# New Brunswick Teachers' Pension Plan
# Financial Statements

December 31, 2016

KPMG LLP
Frederick Square
700-77 Westmorland Street
Fredericton NB E3B 6Z3
Telephone (506) 452-8000
Fax (506) 450-0072

One Factory Lane
PO Box 827
Moncton NB E1C 8N6
Telephone (506) 856-4400
Fax (506) 856-4499

133 Prince William Street
PO Box 2388 Stn Main
Saint John NB E2L 3V6
Telephone (506) 634-1000
Fax (506) 633-8828

# INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the New Brunswick Teachers' Pension Plan

We have audited the accompanying financial statements of New Brunswick Teachers' Pension Plan Fund (the Entity), which comprise the statements of financial position as at December 31, 2016 and December 31, 2015, the statements of changes in net assets available for benefits and changes in pension obligations for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plan, 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2016 and December 31, 2015, and the changes in its net assets available for benefits and the changes in its pension obligations for the years then ended in accordance with the basis of accounting Canadian accounting standards for pension plan.

KPMG LLP

Chartered Professional Accountants
June 26, 2017
Fredericton, Canada

**NEW BRUNSWICK TEACHERS' PENSION PLAN**
**Statements of Financial Position**
*(In thousands of Canadian dollars)*
**AS AT DECEMBER 31**

| | | 2016 | | 2015 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Investments *(notes 3 and 4)* | $ | 5,484,335 | $ | 5,320,061 |
| Contributions receivable from employers *(note 12)* | | 7,599 | | 7,295 |
| Contributions receivable from employees *(note 12)* | | 7,129 | | 1,706 |
| Other receivable | | 218 | | 8 |
| Total assets | | 5,499,281 | | 5,329,070 |
| **LIABILITIES** | | | | |
| Accounts payable and accrued liabilities *(note 12)* | | 2,208 | | 2,770 |
| Net assets available for benefits | | 5,497,073 | | 5,326,300 |
| Pension obligations (*note 6*) | | 5,229,100 | | 5,040,600 |
| **SURPLUS** | $ | 267,973 | $ | 285,700 |

*See accompanying notes to financial statements.*

Commitments *(note 13)*
Indemnification (*note 14*)

Approved on behalf of the Board of Trustees:

Larry Jamieson
Chairman

David Nowlan
Vice-Chair

## NEW BRUNSWICK TEACHERS' PENSION PLAN
**Statements of Changes in Net Assets Available for Benefits**
*(In thousands of Canadian dollars)*
**YEAR ENDED DECEMBER 31**

| | 2016 | 2015 |
|---|---|---|
| **INCREASE IN NET ASSETS** | | |
| Net investment income *(note 9)* | $ 328,189 | $ 422,159 |
| Employer pension contributions *(note 12)* | 74,608 | 71,674 |
| Employee pension contributions *(note 12)* | 60,516 | 60,278 |
| | 463,313 | 554,111 |
| **DECREASE IN NET ASSETS** | | |
| Pension benefits *(note 10)* | 280,238 | 275,800 |
| Refunds and transfers *(note 10)* | 2,472 | 3,059 |
| Administration expenses *(note 11)* | 9,830 | 10,434 |
| | 292,540 | 289,293 |
| **Increase in net assets available for benefits** | 170,773 | 264,818 |
| **NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR** | 5,326,300 | 5,061,482 |
| **NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR** | $ 5,497,073 | $ 5,326,300 |

*See accompanying notes to financial statements.*

## NEW BRUNSWICK TEACHERS' PENSION PLAN
**Statements of Changes in Pension Obligations**
*(In thousands of Canadian dollars)*
**YEAR ENDED DECEMBER 31**

| | 2016 | 2015 |
|---|---|---|
| **Pension obligations, beginning of year** | $ 5,040,600 | $ 4,763,100 |
| **Change in pension obligations:** | | |
| Losses from changes in actuarial assumptions | 207,900 | 174,500 |
| Interest accrued on benefits | 299,700 | 295,200 |
| Experience gains | (133,000) | — |
| Normal actuarial cost | 96,600 | 86,700 |
| Benefits paid | (282,700) | (278,900) |
| | 188,500 | 277,500 |
| **Pension obligations, end of year** | $ 5,229,100 | $ 5,040,600 |

*See accompanying notes to the financial statements.*

**AS AT AND FOR THE YEAR ENDED DECEMBER 31, 2016**

## 1. Description of the Pension Plan

The following description is intended as a summary only. For complete information, reference should be made to the plan text.

On July 1, 2014, the defined benefit pension plan created by the *Teachers' Pension Act* ("TPA") was repealed and converted to the New Brunswick Teachers' Pension Plan (the "NBTPP" or "Plan") pursuant to the *Teachers' Pension Plan Act* (the "TPPA" or "Act") of New Brunswick. The NBTPP is governed by a Board of Trustees consisting of an equal number of individuals appointed by the Province of New Brunswick, as employer, and representatives appointed by the New Brunswick Teachers' Federation.

The primary purpose of the NBTPP is to provide pensions to eligible teachers after retirement and until death in respect of their service as teachers, and their survivors. A further purpose is to provide secure pension benefits to teachers without an absolute guarantee but with a risk-focused management approach delivering a high degree of certainty that full lifetime pensions will be payable in the vast majority of potential future economic scenarios.

All members of the TPA became members of the NBTPP. A future employee will become a member of the NBTPP on the first date of employment as a teacher.

Employee contribution rates of 7.3% of eligible earnings up to the Yearly Maximum Pension Entitlement ("YMPE") and 9.0% of eligible earnings in excess of the YMPE increased to 8.5% of eligible earnings up to the YMPE and 10.2% of eligible earnings in excess of the YMPE respectively, effective July 1, 2014. Each contribution rate will increase by 0.5% respectively each July 1st until July 1, 2017, where the rates of 10.0% of eligible earnings up to the YMPE and 11.7% of eligible earnings in excess of the YMPE will remain in place until July 1, 2029. These rates are subject to adjustment as may be required under the limitations imposed by the Funding Policy from time to time.

Previously, the employer contributions were equal to the employees' contributions plus special payments as determined by an actuary. For the five years commencing July 1, 2014, the employer contribution rates are 11.5% up to the YMPE and 13.2% above the YMPE, subject to adjustment as may be required under the limitations imposed by the Funding Policy. For the next five years commencing July 1, 2019, the employer contribution rates will be 10.75% up to the YMPE and 12.45% above the YMPE, subject to adjustment under the Funding Policy. For the subsequent five years commencing July 1, 2024, the employer contribution rates will be 10.0% up to YMPE and 11.7% above the YPME, subject to adjustment under the Funding Policy.

On July 1, 2029, the required contribution amounts for teachers and the employers shall be equal. The contribution amounts shall be determined based on the average contribution rate produced by the formula of: (i) 9.25% of eligible earnings up to the YMPE and 10.95% of eligible earnings above the YPME for teachers who are plan members at the time, and (ii) 9.75% of earnings.

