

New Brunswick Teachers' Pension Plan Fund
Financial Statements

December 31, 2014

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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 statement of net assets available for benefits as at December 31, 2014, the statement of changes in net assets available for benefits for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared in accordance with the basis of accounting described in Note 2(a) to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting in Note 2(a) to the financial statements. This includes determining that the basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances, 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 audit. We conducted our audit 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 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 net assets available for benefits of the Entity as at December 31, 2014, and the changes in net assets available for benefits for the year then ended in accordance with the basis of accounting in Note 2(a) to the financial statements.

Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist the Board of Trustees of the Entity in its oversight capacity and the Province of New Brunswick. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for the Board of Trustees of the Entity and should not be used by parties other than the Board of Trustees of the Entity.

Comparative Information

The financial statements of the Entity as at and for the year ended December 31, 2013 are unaudited. As a result, we do not express an opinion on them.

Chartered Professional Accountants

May 13, 2015
Fredericton, Canada

NEW BRUNSWICK TEACHERS' PENSION PLAN FUND
Statement of Net Assets Available for Benefits
(In thousands of Canadian dollars)
AS AT DECEMBER 31, 2014

	2014	2013
		<i>(Unaudited)</i>
ASSETS		
Investments <i>(notes 3 and 4)</i>	\$ 5,056,706	\$ 4,654,541
Contributions receivable from employers <i>(note 8)</i>	5,927	—
Contributions receivable from employees <i>(note 8)</i>	1,167	—
Other receivable	18	51
Total assets	5,063,818	4,654,592
LIABILITIES		
Accounts payable and accrued liabilities <i>(note 8)</i>	2,336	1,600
NET ASSETS AVAILABLE FOR BENEFITS	\$ 5,061,482	\$ 4,652,992

See accompanying notes to financial statements.

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

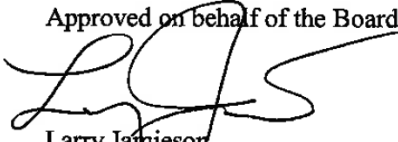
	2014	2013
		<i>(Unaudited)</i>
INCREASE IN NET ASSETS		
Net investment income <i>(note 6)</i>	\$ 575,216	\$ 530,218
Employee pension contributions <i>(note 8)</i>	52,431	47,471
Employer pension contributions <i>(note 8)</i>	63,218	46,540
Employer special contributions <i>(note 8)</i>	—	24,657
	690,865	648,886
DECREASE IN NET ASSETS		
Payments to Province of New Brunswick for benefits	272,536	270,649
Payments to Province of New Brunswick for expenses	1,638	1,566
Investment management fees	8,201	7,237
	282,375	279,452
NET INCREASE FOR THE YEAR	408,490	369,434
NET ASSETS AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	4,652,992	4,283,558
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	\$ 5,061,482	\$ 4,652,992


See accompanying notes to financial statements.

Commitments *(note 9)*

Indemnification *(note 10)*

Approved on behalf of the Board of Trustees:


 Larry Jamieson
 Chairman


 David Nowlan
 Vice-Chair

NEW BRUNSWICK TEACHERS' PENSION PLAN FUND

Notes to Financial Statements

(In thousands of Canadian dollars)

YEAR ENDED DECEMBER 31, 2014

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 ("NBTPP") pursuant to the *Teachers' Pension Plan Act* ("TPPA") of New Brunswick. The NBTPP is governed by a Board of Trustees consisting of an equal number of representatives 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. 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 year until July 1, 2029, 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).

The normal retirement date is the first day of the month following the member's sixty-fifth birthday.

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 1st 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) Accounting entity and basis of presentation

These special purpose financial statements provide information on the NBTPP's net assets available for benefits (the "Fund"). They do not include the pension liabilities of the NBTPP. Consequently, these financial statements do not purport to show the adequacy of the Fund's assets to meet the NBTPP's pension obligations. Such an assessment requires additional information, such as the NBTPP's actuarial report.

2. Significant Accounting Policies *(continued)*

(a) Accounting entity and basis of presentation (continued)

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 excluding pension obligations and any resulting surplus or deficit. They are prepared solely for the information and use of the NBTPP Board of Trustees and the Province of New Brunswick. As a result, the financial statements may not be suitable for another purpose.

