



# Sure and Steady.

2020 ANNUAL REPORT

**Provident**<sup>10</sup>  
REST ASSURED

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# Message from our CEO

### The past year was filled with trepidation, uncertainty, and loss.

Despite the instability in the market, and the evolving global crisis of the COVID-19 pandemic, the people of Newfoundland and Labrador, including all staff of Provident<sup>10</sup>, united together to ensure safety and security for all in this province.

It was inspiring to see how much—and how deeply—we care for one another.

Our team quickly adapted during the onset of COVID-19. We made swift changes to ensure the Public Service Pension Plan (PSPP) remains sustainable and our service standards were met. And due to the agility of our investment team, enhancements in information security and business preparedness, and the ongoing perseverance of our staff, we can proudly announce that the PSPP remained over 100% funded for the fiscal year of 2020. We should all be proud of these accomplishments. They are a testament to the skill and resiliency of our entire team.

2020 was the last year for the 2018–2020 Strategic Plan, through which we successfully delivered upon our five strategic directions:

- To Enrich the Member Experience;
- To Attract, Develop, and Retain Talent;
- To Establish and Promote the Provident<sup>10</sup> Brand;
- To Create a Scalable Organization; and
- To Build a Sustainable Pension Fund.

As we continue to navigate through uncertain times, we keep every member and their pension at the heart of everything we do. With this in mind, we introduced new member engagement initiatives and welcomed the appointment of Leona Barrington as Director of Stakeholder Relations.

We are proud to govern the largest public sector pension plan in Atlantic Canada and I am proud to lead our growing team who demonstrate their endless commitment to supporting our members. We know that we share our success with each of you.

The year ahead continues to bring uncertainty, but when you need assurance or answers, Provident<sup>10</sup> will be there.



A handwritten signature in black ink, which appears to read 'Chuck Bruce'.

**Chuck Bruce**  
CEO

# Message from the Board

**Provident<sup>10</sup>'s promise to provide an income to each member throughout their retirement was tested more than ever due to the COVID-19 pandemic. Volatile markets and instability across many sectors saw numerous organizations falter under the strain.**

By any objective measure, the opposite can be said for Provident<sup>10</sup>. In a year of vast uncertainty, Provident<sup>10</sup> not only weathered the COVID-19 storm, but we also rose above.

The resilience and the financial health of the Public Service Pension Plan continues to propel Provident<sup>10</sup> to be a sustainable fund that can deliver on its promises. To this end, we are pleased to report that the PSPP Fund exceeded the 9.2% policy benchmark in 2020, earning a rate of return of 11.9%. The Fund ended the year with a funded ratio of 101%.

This is a remarkable achievement, something in which we should all take pride. Yet we did not stop there. Provident<sup>10</sup> continues to invest resources to enrich the member experience. We also continue to develop risk management solutions and improve internal control frameworks—all while building a pension plan that will prosper well into the future.

We have seen the positive outcomes of these investments and the efforts the entire team made to move Provident<sup>10</sup>'s strategic initiatives forward. And we will continue to assess how best to execute on these and other sector-leading initiatives.

In 2020, the Board welcomed two new directors, Sharon Sparkes and Kevin Dumaresque. They each bring immense knowledge and expertise to Provident<sup>10</sup> and we are happy to have them aboard.

We also offer our appreciation and well wishes to outgoing directors, Emilian Groch and Denise Hamilton. Their contributions played a significant role in our success, for which we owe them many thanks.

The Board's continued collective commitment in adapting business practices during the pandemic has allowed our work to commence steadily and without disruption. Their experience and leadership were undoubtedly a key factor in our achievements in 2020.

Moving forward, the framework of a joint governance structure ensures Plan Sponsors are equally represented. This is a true partnership between the Government of Newfoundland and Labrador and the representative unions—one that benefits all members.

The 2020 Annual Report showcases the tremendous work of the team at Provident<sup>10</sup> and of each of you, our members. Many of you stood on the front lines of this pandemic, serving your fellow neighbours during a time of immense uncertainty. We sincerely thank each and every one of you for the success of the PSPP, and for the continued work you do for this great province.



# Guiding Provident<sup>10</sup>

## YOUR PENSION IS OUR PROMISE

You can rest assured today because we're focused on your tomorrow.

## WHAT'S IMPORTANT TO US

Provident<sup>10</sup> was founded on delivering best-in-class service and results based on the following core pillars:



### High Standards

We set the quality bar high for ourselves because we know that our members rely on us for peace of mind.



### Teamwork

Our success comes from a team approach. We always help and support each other because we'll get better outcomes for our members.



### Vision

We are always thinking about tomorrow. Not only do we focus on success today, but we also strive for continued improvement to succeed tomorrow.



### Customer Focused

We are responsive and responsible to our members and stakeholders, so they can always trust us.



### Accountable

Not only will we measure what we do, we will learn and act upon new understandings to always meet and exceed Plan member's expected level of service.

## WHO WE SERVE

1,874

NEW PLAN MEMBERS  
IN 2020

27,747

ACTIVE MEMBERS

22,136

PENSIONERS

6,930

INACTIVE MEMBERS

40

PARTICIPATING  
EMPLOYERS

<25: 2.07%

25–34: 17.00%

35–44: 26.33%

45–55: 34.39%

>55: 20.23%

ACTIVE MEMBERS BY AGE

## SUPPORTING OUR COMMUNITY

Provident<sup>10</sup> touches the lives of one in nine Newfoundlanders and Labradorians. Because of that reach, supporting community is essential. 2020 was a hard year for many and not-for-profits were particularly challenged. Provident<sup>10</sup> matched employee support for two local charities: Single Parent Association of Newfoundland and Community Food Sharing Association.



## SUPPORTING STUDENTS

In coordination with Memorial University's Faculty of Business, Provident<sup>10</sup> welcomed the first Bachelor of Commerce (Co-operative) work-term student who worked directly with our investment team during the Fall 2020 semester.

“I believe my knowledge of the investment industry has greatly increased. Throughout the term, I learned a lot about how the industry functions as a whole, and particularly how Provident<sup>10</sup> works within this industry.”

– Matthew Froude,  
2020 WORK-TERM STUDENT

## MANAGEMENT COMMENTARY

# Year in Review

**2020 was a year unlike any other. While focus was on COVID-19, Provident<sup>10</sup> ensured pensions were paid, the Fund was being effectively managed, and our commitment to operational service standards did not waver.**

Business operations were maintained and important programs like the internal control framework, enterprise risk management, and lifecycle education were advanced. Each of these programs was driven by Provident<sup>10</sup>'s commitment to modernize, improve and adapt processes and tools to ensure a secure and stable pension fund for its members.



**Three-year strategic plan (2018–2020) completed**



**Met and exceeded established service standards**



**Transitioned to a remote working model, while effectively continuing all business operations**



**Processed over 825 pension applications**



**95% member satisfaction rating achieved**



**New life cycle education and Plan member resources introduced**



**Non-Statutory Plan Text proclaimed and implemented**



**Rollout of online forms for employers**

### MEETING THE MOMENT

Provident<sup>10</sup>'s preparedness and decision-making related to the global pandemic is centred on three areas: people, processes, and technology. Throughout the COVID-19 pandemic, Provident<sup>10</sup> focused on the health and wellbeing of its employees while continuing to pay pensioners and support members who were transitioning to retirement—all with no interruptions. Communication with our Participating Employers was provided similar priority to ensure business operations remained a focus while most of the workforce worked remotely.

The organization's cloud-based infrastructure allowed employees to securely access systems remotely and was instrumental to continuing operations. Throughout the year, Provident<sup>10</sup> continued to digitize processes to enable effective remote work arrangements. Additional automation opportunities continue to be reviewed and considered.

Provident<sup>10</sup> will remain adaptable, agile, and flexible when engaging with stakeholders and is proud of the steps and actions of the entire team who have kept one strategic direction in mind: Member Experience.

# Staying the Course

## OUR 2018–2020 STRATEGIC PLAN

In 2018, Provident<sup>10</sup> was still early in its transition to an independent pension organization and initiated its three-year strategic plan. The Strategic Directions were established by the leadership team and Board with a joint commitment to building an organization focused on securing a sustainable future for Plan members.

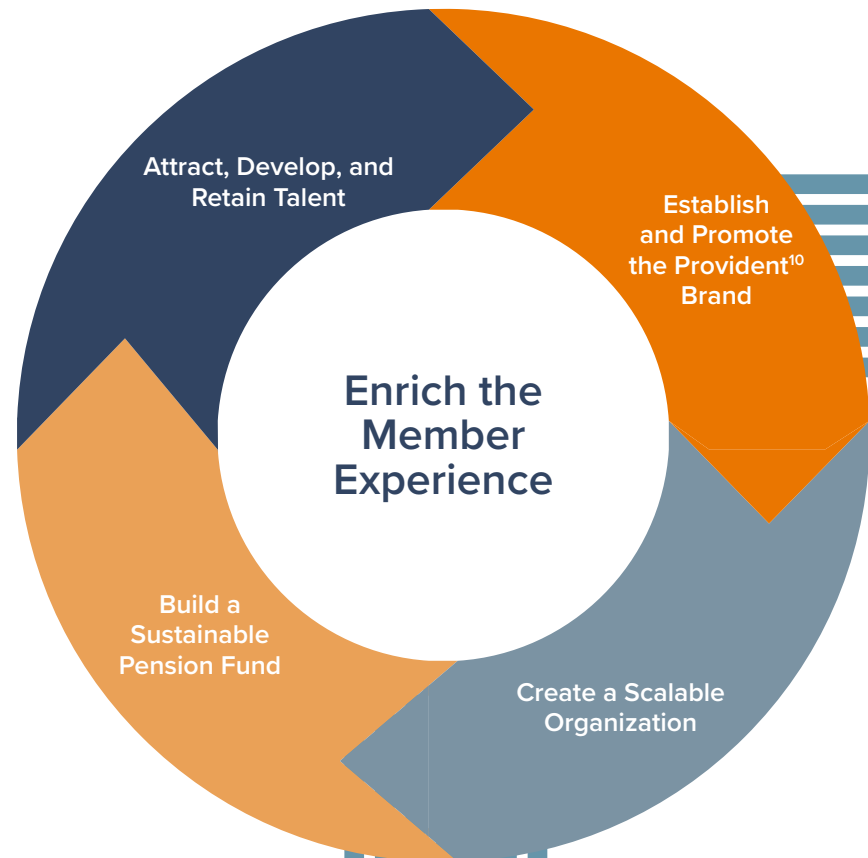
The Strategic Plan's core purpose is to enrich the member experience.

The Strategic Directions for 2018–2020 are the foundation of the Strategic Plan and complement Provident<sup>10</sup>'s Core Pillars.

The last year of the plan coincided with an unprecedented global pandemic. Despite that obvious hurdle, Provident<sup>10</sup> remained focused on its commitments to all stakeholders through great operational performance and advancing in areas of focus.

As Provident<sup>10</sup> continues to optimize business practices and maximize operational efficiencies, the organization will be supported by a five-year Strategic Plan. This plan is currently under development and will build on the foundation created by the 2018–2020 plan. In support of this journey, the Board and CEO have established an ad hoc Strategic Planning Committee to support the CEO throughout this process.

The purpose for the 2018–2020 strategic plan was to enrich the member's experience. This was accomplished by the following four key commitments.





## ENRICHING THE MEMBER EXPERIENCE

Members have an abundance of decisions to make during retirement planning which can feel both daunting and exciting. With this in mind, Life Cycle Education was a strategic initiative in 2020 and beyond. An introduction to virtual programs provided the opportunity to reach and engage with more Plan members who are nearing their retirement. The new online approach that was used for the [Retirement Ready Modules](#) was well received by members and will become a permanent option going forward.

In addition to the Retirement Ready series, Provident<sup>10</sup> broadened educational resources for all members with two new documents: [Plan at a Glance](#), which serves as a summary, high-level introduction to the Plan and highlights the “10 things to know about the PSPP” and the [Comparing Commuted Value and Deferred Pension](#) information package.

These new resources have been posted on Provident<sup>10</sup>'s website to enhance accessibility for members. The website is updated regularly to provide ongoing support to Plan members, Participating Employers, and other internal and external stakeholders and is a key tool in member engagement.

## BUILDING A SUSTAINABLE PENSION FUND

Provident<sup>10</sup> takes great pride in having the trust of its members. To provide a secure retirement future for these members, the investment team carefully manages the PSPP Fund. The Fund is a pool of assets made up of contributions from members, matching contributions from employers, and the investment earnings from these contributions.

The objective for the total fund is to meet a benchmark portfolio return that is established every four years consistent with the Plan's [Statement of Investment Policies and Procedures](#) (SIP&P). Despite fluctuating markets throughout 2020, Provident<sup>10</sup> ended the year with an 11.9% return on investments.

## ATTRACTING, DEVELOPING, AND RETAINING TALENT

There is no substitute for attracting, developing, and retaining the best people possible.

An assessment of Provident<sup>10</sup>'s recruitment strategy was completed in 2020. The project was initiated with the goal of transforming a traditional recruitment strategy into one that is modern, diverse, inclusive, and aligned with industry standards. The outcome provided strategies to promote the Provident<sup>10</sup> brand and position the organization as an employer of choice.

A key element in recruiting and retaining the right talent is the organizational culture. Provident<sup>10</sup> continues to promote a strong workplace culture and is continuously exploring opportunities to further enhance its offerings for employees. The organization remains committed to learning and development as a core aspect of Provident<sup>10</sup>'s workplace culture. In 2020, standardized learning modules, including the general retirement framework in Canada, operations of Canadian registered pension plans, and a focus on defined benefit plan's benefits and tax matters were implemented in collaboration with an external partner. Provident<sup>10</sup>'s learning and development policy ensures that each employee has access to opportunities that align with corporate initiatives, operational requirements and individual development.