Pension benefits vest on the earliest of: (i) five years of employment as a teacher; (ii) two years of pensionable service; or (iii) two years of membership in the NBTPP and TPA. The normal retirement date is the first of the month following the later of attaining age 65 or the vesting date. Early retirement may be taken at the earliest of age 55 or 35 years of pensionable service or the sum of age plus years of pensionable service reaches 80 points (84 if the member became a teacher after July 1, 2014).

**1. Description of the Pension Plan *(continued)***

A member's annual normal retirement pension ("lifetime pension") is equal to the sum of:

A. In respect of service before July 1, 2014, the product of:

(i) the number of years of the member's pensionable service before July 1, 2014, and

(ii) 1.3% of the annual average of the best five consecutive years of earnings at July 1, 2014, up to the annual average YMPE for 2014, 2013 and 2012, plus 2% of the excess of the annual average of the best five consecutive years of earnings at July 1, 2014 over the annual average YMPE for 2014, 2013 and 2012;

And

B. In respect of service from July 1, 2014, the sum of (i) and (ii) for each calendar year (or prorated for a portion thereof):

(i) 1.3% of the member's annualized earnings for the calendar year, up to the YMPE for the calendar year; and

(ii) 2.0% of the portion of the member's annualized earnings for the calendar year that are in excess of the YMPE for the calendar year.

Pensions accrued above are subject to regular indexing every January 1$^{st}$ following July 1, 2014 equal to 100% of the increase in the Consumer Price Index (CPI) (subject to a maximum of 4.75%) while the teacher is active, and equal to 75% of CPI (subject to a maximum of 4.75%) after the teacher's termination of employment, and contingent on the NBTPP's financial condition as outlined in the Funding Policy.

The normal form of pension is a pension payable in equal monthly instalments commencing on the member's pension commencement date and continuing throughout the lifetime of the member. For a member with a spouse or common-law partner at the time of the member's death, 50% of the member's pension (before application of reductions for early retirement) continues to such spouse or common-law partner. Should the member have dependent children at the time of his/her death, such dependent children may be entitled to a pension if there is no spouse or common-law partner or after the death of such spouse or common-law partner. A minimum amount of pension equal to the member's contributions with interest to retirement will be payable in total. Optional forms of pension are also available on an actuarially equivalent basis.

Early retirement is permitted as of the earliest of age 55, or 35 years of pensionable service or the age at which the member reaches 80 points (or 84 points if the member became a teacher after July 1, 2014).

On early retirement, an annual bridge benefit is payable in addition to the lifetime pension. The annual bridge benefit is payable to age 65 or to the death of the member, if earlier, and is equal to the sum of:

A. In respect of service before July 1, 2014, the product of:

(i) the number of years of the member's pensionable service before July 1, 2014, and

(ii) 0.7% of the annual average of the best five consecutive years of earnings at July 1, 2014 up to the annual average YMPE for 2014, 2013 and 2012;

And

B. In respect of service from July 1, 2014, for each calendar year (or prorated for a portion thereof), 0.7% of the member's annualized earnings for the calendar year up to the YMPE for the calendar year.

**1. Description of the Pension Plan *(continued)***

The portions of the lifetime pension and bridge benefit accrued for service up to July 1, 2014 are unreduced if the pension and bridge commence payment upon or after fulfillment of one of the following criteria:

- Achievement of the 87 points rule (age plus years of pensionable service)
- Age 60 and 20 years of pensionable service
- 35 years of pensionable service
- Age 65, with 5 years of continuous service or 2 years of pensionable service or plan membership.

If payment commences before any of these criteria are met, the normal retirement pension and bridge benefit shall each be reduced by 5/12% per month that the pension and bridge commencement date precedes the first day of the month in which the criterion is met.

The portions of the lifetime pension and bridge benefit accrued for service on and after July 1, 2014 are reduced by 5/12% per month that the pension and bridge commencement date precedes the first day of the month following the first of the following events:

- Achievement of the 91 points rule
- Age 62 and 20 years of pensionable service
- 35 years of pensionable service
- Age 65, with 5 years of continuous service or 2 years of pensionable service or plan membership.

If a member terminates employment or dies prior to achieving 5 years of continuous service or 2 years of pensionable service or plan membership, the member is entitled to a refund of the total amount of his/her contributions to the NBTPP and the TPA, if any, with interest.

If a member terminates employment before age 55 but after achieving 5 years of continuous service or 2 years of pensionable service or plan membership, the member may elect to receive:

i. A deferred lifetime pension payable from the normal retirement date equal to the accrued pension to which the member is entitled as at his/her date of termination in accordance with the formula specified above for the normal retirement pension; or

ii. To transfer the termination value calculated in accordance with the TPPA, to a registered retirement savings arrangement as allowed under the *Pension Benefits Act*.

**2. Significant Accounting Policies**

*(a) Basis of presentation*

These financial statements have been prepared in accordance with Canadian accounting standards for pension plans in Part IV of the Chartered Professional Accountants' (CPA) of Canada Handbook They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal year but they do not portray the funding requirements of the Plan *(note 7)* or the benefit security of individual plan members.

These financial statements have been prepared on a calendar year basis to conform with the Fund's deemed tax year end. These financial statements present the financial position, the changes in net assets available for benefits and the changes in pension obligations for the year ended December 31, 2016 with comparative information for the year ended December 31, 2015.

**2. Significant Accounting Policies *(continued)***

All investment assets and liabilities are measured at fair value in accordance with International Financial Reporting Standards (“IFRS”) 13, *Fair Value Measurements.* In selecting or changing accounting policies that do not relate to its investment portfolio, Canadian accounting standards for pension plans require the Plan to comply on a consistent basis with either IFRS in Part I of the CPA Handbook or with Canadian accounting standards for private enterprises in Part II of the CPA Handbook. The Plan has chosen to comply on a consistent basis with IFRS.

These financial statements have been prepared in accordance with the significant accounting policies set out below. These financial statements were authorized for issue by the Board of Trustees on June 26, 2017.

*(b) Basis of measurement*

These financial statements have been prepared on the historical cost basis except for investments, which are measured at fair value through the Statement of Changes in Net Assets Available for Benefits.

*(c) Financial instruments*

(i) Classification, recognition and measurement

Financial assets and financial liabilities are initially 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. A financial asset or liability is measured initially at fair value. Transaction costs are recognized in the Statement of Changes in Net Assets Available for Benefits as incurred.

Financial assets on initial recognition are required to be classified as measured at amortized cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL) according to the business model used for managing them and their contractual cash flow characteristics. Financial liabilities are classified as measured at 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. The information considered includes:

- the stated policies and objectives and the operation of those policies in practice. In particular, whether strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of assets;

**2. Significant Accounting Policies *(continued)***

*(c) Financial instrument (continued)*

- how performance is evaluated and reported;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Plan's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

All investments consist of units of the NBIMC Pooled Funds. The investments are managed and their performance is evaluated on a fair value basis. As such, the Plan classifies all investments as FVTPL with changes in the fair value being recognized in net investment income in through the Statement of Changes in Net Assets Available for Benefits.