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 net assets and the changes in net assets available for benefits for the year ended December 31, 2014 with unaudited comparative information for the year ended December 31, 2013.

All investment assets and liabilities are measured at fair value in accordance with 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 excluding pension obligations and any resulting surplus or deficit requires the Fund to comply on a consistent basis with either International Financial Reporting Standards ("IFRS") in Part I of the CPA Handbook or with Canadian accounting standards for private enterprises in Part II of the CPA Handbook. The Fund has chosen to comply on a consistent basis with IFRS.

The comparative information presented in the notes to the financial statements for the year ended December 31, 2013 is unaudited.

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 May 13, 2015.

(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) Recognition and measurement

Financial assets and financial liabilities are initially recognized in the Statement of Net Assets Available for Benefits on the trade date, which is the date on which the Fund becomes a party to the contractual provisions of the instrument.

All investments of the Fund consist of units of New Brunswick Investment Management Corporation ("NBIMC") unit trust funds. The Fund classifies all investments as fair value through the changes in net assets available for benefits upon initial recognition.

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

The underlying investments held in the NBIMC unit trust 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 unit trust funds have access at that date.

2. Significant Accounting Policies (continued)

(c) Financial instruments (continued)

The fair value of the financial assets and liabilities traded in active markets (such as exchange-traded derivatives and 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 unit trust 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 Fund's financial assets and financial liabilities such as contributions and other receivables and accounts payable and accrued liabilities are 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 Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund 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, discounted using the instrument's original effective interest rate.

(ii) Derecognition

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

(d) Functional and presentation currency

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

(e) Use of estimates and judgments

The preparation of the Fund'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 Net Assets Available for Benefits. 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 unit trust funds, since these determinations may include estimates of expected future cash flows, rates of return 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.

(f) Taxes

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

2. Significant Accounting Policies *(continued)*

(g) Contributions

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

(h) Net investment income

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

(i) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies held by the NBIMC unit trust funds are translated at the prevailing rates of exchange at the date of the Statement of Net Assets Available for Benefits. 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.

(j) New Standards and interpretations not yet adopted

The following standards, interpretations and amendments to published standards that are mandatory for future accounting periods, but where early adoption is permitted now, have not been duly adopted:

IFRS 9 (effective not earlier than 2018) - Financial instruments

Management is in the process of assessing the impact of this standard and believes that this amendment will not significantly affect the Fund's net assets available for benefits but may affect the disclosures in the financial statements.

3. Investments

The Fund invests in certain pooled unit trust funds established by NBIMC, the investment manager for the Fund. Each unit trust fund has a specific investment mandate. Investing in the unit trust funds enables the Fund to achieve its required asset class weights in accordance with its Statement of Investment Policies ("SIP"). Following is a description of each unit trust fund in which an interest is held by the Fund during the year ended December 31, 2014:

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 moving 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 moving average.

NBIMC New Brunswick Fixed Income Opportunity Fund

This fund invests primarily in fixed income issues 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 moving average.

3. Investments (continued)

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 Treasury Bill Index and 7% of the 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 NBIMC. The overall benchmark for this fund is composed of 50% S&P/TSX Total Return Composite Index, 45% FTSE TMX Canada All Government Bond Index, 4.65% FTSE TMX 91-Day Treasury Bill Index and 0.35% Call Loan Rate. NBIMC staff closely monitor the activities of this fund, including executing and processing all transactions on behalf of the students.

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 Index (pre-October 1, 2014 – the S&P/TSX Composite Index). 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 moving average.

NBIMC S&P/TSX Completion Index Fund

Managed by an external manager, this fund invests primarily in the companies of the S&P/TSX Completion Index. The performance objective is to exceed the performance of its benchmark, the S&P/TSX Completion Total Return Index, by 150 basis points, net of fees. Effective November 28, 2014, the assets of this fund were sold at fair value to the NBIMC Canadian Equity Index Fund and this fund was terminated.

