

Queen's Pension Plan

Quarterly Investment Report



December 2018

CAPITAL MARKETS

Returns on investments in the various markets can be measured against a series of well-established indices. Index returns (in C\$) for the 3-month and 12-month periods ending December 31, 2018 are as follows:

| | 3 Months (%) | 1 Year (%) |
|---------------------------------------|--------------|------------|
| S&P/TSX (Canadian Stocks) | -10.1 | -8.9 |
| MSCI World (Global Stocks ex Can Net) | -8.4 | -0.2 |
| FTSE TMX Universe (Canada Bonds) | 1.8 | 1.4 |
| 91 Day T-Bills (Treasury Bills) | 0.5 | 1.4 |

POLICY ASSET MIX

The policy asset mix has been developed by the Pension Committee of the Board of Trustees. This is a long-term strategy mix which is used as a "benchmark" when measuring performance.

The December 31, 2018 market value of the Queen's Pension Plan (QPP) is approximately \$2.0 billion and can be broken down as follows:

| Asset Class | Policy Mix (%) | Current Mix (%) |
|-----------------------------|----------------|-----------------|
| Canadian Equities | 20.0 | 18.3 |
| Global Equities (ex-Canada) | 33.0 | 33.9 |
| Fixed Income/Cash | 37.0 | 36.4 |
| Real Estate | 5.0 | 6.2 |
| Infrastructure | 5.0 | 5.2 |
| Cash & Other | 0.0 | 0.0 |

PERFORMANCE OF QPP

Relative to Other Pension Plans

The QPP returned -5.7% for the quarter and -2.5% for the full calendar year. The four-year return of 5.6% and the ten-year return of 8.7% were in line with the median of BNY Mellon's universe of Canadian pension funds. The quartile breaks for BNY Mellon's universe are as follows:

| | 3 Mo | 1 Yr | 4 Yr | 10 Yr |
|------------------------------|------|------|------|-------|
| 1 st Quartile (%) | -1.9 | 0.7 | 6.3 | 9.2 |
| Median (%) | -3.2 | -0.4 | 5.6 | 8.7 |
| 3 rd Quartile (%) | -4.3 | -1.1 | 5.1 | 8.0 |

Relative to the Benchmark

The fund's long-term performance has been strong, with its 15-year return outperforming the benchmark.

| | 3 Mo | 1 Yr | 4 Yr | 10 Yr | 15 Yr |
|-------------------|------|------|------|-------|-------|
| Fund Return (%) | -5.7 | -2.5 | 5.6 | 8.7 | 7.0 |
| Benchmark (%) | -4.4 | -0.7 | 5.3 | 7.9 | 6.4 |
| Excess Return (%) | -1.3 | -1.8 | 0.3 | 0.8 | 0.6 |

Note: returns for periods of one year and less are for the actual period; returns for four years, ten years, and fifteen years are annualized. Returns are reported gross of fees.

QUARTERLY COMMENTARY

- The Canadian equity market suffered a significant sell-off in Q4 with the S&P/TSX declining 10.1%, down 8.9% for the full year. Eight out of eleven sectors posted negative returns with Health Care (-35.3%) and Energy (-17.3%) being the worst performing sectors. Consumer Staples (+5.7%) performed the best. For 2018 as a whole, the top performing sector was Technology (+13.0%).

- The Bank of Canada increased its overnight rate by 25 basis points to 1.75% on October 24th. Despite this, the FTSE/TMX Canada Universe Bond Index advanced 1.8% as bond yields across the yield curve plummeted in December. The 2-year and 10-year yields decreased 35 and 46 basis points to 1.86% and 1.96%, respectively.

- U.S. equity markets fell throughout the quarter with the S&P 500 declining 13.5% in U.S. dollar terms (-4.4% for the full year). The U.S. Federal Reserve raised short-term rates by 25 basis points on December 19th to a range of 2.25-2.50%. Outside the U.S., major global equity markets posted negative returns. The Nikkei 225 delivered the worst return of -16.8% in local currency terms.

- Approximately 50% of the QPP's USD and Euro exposure is hedged to Canadian dollars. The Canadian dollar depreciated against the U.S. dollar in Q4, closing the quarter at 73.3 cents U.S., down 5.1% from the September 30, 2018 closing value of 77.3 cents U.S.