The fair value of each investment in units of the NBIMC Pooled Funds is based on the calculated daily net asset value per unit multiplied by the number of units held, and represents the Plan's proportionate share of the underlying net assets at fair values determined using closing market prices.

The underlying investments held in the NBIMC Pooled Funds are valued at fair value as of the date of the financial statements. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the NBIMC Pooled Funds have access at that date.

The fair value of the underlying securities in the NBIMC Pooled Funds that are traded in active markets (such as exchange-traded derivatives, debt and equity securities) are based on quoted market prices at the close of trading on the reporting date.

If there is no quoted price in an active market, then the NBIMC Pooled Funds use valuation techniques that maximize the use of the relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Certain of the Plan's financial assets and financial liabilities such as contributions and other receivables and accounts payable and accrued liabilities are subsequently measured at amortized cost, which is the cost at initial recognition, minus any reduction for impairment. The carrying amount of these assets and liabilities approximates fair value due to their short settlement period. At the reporting date, the Plan assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Plan recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows.

**2. Significant Accounting Policies *(continued)***

*(c) Financial instruments (continued)*

(ii) Derecognition

The Plan derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or are transferred in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred.

On derecognition of a financial asset, the difference between the carrying amount of the asset and the consideration is recognized in the Statement of Changes in Net Assets Available for Benefits as net investment income.

The Plan derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

*(d) Pension obligations*

The pension obligations recognized in the Statement of Financial Position are the actuarial present value of accrued pension benefits determined by using the accrued benefit (or unit credit) actuarial cost method in accordance with the requirement of paragraph 14(7)(a) of Regulation 2012-75 under the Act and actuarial assumptions which reflect management's best estimate for the future.

*(e) Functional and presentation currency*

The financial statements are presented in Canadian dollars, which is the functional currency of the Plan.

*(f) Use of estimates and judgments*

The preparation of the Plan's financial statements requires judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the Statement of Financial Position. Significant estimates and judgments are required in determining the reported estimated fair value of private investments, which are included in the underlying investments held in the NBIMC Pooled Funds and the measurement of pension obligation, since these determinations may include estimates of expected future cash flows, rates of return, rate of retirement, mortality, rates in termination, discount rates and the impact of future events. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future years affected.

*(g) Taxes*

The Plan is a Registered Pension Plan as defined in the *Income Tax Act* (Canada) and is not subject to income taxes.

*(h) Contributions*

Contributions from the employers and pension plan members are recorded in the period that payroll deductions are made.

*(i) Net investment income*

Investment transactions are recognized by the underlying NBIMC Pooled Funds as of their trade date. Net investment income includes interest, dividends, and realized and unrealized gains and losses in the value of the units held in each of the NBIMC Pooled Funds.

## 2. Significant Accounting Policies *(continued)*

*(j) Foreign currency translation*

Monetary assets and liabilities denominated in foreign currencies held by the NBIMC Pooled Funds are translated at the prevailing rates of exchange at the date of the Statement of Financial Position. Investment income and expenses are translated at the exchange rates prevailing on the transaction date. Realized and unrealized exchange gains and losses are included in net investment income.

## 3. Investments

The Plan invests in certain pooled unit trust funds established by Vestcor Investment Management Corporation (VIMC) (formerly New Brunswick Investment Management Corporation (NBIMC)), the investment manager for the Plan. Each of the NBIMC Pooled Funds has a specific investment mandate. Investing in the NBIMC Pooled Funds enables the Plan to achieve its required asset class weights in accordance with its Statement of Investment Policies ("SIP"). Following is a description of each NBIMC Pooled Fund in which an interest is held by the Plan during the year ended December 31, 2016:

*NBIMC Nominal Bond Fund*

This fund invests primarily in investment grade bonds (a minimum of triple-B rated by a major rating agency) of G-7 countries and Canadian provinces paying a nominal rate of interest. The performance objective is to add 20 basis points to its benchmark, the FTSE TMX Canada All Government Bond Index, over a four-year rolling average.

*NBIMC Corporate Bond Fund*

This fund invests primarily in investment grade corporate bonds (a minimum of triple-B rated by a major rating agency) paying a nominal rate of interest. The performance objective is to add 20 basis points to its benchmark, the FTSE TMX All Corporate Bond Index, over a four-year rolling average.

*NBIMC New Brunswick Fixed Income Opportunity Fund*

This fund invests primarily in fixed income issued to finance economic activity in New Brunswick. The performance objective is to add 20 basis points to its benchmark, the FTSE TMX Canada All Government Bond Index, over a four-year rolling average.

*NBIMC Money Market Fund*

This fund invests primarily in fixed income securities having a maturity of less than one year. The performance objective is to add 20 basis points to its benchmark. The benchmark is calculated as 93% of the FTSE TMX Canada 91 Day T-Bill Index and 7% of the One-day Canadian Call Loan Rate.

*NBIMC Student Investment Fund*

This fund is managed by students at the University of New Brunswick who are registered in the Student Investment Fund Program. Its initial capital of $1 million, funded in 1998, has been invested using the same general investment policies and guidelines as are used by VIMC. The overall benchmark for this fund is composed of 50% S&P/TSX60 Total Return Index, 45% FTSE TMX Canada All Government Bond Index, 4.65% FTSE TMX Canada 91 Day T-Bill Index and 0.35% One-day Canadian Call Loan Rate. VIMC staff closely monitor the activities of this fund, including executing and processing all transactions on behalf of the students.

**3. Investments *(continued)***

*NBIMC Canadian Equity Index Fund*

This fund invests in physical securities and derivative strategies to gain exposure to various segments of the S&P/TSX Composite Index. Leverage on derivative products is avoided by ensuring each derivative product is supported by an appropriate value of short-term investments. The performance objective is to match the return of the S&P/TSX Total Return Composite Index over four-year rolling periods.

*NBIMC Low Volatility Canadian Equity Fund*

This fund actively invests in securities to gain exposure to the MSCI Canada Minimum Volatility Total Return Index, Gross. The objective is to achieve a long-term rate of return equivalent to this index, net of fees, on an annualized four-year rolling average.

*NBIMC External Canadian Equity Fund*

This fund is managed by external managers and invests in publicly traded Canadian equities. The performance objective is to add 150 basis points to its benchmark, the S&P/TSX Total Return Composite Index, over a four-year rolling average.

*NBIMC Canadian Equity Active Long Strategy Fund*

This fund seeks to add value through prudent selection of individual securities and sector allocations through overweighting and underweighting of the index. The performance objective is to add 150 basis points to its benchmark, the S&P /TSX Total Return Composite Index.

*NBIMC External International Equity Fund*

This fund is managed by external managers and invests in publicly traded equities in markets in Europe, Australasia and the Far East (EAFE). The performance objective is to add 150 basis points net of fees to its benchmark, the MSCI EAFE Total Return Index in $C, Net, over a four-year rolling average.