## ESTABLISHING AND PROMOTING THE PROVIDENT<sup>10</sup> BRAND

Website enhancements, Retirement Ready Modules, and new member resources push the Provident<sup>10</sup> brand further. In 2020 the organization saw an 11% increase in website users, which included 29,990 new visitors to provident10.com.

With 40 Participating Employers, Provident<sup>10</sup> is focused on finding opportunities to partner on educational initiatives to enhance engagement and transfer knowledge of the PSPP. Provident<sup>10</sup> recently launched Employer Information Sessions, [Asked & Answered](#). Rollout of the virtual sessions will take place throughout 2021 and offer an opportunity for both Provident<sup>10</sup> and Participating Employers to further enhance member relations.

## CREATING A SCALABLE ORGANIZATION

All successful organizations identify and act on opportunities for growth. Provident<sup>10</sup> is focused on building partnerships that optimize business practices and maximize efficiencies.

In 2020, a new Participating Employer Onboarding Team was established, and a path developed and implemented to complete onboarding for new Participating Employers. The team provided support and welcomed two new employers in 2020.

Data security is a top priority in an increasingly digital world. Maintaining the integrity of the IT and security infrastructure is therefore critical to protecting the information of our Participating Employers, members, and our business partners. Accordingly, a multi-year Security Improvement Program has been a priority for the Systems and Quality team over the last three years. The program has improved Provident<sup>10</sup>'s security posture in the areas of threat management and education and will remain a key area of focus into the future.

THE PLAN

# Building Momentum

825

NEW PENSIONERS

60

AVERAGE AGE  
AT RETIREMENT

69

AVERAGE AGE  
OF PENSIONER

25

AVERAGE YEARS  
OF SERVICE

\$22,729

AVERAGE ANNUAL  
LIFETIME PENSION

## MEMBER ENGAGEMENT

### MEETING MEMBERS WHERE THEY ARE

**Ensuring members have the information they need to make informed decisions about their retirement is essential. In 2020, the Retirement Ready sessions were launched. These virtual education sessions provide valuable information to Plan members, especially those approaching retirement. The first session took place in the fall of 2020 and during the final months of the year over 600 members participated.**

Previously, Provident<sup>10</sup> offered in-person retirement planning sessions at employer-sponsored events, which limited reach and the opportunity for direct member engagement. To optimize member engagement and interaction with more members, the standard three-hour sessions were transitioned to three online modules. These sessions are available to any member interested in learning more about the PSPP, whether they are a retiring Plan member, a new Plan member, or a person who may be supporting a member. The virtual webinars have enhanced engagement with the Member Services team and the sessions have received encouraging feedback from members.

What members had to say:

***“It gives me a better understanding of the different options that I have and allows me the time to plan for retirement armed with knowledge of how it works. Thank you!”***

***“I now have the information I need to help me decide when to retire. Thanks so much!”***

Following each module, attendees are asked to complete a survey to provide valuable feedback to Member Services. This feedback will help build future webinar content and delivery. Below are the results from the members who attended in 2020.

The virtual education program will continue to grow, as plans for new members and those who are approaching their mid-career stage will also be developed for 2021.

| Questions                                                                                        | Average Rating from 1–5 |
|--------------------------------------------------------------------------------------------------|-------------------------|
| Average                                                                                          | 4.5                     |
| The information presented was relevant and met my expectations?                                  | 4.5                     |
| The content was easy to understand?                                                              | 4.4                     |
| The module increased my knowledge about my pension benefits and the Public Service Pension Plan? | 4.5                     |
| I feel that the information provided will help in the planning for my retirement?                | 4.5                     |
| I would recommend this presentation to my colleagues?                                            | 4.6                     |

## MEASURING SERVICE SATISFACTION

Through 2020, Provident<sup>10</sup> received over 13,000 calls. At the end of each call, members can stay on the line to complete a short three-question survey on their experience and the service they received. Close to 500 members took the time to provide their feedback on the experience with results yielding high levels of satisfaction on service and support they received during the call.

**99%**

Treated in a courteous  
and professional manner

**95%**

Inquiry was  
satisfactorily addressed

**4.5**

Average satisfaction  
with the service out of 5

## PLAN ADMINISTRATION

### CONSISTENT SERVICE STANDARDS

“Despite the changing dynamics of the pandemic and a steady increase in inquiries throughout 2020, the Pension Administration team ensured our members remained at the heart of everything we do. Their dedication never faltered and they worked diligently to ensure our operational service standards were achieved. I’m incredibly proud of the team’s commitment to providing service excellence to our members, especially during a year that was full of much challenge and change.”

– Jason Durdle,  
DIRECTOR, PENSION ADMINISTRATION

Provident<sup>10</sup> is focused on enriching the member experience through consistent service standards across the organization. The service standards keep Provident<sup>10</sup> on track in responding to member enquiries in a timely manner, while still ensuring members receive the quality of service and information they need. In 2020, the Pension Admin team processed over 4,000 member transactions and responded to over 35,000 inquiries.

| Process                                             | Number of Cases in 2020 |
|-----------------------------------------------------|-------------------------|
| <b>1st Retirement Pensions/Terminations/Refunds</b> | 1,907                   |
| <b>Process Plan Member Termination Election</b>     | 350                     |
| <b>Survivor Benefits</b>                            | 231                     |
| <b>Phone Call Volume</b>                            | 13,491                  |
| <b>Phone Responses (Voicemail)</b>                  | 388                     |
| <b>Written Responses</b>                            | 18,015                  |
| <b>Purchase of Service</b>                          | 1,804                   |
| <b>Total</b>                                        | 36,186                  |

For each inquiry and process of service, Provident<sup>10</sup> strives to uphold the following service standards:

| Process                                             | Target (100)%              | Achievement |
|-----------------------------------------------------|----------------------------|-------------|
| <b>1st Retirement Pensions/Terminations/Refunds</b> | 90% within 30 days         | 81%         |
| <b>Process Plan Member Termination Election</b>     | 90% within 30 days         | 95%         |
| <b>Purchase of Service</b>                          | 90% within 90 days         | 84%         |
| <b>Survivor Benefits</b>                            | 95% within 30 days         | 99%         |
| <b>Phone Answer Rate</b>                            | 90%                        | 93%         |
| <b>Phone Responses</b>                              | 95% within 2 business days | 95%         |
| <b>Written Responses</b>                            | 95% within 5 business days | 95%         |

On average, in 2020, Provident<sup>10</sup> exceeded the targeted service standards. Though Provident<sup>10</sup> was not able to fully obtain every target for all service processes, the team continues to prioritize retirement pensions, ensuring members can transition as seamlessly as possible to retirement. 2020 brought its unique challenges, including the end of the transition period for pre-reform and post-reform pension eligibility rules. Due to this, the team saw a 24% increase in purchase of service requests which resulted in higher volume for the first quarter of 2020. Provident<sup>10</sup> will continue to look for ways to improve its processes and reduce turnaround time on all requests.

## PLAN TEXT UPDATE

Provident<sup>10</sup>'s planning and preparedness activities ensured readiness to manage the switch to Non-Statutory Plan Text, which was proclaimed on February 14, 2020.

The adoption of the Plan Text will help Provident<sup>10</sup> to administer the PSPP more efficiently on members' behalf and will have little effect on Plan members. Almost all aspects of the PSPP remain the same, including contributions and benefits. As a part of the introduction of the Plan Text, a new Appeals Process and Procedure, which can be viewed online under [Forms & Resources](#), has been established.

Along with the implementation of the Non-Statutory Plan Text, ten new policies were developed, implemented, and communicated that reflected the largest volume of transactions. Five Independent Appeal Commissioners were also appointed to a roster under the appeal policy through individual agreements.

## EMPLOYER ENGAGEMENT

Communicating with Participating Employers and Unions is critical for success and helps ensure Plan members are well informed.

Corporate communications, operational enhancement and engagement, and regulatory requirements or process changes are the targeted areas of focus for communications with Participating Employers and Unions.

In 2020, employer communication efforts were primarily centred on the conclusion of the pension reform transition period, process updates, Non-Statutory Plan Text implementation, lifecycle education, business continuity preparedness, new medical advisory services, and upcoming Asked and Answered webinars. As Provident<sup>10</sup> continues to enhance the member experience, employer engagement will be a key element in the future success of the organization.

## DIGITAL TRANSITION

We live in a digital world, and the COVID-19 pandemic has only made that more obvious.

To keep up and provide exemplary service, Provident<sup>10</sup> has transitioned to accepting [virtually completed and submitted forms](#) from our Participating Employer partners. This helps to increase efficiencies internally and time required for potential follow-up. Provident<sup>10</sup> has also updated two commonly used forms to better identify and monitor the processing of members who are retiring or terminating from the Plan.

The announced Asked and Answered Sessions will provide Participating Employer partners the opportunity to gain additional insight into the latest pension processes and is also a way for Provident<sup>10</sup> to collect valuable feedback from our Participating Employer and Union Partners.

Provident<sup>10</sup> will continue to work collaboratively with Participating Employers and will invite, monitor, and reply to feedback on procedures and processes as services evolve.

# Protecting Your Future

**11.9%**

NET INVESTMENT  
RETURN FOR 2020

**\$60,538**

AVERAGE PENSIONABLE  
EARNINGS OF ACTIVE  
MEMBERS

**101%**

FUNDED RATIO

**\$10.9B**

NET ASSETS AVAILABLE  
FOR BENEFITS

**\$367M**

CONTRIBUTIONS

**\$624M**

BENEFITS PAID



#### SUSTAINABILITY OF THE FUND

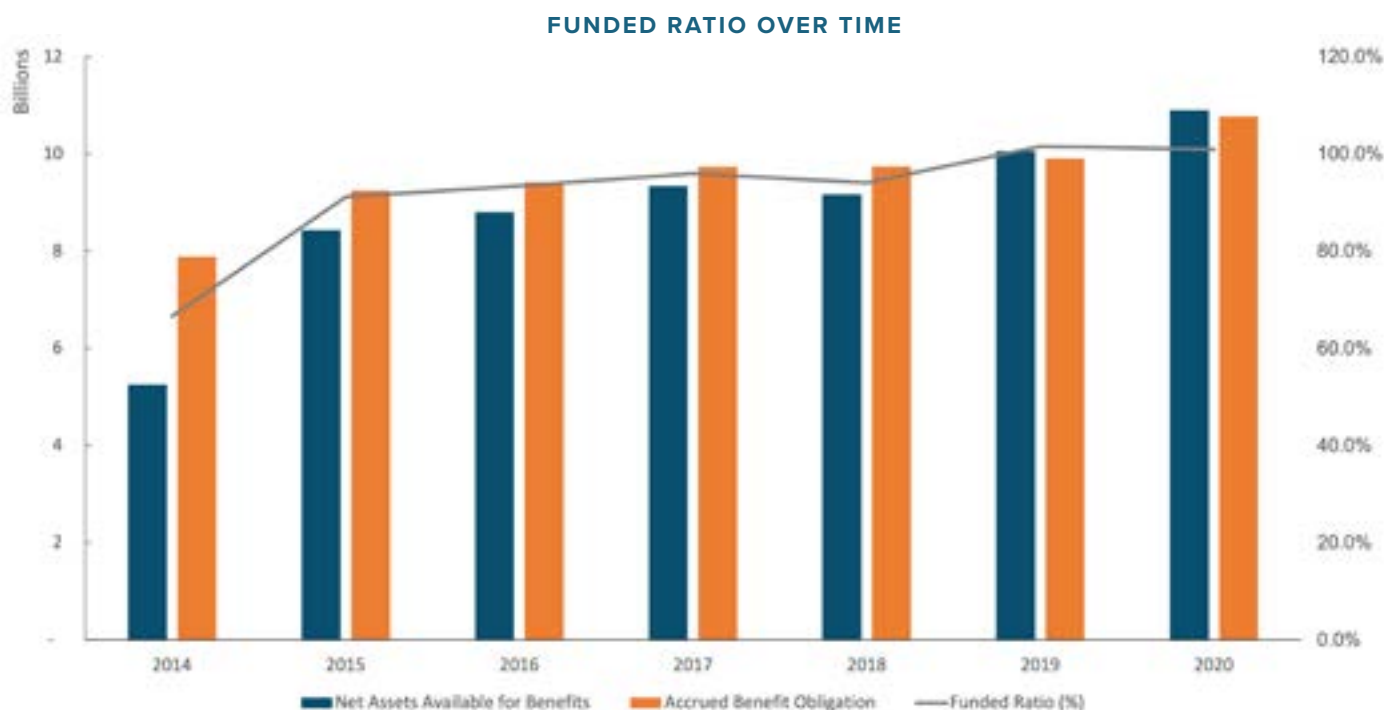
In consultation with the Investment Committee, the Board documents the investment policies for the Public Service Pension Plan (the Plan) Fund in the Statement of Investment Policies and Procedures (SIP&P). The SIP&P addresses key matters including the Fund governance, investment objectives and beliefs, philosophy, asset mix policy, risk management, permitted types of investments, and the responsible investing strategy. To learn more about our investment policies and procedures visit [provident10.com/investments](https://provident10.com/investments).



