: Returns on investments in each category exceed the return of the relevant index.

2.3 2008 Results

The dramatic declines in global financial markets in 2008 had a significant impact on the Fund's performance. The Fund's return of negative 21.0% in 2008 was 0.4% below the policy benchmark of negative 20.6%. This underperformance was mainly due to underperformance of relevant benchmarks by U.S. Equity, non North American Equity and Canadian Bond managers. The real estate portfolio (Newvest) also underperformed its benchmark. Canadian Equities was the only asset class to outperform its benchmark by 4.8%. The Fund's investment results for the five years ending December 31, 2004 to 2008 are presented below.

<i>Investment Performance</i>	<i>Annual Returns (%)</i>				
	2008	2007	2006	2005	2004
<i>Total Fund</i>	-21.0	2.5	16.4	15.4	11.6
<i>Policy Benchmark Return*</i>	-20.6	1.9	15.8	15.0	10.9
<i>Canadian Equities</i>	-28.2	11.2	19.2	23.2	15.8
<i>S&P/TSX Index</i>	-33.0	9.8	17.3	24.1	14.5
<i>U.S. Equity</i>	-27.2	-10.1	14.3	6.5	5.0
<i>S&P 500 Index</i>	-21.2	-10.5	15.4	2.3	2.8
<i>Non-North American Equity</i>	-32.0	-6.4	27.1	12.7	13.1
<i>MSCI EAFE Index</i>	-28.8	-5.3	26.4	11.2	11.9
<i>Real Estate (Newvest)</i>	1.6	21.8	16.8	13.0	7.4
<i>ICREIM/IPD</i>	9.3	18.6	19.4	18.3	13.0
<i>Canadian Bonds</i>	5.9	3.8	4.3	6.6	7.3
<i>DEX Bond Universe Index</i>	6.4	3.7	4.1	6.5	7.1

*Policy Benchmark Return is defined as the rate of return which would have been earned had the fund been invested in securities identical to the various indices.

In summary, the rate of return on the portfolio for the year ended December 31, 2008 of negative 21.0% was 0.4% below the composite rate of return of negative 20.6% for the relevant capital market indices. This underperformance was mainly due to the decline in the global financial markets.

2.4 2009 Objective

By December 31, 2009, the Pooled Pension Fund will earn annual returns in excess of the market index for the relevant category of investments.

Measure: Capital market returns i.e., the S&P TSX Composite Index; S&P 500 Index; MSCI/EAFE Index; the DEX Bond Index and the ICREIM/IPD Canadian Property Index.

Indicator: Returns on investments in each category exceed the return of the relevant index.

2.5 2009 Challenges

Given the ongoing global financial crisis, it is anticipated that the investment challenges experienced in 2008 will continue into 2009. While financial markets continue to perform poorly, it is expected that this market volatility will exist only in the short-term and will not have a significant impact on the long-term investment goals established by the PIC.

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

Consolidated Financial Statements

December 31, 2008

We are required under the Transparency and Accountability Act to include a copy of the audited Financial Statements for the year ended December 31, 2008. However, the Financial Statements are unavailable at this time. Upon completion and subsequent approval by the Lieutenant Governor in Council as required by the Pensions Funding Act, the Financial Statements will be tabled in the House of Assembly.

4.0 Contact Information

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