*NBIMC EAFE Equity Index Fund*

This fund invests in securities in the MSCI EAFE Total Return Index in $C, Net. The performance objective is to add 20 basis points net of fees to its benchmark, the MSCI EAFE Total Return Index in $C, Net, over a four-year rolling average.

*NBIMC Low Volatility International Equity Fund*

This fund actively invests in securities in the MSCI EAFE Minimum Volatility (USD) Total Return Index, Net. The objective is to achieve a long-term rate of return equivalent to this index, net of fees, on an annualized four-year rolling average.

*NBIMC Low Volatility Emerging Markets Equity Fund*

This fund was created on February 18, 2015 to actively invest in securities in the MSCI Emerging Markets Minimum Volatility (USD) Total Return Index in $C, Net. The objective is to achieve a long-term rate of return equivalent to this index, net of fees, on an annualized four-year rolling average.

**3. Investments *(continued)***

*NBIMC U.S. Equity Index Fund*

This fund passively invests in physical securities and derivatives to gain exposure to the S&P 500 Index. Leverage on derivative products is avoided by ensuring each derivative product is supported by an appropriate value of short-term investments. The performance objective is to match the return of the S&P 500 Total Return Index in $C.

*NBIMC Low Volatility U.S. Equity Fund*

This fund actively invests in securities to gain exposure to the MSCI USA Minimum Volatility (USD) Total Return Index in $C, Net. The objective is to achieve a long-term rate of return equivalent to this index, net of fees, on an annualized four-year rolling average.

*NBIMC Inflation-Linked Securities Fund*

This fund invests primarily in fixed income instruments that are adjusted for inflation of G-7 countries. The performance objective is to add 10 basis points to its benchmark, the FTSE TMX Canada Real Return Bond Index, over a four-year rolling average.

*NBIMC Canadian Real Estate Fund*

This fund invests in private Canadian real estate investments, directly through a wholly owned subsidiary, NBIMC Realty Corp., or indirectly through limited partnerships or similar investment vehicles. The benchmark is inflation, as measured by the percentage change in the twelve-month average CPI-Canada All Items Index, plus 4%.

*NBIMC Canadian Real Estate Investment Trust Fund*

This fund invests in publicly-traded Canadian real estate investment trust securities. The performance objective is to match the return of the S&P/TSX Capped REIT Total Return Index.

*NBIMC Non-Canadian Private Real Estate Fund*

This fund invests in private non-Canadian real estate investments directly or indirectly through limited partnerships or similar investment vehicles. The benchmark is inflation, as measured by the percentage change in the twelve-month CPI-Canada All Items Index, plus 4%.

*NBIMC International Real Estate Fund*

This fund is managed by an external manager that invests primarily in publicly traded securities of international Real Estate Investment Trusts (REITs). The performance objective is to add 150 basis points to the countries' blended REIT Equity Indices in $C, net of fees, over the long-term.

*NBIMC Public Infrastructure Fund*

This fund was created on April 27, 2015 to provide additional investment diversification by providing infrastructure-like exposure with enhanced liquidity. The benchmark is inflation, as measured by the percentage change in the twelve-month average CPI-Canada All Items Index, plus 4%.

*NBIMC Infrastructure Fund*

This fund was created to provide additional investment diversification through direct investment in infrastructure through co-investment structures. The performance objective is to achieve a 4% real rate of return over a long-term investment horizon.

**3. Investments *(continued)***

*NBIMC North American Market Neutral Fund*

This fund focuses on adding value through security selection within its universe of the S&P/TSX Total Return Composite Index as well as certain publicly traded US-listed stocks. Favored securities are purchased and offset by a corresponding short position in another security within the same sector. The portfolio is supported by a cash underlay and its performance objective is to add 350 basis points annually over a four-year moving average basis to its benchmark. The benchmark is calculated as 93% of the FTSE TMX Canada 91 Day T-Bill Index and 7% of the One-day Canadian Call Loan Rate.

*NBIMC Quantitative Strategies Fund*

This fund seeks to add value by investing in either long or short positions where announced mergers or dual class share structures present arbitrage potential. Short positions are supported by cash underlay. The objective is to add 350 basis points over its benchmark. The benchmark is calculated as 93% of the FTSE TMX Canada 91 Day T-Bill Index and 7% of the One-day Canadian Call Loan Rate.

*NBIMC Quantitative Equity Strategic Beta Fund*

This fund was created on April 26, 2016 to add value by investing in either long or short positions, primarily in equities in the MSCI ACWI Index. Short positions are supported by cash underlay. The objective is to add 350 basis points over its benchmark. The benchmark is calculated as 93% of the FTSE TMX Canada 91 Day T-Bill Index plus 7% One-day Canadian Call Loan Rate.

*NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund*

This fund invests in public and private equities or instruments convertible into equities of New Brunswick and Atlantic Canada companies. The performance objective is to achieve a 4% real rate of return over a long-term investment horizon.

*NBIMC Private Equity Fund*

This fund is managed by external managers that invest primarily in non-publicly traded securities of U.S. and European companies. The performance objective is to exceed the performance of its benchmark, a blend of the respective countries' total return indices in $C.

*NBIMC Asset Mix Strategy Fund*

This fund was created on June 26, 2015 to add value through active asset mix decisions by the VIMC's internal Asset Mix Strategy Committee. The objective is to add 10 basis points of absolute return.

## 3. Investments *(continued)*

Following are details of NBIMC Pooled Fund holdings as at December 31:

