

NEW BRUNSWICK TEACHERS' PENSION PLAN



FALL 2015 - Volume 1, Issue 2

ISBN: 978-1-55471-642-5

MESSAGE FROM THE CHAIRPERSON

The New Brunswick Teachers' Pension Plan (NBTPP) Board of Trustees is pleased to present our Fall newsletter with the latest news on your pension plan. As your Board, it is our responsibility to ensure the NBTPP remains in a solid financial position, and keep you well informed about the plan's progress.

I am pleased to announce that the cost of living adjustment (known as an Indexing Adjustment Benefit) will be provided for the coming year. This newsletter provides further details on that adjustment, as well as information from the New Brunswick Investment Management Corporation (NBIMC) about the plan's investment performance.

We urge you to review this newsletter, and to reach out to us with your comments and questions. With your feedback, we will continue to improve our communications efforts to all plan members.

Sincerely,

Larry Jamieson, NBTPP Chairperson

IN THIS ISSUE

- 2 How Your Plan Operates
- 2 Contact Us
- 3 2016 Indexing Adjustment Benefit
- 3 Financial Update
- 4 NBTPP Funding Policy
- 4 Pension Plan Text Amendments
- 5 Mid-Year Investment Report

HOW YOUR PLAN OPERATES

SUPERINTENDENT OF PENSIONS

BOARD OF TRUSTEES

Larry Jamieson
Chairperson

David Nowlan
Vice-Chairperson
Audit Committee

Bob Fitzpatrick
Observer

Caroline Foisy
Observer

Jane Garbutt
Trustee

Jennifer Morrison
Trustee
Chair of Audit Committee

Leonard Lee-White
Trustee
Governance Committee

Marcel Larocque
Trustee
Audit Committee

Mike Springer
Trustee
Governance Committee

Reno Thériault
Trustee
Chair of Governance Committee

**AUDIT
COMMITTEE**

**GOVERNANCE
COMMITTEE**

SERVICE PROVIDERS

INVESTMENT SERVICES

New Brunswick Investment Management
Corporation



ACTUARY
Morneau Shepell

AUDITOR
KPMG

LEGAL
Osler, Hoskin & Harcourt LLP

ADMINISTRATION SERVICES

New Brunswick

Pensions and
Employee Benefits

Pensions et avantages
sociaux des employés



New Brunswick
Teachers' Association



l'Association des enseignantes et
des enseignants francophones du
Nouveau-Brunswick

CONTACT US

NBTPP Board of Trustees
c/o Pensions and Employee Benefits
PO Box 6000
Fredericton, NB E3B 5H1

For questions, please contact Pensions and
Employee Benefits Division toll free at
1 (800) 561-4012 or 453-2296 (Fredericton).

If you are a retiree, you can receive future communiqués
from the Board of Trustees via email. Simply call the
Pensions and Employee Benefits Division toll free at
1 (800) 561-4012 or 453-2296 (Fredericton) and
provide them with your email address.

2016 INDEXING ADJUSTMENT BENEFIT

The NBTPP provides for an Indexing Adjustment Benefit (IAB) each year as long as there is a large enough surplus in the pension plan, up to a maximum Consumer Price Index (CPI) of 4.75%.

For January 2016 the maximum IAB that can be provided is 1.49% and is based on the increase in the average CPI for the 12-month period ending June 30, 2015.

For **active teachers**, benefits accumulated will be adjusted on the basis of **100%** of the increase in the Consumer Price Index (CPI)

For **deferred members and retired teachers (including survivors)**, pensions will be adjusted on the basis of **75%** of the increase in the Consumer Price Index (CPI)

100%
of CPI

75%
of CPI

For active teachers and deferred members, the increase will be applied to the benefits that they have earned up to December 31, 2014. For retired teachers, the increase will be applied to their monthly benefits effective January 1, 2016.

FINANCIAL UPDATE

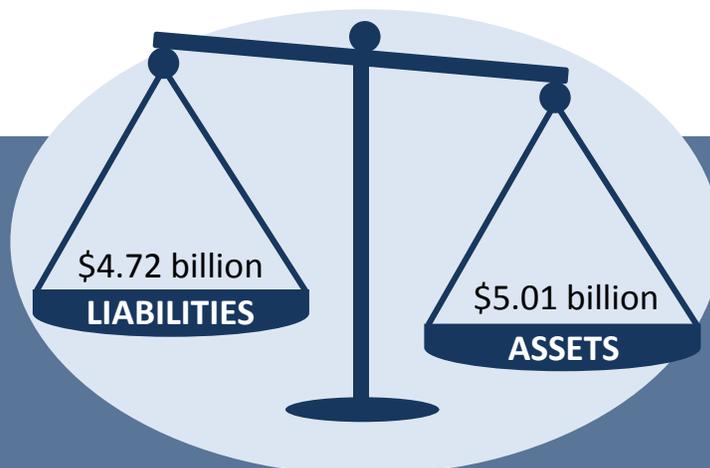
Cost Certificate

As reported in the last NBTPP Newsletter, the initial Actuarial Valuation Report for the NBTPP was completed as of January 1, 2014. A valuation report must be completed every three years and the next one is scheduled for 2016.

