



Department of Finance

Pension Investment Committee
Of the
Province of Newfoundland
And Labrador
Pooled Pension Fund

Activity Plan

January 1, 2011 – December 31, 2013

Table of Contents

Message from the Chair.....	1
1.0 Overview.....	2
2.0 Mandate.....	2
3.0 Lines of Business.....	2
4.0 Values.....	2
5.0 Primary Clients and Stakeholders.....	3
6.0 Vision.....	3
7.0 Mission.....	3
8.0 Strategic Issues.....	3
Appendix A – Departmental Strategic Direction #1.....	5

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

P.O. Box 8700
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March 31, 2011

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

Dear Minister Marshall:

The Pension Investment Committee of the Province of Newfoundland and Labrador Pension Fund (PIC) has been overseeing the management of the Pooled Pension Fund (the fund) since its inception in 1981. Throughout that period, the performance of the fund has stemmed the growth 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.

Prudent management of the pension fund by the PIC with a view to earning returns to achieve funding targets is consistent with the strategic direction of the Department of Finance towards effective management of the province's finances. Effective oversight is also critical to the prudent management of the fund. To this end, during this three year cycle, the PIC is accountable for undertaking a review of its governance structure to ensure that the PIC is effectively meeting its fiduciary responsibilities to the fund's stakeholders.

Pursuant to the provisions of the *Transparency and Accountability Act*, the PIC is accountable for the preparation of this Activity Plan and the achievement of the Plan's goals and objectives. As the Chair of the PIC, I hereby submit the 2011-2013 Activity Plan for the Pension Investment Committee.

Sincerely,



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

Activity Plan

1.0 Overview

The Pension Investment Committee (PIC) advises the Minister of Finance, as Trustee, on the operation of the investments 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 MHA Pension Plan and the Provincial Court Judges Pension Plan.

The PIC has 15 members including 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 will be included as part of the activities of the PIC.

2.0 Mandate

The PIC's mandate, as directed by the *Pensions Funding Act* is to review, monitor, administer and supervise all investment activities of the Newfoundland and Labrador Pooled Pension Fund.

3.0 Line of Business

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

4.0 Values

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

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

5.0 Primary Clients and Stakeholders

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

6.0 Vision

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

7.0 Mission

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

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

Measure: The Province of Newfoundland and Labrador Pooled Pension Fund is responsibly managed

Indicator: Growth in the unfunded liability slows

8.0 Strategic Issues

1. Responsible Management of the Pension Fund

The Pooled Pension Fund was established to invest employee and employer pension contributions in the capital markets with the long term goal to achieve investment returns on those contributions to satisfy the pension obligations. As the assets in the fund are not sufficient to meet the value of the obligations, it is critical that the investment strategy of the fund focus on achieving excess returns within an acceptable level of risk. Any excess returns will contribute to a reduction in the unfunded liability.

Part of the mandate of PIC is to develop an active investment strategy with the primary long term goal of achieving investment returns that exceed passive investment in the various sectors of the financial markets. This strategy is implemented by the Committee through the selection of managers whose investment style is designed to add value over the relevant market indices over a four year time horizon. Through this active management strategy, the PIC will strive to achieve its long term objective of slowing the growth in the unfunded liability of the plans. Through responsible management this will support the strategic direction of the department relating to fiscal management.

Objective:

By December 31 of 2011, 2012 and 2013, the PIC will have responsibly managed the fund with the aim of earning annual returns in excess of the market index for the relevant category of investments.

Measure: Responsible management of the fund

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

2. Improved Governance

The current PIC was established by the Lieutenant Governor in Council in 1997 with a broad mandate to oversee the investment activities of the fund and to make recommendations to the Minister of Finance as required. Since that time the fund has grown from \$1.3 billion to \$6.2 billion in assets and the complexity of the capital markets has changed considerably.

As there is limited investment expertise on the PIC, the Committee relies on an external pension investment consultant, Russell Investments, to assist with fulfilling this mandate. While this structure has worked satisfactorily in the past, it is incumbent on the Committee to review the structure to ensure it is meeting its fiduciary obligations to plan members in the most efficient and effective means possible and to identify areas for improvement.

Goal: By 2013, the PIC will have completed a review of its mandate and terms of reference, identified areas/opportunities for improvement and implemented changes to its governance practices as appropriate.

Measure: Revisions made to current governance practices

Indicator: Current governance practices modified and improved

Objective 1:

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

Measure: Review of the current governance practices completed

Indicator: Report on current governance practices completed

Objective 2:

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

Objective 3:

By December 31, 2013, revised governance practices will have been implemented for the oversight of the Province of Newfoundland and Labrador Pooled Pension Fund.

Appendix A – Departmental Strategic Direction #1

Title: Fiscal Management

Outcome: Responsible management of the province's fiscal resources to ensure future sustainability of the Province and its citizens

Clarifying Statement: This outcome supports the policy direction of Government and requires systematic intervention in the following areas:

Strategic Direction Component	This direction is addressed by the Department of Finance in its		
	Strategic Plan	Operational Plan	Branch and/or Divisional Work Plans
Fairness in the renewal of federal transfer payments			
Prudent responsible management of debt and debt servicing costs			
Management of the provincial fiscal framework to ensure sustainability of the expenditure base to support the continued delivery of Government programs and services			
Fair and equitable tax burdens on businesses and individuals			
Development of the capacity to manage our own wealth			
Responsible management of pension fund assets	√		