| *($ thousands)* | **Number of Units** *(rounded)* | **Unit Value** *(in dollars)* | **Fair Value 2016** | **Fair Value 2015** |
|---|---|---|---|---|
| **Fixed Income** | | | | |
| NBIMC Nominal Bond Fund | 309,121 | 2,623 | $ 810,957 | $ 784,232 |
| NBIMC Corporate Bond Fund | 694,884 | 1,243 | 863,624 | 830,810 |
| NBIMC New Brunswick Fixed Income Opportunity Fund | 1,832 | 3,189 | 5,844 | 6,368 |
| NBIMC Money Market Fund | 45,660 | 1,609 | 73,458 | 92,256 |
| NBIMC Student Investment Fund | 528 | 3,428 | 1,811 | 1,641 |
| | | | 1,755,694 | 1,715,307 |
| **Equities** | | | | |
| NBIMC Canadian Equity Index Fund | 87,193 | 3,423 | 298,435 | 298,914 |
| NBIMC Low Volatility Canadian Equity Fund | 174,578 | 1,567 | 273,509 | 262,557 |
| NBIMC External Canadian Equity Fund | 18,402 | 4,070 | 74,891 | 63,039 |
| NBIMC Canadian Equity Active Long Strategy Fund | 45,531 | 1,367 | 62,245 | 67,857 |
| NBIMC External International Equity Fund | 47,959 | 2,080 | 99,749 | 102,558 |
| NBIMC EAFE Equity Index Fund | 171,027 | 1,427 | 243,985 | 222,439 |
| NBIMC Low Volatility International Equity Fund | 181,976 | 1,954 | 355,533 | 347,527 |
| NBIMC Low Volatility Emerging Markets Equity Fund | 174,053 | 948 | 164,950 | 158,828 |
| NBIMC U.S. Equity Index Fund | 137,093 | 2,656 | 364,182 | 347,387 |
| NBIMC Low Volatility U.S. Equity Fund | 139,735 | 2,655 | 371,004 | 359,994 |
| | | | 2,308,483 | 2,231,100 |
| **Inflation-Linked Assets** | | | | |
| NBIMC Inflation-Linked Securities Fund | 77,151 | 3,609 | 278,428 | 268,933 |
| NBIMC Canadian Real Estate Fund | 35,053 | 4,281 | 150,048 | 122,965 |
| NBIMC Canadian Real Estate Investment Trust Fund | 20,876 | 1,245 | 25,982 | 92,517 |
| NBIMC Non-Canadian Private Real Estate Fund | 10,205 | 937 | 9,566 | 8,713 |
| NBIMC International Real Estate Fund | 5,194 | 7,577 | 39,358 | 140,243 |
| NBIMC Public Infrastructure Fund | 126,498 | 1,039 | 131,388 | 11,989 |
| NBIMC Infrastructure Fund | 55,326 | 1,531 | 84,710 | 59,220 |
| | | | 719,480 | 704,580 |
| **Alternative Investments** | | | | |
| NBIMC North American Market Neutral Fund | 89,386 | 1,338 | 119,578 | 140,982 |
| NBIMC Quantitative Strategies Fund | 122,714 | 1,431 | 175,651 | 283,874 |
| NBIMC Quantitative Equity Strategic Beta Fund | 138,362 | 1,035 | 143,198 | — |
| NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund | 2,885 | 5,026 | 14,503 | 14,185 |
| NBIMC Private Equity Fund | 77,494 | 2,959 | 229,341 | 224,505 |
| | | | 682,271 | 663,546 |
| **Tactical Asset Allocation** | | | | |
| NBIMC Asset Mix Strategy Fund | 16,203 | 1,136 | 18,407 | 5,528 |
| | | | $ 5,484,335 | $ 5,320,061 |

**4. Fair Value of Financial Instruments**

Investments are valued at fair value with changes in fair values over time recognized in net investment income.

The determination of fair value is dependent upon the use of measurement inputs with varying degrees of subjectivity. The level of subjectivity can be classified and is referred to as the fair value hierarchy. The fair value hierarchy levels are:

**Level 1 –** Quoted market prices in active markets. This is considered to be the most reliable input for fair value measurement. A financial instrument is regarded as quoted in an active market if quoted prices are readily or regularly available from an exchange or prices represent actual and regularly occurring market transactions on an arm's length basis.

**Level 2** – Inputs (other than quoted prices included within Level 1) that are observable for the investment, either directly or indirectly. These inputs include quoted prices for similar investments in active markets, quoted prices for identical or similar investments in markets that are not active, and inputs other than quoted prices that are observable for the investment. These are inputs that are derived principally from, or corroborated by, observable market data by correlation or other means.

**Level 3 –** Inputs that are unobservable that are used to measure fair value when observable inputs are not available. Unobservable inputs reflect subjective assumptions that market participants may use in pricing the investment.

The units held in each of the NBIMC Pooled Funds are classified as a Level 2 investment since the units are priced based on each pooled fund net asset value, which is observable, but the units are not traded in an active market.

**5. Financial Instrument Risk Management**

Financial instruments are exposed to risks such as market, interest rate, credit and liquidity risk.

(a) Market Risk: Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual investment or factors affecting all securities traded in the market. Market risk includes foreign currency risk, interest rate risk and pricing risk among others. The principal level for managing market risk is to invest in widely diversified countries, sectors and issuers. The Plan holds investments in NBIMC Pooled Funds that invest in active and passive investment strategies and are diversified among domestic and international markets.

Investment strategies used by the NBIMC Pooled Funds may involve the use of financial derivatives such as forward foreign exchange contracts or total return swaps. Investment strategies also include "market neutral" strategies whereby an investment in a long position in one stock is matched with a short position in another stock, typically within the same industry sector. With the limited exception of prudent financing for investments in real property, the Statement of Investment Policies (SIP) (*note 8*) precludes the use of leverage in the investment portfolio. Accordingly, to the extent that there is market exposure from derivative investments and short positions, each NBIMC Pooled Fund will hold cash underlay equal to the amount of market exposure. Market neutral strategies help to mitigate market risk through adherence to maximum investment limits and stop-loss constraints, and have a lower correlation to broad market indices.

**5. Financial Instrument Risk Management *(continued)***

VIMC conducts certain of its investment activities in the NBIMC Pooled Funds on behalf of the Plan by trading through broker channels on regulated exchanges and in the over-the-counter market. Brokers typically require that collateral be pledged against potential market fluctuations when trading in derivative financial instruments or when shorting security positions. As at December 31, 2016, the fair value of the Plan's underlying securities that have been deposited or pledged with various financial institutions as collateral or margin on account was $222,747 (2015 - $222,665) *(see note 5(c))*.

Foreign currency risk arises from holding investments denominated in currencies other than the Canadian dollar. All of the Plan's investments in the NBIMC Pooled Funds are in Canadian dollar denominated units; however, certain of the NBIMC Pooled Funds invest in assets denominated in foreign currencies or domiciled in foreign jurisdictions. The SIP permits hedging of foreign currency exposure at the portfolio manager's discretion. Approximately 35.3% (2015 – 35.6%) of the Plan's underlying investments are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the U.S. dollar of 19.7% (2015 – 20.3%) and the Euro of 4.2% (2015 – 4.2%).

A 1% absolute increase or decrease in the value of the Canadian dollar against all currencies with all other variables held constant would result in an approximate decrease or increase in the value of the net investment assets at December 31, 2016 of $19,470 (2015 – $18,947).

Interest rate risk refers to the effect on the market value of investments due to fluctuation of interest rates. The Plan invests in certain NBIMC Pooled Funds that invest in fixed income securities whose fair values are sensitive to interest rates. The SIP requires VIMC to adhere to guidelines on duration and yield curve, which are designed to mitigate the risk of interest rate volatility.

If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the net investment assets at December 31, 2016 would be approximately $171,353 (2015 – $161,592).

Pricing risk is the risk that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the NBIMC Pooled Funds. If equity market price indices declined by 1%, and all other variables are held constant, the potential loss at December 31, 2016 would be approximately $25,375 (2015 – $23,628).

**5. Financial Instrument Risk Management *(continued)***

(b) Credit Risk: The Plan is exposed to credit-related risk in the event that an NBIMC Pooled Fund investment in a derivative or debt security counterparty defaults or becomes insolvent. VIMC has established investment criteria which are designed to manage credit risk by establishing limits by issuer type and credit rating for fixed income and derivative credit exposure. VIMC monitors these exposures monthly. Such derivative and short and long-term debt securities are restricted to those having investment grade ratings, as provided by a third party rating agency. In addition, each counterparty exposure is restricted to no more than 5% of total assets. Investment grade ratings are BBB and above for longer term debt securities and R-1 for short-term debt. Any credit downgrade below investment grade is subject to review by the Board of Trustees.