In the years in which an actuarial valuation is not prepared by the NBTPP, the actuary must prepare a Cost Certificate. In preparing a Cost Certificate, the actuary calculates the financial position of the NBTPP by using the actual asset value at August 31 and the estimated plan liabilities extrapolated from the date of the last completed actuarial valuation to August 31.

Funding Status of the NBTPP

The termination value funded ratio of the NBTPP based on the August 31, 2014, Cost Certificate was 106.1%. This ratio compares the fair market value of the pension plan's assets with the pension plan's extrapolated funding liability at August 31, 2014.



NBTPP FUNDING POLICY

What is the NBTPP Funding Policy?

The NBTPP Funding Policy is an important governance tool that is used by the Board of Trustees in managing the ongoing risk associated with operating the pension plan. The Funding Policy is used in conjunction with the pension plan's actuarial valuation report which is prepared every three years.

The NBTPP Funding Policy outlines the actions the Board of Trustees must consider in the event that the plan is in a surplus or deficit position. No action was required under the Funding Policy as a result of the January 1, 2014, Actuarial Valuation Report as the pension plan was in a surplus position with a termination value funded ratio of 100.2%.

What happens if the NBTPP has a surplus?

If the NBTPP has a surplus as defined in the plan's Funding Policy, the NBTPP Board has a number of actions that must be considered. The Funding Policy's Funding Excess Utilization Plan outlines the actions that must be considered in order of priority. They range from reversing any benefit reductions that have been implemented previously under the Deficit Recovery Plan, to building a 15% contingency reserve, all the way to considering benefit improvements as a final step.

What happens if the NBTPP has a deficit?

If the NBTPP experiences a deficit as defined in the plan's Funding Policy, the NBTPP Board must take action to address the deficit. The Funding Policy's Deficit Recovery Plan outlines the actions that must be taken in order of priority. They range from increasing contributions equally for active teachers and the employer as a first step all the way to reducing benefits for active teachers and as a last resort, reducing benefits for retirees.

It is important to note that the risk management test that was performed as part of the most recent actuarial valuation found that there was a 98.3% probability that benefits earned would not be reduced over the next 20 years.

Where can I find the NBTPP Funding Policy?

The NBTPP Funding Policy can be found under "Governing Documents" at www.gnb.ca/nbtpp.

INVESTMENT POLICY AMENDMENTS

The *Pension Benefits Act* (PBA) requires that plan members be provided with an update on any plan amendments. As such, the Board of Trustees would like to inform you of the following amendments to the NBTPP Statement of Investment Policies which were passed on May 13, 2015, and filed with the Superintendent of Pensions:

Section C.1 Policy Portfolio

- Added a chart outlining the prior and new NBTPP Target Portfolio
- Changed "Individual securities will not exceed 3.5% of the portfolio" to "Net individual company securities will not exceed 5.0% of the Absolute Return Strategy portfolios"

Section C.2 Tactical Asset Allocation

- Changed allowable deviations from benchmarks as follows:
 - Canadian Public Equities +/- 2.5% (was 2.0%)
 - Foreign Public Equities +/- 2.5% (was 4.0%)
 - Canadian Corporate Bonds +/- 4.0% (was 2.0%)

Section C.3 Performance Benchmarks

- Number of housekeeping amendments to listed benchmarks

Section D.3 GIPS® Compliance

- Clarified wording around Global Investment Performance Standards (GIPS®) reporting

The revised version of the NBTPP Statement of Investment Policies is available under "Governing Documents" at www.gnb.ca/nbtpp.

