

Newfoundland and Labrador Future Fund

Annual Report

For the Period April 1, 2023 to March 31, 2024

Newfoundland and Labrador Future Fund

TREASURY MANAGEMENT DIVISION
DEPARTMENT OF FINANCE
CONFEDERATION BUILDING
P.O. BOX 8700
ST. JOHN'S, NL A1B 4J6

Honourable Siobhan Coady
Deputy Premier
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Coady:

As the Chair of the Board of Trustees responsible for the Newfoundland and Labrador Future Fund (NLFF), I am pleased to submit the 2023-24 Annual Report. The NLFF is a category 3 government entity, and in accordance with the **Transparency and Accountability Act** is required to prepare an annual activity report to present information on its activities of the preceding year. As such, the Board of Trustees is accountable for the preparation of this report and for the results reported therein.

The mandate of the Board of Trustees for the NLFF is to administer the fund established by the Government of Newfoundland and Labrador to strengthen finances, pay down debt and lower the cost of borrowing. During the 2023-24 fiscal year, the NLFF earned a net income of approximately \$11.4 million and an additional \$2.6 million in unrealized gains. This represents a 6.65 per cent annualized return on the fund equity. The NLFF ended the year with a value of \$300.5 million.

Sincerely,



Michelle Jewer, CPA, CA
Chair of the Board

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Overview

The Newfoundland and Labrador Future Fund (NLFF) was created pursuant to the **Future Fund Act** with the objective of strengthening the province's finances, reducing debt, and lowering borrowing costs. The Province has created the NLFF to allocate a portion of revenues from one-time sources, non-renewable resources, and net proceeds from the sale of tangible and intangible assets valued over \$5 million. These funds are intended to benefit future generations and to ensure the province's capability to adapt and support sustainable economic growth. The annual contributions to the NLFF are invested by the Board of Trustees. The NLFF operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Provincial Government's annual financial statements.

Mandate

The mandate of the Board of Trustees is to manage and control the operational activities of the NLFF. These activities include establishing investment policy, investment of funds and the monitoring of such. These funds are invested in accordance with the **Future Fund Act**, primarily in equities, bonds, debentures, or other securities issued or guaranteed by the Government of Canada, the government of a province of Canada, the government of a municipality of Canada, a corporation, or a chartered bank, with the goal of earning the maximum return from investment of the portfolio while ensuring security of the funds.

Board Representation and Accountability

The Board of Trustees is comprised of six members: three representatives from the Department of Finance; the Comptroller General; and two members

appointed by the Lieutenant Governor in Council - one senior public service official with expertise in environmental matters and one public representative appointed upon the recommendation of the Public Service Commission. As of March 31, 2024 the members of the Board and their positions are as follows:

Ms. Michelle Jewer
Deputy Minister
Department of Finance

Ms. Julie Moore
Comptroller General
Treasury Board Secretariat

Dr. Susan Squires
ADM, Environment
Department of Environment and
Climate Change

Mr. David Drover
ADM, Treasury Management and
Budgeting
Department of Finance

Mr. Thomas Nemec
Director, Treasury Management
Department of Finance

Mr. Kenneth Martin
Public Representative

Sources of Funding

The **Future Fund Act** requires Government contribute to the fund a portion of the non-renewable resource royalties received in a fiscal year as well as the net proceeds from a sale of assets exceeding \$5 million. Further details are provided in the **Future Fund Regulations**. Treasury Board is authorized to direct additional contributions as deemed appropriate. Contributions are invested and the earnings (i.e. interest, dividends, etc.), less an amount to cover administrative costs, are reinvested.

In 2023-24, the fund contributions amounted to \$129,401,250. This was in addition to the contribution of \$157,057,550 made on March 30, 2023.

The NLFF's day-to-day activities are managed by employees of the Department of Finance and the NLFF is invoiced by the Province for reimbursement of these expenses on a cost-recovery basis.

Operational Information

The NLFF earned a net income of approximately \$11.4 million during 2023-24. These earnings represent an annualized return of 6.65 per cent. Special purpose financial statements for the year ending March 31, 2024, are included in this report.