Improving the Plan's Funded Status and working toward full funding is a key focus for the Board and a requirement of the [Joint Sponsorship Agreement \(JSA\)](http://www.provident10.ca/resources/faqs/joint-sponsorship-agreement-can-find-copy/): [www.provident10.ca/resources/faqs/joint-sponsorship-agreement-can-find-copy./](http://www.provident10.ca/resources/faqs/joint-sponsorship-agreement-can-find-copy/)

While the first few months of 2020 were characterized by considerable declines for most asset classes, the remainder of the year saw an extraordinary reversal and significant returns despite the negative impact of the pandemic on global economies. The Fund finished 2020 with approximately \$10.9 billion in assets (including promissory note) versus a \$10.8 billion liability. In its oversight of the Plan, Provident<sup>10</sup> closely monitors financial markets and other factors that impact Plan funding levels.

As a result of these assessments, the Fund's future return expectations is reflected in a lower discount rate of 5.85% (see PSPP Financial Statements note nine). Despite a \$0.6 billion increase in the liability directly resulting from a change in the actuarial assumptions, the funded ratio of 101.0% has remained comparable to the previous year's 101.6% ratio. Over the past ten years, the Plan has improved its financial condition and has achieved funded ratios exceeding 100% in the past two years. Planning for the next 10 years, investment returns are expected to be moderate. Uncertainties related to the ultimate direction of interest rates, changes in inflation expectations, high overall levels of equity market valuations, and heightened global volatility may well signify periods of difficulty for the Plan's ability to maintain its fully funded status.



Source: Actuarial Valuations and Financial Statements (audited)

Moreover, Plan member demographics such as aging population combined with a decline in active participants could have a future impact on the Fund.

The Plan regularly reviews its risk and return profile and monitors global market conditions, mindful of the accrued benefits of the members. Provident<sup>10</sup> believes the asset mix adjustments planned for 2021 and beyond offer greater overall Plan resilience and downside protection for the Fund to achieve its expected performance.

Additionally, in 2020 the organization initiated a strategic undertaking to better assess the Plan's vulnerability to unforeseen negative market events. The purpose of the project is to better understand the types of market environments that may impact the security of member benefits. The result of the analysis will help to guide discussions and decisions on the condition of the Plan.

## INVESTMENT STRATEGY AND PERFORMANCE

### 2020 YEAR IN REVIEW – FUND AND ASSET CLASSES

The Plan's portfolio is measured by two key metrics. The primary objective is to generate a long-term return on invested assets that exceeds the Funding Policy's discount rate of 6%. The secondary objective is to outperform the return of the Policy benchmark. This outperformance is termed 'added value' and allows for the evaluation of the effectiveness of the investment strategy and its implementation at the total Fund level. Benchmarks are valuable tools Provident<sup>10</sup> uses to measure performance of individual asset classes and the managers who invest in them on Provident<sup>10</sup>'s behalf.

### TOTAL NET OF FEES CAD \$ RETURNS

|                                           | Fund level | Benchmark | Value Added |
|-------------------------------------------|------------|-----------|-------------|
| <b>Total Plan</b>                         | 11.9%      | 9.2%      | 2.7%        |
| <b>Canadian Equity</b>                    | 7.8%       | 5.6%      | 2.2%        |
| <b>Global Equity</b>                      | 21.4%      | 14.2%     | 7.2%        |
| <b>Private Equity</b>                     | 20.1%      | 16.2%     | 3.9%        |
| <b>Fixed Income</b>                       | 9.2%       | 8.7%      | 0.5%        |
| <b>Global Credit</b>                      | 11.9%      | 7.1%      | 4.8%        |
| <b>Commercial Mortgages</b>               | 6.4%       | 7.7%      | -1.3%       |
| <b>Listed Infrastructure <sup>1</sup></b> | -6.2%      | -8.1%     | 1.9%        |
| <b>Private Infrastructure</b>             | 9.2%       | 6.0%      | 3.2%        |
| <b>Real Estate</b>                        | 0.3%       | 5.0%      | -4.7%       |

1. Weighted approximation return calculation.

For the year ending December 31, 2020, the Fund netted a total return of 11.9%, compared to the policy benchmark return of 9.2%, realizing 2.7% of added value. Provident<sup>10</sup> uses a thorough and rigorous risk-controlled approach by choosing an optimized risk level within a multi-year framework and with the selection and weighting of asset classes to achieve a target return. In simple terms, the amount of acceptable risk is identified, then the mix of assets is determined to give the best chance to achieve the goal.

The Equity portfolio is made up of both Canadian and Global public and private equity asset classes. The public equities represent a large cross segment of developed and emerging markets diversified throughout multiple economic sectors. For 2020, Global Equities provided the greatest results, delivering the Plan a return of 21.4%, compared to the associated benchmark return of 14.2%, for added value of 7.2%. Canadian Equities, while providing a lower total return, nevertheless contributed 7.8% to the Fund performance, which represents 2.2% added value.

The Private Equity allocation is a combination of direct investments in private companies and funds. An allocation to Private Equity expects to provide a higher return, albeit with a lower risk level than the public Global Equity markets. Private Equity delivered a return of 20.1% and added value of 3.9%.

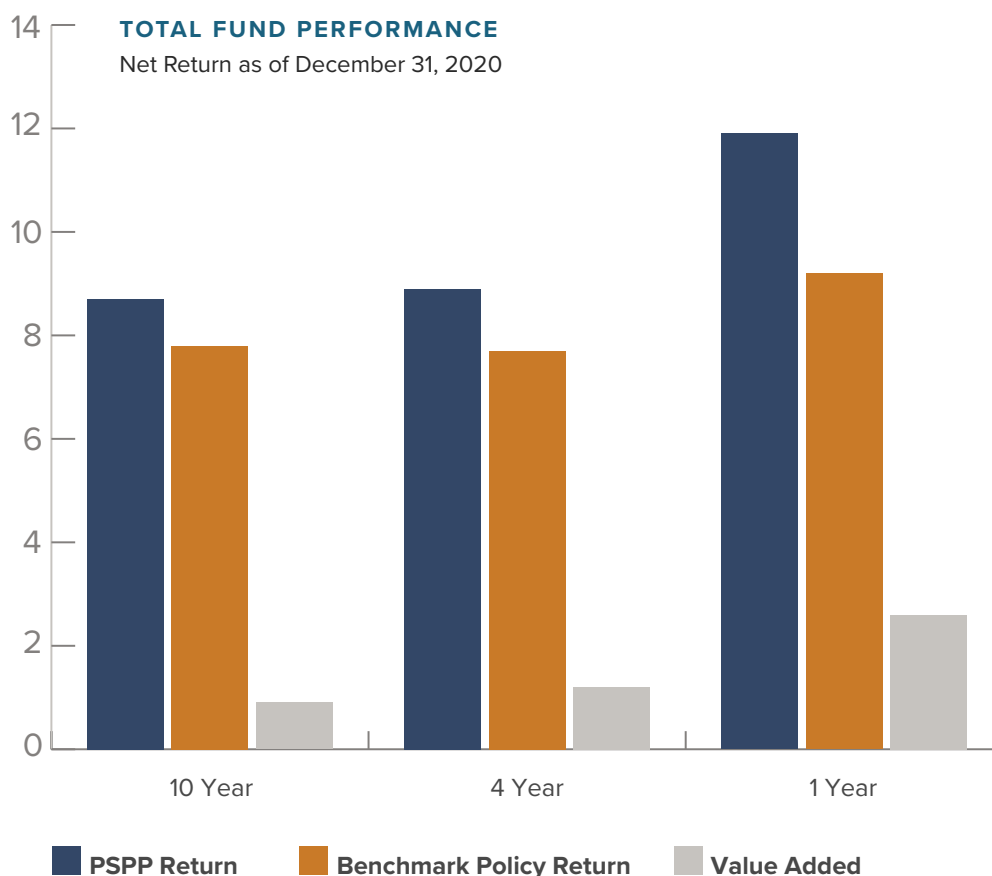
Fixed Income and Infrastructure are asset classes intended to protect the Fund portfolio during periods of market stress. In an environment of declining rates, Fixed Income generated a return of 9.2% for the year; that is, 0.5% of value achieved over the benchmark. While the asset class is comprised of a sizable portion of Canadian government and corporate issuers, it also includes Global Credit investment. The latter provides exposure to faster growing economies operating within a different interest rate regime than Canada. Provident<sup>10</sup>'s international credit exposure provides an attractive risk-return balance for the portfolio. Over the past year, the Global Credit portion of the portfolio earned a return of almost 12%.

Infrastructure, both listed and private, provides diversification and some level of inflation protection for the Fund. The holdings consist of listed and private companies as well as infrastructure funds. The asset class achieves diversification through both geographic and industry sector coverage. Private Infrastructure produced a return of 9.2% compared to its benchmark 6.0%. Listed Infrastructure earned an approximate return of -6.2%, also performing above the benchmark.

Real Estate suffered from the pandemic more than other asset classes and difficulties persist for specific sectors including commercial offices and retail properties located throughout Canada. During the year, Provident<sup>10</sup> focused significant attention to better understand key valuation measures and risks resulting from the pandemic. Challenges in the asset class were evident with a limited return of 0.3%.

Commercial Mortgages offer dual advantages over some other forms of fixed income instruments such as corporate bonds including illiquidity premiums and direct claims on a tangible asset. The historical sustainability of the Canadian mortgage market was further validated during the pandemic with no recorded default or impairments in holdings.

Historically, the Plan has been able to provide its members a robust rate of return over time.



Source: CIBC Mellon Report

## ASSET MIX

The most important aspect of the Provident<sup>10</sup> investment portfolio is selecting the appropriate strategic asset mix to provide investment returns that, over time, exceed the Funding Policy's discount rate of 6%. This rate is critical to the Plan. It is the percentage used to value the current cost of future pension obligations, improve the Plan's funded status, increase the probability of reaching full funding by 2045, and enhance downside protection.

During the past year, the strategic asset mix saw limited changes. Focus was on enhanced monitoring and scrutiny of investments in all asset classes considering COVID-19 impacts. That said, the Plan's new strategic asset mix implementation continued to progress. A search for both a Private Debt and Hedge Fund advisor was completed, and additional investment was made in low volatility equity with the intention to provide greater downside protection to the Fund.

### EQUITIES

Equities, or return-seeking assets, include public stocks and private equity. The primary purpose is to deliver long-term asset growth and increase the overall investment return of the Fund. These are the highest risk assets in the Fund.

### FIXED INCOME

Fixed income investments include bonds issued by governments and corporations. They provide more stable returns than other categories and act as a hedge against equity volatility. The primary purpose is to provide safety and liquidity and reduce the overall volatility of returns.

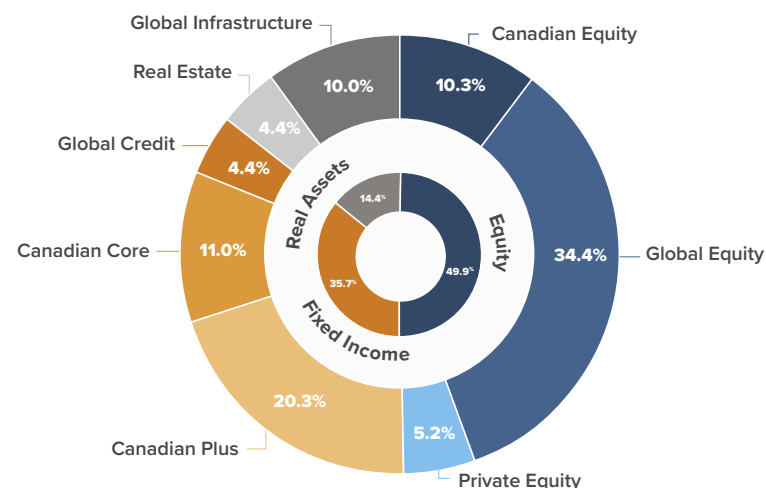
### REAL ASSETS

Real assets include investments in real estate and infrastructure. The primary purpose is to provide diversification and returns that are partially correlated to inflation over the long term.

### ABSOLUTE RETURN

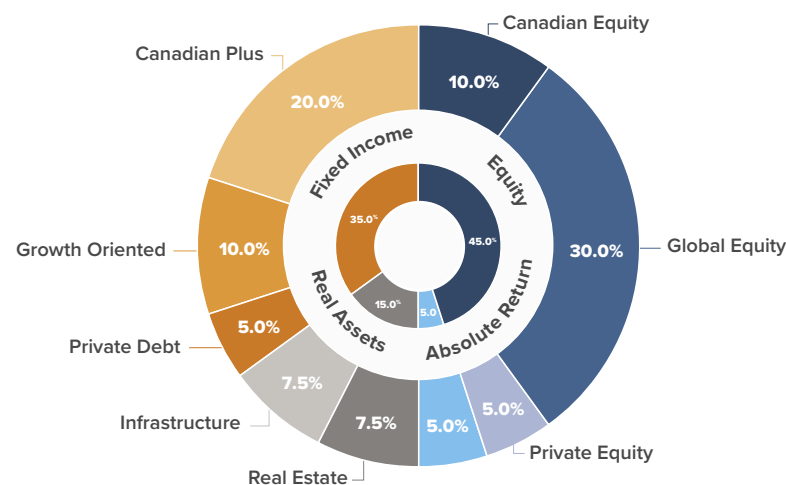
Absolute return assets include hedge funds that are highly diversified and reflect a wide range of risk-return profiles. The primary purpose is to diversify risk by generating investment returns that are relatively stable and generally uncorrelated with other asset class categories.