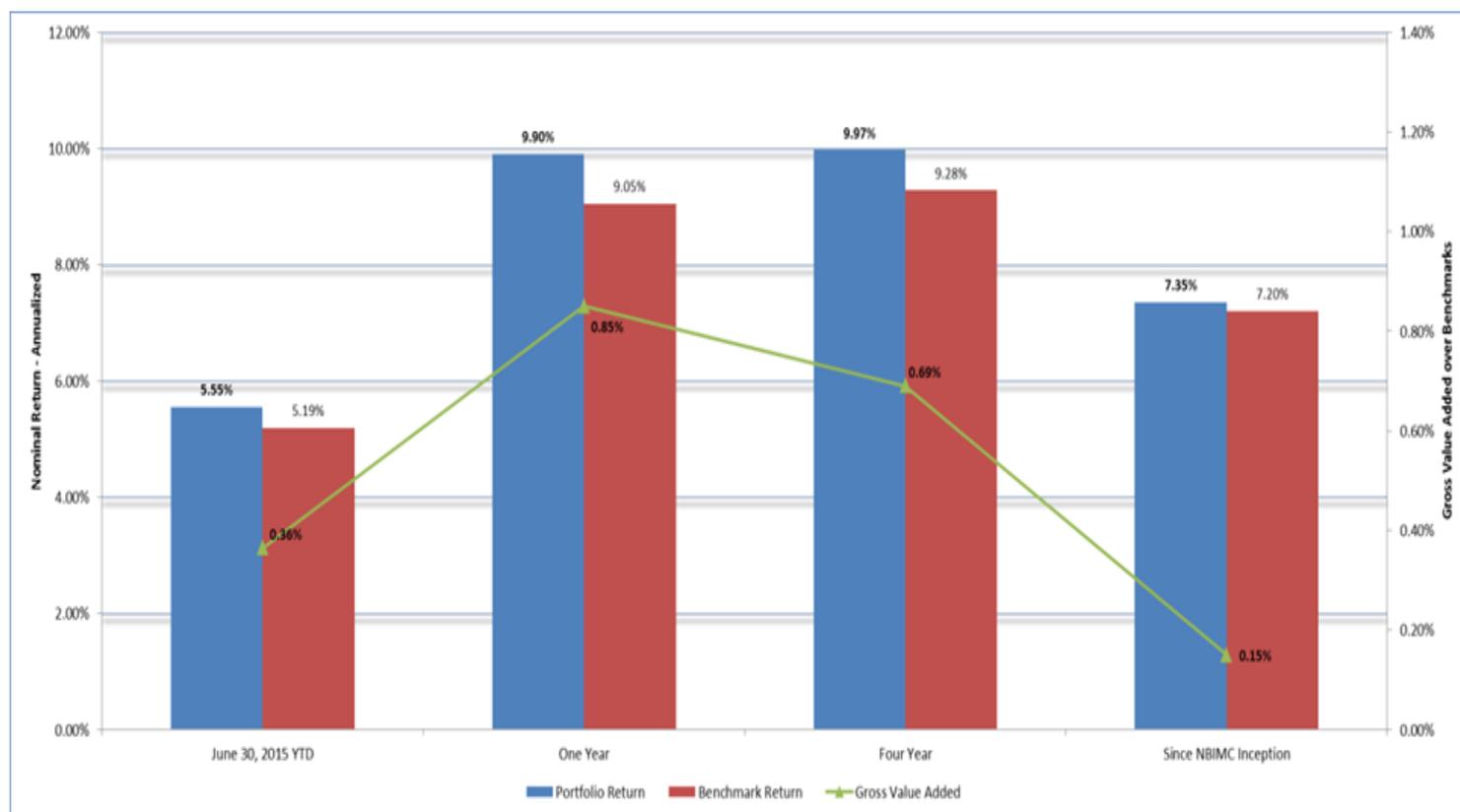
MID-YEAR INVESTMENT REPORT

NEW BRUNSWICK INVESTMENT MANAGEMENT CORPORATION (NBIMC)



Investment Returns

We are pleased to report the investment return for the NBTPP fund for the six months ended June 30, 2015 was 5.55% as each of our investment portfolios produced positive returns for the six months ended June 30, 2015. In addition, NBIMC's active investment management activities produced gross investment value of 0.36% over the investment policy benchmarks during the period.