NBIMC Canadian Equity Active Long Strategy Fund

This fund seeks to add value through prudent selection of individual securities and sector allocations through over and under weighting 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. The performance objective is to exceed the performance of the benchmark, which is a weighting of the respective country or regional indices (CAD\$) by 150 basis points over a four-year moving average.

3. Investments (continued)

NBIMC EAFE Equity Index Fund

This fund invests in securities in the MSCI EAFE (Developed Markets) Index (CAD\$). The objective is to achieve a rate of return equivalent to the MSCI EAFE (Developed Markets) Net Dividends.

NBIMC Low Volatility International Equity Fund

This fund actively invests in securities in the MSCI EAFE Minimum Volatility Total Return Index, Net (CAD\$) (pre-October 1, 2014 – the MSCI EAFE (Developed Markets) Net Dividends Index (CAD\$)). 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 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 (CAD\$).

NBIMC Low Volatility U.S. Equity Fund

This fund actively invests in securities to gain exposure to the MSCI U.S.A. Minimum Volatility Total Return Index, Net (CAD\$) (pre-October 1, 2014 – the S&P 500 Total Return Index (CAD\$)). 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 moving 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 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 Index.

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 (CAD\$), net of fees, over the long-term.

NBIMC Infrastructure Fund

This fund was created to provide additional investment diversification through direct investment in infrastructure through co-investment structures. The benchmark is inflation, as measured by the percentage change in the twelve-month CPI-Canada All Items Index, plus 4%.

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 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 Treasury Bill Index and 7% of the 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 Treasury Bill Index and 7% of the 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 (CAD\$).

3. Investments (continued)

Following are details of unit trust holdings by the Fund:

<i>(\$ thousands)</i>	Number of Units (rounded)	Unit Value (in dollars)	Fair Value December 31, 2014	Fair Value December 31, 2013 (Unaudited)
Fixed Income:				
NBIMC Nominal Bond Fund	329,337	\$ 2,493	\$ 821,187	\$ 763,069
NBIMC Corporate Bond Fund	303,583	1,163	353,101	331,960
NBIMC New Brunswick Fixed Income Opportunity Fund	2,246	2,970	6,671	6,720
NBIMC Money Market Fund	69,694	1,577	109,887	60,384
NBIMC Student Investment Fund	528	3,182	1,681	1,524
			1,292,527	1,163,657
Equities:				
NBIMC Canadian Equity Index Fund	206,199	3,058	630,513	463,178
NBIMC Low Volatility Canadian Equity Fund	76,644	1,396	106,996	99,098
NBIMC External Canadian Equity Fund	55,963	3,599	201,433	186,432
NBIMC S&P/TSX Completion Index Fund	—	—	—	89,613
NBIMC Canadian Equity Active Long Strategy Fund	70,905	1,302	92,324	100,827
NBIMC External International Equity Fund	67,035	1,729	115,914	114,280
NBIMC EAFE Equity Index Fund	469,213	1,228	575,995	573,725
NBIMC Low Volatility International Equity Fund	92,349	1,557	143,812	139,230
NBIMC U.S. Equity Index Fund	245,848	2,020	496,567	460,870
NBIMC Low Volatility U.S. Equity Fund	82,854	1,924	159,423	149,745
			2,522,977	2,376,998
Inflation Linked Assets:				
NBIMC Inflation Linked Securities Fund	136,458	3,403	464,310	424,035
NBIMC Canadian Real Estate Fund	30,728	3,517	108,115	91,513
NBIMC Canadian Real Estate Investment Trust Fund	88,380	1,105	97,689	90,457
NBIMC International Real Estate Fund	26,287	5,857	153,976	144,666
NBIMC Infrastructure Fund	34,892	1,298	45,301	42,721
			869,391	793,392
Alternative Investments:				
NBIMC North American Market Neutral Fund	57,196	1,289	73,697	67,510
NBIMC Quantitative Strategies Fund	79,941	1,294	103,463	95,538
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	2,743	4,561	12,510	12,986
NBIMC Private Equity Fund	84,928	2,145	182,141	144,460
			371,811	320,494
			\$ 5,056,706	\$ 4,654,541

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 NBIMC unit trust fund are classified as a Level 2 investment since the units are priced based on each unit trust 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.