## CURRENT ASSET MIX

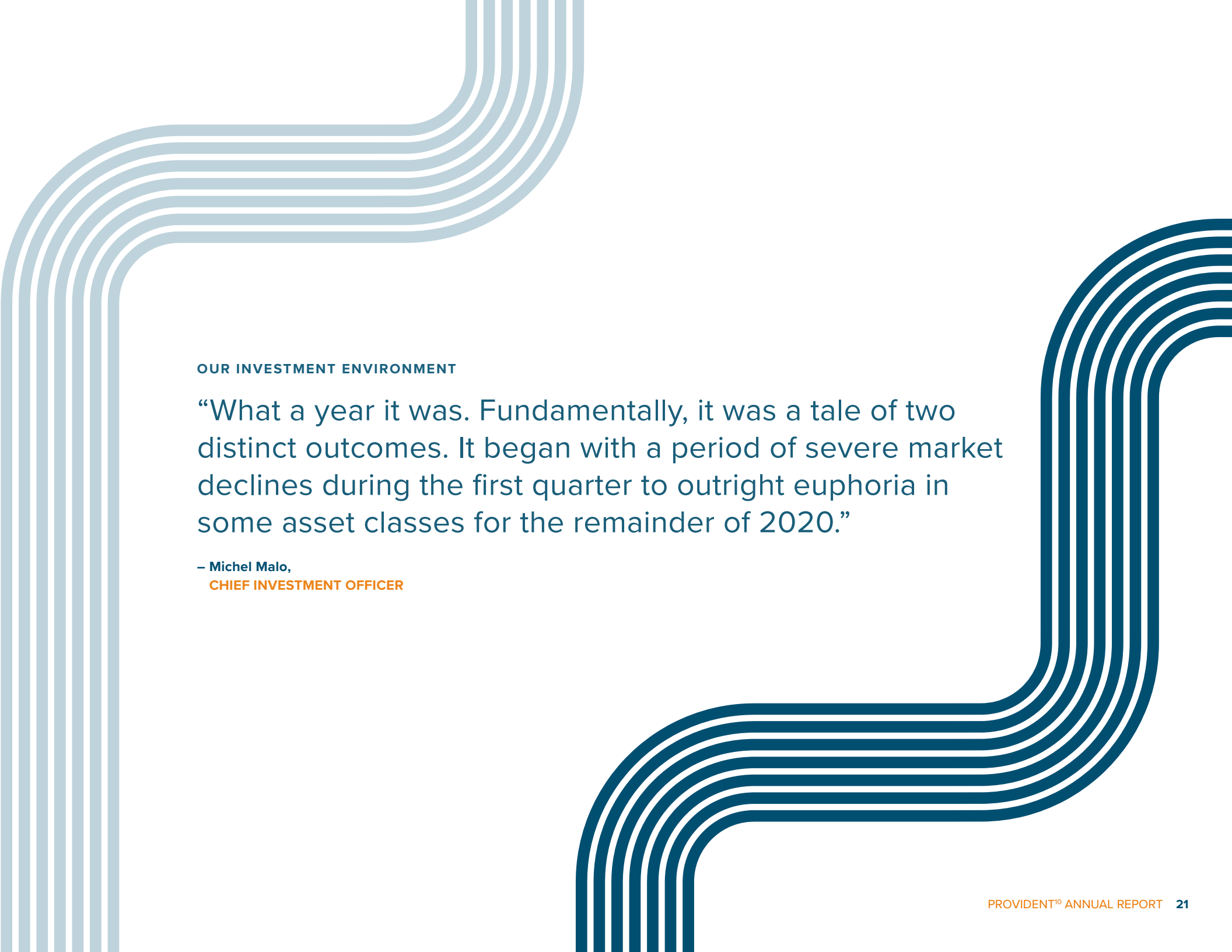


The current asset mix figures include cash and cash equivalents intended for investment in the designated asset class.

## STRATEGIC ASSET MIX



In 2021, Provident<sup>10</sup> expects the investments in the new asset classes to commence and continue over several years. The implementation will emphasize higher expected return asset classes, albeit within a rigorous risk control framework.



#### OUR INVESTMENT ENVIRONMENT

“What a year it was. Fundamentally, it was a tale of two distinct outcomes. It began with a period of severe market declines during the first quarter to outright euphoria in some asset classes for the remainder of 2020.”

– Michel Malo,  
CHIEF INVESTMENT OFFICER

| Market Index                                                   | Q1     | Q2    | Q3   | Q4    | Year  |
|----------------------------------------------------------------|--------|-------|------|-------|-------|
| <b>SP TSX Composite</b>                                        | -20.9% | 17.0% | 4.7% | 9.0%  | 5.6%  |
| <b>S&amp;P 500 (CAD\$)</b>                                     | -11.9% | 15.2% | 6.7% | 6.8%  | 15.7% |
| <b>MSCI AC World Index (CAD\$)</b>                             | -13.7% | 14.1% | 6.0% | 9.4%  | 14.2% |
| <b>FTSE Canada Bond Universe Index</b>                         | 1.6%   | 5.9%  | 0.4% | 0.6%  | 8.7%  |
| <b>Bloomberg Global Bond Aggregate Index (CAD \$ Unhedged)</b> | 9.4%   | -1.1% | 0.7% | -1.5% | 7.3%  |

Following attractive 2019 results for most asset classes and a positive beginning to the new decade, the arrival of the pandemic shocked global markets with significant double-digit equity declines in the first quarter. Fixed Income functioned as a cushion and provided some much-needed positive return. In both Canada and globally, all equity sectors recorded negative returns. The most adversely impacted were the more economically sensitive sectors including Energy, Materials, and Real Estate. In addition, and as expected, Consumer Discretionary stocks around the world suffered as did commodity prices. Energy-related commodities experienced return declines over 50% from their US dollar denominated price. The Canadian dollar declined by 7.7% and 6.1% against the US dollar and the Euro respectively owing to its key exposure in both Energy and Materials.

By the end of the first quarter, many of the World's equity markets reached bottom and began a remarkable recovery that extended throughout the remaining three quarters of the year. Both the S&P 500 and MSCI AC World Index concluded 2020 with double-digit returns. Canadian equity markets, despite being negatively impacted by a bleak energy sector and limited Information Technology exposure, achieved a return of 5.6%.

Fixed Income, in Canada and around the world, managed to earn attractive single digit returns. The best performing Canadian fixed income sectors were Municipal and Provincial bonds with a return of 10.1% and 9.9% respectively. Corporate bonds provided a return of 8.7%. Within this backdrop of increased economic optimism, the Canadian dollar recovered to achieve a modest positive return against the US dollar.

## OUR INVESTMENT OUTLOOK UNCERTAINTIES – GRAPHICAL OVERVIEW



High asset valuation levels, coupled with greater uncertainty concerning the direction of interest rates, coupled with a potential resurgence of inflation will make it difficult to earn attractive rates of return.



While markets responded positively to the development of COVID-19 vaccines, the virus's ongoing impact on the world economy is unknown and will have enduring influence on different sectors of the economy.



Geopolitical issues between major economic blocs and political factions throughout the world are raising volatilities and the overall level of uncertainty.



Impact of impressive monetary and fiscal stimulus by central banks and government.



Impact of potential protective measures by Governments on imports and exports and the level of global trade.

# Leading the Way

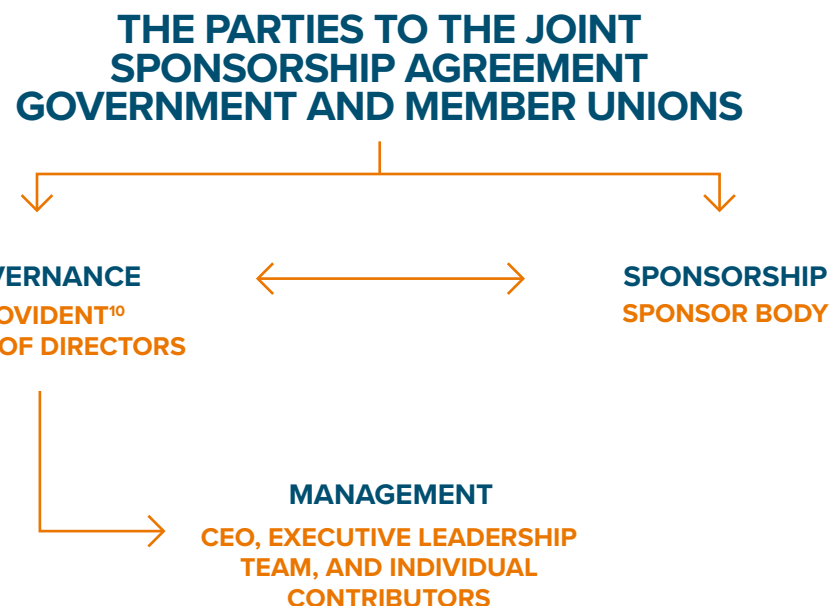
## HOW WE OPERATE

**Provident<sup>10</sup> operates in a joint trustee governance structure that includes our Board of Directors, the Sponsor Body, and the Executive Leadership Team.**

The Board has overall responsibility for pension administration, corporation management, actuarial reporting, and investment management. It acts independently of the Sponsor Body and Executive Leadership Team and as fiduciaries, are legally bound to act in the best interests of all Plan members. There are three sub-committees comprised of Board members that play an advisory role to the Board: The Audit and Finance Committee, the Investment Committee, and the Governance and Human Resources (G&HR) Committee. The Sponsor Body is responsible for oversight of the [Joint Sponsorship Agreement](#) (JSA). Their primary responsibility is to make decisions regarding Plan benefits. They also approve the assumptions used in actuarial valuations and direct the level of risk appropriate for the Fund's asset mix. The CEO and Executive Leadership Team are responsible for all operational matters, implementing strategic plans and policies, and the general supervision of corporate affairs.

- Chief Executive Officer – Chuck Bruce
- Chief Investment Officer – Michel Malo
- Vice President, Finance – Judith Bullen
- Vice President, Systems and Quality – Mark Stanford
- Vice President, Human Resources and Administration – Peter Head

The Executive Leadership Team is supported by a group of talented individuals who keep Plan members at the heart of their work, because Plan members depend on the team to be focused on their tomorrow. Members can find additional information on Provident<sup>10</sup>'s [governance structure](#) online.



## OUR INTERNAL CONTROL FRAMEWORK

It may not draw headlines, but strong internal governance is necessary to ensure strong operational commitment to Provident<sup>10</sup>'s 55,000 members. The organization is building a culture of accountability where every member of the team must protect the assets under their authority, ensuring regular policy compliance, and playing a role in continuous improvement. The establishment of an Internal Control Framework (ICF) is the foundation of that culture and has been an early priority for Provident<sup>10</sup> that will continue to shape the future.

ICF enables organizations to assess its system of internal controls to provide reasonable assurance that the controls are working as intended. The ICF strengthens Provident<sup>10</sup>'s ability to ensure the risks related to the stewardship of the Plan and its resources are adequately managed.

The ICF is integral in the progression of Provident<sup>10</sup>'s Enterprise-wide Risk Management Framework (ERM), which was launched internally in 2019. ICF is helping to inform the risk exposure and risk assessment of the organization and both will remain closely linked as the organization continues to evolve.

ICF was initially applied to financial reporting and compliance. Throughout 2020, further implementation has continued across all other non-financial operations and systems, demonstrating the organization-wide prioritization of, and commitment to, the ICF.

Provident<sup>10</sup> hired an Internal Audit Manager to oversee the ICF activities and assess internal controls. The Audit and Finance Committee approved the organization's first annual Internal Audit Plan, which included a primary objective to advance the ICF by conducting an independent evaluation of the adequacy and effectiveness of internal controls. In essence, it will show how effective these internal controls are in practice.

## EXPERIENCE OF BOARD AND LEADERSHIP

The Board of Directors for Provident<sup>10</sup> consists of 14 Directors who were selected based on their background and skills. The Directors have experience in pension plan governance, asset-liability management, investment strategies and capital markets, as well as pension laws, risk management, and compliance.

The Executive Leadership Team and pension experts have over 500 years of combined experience in taking care of pensions and investments. Their backgrounds bring a unique set of ingenuity and forward thinking to the administration of the Plan and investment management.

## COMPENSATION PHILOSOPHY, CORPORATE OBJECTIVE ACHIEVEMENTS, AND EXECUTIVE LEADERSHIP TEAM COMPENSATION

As per the Provident<sup>10</sup> Board of Directors Remuneration Policy, each Director is paid an annual honourarium and a per-meeting attendance allowance. Government and Union employees are not eligible for the per-meeting attendance allowance.

Directors are also reimbursed for reasonable travel expenses. Meeting attendance and remuneration details for each Director are reported in the following table. The table includes attendance at duly constituted and ad hoc meetings. The Board Chair and Vice Chair are ex-officio, non-voting members of all committees.