The quality of the aggregate credit exposure in the underlying NBIMC Pooled Funds at December 31 is as follows:

| *($ thousands)* | **2016** | **2015** |
|---|---|---|
| AAA | $ 608,891 | $ 557,817 |
| AA | 564,293 | 586,160 |
| A | 744,266 | 687,114 |
| BBB | 272,511 | 237,680 |
| R-1 | 185,542 | 154,673 |
| Other | 38,270 | 24,306 |
| | $ 2,413,773 | $ 2,247,750 |

The highest concentration of credit risk at each year end is with Government of Canada bonds.

(c) Liquidity Risk: Liquidity risk is the risk of not having sufficient funds available to meet cash demands. Sources of liquidity include pension contributions collected from the employers and employees as well as redemption of units in NBIMC Pooled Funds. Uses of liquidity include payments to the plan beneficiaries, plan service providers and purchases of units of the NBIMC Pooled Funds.

The Plan's asset mix is specifically designed to ensure that sufficient liquid assets are available to meet pension benefit obligations as they are required. Other than cash, treasury bills and bankers' acceptances, the most liquid asset class is government bonds whereas privately-held debt, equity, real estate and infrastructure investments are considered highly illiquid due to the lack of a readily available market and the longer term to maturity for these investments.

Net liquid assets are defined to include the fair value of all assets excluding private equity, private real estate, private infrastructure, New Brunswick regional investments, and the Plan's proportionate share of the fair value of collateral pledged with brokers and counterparties and any unfunded investment commitments.

**5. Financial Instrument Risk Management *(continued)***

The following tables show the determination of net liquid assets as at December 31:

| *($ thousands)* | | **2016** | | **2015** |
|---|---|---|---|---|
| Net assets available for benefits | $ | 5,497,073 | $ | 5,326,300 |
| Less: investment in NBIMC New Brunswick Fixed Income Opportunity Fund *(note 3)* | | (5,844) | | (6,368) |
| Less: investment in NBIMC Canadian Real Estate Fund *(note 3)* | | (150,048) | | (122,965) |
| Less: investment in NBIMC Non-Canadian Private Real Estate Fund *(note 3)* | | (9,566) | | (8,713) |
| Less: investment in NBIMC Infrastructure Fund *(note 3)* | | (84,710) | | (59,220) |
| Less: investment in NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund *(note 3)* | | (14,503) | | (14,185) |
| Less: investment in NBIMC Private Equity Fund *(note 3)* | | (229,341) | | (224,505) |
| Less: collateral pledged *(note 5(a))* | | (222,747) | | (222,665) |
| Less: investment commitments *(note 13)* | | (178,629) | | (184,431) |
| **Net liquid assets** | $ | 4,601,685 | $ | 4,483,248 |

(d) Securities Lending: The Plan's SIP permits VIMC to enter into a securities lending arrangement, externally with their securities custodian or internally among the NBIMC Pooled Funds, with the objective of enhancing portfolio returns.

Under the external program, the securities custodian, who is an independent third party, may loan securities owned by the NBIMC Pooled Funds to other approved borrowers in exchange for collateral in the form of readily marketable government-backed securities equal to at least 105% of the value of securities on loan and a borrowing fee. VIMC has restricted the approved borrowers under the external securities lending program to manage exposure to counterparty credit risk. As at December 31, 2016, underlying securities in the amount of $600,978 (2015 – $616,535) were loaned on behalf of the Plan.

Under the internal securities lending program, certain NBIMC Pooled Funds may loan securities to a borrowing NBIMC Pooled Funds subject to an intra-fund collateral management agreement and a borrowing fee. As at December 31, 2016, underlying securities in the amount of $44,930 (2015 – $41,619) were loaned on behalf of the Plan and $45,863 (2015 – $41,397) were borrowed.

**6. Pension Obligations**

(a) Actuarial Methodology: On conversion of the TPA from a defined benefit plan to a target benefit plan, an actuarial valuation report was prepared by Morneau Shepell, the independent actuary to document:

- the results of the initial funding valuation, as required under paragraph 17(1) of the New Brunswick *Teachers' Pension Plan Act* ("TPPA");
- the Conversion Plan as required under sub-paragraph 100.6(2)(a)(i) of the *Pension Benefits Act (New Brunswick)*; and
- the results of the going-concern actuarial valuation as required under paragraph 16(1) of the TPPA in order to determine the maximum eligible employer contribution for the NBTPP under paragraph 147.2(2) of the *Income Tax Act* (Canada).

**6. Pension Obligations *(continued)***

The *TPPA* requires that a funding valuation be prepared at least once every three years and be submitted to the Superintendent of Pensions. In the years in which an actuarial valuation report is not submitted to the Superintendent of Pensions, a cost certificate with respect to the funding policy is prepared in accordance with section 9 of regulation 91-195 and submitted to the Superintendent of Pensions. The most recent triennial funding valuation was prepared as of August 31, 2016 by the independent actuary. The next funding valuation is expected to be prepared no later than August 31, 2019.

The funding valuation actuarial liabilities and normal cost were calculated using the accrued benefit actuarial cost method in accordance with the requirements of paragraph 17(9) of the TPPA.

The funding policy valuation actuarial liabilities are equal to the actuarial present value of benefits earned by members for services prior to the valuation date, taking into account the actuarial assumptions. The actuarial liabilities take into account the increases in accrued pensions due to regular cost-of-living adjustments granted to active and retired members.

The funding valuation normal cost is equal to the actuarial present value of benefits expected to be earned by members in the year following the valuation date.

(b) Actuarial Assumptions: The main assumptions used in determining the funding valuation actuarial liabilities as of the respective extrapolation dates, and normal cost for the year following the extrapolation dates are as follows:

| | **December 31, 2016** | **December 31, 2015** |
|---|---|---|
| Discount rate | 5.85% per annum | 6.00% per annum |
| Inflation rate | 2.25% per annum | 2.25% per annum |
| Indexing of active members' accrued pensions | 100% of inflation* | 100% of inflation* |
| Indexing of retiree pensions | 75% of inflation* | 75% of inflation* |
| Mortality | CPM 2014 Public Table generational mortality using improvement scale CPM-B with an adjustment factor of 0.90 for both males and females. | CPM 2014 Public Table generational mortality using improvement scale CPM-B with an adjustment factor of 1.12 for males and 1.01 for females. |
| Number of years before unreduced retirement age according to provisions in effect at December 31, 2013: | | |
| • Under 5 years | 45% at 85 points, 45% at 87 points and 10% at 90 points, but not later than attainment of 35 years of service or age 60 | |
| • Over 5 years | 45% at 89 points, 45% at 91 points and 10% at 94 points, but not later than attainment of 37 years of service or age 62 | |
| Termination of employment | None | |

**Inflation is adjusted down by 0.15% for purposes of indexing to take into account the impact of the 4.75% cap applied under the Plan for indexing purposes.*

Changes in actuarial assumptions during 2016 resulted in a net increase in the pension obligations of approximately $207,900 (2015- $174,500).