Under its terms of reference, the NBTPP Board of Trustees has overall responsibility for understanding the principal risks facing the NBTPP. Accordingly, the NBTPP Board of Trustees is responsible for the establishment of a Statement of Investment Policies ("SIP") for the Fund. Day-to-day investment activities and monitoring of risk controls are delegated to NBIMC, which acts in accordance with the SIP. NBIMC produces quarterly reporting of investment performance, policy compliance, and trends and changes in investment risks for the Board of Trustees.

The Board of Trustees, using information from independent actuarial valuations as well as expectations concerning financial markets, is responsible for approval of a recommended investment asset mix that seeks to deliver the long-term investment return necessary for the sustainability of the NBTPP. 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. Once approved, NBIMC is responsible for the implementation of the asset mix decision.

(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 Fund holds investments in unit trust funds that invest in active and passive investment strategies and are diversified among domestic and international markets.

5. Financial Instrument Risk Management (continued)

Investment strategies used by the unit trust 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 SIP for the Fund 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 unit trust 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.

NBIMC conducts certain of its investment activities in the unit trust funds on behalf of the Fund 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, 2014, the fair value of securities that have been deposited or pledged with various financial institutions as collateral or margin on account was \$111,129 (2013 - \$83,945) (*see also note 5(c)*).

Foreign currency risk arises from holding investments denominated in currencies other than the Canadian dollar. All of the Fund’s investments are in Canadian dollar denominated unit trust funds managed by NBIMC, however certain of the unit trust funds invest in assets denominated in foreign currencies or domiciled in foreign jurisdictions. The SIP for the Fund permits hedging of foreign currency exposure at the portfolio manager’s discretion. Approximately 35.9% (2013 – 36.5%) of the Fund’s underlying investments are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the U.S. dollar – 19.8% (2013 – 19.8%) and the Euro – 5.5% (2013 – 5.8%).

A 1% 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, 2014 of \$18,159 (2013 – \$16,969).

Interest rate risk refers to the effect on the market value of investments due to fluctuation of interest rates. The Fund invests in certain unit trust funds that invest in fixed income securities whose fair values are sensitive to interest rates. The SIP requires NBIMC 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, 2014 would be approximately \$167,990 (2013 – \$188,696).

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 Fund is exposed to price risk associated with the underlying equity investments held in pools managed by NBIMC. If equity market price indices declined by 1%, and all other variables are held constant, the potential loss at December 31, 2014 would be approximately \$27,852 (2013 – \$25,233).

(b) **Credit Risk:** The Fund is exposed to credit-related risk in the event that a unit trust investment in a derivative or debt security counterparty defaults or becomes insolvent. NBIMC 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. NBIMC 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.

5. Financial Instrument Risk Management (continued)

The maximum credit exposure for the Fund as at December 31 is as follows:

<i>(\$ thousands)</i>	2014	2013 <i>(Unaudited)</i>
Fixed Income		
NBIMC Nominal Bond Fund	\$ 777,752	\$ 754,835
NBIMC Corporate Bond Fund	330,247	325,449
NBIMC New Brunswick Fixed Income Opportunity Fund	6,672	6,721
NBIMC Money Market Fund	109,887	60,384
NBIMC Student Investment Fund	723	628
	1,225,281	1,148,017
Equities		
NBIMC Canadian Equity Index Fund	464,518	415,827
NBIMC Low Volatility Canadian Equity Fund	364	340
NBIMC External Canadian Equity Fund	104	125
NBIMC S&P/TSX Completion Index Fund	—	233
NBIMC Canadian Equity Active Long Strategy Fund	33,243	51,117
NBIMC EAFE Equity Index Fund	912	2,218
NBIMC Low Volatility International Equity Fund	472	516
NBIMC U.S. Equity Index Fund	788	922
NBIMC Low Volatility U.S. Equity Fund	373	268
	500,774	471,566
Inflation Linked Assets		
NBIMC Inflation Linked Securities Fund	456,945	417,788
NBIMC Canadian Real Estate Fund	4,897	—
NBIMC Canadian Real Estate Investment Trust Fund	477	339
NBIMC International Real Estate Fund	726	613
NBIMC Infrastructure Fund	4,170	4,129
	467,215	422,869
Alternative Investments		
NBIMC North American Market Neutral Fund	279	293
NBIMC Quantitative Strategies Fund	861	226
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	—	224
	1,140	743
Contributions receivable	7,094	—
Other receivables	18	51
Total	\$ 2,201,522	\$ 2,043,246