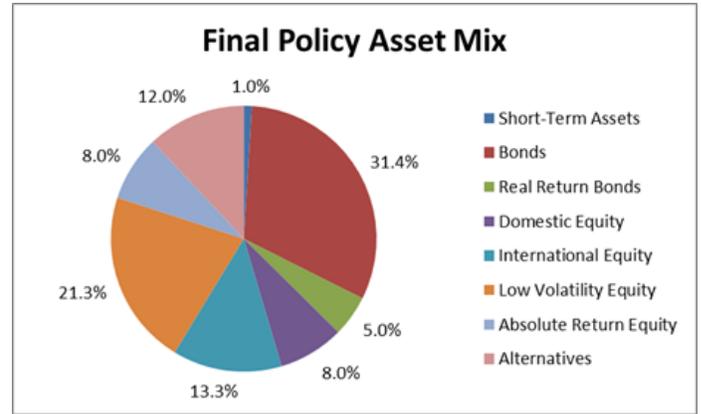
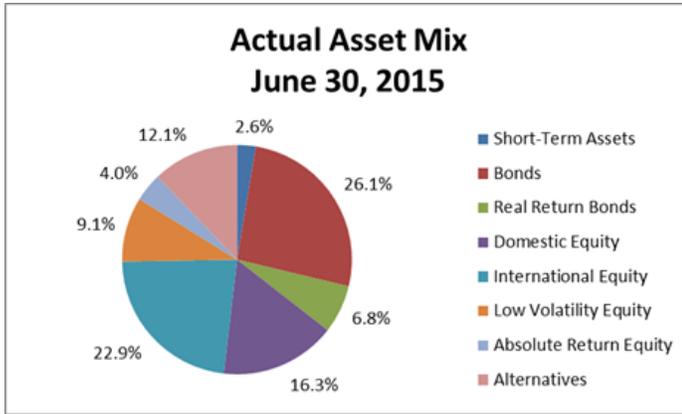
Investment management costs were approximately \$4.8 million or 0.092% of assets under management.

Investment Assets

The fair value of the NBTPP Fund assets at June 30, 2015 was \$5.26 billion, up \$199.8 million from the December 31, 2014, fair value. This increase in assets consisted of \$277.1 million of net investment income after deducting all investment management costs, partially offset by net pension payouts of \$77.3 million.

In the Winter 2015 newsletter, we reported that the Board of Trustees had requested NBIMC to conduct a further investment strategy review for their consideration prior to transitioning to the target asset mix that was developed by the initial Parties as part of the plan conversion process. We have subsequently completed that further study which was approved by the Board on February 26, 2015. Our analysis resulted in a recommendation to refine the target asset mix by reducing and further diversifying the proportion of assets allocated to fixed income securities and increasing the proportion allocated to low volatility and absolute return equity strategies.

MID-YEAR INVESTMENT REPORT *(CONTINUED)*



This updated asset mix is expected to result in an improved long-term return with a similar risk adjusted return ratio to the previous target asset mix, while also continuing to exceed the risk management test required by the Funding Policy. NBIMC has now commenced the transition of the assets from the former TPA asset mix to the final NBTPP asset mix as noted in the above charts. We expect that this transition will be largely completed by the end of this calendar year.

Investment Outlook

Financial markets began to decline near the end of the period after benefiting from strong results in both equity and fixed income markets in 2014 and early 2015. U. S. economic growth slowed, reflecting the impact of a stronger U. S. dollar on exports, a slowdown in energy investment due to low commodity prices, and the impact of a lengthy port strike on the west coast. Canada's economic growth was also impacted negatively, primarily by a slowdown in the western energy sector, while any significant cross border business pick-up from the weak Canadian dollar has yet to occur. European growth remained weak and China growth rates continue to slow, however Japan has become at least one short-term bright spot.

Also impacting financial markets during the first half of the year were increasing Eurozone concerns around Greece, who technically defaulted on an outstanding debt payment, leading to potential financial system contagion risk concerns. An announcement in January by the European Central Bank that a quantitative easing program was being considered saw a quick reaction from the capital markets and drove some bond issues to negative yields. Meanwhile, the decision by the Bank of Canada to cut interest rates by 0.25% early in 2015 resulted in downward pressure to Canadian interest rate expectations and significantly increased longer term bond prices.

Global equity markets reached record high levels during the first half of 2015 before retreating due to concerns around the potential length and depth of the above noted slowdown on future corporate earnings.

Fixed income markets have also declined from record high levels in the first half of 2015. U.S. bond yields moved higher on signals from the U.S. Federal Reserve Board that they will be increasing the Federal Funds rate before the end of 2015, although the anticipated September rate move did not occur.

We expect that markets will continue to be volatile through the remainder of 2015 as the market looks for more specifics on the direction and impact of future central bank interest rate policy decisions (more particularly with respect the U.S. Federal Reserve Board beginning their interest rate tightening cycle), the sustainability of global growth and corporate profits, and the potential implications of any further adverse geopolitical events.

At the end of the day we still feel that our current slow growth environment should be positive for continued corporate earnings growth albeit at much lower levels than witnessed over the past few years. We also feel that fixed income rates will be going higher, but generally remain at relatively low levels over the longer term. Central banks should be able to manage this transition at a very measured pace that the economy and financial markets should be able to sustain. As with any turning point, we continue to expect periods of volatility and anxiety and we may look to take advantage of this through more active asset mix positioning where possible.

DISCLAIMER: The Fall 2015 NBTPP Newsletter is intended to provide information about the New Brunswick Teachers' Pension Plan. If there is a discrepancy between the information contained herein and the NBTPP Text, the latter will prevail.