**6. Pension Obligations *(continued)***

(c) Experience gains: Experience gains represent the change in the pension obligation due to the difference between expected experience and actual results. During 2016, the experience gains were $133,000 (2015 - nil).

(d) Sensitivity analysis: The discount rate used to estimate the present value of pension obligations has a significant effect on the pension obligation at the end of the year. As of December 31, 2016, a decrease of 100 basis points in the discount rate would have increased the pension obligation by $763,400.

(e) Funding valuation assets: The financial position of the Plan on a funding basis is determined by deducting the funding valuation actuarial liabilities from the funding valuation asset value.

**7. Funding Policy**

The following is only a summary of the main features of the funding policy, and should not be relied upon for a formal interpretation of the terms of the funding policy.

The funding policy is the tool required pursuant to the Act that the Board of Trustees uses to manage the risks inherent in a target benefit plan. The funding policy provides guidance and rules regarding decisions that must, or may, as applicable, be made by the Board of Trustees concerning funding levels, contributions and benefits.

The purpose of the NBTPP is to provide a highly secure lifetime pension at retirement and maintain scheduled escalated adjustments at their target level if the Plan can afford it.

The funding policy sets out two financial goals that underlie the Plan's objectives:

(a) The Funding Goal is to achieve a closed group funding ratio of 100% plus a Contingency Reserve of 10%.

(b) The Risk Management Goal is to achieve at least a 97.5% probability that the past base benefits at the end of each year will not be reduced over a 20-year period:

The above risk management goal is measured at every triennial actuarial valuation using an asset liability model with future economic scenarios developed using a stochastic process.

The funding policy sets out the decisions to be made by the Board of Trustees. These decisions are based on the closed group funded ratio calculated as the market value of the assets divided by the funding liabilities. Depending upon the level of the closed group funded ratio, decisions may have to be made under either a funding deficit recovery plan or a funding excess utilization plan.

The funding deficit recovery plan is triggered when over a three-year moving average:

- the closed group funded ratio of the Plan falls below 100%; and
- contributions in excess of normal cost are not enough to bring the closed group funded ratio above 100% over 15 years.

**7. Funding Policy *(continued)***

If this occurs, the following actions in order of priority must be taken to return the closed group funded ratio to 100% (including the impact of the contributions in excess of the normal cost) over 15 years:

1. Maximum increase in total contributions of 3.0% of earnings (shared equally between the employer and the employees), provided the total increase is at least equal to 1.0% of earnings.
2. Reduction in the following benefits, in the order indicated:
    a. Reduce the level of escalated adjustments applicable to future service of active members until eliminated;
    b. Reduce the level of future escalated adjustments applicable to the post-retirement period for all retirees and their survivors until eliminated;
    c. Reduce the level of future escalated adjustments applicable the past service of active members for the pre-retirement period until eliminated;
    d. Reduce other ancillary benefits and future accrual rates such that the amount of savings, when combined with c. above, equates to an amount of no more than 10% of payroll over 15 years;
    e. At the discretion of the Board of Trustees, reduce the base benefits of active employees (subject to a certain maximum); and
    f. As a last resort, reduce the base benefits of retirees and claimants in the same proportion as active members under e. above, and for all participants equally thereafter, to the extent necessary to bring the funded ratio to 100% over 15 years.

The funding excess utilization plan is triggered when the closed group funded ratio is in excess of 100%. At that time, the Board of Trustees must take or consider taking the following actions in the order of priority:

1. Reverse any benefit reductions implemented as part of funding deficit recovery plan, in the reverse order in which they were implemented, such that the closed group funded ratio is still expected to reach 100% within 15 years after the reversal;
2. Establish a contingency reserve of at least 15% of the funding liabilities of the Plan;
3. If the closed group funded ratio exceed 115%, apply a reduction in total contributions of 3% of earnings (shared equally between the employer and the employees);
4. If the closed group funded ratio exceeds 120%, reinstate any lost cost-of-living adjustments due to the implementation of past funding deficit recovery plans; and
5. If all the above steps have been taken, the Board of Trustees may propose benefit changes provided various criteria of risk management are met, and other conditions, and such proposals are approved by the Superintendent of Pension and submitted to the Parties.

The maximum amount that can be spent on benefit improvements in 4. and 5. above is 1/5$^{th}$ of the funds that make up the excess of the closed group funded ratio over 110% at the valuation date that triggered the action.

The funding policy also provides a description of the main actuarial assumptions to be used in the funding valuation, as well as the process to be followed for its annual review.

**8. Capital**

The capital of the NBTPP is represented by the net assets available for benefits. The NBTPP must be managed in a manner which recognizes the interdependency of the SIP, the risk management goals set out in the funding policy and applicable regulatory requirements.

The Board of Trustees is responsible for the establishment of a SIP, including approval of a recommended investment asset mix that seeks to deliver the long-term investment returns necessary for the sustainability of the NBTPP. Determining the asset mix requires information from independent actuarial valuations as well as expectations concerning financial markets and uses a portfolio optimization process. This process has the intent of achieving the maximum investment returns possible while meeting the risk management tests in the funding policy. The recommended strategic asset allocation is reviewed on at least an annual basis to ensure that it remains appropriate. The SIP was last reviewed and approved by the Board of Trustees on November 24, 2016.

Once approved, VIMC is responsible for the implementation of the asset mix decision including day-to-day investment activities and monitoring of investment risk controls. VIMC produces quarterly reporting of investment performance, policy compliance, and trends and changes in investment risks for the Board of Trustees.

The Board-approved SIP outlines the following investment objectives:

i. In the long term, to preserve the capital value of the Pension Fund but also provide the best possible long-term real return on investments while continuing to achieve the risk management goals;
ii. Over shorter time periods, to achieve competitive rates of return on each major asset class while avoiding undue investment risk and excessive market volatility; and
iii. Over the medium term, to provide rates of return in excess of those achieved by passive management of the policy portfolio. A value added contribution of 0.42%, after deducting all investment management costs, is the portfolio's target four-year moving average rate of return.