## BOARD REMUNERATION & MEETING ATTENDANCE

| Name                                                  | Board | Audit | Investment | G&HR | Remuneration |
|-------------------------------------------------------|-------|-------|------------|------|--------------|
| Loyola Sullivan,<br>Board Chair*                      | 7/7   | 5/5   | 4/4        | 5/5  | \$13,250     |
| Bert Blundon,<br>Board Vice Chair*                    | 7/7   | 5/5   | 3/4        | 5/5  | \$10,250     |
| Dawn Learning,<br>Chair Investment Committee          | 6/7   | -     | 4/4        | -    | \$2,500      |
| Denise Hamilton,<br>Chair Audit and Finance Committee | 6/7   | 5/5   | -          | -    | \$6,750      |
| Donna Brewer                                          | 7/7   | -     | -          | 5/5  | \$6,000      |
| Douglas Laing                                         | 7/7   | 5/5   | 4/4        | -    | \$6,500      |
| Emilian Groch                                         | 7/7   | 5/5   | 4/4        | -    | \$7,250      |
| Jennifer Dove                                         | 7/7   | 5/5   | -          | 5/5  | \$7,750      |
| John Vivian                                           | 4/7   | -     | 4/4        | 5/5  | \$1,250      |
| Louise Poirier-Landry                                 | 7/7   | -     | 4/4        | 5/5  | \$7,250      |
| Mary Galway                                           | 7/7   | -     | 4/4        | 5/5  | \$7,500      |
| Michelle Jewer                                        | 6/7   | 5/5   | -          | -    | \$1,250      |
| Randell Earle,<br>Chair G&HR Committee                | 7/7   | -     | -          | 5/5  | \$7,750      |
| Robert Cashin                                         | 7/7   | 5/5   | -          | -    | \$1,250      |

\*The Board Chair and Vice Chair are ex-officio, non-voting members of all committees

## EXTERNAL INVESTMENT COMMITTEE MEMBERS

The Investment Committee also includes two additional Board-appointed investment experts, Nancy-Beth Foran and Will Small.

| Name                                          | Investment | Renumeration |
|-----------------------------------------------|------------|--------------|
| Nancy-Beth Foran (external investment expert) | 4/4        | \$3,500      |
| Will Small (external investment expert)       | 4/4        | \$3,500      |

## EXECUTIVE COMPENSATION REPORTING

Transparency and accountability are two of Provident<sup>10</sup>'s most important principles. In maintaining these principles, compensation details for the Executive Leadership Team are reported annually. The following summary includes the actual total cash compensation amounts for each executive position.

## EXECUTIVE COMPENSATION REPORTING

| Position                           | Year  | Base Salary | STIP      | Total Cash Compensation |
|------------------------------------|-------|-------------|-----------|-------------------------|
| Chief Executive Officer            | 2020  | \$285,000   | \$85,500  | \$370,500               |
|                                    | 2019  | \$285,000   | \$85,500  | \$370,500               |
| Chief Investment Officer           | 2020  | \$300,000   | \$120,000 | \$420,000               |
|                                    | 2019* | \$93,103    | \$40,000  | \$133,103               |
| Vice President Finance             | 2020  | \$180,318   | \$45,322  | \$225,640               |
|                                    | 2019  | \$176,880   | \$44,434  | \$221,314               |
| Vice President Systems and Quality | 2020  | \$175,102   | \$43,990  | \$219,092               |
|                                    | 2019  | \$171,665   | \$43,127  | \$214,792               |
| Vice President HR & Administration | 2020  | \$168,149   | \$42,343  | \$210,492               |
|                                    | 2019  | \$163,247   | \$41,110  | \$204,357               |

\*Reported after September 9, 2019

## EMPLOYEE TOTAL REWARD PROGRAM

Provident<sup>10</sup> has a progressive compensation program developed in part by reviewing the compensation programs of comparable organizations. The program is compared using factors such as industry, size, assets under management, regional demographics, and the ability to attract, retain, and reward talent. We subscribe to a pay-for-performance model for each employee's compensation (bargaining and non-bargaining). The Total Reward Program is comprised of base salary and the short-term incentive program (STIP), a group insurance program, and membership in the PSPP, and is consistently applied at all levels of the organization. Base salaries and salary scales are reviewed annually in conjunction with the performance review cycle, market data, and a merit salary increase table.

The Short-Term Incentive Program (STIP) continues to be an important element of total reward for all Provident<sup>10</sup> employees for achieving targeted performance metrics. The STIP has been designed to promote a shared understanding of the priorities, expectations, and performance delivery for participants.

It further aligns with the Strategic and Business Plan priorities and offers reward opportunity for successful achievement. The STIP program has Corporate and Individual targets assessed for 0%–150% attainment with minimum, target, and excellence performance metrics. The maximum reward is capped. The variable pay STIP is assessed and paid annually. Payments are re-earned each year through successfully achieving annually defined individual and corporate objectives.

The Total Reward Program plays a critical role in Provident<sup>10</sup>'s ability to attract and retain talent.

## 2020 SHORT-TERM INCENTIVE PLAN – CORPORATE OBJECTIVE ACHIEVEMENT

The 2020 short-term incentive plan included four corporate objectives. Thank you to the team for their significant contributions to the overall achievement of these objectives.

| Corporate Objective | Weighting                                                          | Achievement |                                      |
|---------------------|--------------------------------------------------------------------|-------------|--------------------------------------|
| 1)                  | a. Targeted Service Standards                                      | 17.5%       | Exceeds Target                       |
|                     | b. Purchase of Service                                             | 7.5%        | Between Minimum Threshold and Target |
| 2)                  | a. Investment Performance                                          | 15%         | Excellence                           |
|                     | b. Budget Performance                                              | 10%         | Exceeds Target                       |
| 3)                  | Risk Management                                                    | 25%         | Exceeds Target                       |
| 4)                  | Internal Process, Operational Capacity, and Stakeholder Engagement | 25%         | Exceeds Target                       |
| Total               |                                                                    | 100%        |                                      |

1. On average, in 2020 Provident<sup>10</sup> exceeded the service standards. A 24% increase in purchase of service requests was generated by the end of the transition period and the downstream impact of the backlog resolution, which created a higher volume for Q1 2020.
2. One objective for the total Fund is to outperform a benchmark portfolio return after investment management fees over rolling four-year periods consistent with the Plan's Statement of Investment Policies and Procedures (SIP&P). The Fund outperformance has exceeded expectations as of December 31, 2020 for the policy benchmark investment objective. The organization is held accountable to a Board-approved budget designed to support the achievement of the Annual Business Plan while being financially responsible to the pension Fund. In 2020 the business plan objectives were achieved while remaining under budget for the year.

3. In 2020, the organization successfully exceeded our target for Risk Management and successful transition to a remote working model, for most team members, while effectively continuing all business operations as part of Provident<sup>10</sup>'s Business Continuity planning during the COVID-19 pandemic.
4. In 2020, Provident<sup>10</sup> executed a communication plan focused on Non-Statutory Plan Text implementation, life cycle education and Plan resources, member experience surveys, website enhancements, and increased process automation and digitization. The organization also continued to advance the security improvement program.



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# Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

PROVIDENT<sup>10</sup>

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Provident<sup>10</sup>

### *Opinion*

We have audited the financial statements of Provident<sup>10</sup> (the Entity), which comprise:

- the statement of financial position as at December 31, 2020
- the statement of operations for the year then ended
- the statement of cash flows 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, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian Accounting standards for not-for-profit organizations.

### *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 ethical 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.

### *Other Information*

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***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 not-for-profit organizations, 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.

Chartered Professional Accountants  
St. John's, Canada  
June 18, 2021

**STATEMENT OF FINANCIAL POSITION**

31 December 2020

with comparative information for 31 December 2019

|                                                           | 2020             | 2019             |
|-----------------------------------------------------------|------------------|------------------|
|                                                           | (000s)           | (000s)           |
| <b>Assets</b>                                             |                  |                  |
| Current assets                                            |                  |                  |
| Cash                                                      | \$ 1,965         | \$ 1,844         |
| Receivable from Province of Newfoundland and Labrador     | 45               | 19               |
| HST receivable                                            | 92               | 135              |
| Prepaid expenses                                          | 306              | 256              |
| Current portion of promissory note receivable (note 2)    | 47,464           | 44,777           |
|                                                           | 49,872           | 47,031           |
| Capital assets (note 3)                                   | 1,116            | 1,317            |
| Promissory note receivable (note 2)                       | 2,364,447        | 2,411,911        |
| <b>Total assets</b>                                       | <b>2,415,435</b> | <b>2,460,259</b> |
| <b>Liabilities and net assets</b>                         |                  |                  |
| Current liabilities                                       |                  |                  |
| Accounts payable and accrued liabilities                  | \$ 1,696         | \$ 1,278         |
| Payable to Public Service Pension Plan (note 4)           | 490              | 777              |
| Payable to Province of Newfoundland and Labrador (note 9) | 358              | 532              |
| Deferred tenant inducement                                | 388              | 450              |
| Straight-line rent                                        | 105              | 111              |
| Current portion of promissory note payable (note 2)       | 47,464           | 44,777           |
|                                                           | 50,501           | 47,925           |
| Other post-employment benefits liabilities (note 6)       | 487              | 423              |
| Promissory note payable (note 2)                          | 2,364,447        | 2,411,911        |
| <b>Total liabilities</b>                                  | <b>2,415,435</b> | <b>2,460,259</b> |
| Commitments (note 11)                                     |                  |                  |
| <b>Net assets</b>                                         | <b>\$ -</b>      | <b>\$ -</b>      |

On behalf of the Board:

Director Original signed copies on file.

Director Original signed copies on file.

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

## STATEMENT OF OPERATIONS

For the year ended 31 December 2020  
with comparative figures for the year ended 31 December 2019

|                                        | 2020           | 2019           |
|----------------------------------------|----------------|----------------|
|                                        | (000s)         | (000s)         |
| <b>Revenue</b>                         |                |                |
| Management fees (note 9)               | \$ 10,298      | \$ 9,468       |
| Interest                               | 143,223        | 145,757        |
|                                        | 153,521        | 155,225        |
| <b>Expenses</b>                        |                |                |
| Salaries and benefits                  | 6,579          | 5,356          |
| Professional services                  | 877            | 1,076          |
| Directors and committees               | 110            | 143            |
| Postage and service charges            | 188            | 130            |
| Interest                               | 143,223        | 145,757        |
| Amortization                           | 230            | 285            |
| Other operating expenses               | 2,314          | 2,478          |
| <b>Total expenses</b>                  | <b>153,521</b> | <b>155,225</b> |
| <b>Excess of revenue over expenses</b> | <b>\$ -</b>    | <b>\$ -</b>    |

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

**STATEMENT OF CASH FLOWS**

For the year ended 31 December 2020  
with comparative figures for the year ended 31 December 2019

|                                                                              | <b>2020</b>     | <b>2019</b>     |
|------------------------------------------------------------------------------|-----------------|-----------------|
|                                                                              | <b>(000s)</b>   | <b>(000s)</b>   |
| <b>Cash provided by (used in):</b>                                           |                 |                 |
| Operating activities                                                         |                 |                 |
| Net earnings                                                                 | \$ -            | \$ -            |
| Items not involving cash:                                                    |                 |                 |
| Amortization of capital assets                                               | 292             | 348             |
| Amortization of tenant inducement                                            | (62)            | (63)            |
| (Decrease) increase in straight-line rent                                    | (6)             | 6               |
| Increase in other post-employment benefits liabilities                       | 64              | 20              |
|                                                                              | 288             | 311             |
| Change in non-cash operating working capital:                                |                 |                 |
| (Increase) decrease in receivable from Province of Newfoundland and Labrador | (26)            | 27              |
| Decrease (increase) in HST receivable                                        | 43              | (18)            |
| (Increase) decrease in prepaid expenses                                      | (50)            | 4               |
| Increase in accounts payable and accrued liabilities                         | 418             | 235             |
| Decrease in payable to Public Service Pension Plan                           | (287)           | (502)           |
| (Decrease) increase in payable to Province of Newfoundland and Labrador      | (174)           | 68              |
|                                                                              | 212             | 125             |
| Investing activities:                                                        |                 |                 |
| Purchase of capital assets                                                   | (91)            | (41)            |
| Proceeds on promissory note receivable                                       | 44,777          | 42,243          |
|                                                                              | 44,686          | 42,208          |
| Financing activities:                                                        |                 |                 |
| Repayment of promissory note payable                                         | (44,777)        | (42,243)        |
|                                                                              | (44,777)        | (42,243)        |
| <b>Increase (decrease) in cash</b>                                           | <b>121</b>      | <b>84</b>       |
| <b>Cash, beginning of year</b>                                               | <b>1,844</b>    | <b>1,760</b>    |
| <b>Cash, end of year</b>                                                     | <b>\$ 1,965</b> | <b>\$ 1,844</b> |

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



# PROVIDENT<sup>10</sup>

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

Provident<sup>10</sup>, (the “Corporation”), is a not-for-profit organization incorporated on 31 March 2015 under the authority of Section 36.1 of the *Public Service Pensions Act 1991* (the “Act”). The Corporation changed its name to Provident<sup>10</sup> from Public Service Pension Plan Corporation, effective 27 August 2017.

The purpose of the Corporation is to act as Trustee of the Public Service Pension Plan (the “Plan”) and to serve as administrator of the Plan. The Corporation is bound, with the Board of Directors, to act in accordance with the Joint Sponsorship Agreement between Her Majesty in Right of Newfoundland and Labrador and the Association of Allied Health Professionals, the Canadian Union of Public Employees, the International Brotherhood of Electrical Workers, the Newfoundland and Labrador Association of Public and Private Employees, and the Registered Nurses’ Union Newfoundland and Labrador (collectively the “Unions”). A service level agreement (the “Service Level Agreement”) was signed between the Corporation and the Province of Newfoundland and Labrador (the “Province”) to allow the Province to continue to administer the Plan for an interim period of 12 months. The agreement expired on 31 March 2017. The Province continues to provide limited administration services covered by this agreement for the disbursement of pension payments on an interim basis (note 9).

The Corporation operates under a cost recovery basis, as provided for in the Service Level Agreement. The Corporation is exempt from income taxes, provided certain requirements of the Income Tax Act are met.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### A) BASIS OF PRESENTATION

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations in Part III of the Chartered Professional Accountants (CPA) Canada Handbook.

### B) REVENUE RECOGNITION

Fee revenue is recognized as services are provided and collection is probable.