Contact information is as follows:

<u>Mailing Address</u>	<u>Office Location</u>
Newfoundland and Labrador Government Future Fund c/o Department of Finance Confederation Building East Block, Main Floor P. O. Box 8700 St. John's, NL A1B 4J6	Treasury Management Division Department of Finance Confederation Building East Block, Main Floor Telephone: (709) 729-3931 Fax: (709) 729-6790

Report on Performance

In accordance with the Board's mandate, the following objective was identified for the 2023-24 fiscal year, which focuses on the primary activities of establishing investment policy; and the investment and monitoring of funds.

Objective

By March 31, 2024, Board of Trustees will have ensured the prudent investment of the assets of the Newfoundland and Labrador Future Fund.

Indicator

The assets of the Newfoundland and Labrador Future Fund are prudently invested in accordance with the **Future Fund Act**, as evidenced by the completion of periodic reviews of reports to the Board of Trustees.

Results for 2023-24

The Board completed its review of an annual report which, in addition to financial results of the fund, highlighted the investing activity of the NLFF. This review ensured that the assets were prudently invested in accordance with the **Future Fund Act** and with the Board's mandate. With the new investment policy implemented, the transition to the asset allocation is ongoing.

Planned for 2024-25

The NLFF will report on the same objective and performance indicators for the 2024-25 fiscal year.

Opportunities and Challenges

The unpredictable nature of the investment market will continue to challenge the Board of Trustees to ensure that its investment strategy maximizes the rate of return earned on its investment portfolio, while at the same time protecting the security of fund. An inflationary economic recovery prompted hikes in policy rates that have improved fixed income yields, enhancing the income potential of the investment portfolio. The economic environment will be closely monitored, and adjustments will be made accordingly to ensure sustainable returns on the investments. Additionally, the continuation of equity approvals has expanded the holdings in this asset class, thereby allowing for greater portfolio diversification. The further diversification in the sub-asset allocation within fixed income has enhanced the portfolio's return and overall performance.

Financial Statements

Please see the attached financial statements for the year ended March 31, 2024.

These financial statements of the NLFF are the responsibility of management and have been prepared in accordance with the summary of significant accounting policies set out in note 1 to the financial statements to meet the information needs of the NLFF and the Government of Newfoundland and Labrador.

As the first contribution was made to the NLFF on March 30, 2023, these financial statements present the activity from March 30, 2023 to March 31, 2024

The Office of the Auditor General of Newfoundland and Labrador performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the NLFF's financial statements.

NEWFOUNDLAND AND LABRADOR
FUTURE FUND

FINANCIAL STATEMENTS
MARCH 31, 2024



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Newfoundland and Labrador Future Fund
St. John's, Newfoundland and Labrador

Opinion

I have audited the financial statements of the Newfoundland and Labrador Future Fund (the Fund), which comprise the statement of financial position as at March 31, 2024, the statements of revenues and expenses, contributions, retained earnings, cash flows, unrealized gains and losses, and schedule of investments at amortized cost for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at March 31, 2024, and the results of its operations and its cash flows for the period then ended in accordance with the accounting policies described in Note 1 of the financial statements.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the Fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter - Basis of Accounting and Restriction on Use

Without modifying my opinion, I draw attention to Note 1 to the financial statements, which describes the basis of accounting. These financial statements are prepared solely for the information of the Fund's board and the Government of Newfoundland and Labrador. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the use of the Fund and the Government of Newfoundland and Labrador and should not be used by anyone other than the specified users.

INDEPENDENT AUDITOR'S REPORT (CONT.)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

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

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

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 the accounting policies described in Note 1 of these financial statements, 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 Fund'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 Fund or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 auditor's report that includes my 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

INDEPENDENT AUDITOR'S REPORT

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 these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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 my 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 Fund'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 Fund's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Future Fund 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.

INDEPENDENT AUDITOR'S REPORT

I 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 I identify during my audit.