## 9. Net Investment Income

Net investment income (loss) by unit trust fund for the year ended December 31, after allocating net gains (losses) on investments, is as follows:

| *($ thousands)* | 2016 | 2015 |
|---|---|---|
| **Fixed Income** | | |
| NBIMC Nominal Bond Fund | $ 11,671 | $ 30,864 |
| NBIMC Corporate Bond Fund | 32,493 | 10,104 |
| NBIMC New Brunswick Fixed Income Opportunity Fund | 145 | 330 |
| NBIMC Money Market Fund | 562 | 1,269 |
| NBIMC Student Investment Fund | 170 | (40) |
| | 45,041 | 42,527 |
| **Equities** | | |
| NBIMC Canadian Equity Index Fund | 64,161 | (37,243) |
| NBIMC Low Volatility Canadian Equity Fund | 42,965 | (7,274) |
| NBIMC External Canadian Equity Fund | 11,355 | (4,051) |
| NBIMC Canadian Equity Active Long Strategy Fund | 11,656 | (8,000) |
| NBIMC External International Equity Fund | (2,797) | 23,809 |
| NBIMC EAFE Equity Index Fund | (2,598) | 247,885 |
| NBIMC EAFE Equity Index Fund – Class N | — | (148,661) |
| NBIMC Low Volatility International Equity Fund | (4,604) | 93,332 |
| NBIMC Low Volatility International Equity Fund – Class N | — | (44,596) |
| NBIMC Low Volatility Emerging Markets Equity Fund | 6,817 | 6 |
| NBIMC U.S. Equity Index Fund | 33,925 | 85,524 |
| NBIMC Low Volatility U.S. Equity Fund | 32,819 | 54,944 |
| | 193,699 | 255,675 |
| **Inflation-Linked Assets** | | |
| NBIMC Inflation-Linked Securities Fund | 8,432 | 19,354 |
| NBIMC Canadian Real Estate Fund | 13,912 | 11,432 |
| NBIMC Canadian Real Estate Investment Trust Fund | 15,493 | (4,309) |
| NBIMC Non-Canadian Private Real Estate Fund | (78) | (383) |
| NBIMC International Real Estate Fund | 4,135 | 31,275 |
| NBIMC Public Infrastructure Fund | 2,592 | (10) |
| NBIMC Infrastructure Fund | 6,011 | 4,114 |
| | 50,497 | 61,473 |
| **Alternative Investments** | | |
| NBIMC North American Market Neutral Fund | 5,150 | 1,080 |
| NBIMC Quantitative Strategies Fund | 11,619 | 7,655 |
| NBIMC Quantitative Equity Strategic Beta Fund | 4,554 | — |
| NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund | 845 | 531 |
| NBIMC Private Equity Fund | 14,077 | 53,796 |
| | 36,245 | 63,062 |
| **Tactical Asset Allocation** | | |
| NBIMC Asset Mix Strategy Fund | 2,707 | (578) |
| **Net investment income** | $ 328,189 | $ 422,159 |

**10. Pension Benefits**

A breakdown of pension benefits by type is as follows:

| *($ thousands)* | | **2016** | | **2015** |
|---|---|---|---|---|
| Retirements | $ | 260,900 | $ | 256,990 |
| Terminations | | 791 | | 1,366 |
| Disability | | 7,764 | | 7,634 |
| Death | | 11,802 | | 11,327 |
| Other | | 1,453 | | 1,542 |
| | $ | 282,710 | $ | 278,859 |

These benefits are presented in the Statement of Changes in Net Assets Available for Benefits as:

| *($ thousands)* | | **2016** | | **2015** |
|---|---|---|---|---|
| Pension benefits | $ | 280,238 | $ | 275,800 |
| Refunds and transfers | | 2,472 | | 3,059 |
| | $ | 282,710 | $ | 278,859 |

**11. Administrative Expenses**

The Plan is charged by its service providers, including Vestcor Pension Services Corporation (VPSC) (subsequent to October 1, 2016 and previously the Pension and Employee Benefits Division (PEBD) of the Office of Human Resources for the Province of New Brunswick) and VIMC, each a related party, for professional and administrative services. The following is a summary of these administrative expenses:

| *($ thousands)* | | **2016** | | **2015** |
|---|---|---|---|---|
| Plan administration fees: | | | | |
| Office and administration services *(note 12)* | $ | 1,734 | $ | 1,531 |
| Consulting | | 93 | | 96 |
| Legal fees | | 73 | | 26 |
| Actuarial services | | 20 | | 10 |
| Audit fees | | 55 | | 84 |
| Regulatory fees | | 10 | | 10 |
| Member communications | | 67 | | 30 |
| Board of Trustees | | 47 | | 70 |
| | | 2,099 | | 1,857 |
| Investment management costs: | | | | |
| Investment management fees *(note 12)* | | 6,467 | | 7,313 |
| Securities custody | | 429 | | 523 |
| | | 6,896 | | 7,836 |
| HST | | 835 | | 741 |
| | $ | 9,830 | $ | 10,434 |

**12. Related Party Transactions**

The Plan is related to the Province of New Brunswick including its departments, agencies, school districts, regional health authorities, crown corporations and other crown agencies. The Board of Trustees determines the amounts of contributions to and payments from the Plan.

Pursuant to the *Vestcor Act*, on July 8, 2016 the Plan is a member of a not-for-profit, non-share company, Vestcor Corp. (Vestcor). On October 1, 2016 Vestcor acquired a 100% interest in two operating companies: VIMC and VPSC (formerly (PEBD)).

All of the Plan's investments included in the Statement of Financial Position are in units of the NBIMC Pooled Funds which entitle the Plan to an undivided interest in the underlying assets of those pooled funds *(see note 3).* In addition, the NBIMC Canadian Real Estate Fund has made certain of its direct and indirect real estate investments using wholly owned subsidiary company structures.

Included in the investments in the NBIMC Pooled Funds are underlying investments in New Brunswick provincial and municipal bonds that are recorded at their fair values as at December 31, 2016 of $28,149 (2015 – $29,384).

Pension administration expenses paid to VPSC (and formerly PEBD) and investment management fees paid to VIMC (and formerly NBIMC) for the year are described in note 11. At December 31, 2016 amounts owing to VIMC for investment management fees of $1,289 (2015 – $1,026) and to VPSC for pension administration expenses of $352 (2015 – $952) are included in accounts payable and accrued liabilities.

**13. Commitments**

The NBIMC Canadian Real Estate Fund, the NBIMC Non-Canadian Private Real Estate Fund, NBIMC Infrastructure Fund, the NBIMC Private Equity Fund and Vestcor Investments Private Equity, L. P. (a newly created limited partnership whose general partner is Vestcor Investments General Partner, Inc., a wholly-owned subsidiary of VIMC) have committed to enter into investments that may be funded over the next several years in accordance with the terms and conditions agreed to in various partnership agreements. The Plan's share of unfunded commitments as at December 31 is:

| *($ thousands)* | **2016** | **2015** |
|---|---|---|
| NBIMC Canadian Real Estate Fund | $ 11,130 | $ 15,607 |
| NBIMC Non-Canadian Private Real Estate Fund | 2,641 | 12,229 |
| NBIMC Infrastructure Fund | 6,486 | 17,854 |
| NBIMC Private Equity Fund | 144,790 | 138,741 |
| Vestcor Investments Private Equity, L.P. | 13,582 | — |
| | $ 178,629 | $ 184,431 |

**14. Indemnification**

Pursuant to the Agreement and Declaration of Trust, a first lien and charge against the assets of the Plan is provided as indemnification to the Board of Trustees against any liability incurred, including defence costs. The Plan may be required to compensate these individuals in the event of a claim being made against them. The contingent nature of these indemnification obligations prevents the Plan from making a reasonable estimate of the maximum potential payments that may be required. The Plan has not received any claims or made any payments pursuant to such indemnifications.