### C) FINANCIAL INSTRUMENTS

Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Corporation has not elected to carry any such financial instruments at fair value. Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year. If there is an indicator of impairment, the Corporation determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset, or the amount the Corporation expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

### D) USE OF ESTIMATES

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 accounts payable and accrued liabilities and other post-employment benefits. Actual results could differ from these estimates.

31 December 2020

## **1. SIGNIFICANT ACCOUNTING POLICIES** **(CONTINUED)**

### **E) CAPITAL ASSETS**

Capital assets are recorded at cost less accumulated depreciation and include amounts that are directly related to the acquisition, design, construction, development, improvement, or betterment of the assets directly attributable to construction and development.

The cost, less residual value, of capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements – Over the term of lease  
Furniture, fixtures, and equipment – 5 years  
Computer hardware – 3 years  
Computer software – 3 years  
Telephone system – 3 years

Capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value.

### **F) OTHER POST-EMPLOYMENT BENEFITS LIABILITY**

Under the collective agreement between the Newfoundland and Labrador Association of Public and Private Employees and the Corporation, employees identified on Schedule A of the Joint Sponsorship Agreement are eligible to participate in the Province's other post-employment benefits plan (the "OPEB Plan"). The OPEB Plan provides group life insurance and health care benefits on a cost shared basis to retired employees, should they continue to meet the Province's eligibility requirements. The associated employer portion of the costs for the Corporation's employees will be borne by the Corporation.

The obligation at the end of the year is determined based on the most recent actuarial valuation report prepared for accounting purposes. The measurement date of the obligation coincides with the Corporation's year end. The date of the most recent actuarial valuation of the obligation prepared for accounting purposes is 31 December 2020.

### **G) DEFERRED TENANT INDUCEMENTS:**

In 2016, the Corporation entered a ten-year lease for its corporate office. Under that agreement, the landlord funded renovations to the space as tenant inducements. These tenant inducements are deferred and amortized on a straight-line basis over the term of the related lease.

### **H) STRAIGHT-LINE RENT**

Under the Corporation lease for its corporate office, there are increases in base rent over the term of the lease. The base rent cost over the full lease term, including free rent periods, have been determined and are amortized on a straight-line basis over the term of the related lease.

## **2. 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 Corporation. 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 2020, the balance receivable is \$2.412 billion (2019 - \$2.457 billion).

## PROVIDENT<sup>10</sup>

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2. PROMISSORY NOTE

### (CONTINUED)

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

|      |          |
|------|----------|
| 2021 | \$47,464 |
| 2022 | \$50,312 |
| 2023 | \$53,331 |
| 2024 | \$56,530 |
| 2025 | \$59,922 |

## 3. CAPITAL ASSETS

|                                   |          |              | 2020     | 2019     |
|-----------------------------------|----------|--------------|----------|----------|
|                                   | Cost     | Accumulated  | Net Book | Net Book |
|                                   | (000s)   | Amortization | Value    | Value    |
|                                   | (000s)   | (000s)       | (000s)   | (000s)   |
| Leasehold improvements            | \$ 1,426 | \$ 536       | \$ 890   | \$ 1,024 |
| Furniture, fixtures and equipment | 541      | 393          | 148      | 243      |
| Computer hardware                 | 232      | 164          | 68       | 26       |
| Computer software                 | 112      | 103          | 9        | 21       |
| Telephone system                  | 58       | 57           | 1        | 3        |
|                                   | \$ 2,369 | \$ 1,253     | \$ 1,116 | \$ 1,317 |

## 4. PAYABLE TO PUBLIC SERVICE PENSION PLAN

Payable to the Plan represents total charges to the Plan plus HST less operating funding received.

The receivable is non-interest bearing and due when the invoice is rendered.

## 5. PAYABLE TO PROVINCE OF NEWFOUNDLAND AND LABRADOR

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

31 December 2020

## 6. OTHER POST-EMPLOYMENT BENEFITS LIABILITY

The obligation was calculated as at 31 December 2020 under Sections 3462 and 3463 of the CPA Canada Handbook - Accounting by the Corporation's actuary. In determining the liabilities under Section 3463 of the CPA Handbook, projected unit credit method prorated on service was used for the accounting valuation.

The significant assumptions used were as follows:

|                                                                         | 31 December 2019 accrued<br>benefit liability and 2020 expense                                                                                                                                                                                                                                                                                                                       | 31 December 2020 accrued<br>benefit liability                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Discount rate                                                           | 3.20%                                                                                                                                                                                                                                                                                                                                                                                | 2.80%                                                                                                                                                                                                                                                                                                                                                                                |
| General inflation                                                       | 2.00%                                                                                                                                                                                                                                                                                                                                                                                | 2.00%                                                                                                                                                                                                                                                                                                                                                                                |
| Salary increases                                                        | 3.50%                                                                                                                                                                                                                                                                                                                                                                                | 3.50%                                                                                                                                                                                                                                                                                                                                                                                |
| Health premium inflation/trend                                          | 0.0% in 2018, 5.89% in 2019, decreasing linearly each year to an ultimate rate of 3.60% in 2040                                                                                                                                                                                                                                                                                      | 0.0% in 2018, 5.89% in 2019, decreasing linearly each year to an ultimate rate of 3.60% in 2040                                                                                                                                                                                                                                                                                      |
| Dependant life premium increases                                        | 0.00% in 2018, 2.00% thereafter                                                                                                                                                                                                                                                                                                                                                      | 0.00% in 2018, 2.00% thereafter                                                                                                                                                                                                                                                                                                                                                      |
| Mortality                                                               | CPM – 2014 Public Sector with generational projection using scale CPM-B                                                                                                                                                                                                                                                                                                              | CPM – 2014 Public Sector with generational projection using scale CPM-B                                                                                                                                                                                                                                                                                                              |
| Termination                                                             | 2014 Public Sector Experience Study, with annual sample rates:<br>• Age 25: 16.48% • Age 30: 9.49%<br>• Age 35: 7.13% • Age 40: 5.56%<br>• Age 45: 4.61% • Age 50: 3.60%<br>• Age 55: 0.00%                                                                                                                                                                                          | 2014 Public Sector Experience Study, with annual sample rates:<br>• Age 25: 16.48% • Age 30: 9.49%<br>• Age 35: 7.13% • Age 40: 5.56%<br>• Age 45: 4.61% • Age 50: 3.60%<br>• Age 55: 0.00%                                                                                                                                                                                          |
| Disability                                                              | None                                                                                                                                                                                                                                                                                                                                                                                 | None                                                                                                                                                                                                                                                                                                                                                                                 |
| Retirement                                                              | <b>If eligible to retire before 1 January 2020:</b><br>50% at the earlier of age 55 with 30 years' service or age 60 with 5 years' service. Remainder at the earlier of the 35 years' service or age 65.<br><b>If not, then:</b><br>57.5% at the earlier age of 58 with 30 years' service or age 60 with 10 years' service. Remainder at the earlier of 35 years' service or age 65. | <b>If eligible to retire before 1 January 2020:</b><br>50% at the earlier of age 55 with 30 years' service or age 60 with 5 years' service. Remainder at the earlier of the 35 years' service or age 65.<br><b>If not, then:</b><br>57.5% at the earlier age of 58 with 30 years' service or age 60 with 10 years' service. Remainder at the earlier of 35 years' service or age 65. |
| Spouse age difference                                                   | Females three years younger                                                                                                                                                                                                                                                                                                                                                          | Females three years younger                                                                                                                                                                                                                                                                                                                                                          |
| Members electing coverage benefits at retirement ("Participation Rate") | 95%                                                                                                                                                                                                                                                                                                                                                                                  | 95%                                                                                                                                                                                                                                                                                                                                                                                  |
| Coverage elected at retirement                                          | 65% Family                                                                                                                                                                                                                                                                                                                                                                           | 65% Family                                                                                                                                                                                                                                                                                                                                                                           |

## PROVIDENT<sup>10</sup>

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

#### 6. OTHER POST-EMPLOYMENT BENEFITS LIABILITY

(CONTINUED)

The other post-employment benefits liability as at 31 December 2020 is calculated as follows:

|                                                                                            | (000s) |
|--------------------------------------------------------------------------------------------|--------|
| Other post-employment benefits liability assumed by the Corporation as at 31 December 2019 | \$ 423 |
| Other post-employment benefits cost                                                        | 65     |
| Company payments                                                                           | (1)    |
| Other post-employment benefits liability as at 31 December 2020                            | \$ 487 |

#### 7. PENSION PLAN

Qualifying employees of the Corporation participate in the Plan, a multi-employer defined benefit pension plan, which provides pension benefits based on length of service and earnings.

Contributions to the Plan are required by both the employees and the employer. The Corporation's contributions range from 8.95% to 11.85% of pensionable earnings. Total employer contributions for 2020 were \$405 thousand (2019 - \$359 thousand) and are recognized in salaries and benefits expense in the statement of operations.

The Corporation is not responsible for any underfunded liability, nor does the Corporation have access to any surplus that may arise in the Plan.

#### 8. SICK LEAVE

Under the collective agreement, employees identified on Schedule A of the Joint Sponsorship Agreement and covered by the collective agreement were entitled to carry over accumulated sick leave balances. The estimated gross value of the sick leave balances is \$323 thousand (2019 - \$303 thousand). Sick leave balances are non-vesting and further accumulations are prohibited. No amount has been accrued in the financial statements for the potential liability.

#### 9. RELATED PARTY TRANSACTIONS

##### A) THE PROVINCE

The Province is related to the Corporation by its ability to appoint 6 of 14 members of the Corporation's Board of Directors.

The Corporation entered into the Service Level Agreement with the Province for management services to be provided on a cost recovery basis for an interim period. The Service Level Agreement with the Province expired on 31 March 2017. The Province continues to provide limited administration services for the disbursement of pension payments on an interim basis. The cost of the services in 2020 was \$0.3 million (2019 - \$0.2 million) and is based on an allocation of salaries and administrative costs.

Management fees earned of \$26 thousand in 2020 (2019 - \$127 thousand) are from the Province of Newfoundland and Labrador.

##### B) THE PLAN

The Corporation is related to the Plan as the Board of Directors oversees the Plan and the Corporation. Management fees earned of \$10.3 million (2019 - \$9.3 million) are from the Plan based on a cost recovery basis.

#### 10. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK

The Corporation is economically dependent on the Plan by virtue of the cost recovery basis under which it operates.

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Corporation is exposed to a concentration of credit risk with respect to the receivable from the Plan. The Corporation has assessed the amount as fully collectible.

On March 11, 2020 the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization and has resulted in emergency measures to contain the spread of the virus and therefore impacted general economic conditions, including temporary closure of business and uncertainty around employment in certain industries.

31 December 2020

## 10. ECONOMIC DEPENDENCE AND CONCENTRATION OF CREDIT RISK (CONTINUED)

As a result, there has been significant volatility in equity prices, interest rates, bond yields, and foreign exchange rates. The duration and impact of the COVID-19 outbreak is unknown at this time, leading to a high degree of volatility and uncertainty that will likely impact worldwide financial markets beyond 2020.

The Corporation is not exposed to any other significant financial risks.

## 11. COMMITMENTS

The Corporation is committed under the terms of its lease for office space to make the following minimum annual lease payments (in thousands):

|            |         |
|------------|---------|
| 2021       | \$592   |
| 2022       | \$592   |
| 2023       | \$592   |
| 2024       | \$592   |
| 2025       | \$592   |
| Thereafter | \$722   |
| Total      | \$3,682 |



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# Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2020

PUBLIC SERVICE PENSION PLAN

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the Public Service Pension Plan

### **Opinion**

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

- the statement of financial position as at December 31, 2020
- 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, 2020, and its changes in net assets available for benefits and its changes in accrued benefit 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 ethical 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.

### **Other Information**

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the Annual Report.

KPMG LLP, an Ontario limited liability partnership and member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. KPMG Canada provides services to KPMG LLP.



Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the Annual Report as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***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.

Chartered Professional Accountants  
St. John's, Canada  
June 18, 2021



## PUBLIC SERVICE PENSION PLAN

### STATEMENT OF FINANCIAL POSITION

31 December 2020  
with comparative information for 31 December 2019

|                                                   | 2020              | 2019              |
|---------------------------------------------------|-------------------|-------------------|
|                                                   | (000s)            | (000s)            |
| <b>Assets</b>                                     |                   |                   |
| Cash and cash equivalents                         | \$ 230,974        | \$ 176,158        |
| Accrued investment income                         | 9,337             | 9,465             |
| Contributions receivable:                         |                   |                   |
| Employee                                          | 4,655             | 6,392             |
| Employer                                          | 4,656             | 6,392             |
| Harmonized Sales Tax receivable                   | 498               | 1,487             |
| Receivable from Provident <sup>10</sup> (note 14) | 87                | 388               |
| Receivable from pending trades                    | 7,453             | 13,742            |
| Investments (note 4)                              | 8,243,658         | 7,469,103         |
| Promissory note receivable (note 13)              | 2,411,911         | 2,456,688         |
| <b>Total assets</b>                               | <b>10,913,229</b> | <b>10,139,815</b> |
| <b>Liabilities</b>                                |                   |                   |
| Accounts payable and accrued liabilities          | 5,697             | 5,366             |
| Payable for pending trades                        | 7,716             | 17,823            |
| Refunds payable                                   | 14,060            | 13,602            |
| Due to Province of Newfoundland and Labrador      | 2,277             | 791               |
| <b>Total liabilities</b>                          | <b>29,750</b>     | <b>37,582</b>     |
| <b>Net assets available for benefits</b>          | <b>10,883,479</b> | <b>10,102,233</b> |
| Accrued benefit obligation (note 9)               | 10,772,666        | 9,908,679         |
| Commitments (note 15)                             |                   |                   |
| <b>Surplus</b>                                    | <b>\$ 110,813</b> | <b>\$ 193,554</b> |

On behalf of the Board of Trustees:

Director Original signed copies on file.