The quality of the maximum credit exposure at December 31 is as follows:

<i>(\$ thousands)</i>	2014	2013 <i>(Unaudited)</i>
AAA	\$ 694,691	\$ 730,539
AA	734,958	608,490
A	482,733	464,093
BBB	95,407	83,437
R-1	170,761	152,336
Other	22,972	4,351
	\$ 2,201,522	\$ 2,043,246

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

5. Financial Instrument Risk Management (continued)

(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, cash and readily marketable assets such as government bonds and publicly traded securities. Uses of liquidity include payments to the plan beneficiaries, purchases of securities and settlement of prior commitments for private equity, real estate and infrastructure investments.

The Fund'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, government bonds are considered the most liquid asset class 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, infrastructure, New Brunswick regional investments, the fair value of collateral pledged with brokers and counterparties and any unfunded investment commitments. The following tables show the determination of net liquid assets as at December 31:

<i>(\$ thousands)</i>	2014	2013 <i>(Unaudited)</i>
Net assets available for benefits	\$ 5,061,482	\$ 4,652,992
Less: investment in NBIMC New Brunswick Fixed Income Opportunity Fund <i>(note 3)</i>	(6,671)	(6,720)
Less: non-publicly traded assets in NBIMC Canadian Real Estate Fund <i>(note 3)</i>	(108,115)	(91,513)
Less: investment in NBIMC Infrastructure Fund <i>(note 3)</i>	(45,301)	(42,721)
Less: investment in NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund <i>(note 3)</i>	(12,510)	(12,986)
Less: investment in NBIMC Private Equity Fund <i>(note 3)</i>	(182,141)	(144,460)
Less: collateral pledged <i>(note 5(a))</i>	(111,129)	(83,945)
Less: investment commitments <i>(note 9)</i>	(155,179)	(153,564)
Net liquid assets	\$ 4,440,436	\$ 4,117,083

(d) **Securities Lending:** The Fund's SIP permits NBIMC to enter into a securities lending arrangement, externally with their securities custodian or internally among the unit trust funds that NBIMC manages, 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 unit trust 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. NBIMC has restricted the approved borrowers under the external securities lending program to manage exposure to counterparty credit risk. As at December 31, 2014, underlying securities in the amount of \$505,545 (2013 – \$487,031) were loaned on behalf of the Fund.

Under the internal securities lending program, certain unit trust funds may loan securities to a borrowing unit trust fund subject to an intra-fund collateral management agreement and a borrowing fee. As at December 31, 2014, underlying securities in the amount of \$28,164 (2013 - \$22,262) were loaned on behalf of the Fund and \$18,210 (2013 - \$22,830) were borrowed.

6. 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:

<i>(\$ thousands)</i>	2014	2013
		<i>(Unaudited)</i>
Fixed Income:		
NBIMC Nominal Bond Fund	\$ 74,523	\$ (13,249)
NBIMC Corporate Bond Fund	26,727	1,052
NBIMC New Brunswick Fixed Income Opportunity Fund	633	(126)
NBIMC Money Market Fund	1,019	384
NBIMC Student Investment Fund	157	90
	<u>103,059</u>	<u>(11,849)</u>
Equities:		
NBIMC Canadian Equity Index Fund	59,232	62,314
NBIMC Low Volatility Canadian Equity Fund	19,717	12,350
NBIMC External Canadian Equity Fund	20,523	26,099
NBIMC S&P/TSX Completion Index Fund	5,214	10,428
NBIMC Canadian Equity Active Long Strategy Fund	12,320	13,751
NBIMC External International Equity Fund	7,906	30,626
NBIMC EAFE Equity Index Fund	23,152	147,039
NBIMC Low Volatility International Equity Fund	14,702	29,549
NBIMC U.S. Equity Index Fund	105,655	166,331
NBIMC Low Volatility U.S. Equity Fund	39,296	39,366
	<u>307,717</u>	<u>537,853</u>
Inflation Linked Assets:		
NBIMC Inflation Linked Securities Fund	55,712	(55,357)
NBIMC Canadian Real Estate Fund	8,961	11,167
NBIMC Canadian Real Estate Investment Trust Fund	9,534	(4,008)
NBIMC International Real Estate Fund	52,891	15,230
NBIMC Infrastructure Fund	2,061	1,423
	<u>129,159</u>	<u>(31,545)</u>
Alternative Investments:		
NBIMC North American Market Neutral Fund	(1,037)	4,493
NBIMC Quantitative Strategies Fund	7,410	5,877
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	(324)	1,081
NBIMC Private Equity Fund	29,232	24,308
	<u>35,281</u>	<u>35,759</u>
Net investment income	<u>\$ 575,216</u>	<u>\$ 530,218</u>