DENISE HANRAHAN, CPA, CMA, MBA, ICD.D
Auditor General

September 17, 2024
St. John's, Newfoundland and Labrador

Newfoundland and Labrador Future Fund
Statement of Financial Position
As at March 31, 2024

	\$
Assets	
Cash	87,200,549
Interest receivable	2,241,764
	<hr/>
	89,442,313
Investments at amortized cost (Schedule)	
Cost	181,514,086
Accumulated amortization of discounts and premiums	337,102
	<hr/>
	181,851,188
Investments at market value:	
Canadian Equities	29,259,646
Total Assets	<hr/> 300,553,147
Liabilities	
Accounts payable	<hr/> 61,762
Total Liabilities	<hr/> 61,762
Future Fund Equity	
Contributions from the Province of Newfoundland and Labrador	286,458,800
Unrealized gains	2,617,096
Retained earnings	11,415,489
	<hr/>
Total Future Fund Equity	300,491,385
Total Liabilities and Future Fund Equity	300,553,147

See accompanying notes

**Newfoundland and Labrador Future Fund
Statement of Revenues and Expenses
For the period ended March 31, 2024 (Note 4)**

	\$
Revenue	
Bank interest	7,912,462
Bond interest	2,820,785
Bond discount amortization	337,102
Dividends	<u>426,542</u>
	<u>11,496,891</u>
Expenses	
Salaries	60,416
Trading commissions	14,801
Safekeeping charges	5,871
Bank charges	<u>314</u>
	<u>81,402</u>
Net Income	<u>11,415,489</u>

See accompanying notes

**Newfoundland and Labrador Future Fund
Statement of Contributions
For the period ended March 31, 2024 (Note 4)**

\$

Balance: Beginning of Period

Contributions from the Province of
Newfoundland and Labrador

Statutory Contributions	236,458,800
Special Contributions	50,000,000
	<u>286,458,800</u>

Balance: End of Period

286,458,800

See accompanying notes

**Newfoundland and Labrador Future Fund
Statement of Retained Earnings
For the period ended March 31, 2024 (Note 4)**

\$

Balance: Beginning of Period

Net Income for the period 11,415,489

Balance: End of Period

11,415,489

See accompanying notes

**Newfoundland and Labrador Future Fund
Statement of Cash Flows
For the period ended March 31, 2024 (Note 4)**

\$

Cash flows from operating activities

Net income	11,415,489
Unrealized foreign exchange translation gain	133
Amortization of bond discounts and premiums	(337,102)
Change in non-cash working capital	<u>(2,180,002)</u>
Cash provided by operating activities	<u>8,898,518</u>

Cash flows from investing activities

Purchase of Fixed Income Investments	(181,514,086)
Purchase of Equity Investments	<u>(26,642,683)</u>
Cash used in investing activities	<u>(208,156,769)</u>

Cash flows from financing activities

Contributions from the Province of Newfoundland and Labrador	<u>286,458,800</u>
Cash provided by financing activities	<u>286,458,800</u>
Increase in cash	87,200,549
Cash beginning of period	<u>-</u>
Cash end of period	<u>87,200,549</u>

See accompanying notes

**Newfoundland and Labrador Future Fund
Statement of Remeasurement Gains and Losses
For the period ended March 31, 2024 (Note 4)**

Balance beginning of period	-
Increase in market value of equity investments	2,616,963
Unrealized foreign exchange translation gain	133
Total unrealized gains and losses	<u>2,617,096</u>
Amount recorded in net income for the year	-
Balance, end of period	<u>2,617,096</u>

See accompanying notes

Newfoundland and Labrador Future Fund
Schedule of Investments at Amortized Cost
As at March 31

2024

<u>Description</u>	Face Value or Par	Amortized Cost
Canadian		
Federal Bonds	28,000,000	28,016,053
Provincial Bonds	72,300,000	71,386,657
Municipal Bonds	21,300,000	21,410,778
Corporate Bonds	<u>62,000,000</u>	<u>61,037,700</u>
	183,600,000	181,851,188

See accompanying notes

NEWFOUNDLAND AND LABRADOR FUTURE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

Authority

The Province of Newfoundland and Labrador maintains a Future Fund into which proceeds from the following three sources are deposited: (1) net proceeds from the sale of any Crown asset or group of Crown assets with gross proceeds in excess of \$5,000,000, (2) the portion of non-renewable resource royalties received by the province in the previous fiscal year as determined in accordance with the Future Fund Regulations, and (3) any other contributions made at the discretion of Treasury Board. This is an unincorporated body formed under the Future Fund Act. All members of the Board, with the exception of one external member, are full-time employees of the Province. Two members of the Board are appointed by the Lieutenant-Governor in Council, while the other four are appointed based on their position held in accordance with the Future Fund Act.