Director Original signed copies on file.

See accompanying notes to financial statements.

## PUBLIC SERVICE PENSION PLAN

### STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

For the year ended 31 December 2020  
with comparative information for the year ended 31 December 2019

|                                                                       | 2020                 | 2019                 |
|-----------------------------------------------------------------------|----------------------|----------------------|
|                                                                       | (000s)               | (000s)               |
| <b>Increase in net assets:</b>                                        |                      |                      |
| Investment income (note 5a)                                           | \$ 172,999           | \$ 195,159           |
| Gain on sale of investments (note 5b)                                 | 270,458              | 190,037              |
| Current period change in market value of investments (note 5b)        | 484,731              | 694,951              |
| Interest on promissory note (note 13)                                 | 143,223              | 145,757              |
|                                                                       | 1,071,411            | 1,225,904            |
| Contributions: (note 11)                                              |                      |                      |
| Employee                                                              | 199,224              | 200,976              |
| Employer                                                              | 167,776              | 165,418              |
| Current period change in outstanding transaction receivable (note 10) | -                    | (35,000)             |
|                                                                       | 367,000              | 331,394              |
|                                                                       | 1,438,411            | 1,557,298            |
| <b>Decrease in net assets:</b>                                        |                      |                      |
| Pension payments (note 12)                                            | (476,539)            | (451,670)            |
| Refund of contributions (note 12)                                     | (147,624)            | (143,057)            |
| Administrative expenses (note 8)                                      | (30,052)             | (29,093)             |
| Harmonized Sales Tax                                                  | (2,950)              | (2,750)              |
|                                                                       | (657,165)            | (626,570)            |
| <b>Increase in net assets available for benefits</b>                  | <b>781,246</b>       | <b>930,728</b>       |
| <b>Net assets available for benefits, beginning of period</b>         | <b>10,102,233</b>    | <b>9,171,505</b>     |
| <b>Net assets available for benefits, end of period</b>               | <b>\$ 10,883,479</b> | <b>\$ 10,102,233</b> |

The accompanying notes 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 2020  
with comparative information for the year ended 31 December 2019

|                                                                                   | 2020                 | 2019                |
|-----------------------------------------------------------------------------------|----------------------|---------------------|
|                                                                                   | (000s)               | (000s)              |
| <b>Actuarial present value of accrued benefit obligation, beginning of period</b> | <b>\$ 9,908,679</b>  | <b>\$ 9,746,030</b> |
| Change in actuarial assumptions (note 9)                                          | 614,852              | (66,437)            |
| Change in outstanding transaction allowance (note 10)                             | -                    | (44,000)            |
| Interest accrued on benefits                                                      | 584,603              | 573,248             |
| Benefits accrued                                                                  | 288,695              | 294,565             |
| Benefits paid                                                                     | (624,163)            | (594,727)           |
| <b>Actuarial present value of accrued benefit obligation, end of period</b>       | <b>\$ 10,772,666</b> | <b>\$ 9,908,679</b> |

The accompanying notes are an integral part of this financial statement.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

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 Government 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 Government to the Plan, and introduced a jointly trusted 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 “Provident<sup>10</sup>”) 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 Provident<sup>10</sup> 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 Government 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 government 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 Provident<sup>10</sup> 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 Province of Newfoundland and Labrador (the Province), the Legislature, various Crown corporations, agencies and commissions created by or under a statute of the Province, and Provident<sup>10</sup>.

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. Provident<sup>10</sup> 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.

### 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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. DESCRIPTION OF THE PLAN

(CONTINUED)

### 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 grandfathered 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.

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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 1. DESCRIPTION OF THE PLAN

(CONTINUED)

### 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.

# PUBLIC SERVICE PENSION PLAN

## NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 2. BASIS OF PREPARATION (CONTINUED)

### 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.

Financial assets at amortized cost include cash and cash equivalents, accrued investment income, outstanding transaction allowance, contributions receivable, Harmonized Sales Tax receivable, receivable from Provident<sup>10</sup>, 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 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

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES

(CONTINUED)

#### A) FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

##### iv. Derivative financial instruments (continued)

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.

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 and infrastructure 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.



## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B) FAIR VALUE MEASUREMENT (CONTINUED)

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.

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.

**PUBLIC SERVICE PENSION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**4. INVESTMENTS**

**A) INVESTMENT PORTFOLIO**

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

|                       | <b>31 December 2020</b>  |              |                        | <b>31 December 2019</b>  |              |                        |
|-----------------------|--------------------------|--------------|------------------------|--------------------------|--------------|------------------------|
|                       | <b>Assets<br/>(000s)</b> | <b>%</b>     | <b>Cost<br/>(000s)</b> | <b>Assets<br/>(000s)</b> | <b>%</b>     | <b>Cost<br/>(000s)</b> |
| <b>Fixed income</b>   | 2,861,618                | 34.7         | 2,652,591              | 2,739,787                | 36.7         | 2,664,839              |
| <b>Equities</b>       |                          |              |                        |                          |              |                        |
| Canadian              | 866,063                  | 10.5         | 735,936                | 818,849                  | 11.0         | 704,556                |
| US                    | 1,754,593                | 21.3         | 1,250,658              | 1,452,055                | 19.4         | 1,118,183              |
| Global                | 1,068,277                | 13.0         | 918,491                | 927,185                  | 12.3         | 859,319                |
| <b>Private equity</b> | 461,747                  | 5.6          | 315,992                | 324,897                  | 4.3          | 260,333                |
| <b>Infrastructure</b> |                          |              |                        |                          |              |                        |
| Private               | 451,213                  | 5.5          | 373,448                | 304,181                  | 4.1          | 258,435                |
| Listed active         | 274,078                  | 3.3          | 291,945                | 332,556                  | 4.5          | 320,583                |
| Listed passive        | 132,562                  | 1.6          | 158,773                | 176,164                  | 2.4          | 185,982                |
| <b>Real estate</b>    | 373,509                  | 4.5          | 277,906                | 393,410                  | 5.3          | 313,790                |
| <b>Forwards</b>       | (2)                      | -            | -                      | 19                       | -            | -                      |
| <b>Total</b>          | <b>\$8,243,658</b>       | <b>100.0</b> | <b>\$6,975,740</b>     | <b>\$7,469,103</b>       | <b>100.0</b> | <b>\$6,686,020</b>     |

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. INVESTMENTS

(CONTINUED)

### B) FAIR VALUE MEASUREMENT

Financial instruments are classified according to the following fair value hierarchy that reflects the significance of inputs used in determining the fair values.

- » 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.

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

| As at 31 December 2020 | Level 1<br>(000s) | Level 2<br>(000s) | Level 3<br>(000s) | Total<br>(000s) |
|------------------------|-------------------|-------------------|-------------------|-----------------|
| <b>Fixed income</b>    | -                 | 2,861,618         | -                 | 2,861,618       |
| <b>Equities</b>        |                   |                   |                   |                 |
| Canadian               | 837,225           | 28,838            | -                 | 866,063         |
| US                     | 1,752,950         | 1,643             | -                 | 1,754,593       |
| Global                 | 1,068,277         | -                 | -                 | 1,068,277       |
| <b>Private equity</b>  | -                 | -                 | 461,747           | 461,747         |
| <b>Infrastructure</b>  |                   |                   |                   |                 |
| Private                | -                 | -                 | 451,213           | 451,213         |
| Listed active          | -                 | 274,078           | -                 | 274,078         |
| Listed passive         | -                 | 132,562           | -                 | 132,562         |
| <b>Real estate</b>     | -                 | -                 | 373,509           | 373,509         |
| <b>Forwards</b>        | (2)               | -                 | -                 | (2)             |
|                        | \$ 3,658,450      | \$ 3,298,739      | \$ 1,286,469      | \$ 8,243,658    |

**PUBLIC SERVICE PENSION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**4. INVESTMENTS**

(CONTINUED)

**B) FAIR VALUE MEASUREMENT (CONTINUED)**

| <b>As at 31 December 2019</b> | <b>Level 1<br/>(000s)</b> | <b>Level 2<br/>(000s)</b> | <b>Level 3<br/>(000s)</b> | <b>Total<br/>(000s)</b> |
|-------------------------------|---------------------------|---------------------------|---------------------------|-------------------------|
| <b>Fixed income</b>           | -                         | 2,739,787                 | -                         | 2,739,787               |
| <b>Equities</b>               |                           |                           |                           |                         |
| Canadian                      | 790,297                   | 28,552                    | -                         | 818,849                 |
| US                            | 1,450,344                 | 1,711                     | -                         | 1,452,055               |
| Global                        | 927,185                   | -                         | -                         | 927,185                 |
| <b>Private equity</b>         | -                         | -                         | 324,897                   | 324,897                 |
| <b>Infrastructure</b>         |                           |                           |                           |                         |
| Private                       | -                         | -                         | 304,181                   | 304,181                 |
| Listed active                 | -                         | 332,556                   | -                         | 332,556                 |
| Listed passive                | -                         | 176,164                   | -                         | 176,164                 |
| <b>Real estate</b>            | -                         | -                         | 393,410                   | 393,410                 |
| <b>Forwards</b>               | 19                        | -                         | -                         | 19                      |
|                               | <b>\$ 3,167,845</b>       | <b>\$ 3,278,770</b>       | <b>\$ 1,022,488</b>       | <b>\$ 7,469,103</b>     |

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

**PUBLIC SERVICE PENSION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**4. INVESTMENTS**

(CONTINUED)

**B) FAIR VALUE MEASUREMENT (CONTINUED)**

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

|                                                 |    | (000s)    |
|-------------------------------------------------|----|-----------|
| Fair value, 31 December 2018                    | \$ | 715,762   |
| Acquisitions                                    |    | 192,735   |
| Dispositions                                    |    | (1,223)   |
| Realized gain (loss)                            |    | 3         |
| Change in unrealized gain (loss) on assets sold |    | -         |
| Change in unrealized gain (loss) on assets held |    | 115,211   |
| Fair value, 31 December 2019                    | \$ | 1,022,488 |
| Fair value, 31 December 2019                    | \$ | 1,022,488 |
| Acquisitions                                    |    | 174,686   |
| Dispositions                                    |    | (21,375)  |
| Realized gain (loss)                            |    | (18,523)  |
| Change in unrealized gain (loss) on assets sold |    | (9,856)   |
| Change in unrealized gain (loss) on assets held |    | 139,049   |
| Fair value, 31 December 2020                    | \$ | 1,286,469 |

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. INVESTMENTS

(CONTINUED)

### B) FAIR VALUE MEASUREMENT (CONTINUED)

Level 3 financial instruments are valued using various methods. The fair value of private equity and infrastructure holdings 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 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.

|                             | 2020<br>(000s) | 2019<br>(000s) |
|-----------------------------|----------------|----------------|
| Real estate                 |                |                |
| Minimum capitalization rate | 3.75%          | 3.70%          |
| Maximum capitalization rate | 9.25%          | 8.71%          |
| Increase of 25 basis points | \$(22,244)     | \$(23,700)     |
| Decrease of 25 basis points | \$ 24,610      | \$26,280       |

### 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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 4. INVESTMENTS

(CONTINUED)

### C) DERIVATIVES (CONTINUED)

#### i) Currency forwards (continued)

The following table sets out the notional values of the Plan's derivatives and their related assets and liabilities at 31 December:

|                                    | Notional<br>amount<br>(000s) | Fair value<br>asset<br>(000s) | Fair value<br>liability<br>(000s) | Fair value<br>net<br>(000s) |
|------------------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------------|
| 31 December 2020 Currency forwards | \$ 1,620                     | \$ (4)                        | \$ 2                              | \$ (2)                      |
| 31 December 2019 Currency forwards | 12,821                       | (209)                         | 228                               | 19                          |

#### 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.

### 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:

|                                     | 2020<br>(000s) | 2019<br>(000s) |
|-------------------------------------|----------------|----------------|
| Securities lent                     | \$ 720,543     | \$ 998,831     |
| Securities contractually receivable | 755,431        | 1,056,496      |

**PUBLIC SERVICE PENSION PLAN**  
**NOTES TO FINANCIAL STATEMENTS**

31 December 2020

**5. INVESTMENT INCOME**

**A) INVESTMENT INCOME IS AS FOLLOWS**

|                                                      | <b>2020<br/>(000s)</b> | <b>2019<br/>(000s)</b> |
|------------------------------------------------------|------------------------|------------------------|
| Dividend income                                      | \$ 84,872              | \$ 111,811             |
| Interest income                                      | 85,999                 | 81,322                 |
| Security lending income                              | 2,073                  | 1,984                  |
| Commission recapture income                          | 55                     | 42                     |
|                                                      | 172,999                | 195,159                |
| Gain on sale of investments                          | 270,458                | 190,037                |
| Current period change in market value of investments | 484,731                | 694,951                |
|                                                      | \$ 928,188             | \$ 1,080,147           |



## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 5. INVESTMENT INCOME

(CONTINUED)

### B) INVESTMENT INCOME (LOSS) BY ASSET MIX FOR THE PERIOD ENDED 31 DECEMBER IS AS FOLLOWS

|                                  | Investment<br>income | Gain (loss)<br>on sale of<br>investments | Current period<br>change in<br>market value<br>of investments | 2020<br>Total     | 2019<br>Total       |
|----------------------------------|----------------------|------------------------------------------|---------------------------------------------------------------|-------------------|---------------------|
|                                  | (000s)               | (000s)                                   | (000s)                                                        | (000s)            | (000s)              |
| <b>Cash and cash equivalents</b> | \$ 3,193             | \$ 281                                   | \$ (104)                                                      | \$ 3,370          | \$ 1,327            |
| <b>Fixed income</b>              | 78,508               | 41,087                                   | 134,080                                                       | 253,675           | 208,998             |
| <b>Equities</b>                  |                      |                                          |                                                               |                   |                     |
| Canadian                         | 21,117               | 12,699                                   | 15,834                                                        | 49,650            | 213,878             |
| US                               | 23,055               | 239,114                                  | 170,062                                                       | 432,231           | 331,844             |
| Global                           | 20,801               | 1,962                                    | 81,920                                                        | 104,683           | 145,676             |
| <b>Private equity</b>            | -                    | 665                                      | 81,192                                                        | 81,857            | 44,967              |
| <b>Infrastructure</b>            |                      |                                          |                                                               |                   |                     |
| Private                          | -                    | -                                        | 32,019                                                        | 32,019            | 39,310              |
| Listed                           | 14,604               | (3,243)                                  | (29,841)                                                      | (18,480)          | 44,369              |
| Passive                          | 5,221                | (2,430)                                  | (16,393)                                                      | (13,602)          | 12,204              |
| <b>Real estate</b>               | 6,500                | (19,187)                                 | 15,983                                                        | 3,296             | 36,435              |
| <b>Forwards</b>                  | -                    | (490)                                    | (21)                                                          | (511)             | 143                 |
| <b>Futures</b>                   | -                    | -                                        | -                                                             | -                 | 996                 |
| <b>Total</b>                     | <b>\$ 172,999</b>    | <b>\$ 270,458</b>                        | <b>\$ 484,731</b>                                             | <b>\$ 928,188</b> | <b>\$ 1,080,147</b> |

Net loss from derivatives, including realized and unrealized gains or losses is \$0.5 million (2019 - net income \$1.1 million), while income from other assets, excluding dividend and interest income is \$3.3 million (2019 - \$1.3 million).

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 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 set 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.

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

|                       | 2020<br>(%) | 2019<br>(%) |
|-----------------------|-------------|-------------|
| Within 1 year         | 8.0         | 10.6        |
| Short (1 - 5 years)   | 25.6        | 24.9        |
| Medium (5 - 10 years) | 28.3        | 28.8        |
| Long (10+ years)      | 38.1        | 35.7        |
|                       | 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 \$198.5 million or 8.13% (2019 - \$181.6 million or 7.71%). 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 49.9% 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 \$409.6 million, or 4.99% of total investment assets (2019 - \$370.6 million or 4.98%).

### 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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. INVESTMENT RISK MANAGEMENT

### (CONTINUED)

#### C) CREDIT RISK (CONTINUED)

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

|                       | 2020<br>(%) | 2019<br>(%) |
|-----------------------|-------------|-------------|
| Federal government    | 15.6        | 18.0        |
| Provincial government | 26.1        | 23.6        |
| Municipal government  | 1.9         | 1.9         |
| Corporate             | 53.3        | 53.8        |
| Other                 | 3.1         | 2.7         |
|                       | 100.0       | 100.0       |

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

|               | 2020<br>(%) | 2019<br>(%) |
|---------------|-------------|-------------|
| AAA to A-     | 61.5        | 64.0        |
| BBB to BBB-   | 22.7        | 22.7        |
| BB+ and below | 8.3         | 5.7         |
| Not rated     | 7.5         | 7.6         |
| 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

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. INVESTMENT RISK MANAGEMENT

(CONTINUED)

### D) FOREIGN CURRENCY RISK (CONTINUED)

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

|                               | 2020<br>(%) | 2019<br>(%) |
|-------------------------------|-------------|-------------|
| Canadian Dollar               | 44.8        | 47.3        |
| US Dollar                     | 36.4        | 34.3        |
| Euro                          | 5.3         | 5.8         |
| Other Asia/Pacific currencies | 4.8         | 4.6         |
| Japanese Yen                  | 2.6         | 2.2         |
| British Pound                 | 2.5         | 2.8         |
| Other European currencies     | 2.2         | 2.1         |
| Other currencies *            | 1.4         | 0.9         |
| Total                         | 100.0       | 100.0       |

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

A 10% increase in the value of the Canadian dollar in relation to all other foreign currencies, with all other variables held constant, would result in an unrealized investment loss of \$370.3 million, or 5.52% of public market investment assets (2019 - \$326.5 million or 5.27%). 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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 6. INVESTMENT RISK MANAGEMENT

(CONTINUED)

### 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

On March 11, 2020, the outbreak of the novel strain of the coronavirus ("COVID-19") was officially declared a pandemic by the World Health Organization and has resulted in emergency measures to contain the spread of the virus and therefore impacted general economic conditions, including temporary closure of business and uncertainty around employment in certain industries. As a result, there has been significant volatility in equity prices, interest rates, bond yields, and foreign exchange rates. The duration and impact of the COVID-19 outbreak is unknown at this time, leading to a high degree of volatility and uncertainty that will likely impact worldwide financial markets beyond 2020.

## 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 Government of Newfoundland and Labrador 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.

### ASSET MIX POLICY

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

| Equities                 |     | Real Assets            |      |
|--------------------------|-----|------------------------|------|
| Canadian Equity          | 10% | Real Estate            | 7.5% |
| Global Equities          | 10% | Global Infrastructure  | 7.5% |
| Global Low Volatility    | 10% | <b>Absolute Return</b> |      |
| Global Small Cap         | 5%  | Hedge Funds            | 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%  |                        |      |

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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

#### 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 costs were as follows:

|                                                                    | 2020<br>(000s) | 2019<br>(000s) |
|--------------------------------------------------------------------|----------------|----------------|
| Direct expenses:                                                   |                |                |
| Investment management fees                                         | \$ 18,211      | \$ 18,048      |
| Custodian and transaction fees                                     | 871            | 766            |
| Investment consulting fees                                         | 169            | 312            |
| Actuarial consulting fees                                          | 362            | 515            |
| Other direct expenses                                              | 167            | 112            |
|                                                                    | 19,780         | 19,753         |
| Charges from Plan Administrator, Provident <sup>10</sup> (note 14) | 10,272         | 9,340          |
|                                                                    | \$ 30,052      | \$ 29,093      |

#### 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 at 31 December 2018.

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.

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 9. ACCRUED BENEFIT OBLIGATION

### (CONTINUED)

The major demographic assumptions used in the 2020 extrapolation have not changed from those used in the 2018 valuation. The 2020 assumption changes include a reduction in the discount rate from 6% to 5.85% and updated assumptions as it relates to terminations of active members. The economic assumptions used in 2019 had been updated to reflect a 0.25% reduction in the assumed level of annual inflation to 2.00%, with the same adjustments applied to the assumed rate of salary and YMPE escalation.

|                                                               | As of 31 December 2020                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | As of 31 December 2019                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|---------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Inflation                                                     | 2.00% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 2.00% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Post-retirement indexing<br>(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<br>(i.e. Discount Rate)        | 5.85% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 6.00% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| YMPE escalation (as defined<br>under the Canada Pension Plan) | 2.75% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | 2.75% per annum                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Retirement rates                                              | <p>For members who are grandparented or who qualify for early unreduced retirement by 31 December 2019:</p> <ul style="list-style-type: none"> <li>» 50% at earliest age they are entitled to unreduced pension.</li> <li>» The remainder at their normal retirement age (the earlier of 65 or 55 with 35 years of service).</li> </ul> <p>For all other members:</p> <ul style="list-style-type: none"> <li>» 57.5% at the earliest age they are entitled to unreduced pension.</li> <li>» The remainder at normal retirement age (the earlier of 65 or age 58 with 35 years of service).</li> </ul> <p>Members who have already reached early unreduced retirement age are assumed to retire at their normal retirement age.</p> | <p>For members who are grandparented or who qualify for early unreduced retirement by 31 December 2019:</p> <ul style="list-style-type: none"> <li>» 50% at earliest age they are entitled to unreduced pension.</li> <li>» The remainder at their normal retirement age (the earlier of 65 or 55 with 35 years of service).</li> </ul> <p>For all other members:</p> <ul style="list-style-type: none"> <li>» 57.5% at the earliest age they are entitled to unreduced pension.</li> <li>» The remainder at normal retirement age (the earlier of 65 or age 58 with 35 years of service).</li> </ul> <p>Members who have already reached early unreduced retirement age are assumed to retire at their normal retirement age.</p> |
| Mortality rates                                               | <p>CPM RPM 2014 Public<br/>(Sex Distinct)</p> <p>CPM Improvement Scale B</p> <p>Size adjustment factors of 1.08 for males and 1.01 for females</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | <p>CPM RPM 2014 Public<br/>(Sex Distinct)</p> <p>CPM Improvement Scale B</p> <p>Size adjustment factors of 1.08 for males and 1.01 for females</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

#### 10. OUTSTANDING TRANSACTION ALLOWANCE

As of 31 December 2019, all of the remaining 1364 outstanding requests were processed. The impact of these unprocessed requests had been estimated by the Plan's actuary based on the history of requests processed and taking into consideration the type of the outstanding requests. In 2019, the Plan removed the remaining estimated balance in the accrued benefit obligation of \$44 million and the related receivable of \$35 million which represented assets which were transferred to the Plan for pension buy back and transfers in from the Government Money Purchase Pension Plan or other reciprocal arrangements.

#### 11. CONTRIBUTIONS

|                      | 2020<br>(000s) | 2019<br>(000s) |
|----------------------|----------------|----------------|
| Employee:            |                |                |
| Current service      | \$ 165,502     | \$ 162,239     |
| Past service         | 5,920          | 7,479          |
| Reciprocal transfers | 27,802         | 31,258         |
|                      | \$ 199,224     | \$ 200,976     |

|                 | 2020<br>(000s) | 2019<br>(000s) |
|-----------------|----------------|----------------|
| Employer:       |                |                |
| Current service | \$ 165,516     | \$ 162,202     |
| Past service    | 2,260          | 3,216          |
|                 | \$ 167,776     | \$ 165,418     |



## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 12. PENSION PAYMENTS

|                             | 2020<br>(000s) | 2019<br>(000s) |
|-----------------------------|----------------|----------------|
| Retirement benefit payments | \$ 446,477     | \$ 422,855     |
| Disability benefit payments | 30,062         | 28,815         |
|                             | \$ 476,539     | \$ 451,670     |

### REFUND OF CONTRIBUTIONS

|                                  | 2020<br>(000s) | 2019<br>(000s) |
|----------------------------------|----------------|----------------|
| Termination benefit payments     | \$ 136,442     | \$ 126,726     |
| Transfers to other pension funds | 5,312          | 9,334          |
| Death benefit payments           | 5,870          | 6,997          |
|                                  | \$ 147,624     | \$ 143,057     |

## 13. 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 2020, the balance receivable is \$2.412 billion (2019 - \$2.457 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:

|      |          |
|------|----------|
| 2021 | \$47,464 |
| 2022 | \$50,312 |
| 2023 | \$53,331 |
| 2024 | \$56,530 |
| 2025 | \$59,922 |

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

## 14. RELATED PARTY TRANSACTIONS

### A) FIXED INCOME INVESTMENTS

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

| Description                                                                              | Cost      | 2020<br>Market<br>Value | Cost     | 2019<br>Market<br>Value |
|------------------------------------------------------------------------------------------|-----------|-------------------------|----------|-------------------------|
|                                                                                          | (000s)    | (000s)                  | (000s)   | (000s)                  |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 2 June 2028        | \$ 3,950  | \$ 3,950                | \$ 3,597 | \$ 3,653                |
| Province of Newfoundland and Labrador<br>Debentures - Series 6X maturing 17 October 2046 | 1,964     | 2,422                   | 1,964    | 2,233                   |
| Province of Newfoundland and Labrador<br>Debentures - Series 6Z maturing 2 June 2026     | 1,078     | 1,078                   | 1,346    | 1,370                   |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 17 October 2033    | 1,265     | 1,281                   | 1,265    | 1,187                   |
| Newfoundland and Labrador Hydro Debentures -<br>Series AF maturing 1 December 2045       | 589       | 589                     | 649      | 739                     |
| Province of Newfoundland and Labrador<br>Debentures - Series 7G maturing 2 June 2029     | 961       | 1,018                   | 629      | 615                     |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 17 October 2029    | 45        | 45                      | 59       | 58                      |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 17 October 2030    | 8         | 8                       | 11       | 11                      |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 2 June 2027        | 1,357     | 1,376                   | -        | -                       |
| Province of Newfoundland and Labrador<br>Debentures - Series maturing 2 June 2030        | 398       | 410                     | -        | -                       |
|                                                                                          | \$ 11,615 | \$ 12,177               | \$ 9,520 | \$ 9,866                |

## PUBLIC SERVICE PENSION PLAN

### NOTES TO FINANCIAL STATEMENTS

31 December 2020

#### 14. 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 2020 totalled \$10.3 million (2019 - \$9.3 million) and included certain direct expenses as well as costs charged to the Corporation by the Province including services for disbursement of pension payments.

#### 15. COMMITMENTS

The Plan has committed to invest in certain private equity and infrastructure funds which may be funded in accordance with agreed upon conditions over the next several years. As at 31 December 2020, the unfunded portion of these commitments totalled \$433.8 million (2019 - \$536.5 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 may be funded upon conditions over the next several years. As at 31 December 2020, the unfunded portion of these commitments totalled \$0.4 million (2019 - \$12.6 million). This investment is made through Greystone Mortgage Fund.



**Provident**<sup>10</sup>  
REST ASSURED