The Fund is not subject to Provincial or Federal income taxes.

1. Basis of accounting

These special purpose financial statements have been prepared by the Fund in accordance with the summary of significant accounting policies set out below to meet the information needs of the Fund and the Government of Newfoundland and Labrador under the Future Fund Act.

Summary of significant accounting policies

These financial statements have been prepared on the accrual basis of accounting. Outlined below are the significant policies followed.

(a) Cash and cash equivalents

Cash and cash equivalents include balances with banks, and term deposits and short-term investments with original maturities of three months or less.

Term deposits and short-term investments are recorded at cost which approximates market value because of the short-term nature of the securities.

(b) Fixed Income Investment transactions

(i) Purchases: Investments are initially recorded at cost.

(ii) Amortization: Discounts and premiums are amortized using the effective interest method.

(iii) Sales: Sales of investments are at a negotiated selling price. Sales are recorded at the proceeds less the investment's average amortized cost, with any resulting gain or loss also recorded.

(iv) Redemptions: On occasion investments held in the Fund will be called for redemption by the issuer. In such instances, a gain or loss is recorded equal to the redemption proceeds less the investment's average amortized cost.

NEWFOUNDLAND AND LABRADOR FUTURE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

1. Basis of accounting (cont.)

Summary of significant accounting policies (cont.)

(c) Equity Investment Transactions

Equity Investments are initially recorded at cost and are subsequently measured at fair value at the period end date. Unrealized gains or losses are recorded on the statement of remeasurement gains and losses. When investments are disposed of, the realized gains or losses are recorded on the statement of revenues and expenses and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(d) Interest income

Interest income is recorded on an accrual basis. Income from investments is recorded when earned.

(e) Foreign currency translation

Assets, liabilities, revenues, and expenses denominated in U.S. currency are translated as follows:

- (i) assets and liabilities are translated at the rate of exchange in effect at the period end date; and
- (ii) revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the year, or an average of such.

Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of revenues and expenses, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

NEWFOUNDLAND AND LABRADOR FUTURE FUND

NOTES TO FINANCIAL STATEMENTS

March 31, 2024

2. Effect of foreign currency translation

At March 31, 2024, the Fund held \$87,200,549 in cash. This includes \$27,062 denominated in U.S. currency.

The Fund assets and liabilities denominated in U.S. currency are translated at the rate of exchange in effect at the period end date. The Fund's revenues and expenses are translated at the rate of exchange in effect on the dates on which such items are recognized in income during the year, or an average of such.

In 2024, the translation of assets denominated in U.S. currency at year end resulted in a net foreign exchange gain due to an increase in the value of the U.S. dollar.

3. Financial instruments

The Fund's short-term financial instruments recognized on the statement of financial position consist of cash, short-term investments, interest receivable, and accounts payable. The carrying values of these instruments approximate current fair value due to their nature and the short-term maturity associated with them.

The Fund holds long-term fixed income investments which have an amortized cost of \$181,851,188. The face value of these long-term investments is \$183,600,000. In 2024, the Fund purchased Canadian Equities which had a cost of \$ 26,642,683 and market value of \$29,259,646 at March 31, 2024.

4. Comparative figures

These financial statements represent the first year of operations for the Newfoundland and Labrador Future Fund, thus no comparative figures are presented. The first year of operations, as presented in these financial statements, reflects the period from March 30, 2023 to March 31, 2024.

5. Related party transactions

The Newfoundland and Labrador Future Fund is administered by employees of the Department of Finance. The salary costs of \$ 60,416 for these employees are paid by the Department of Finance, reimbursed by the Newfoundland and Labrador Future Fund, and are reflected in these financial statements. The Province of Newfoundland and Labrador has contributed \$286 million to the Newfoundland and Labrador Future Fund.