7. Capital

The purpose of the NBTPP is to provide a revised framework for the management and delivery of pensions to teachers in New Brunswick.

The primary focus of the NBTPP is to provide a highly secure lifetime pension at retirement and maintain Scheduled Escalated Adjustments at their target level if the NBTPP can afford it. Furthermore, the intention is that recovery from lower than intended benefits including lower than Scheduled Escalated Adjustments may be provided depending on the performance of the Fund. The Funding Policy is the tool used by the Board of Trustees to manage risks inherent in the pension plan. The Funding Policy sets out a funding goal and a risk management goal as follows:

- (a) The funding goal is to achieve a closed group funding ratio of 100% plus a contingency reserve of 10% for a total of 110% when measured against the funding liabilities at the valuation date.
- (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 funding goal and risk management goal are measured at least triennially 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. Depending upon the testing results, these decisions would involve either the funding excess utilization plan or the funding deficit recovery plan that will ensure future changes to contributions rates and benefits are made within the constraints of the above funding goal and risk management goal.

8. Related Party Transactions

The Fund is related to the Province of New Brunswick including its departments, agencies, school districts, regional health authorities, crown corporations (including NBIMC) and other crown agencies. The Board of Trustees, consisting of an equal number of representatives of the employers and employees, determines the amounts of contributions to and payments from the Fund.

All of the Fund's investments included in the Statement of Net Assets Available for Benefits are in unit trust funds that are managed by NBIMC. The Fund has an undivided interest in the underlying assets of the unit trust 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 unit trust funds are underlying investments in New Brunswick provincial and municipal bonds that are recorded at their fair values as at December 31, 2014 of \$38,291 (2013 – \$30,188).

Contributions from employers and employees for the years ended December 31, 2014 and December 31, 2013 are as shown in the Statement of Changes in Net Assets Available for Benefits.

Payments to the Province of New Brunswick for benefits for the year ended December 31, 2014 and December 31, 2013 are as shown in the Statement of Changes in Net Assets Available for Benefits.

Investment management fees paid to NBIMC for the year ended December 31, 2014 were \$5,236 (2013 – \$4,611). Expenses related to pension administration paid to the Province of New Brunswick for the year ended December 31, 2014 were \$1,611 (2013 – \$1,545). Accounts payable and accrued liabilities as at December 31, 2014 shown in the Statement of Net Assets Available for Benefits include fees payable to NBIMC in the amount of \$870 (2013 – \$704) and expenses related to pension administration payable to the Province of New Brunswick in the amount of \$687 (2013 – \$198).

9. Commitments

The NBIMC Canadian Real Estate Fund and the NBIMC Private Equity Fund 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 Fund's share of unfunded commitments as at December 31 is:

<i>(\$ thousands)</i>	2014	2013
		<i>(Unaudited)</i>
NBIMC Canadian Real Estate Fund	\$ 19,727	\$ 21,738
NBIMC Private Equity Fund	135,452	131,826
	\$ 155,179	\$ 153,564

10. Indemnification

Pursuant to the Agreement and Declaration of Trust, the Trust provides a first lien and charge against the assets of the Fund as indemnification to the Board of Trustees against any liability incurred, including defence costs. The Fund 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 Fund from making a reasonable estimate of the maximum potential payments that may be required. The Fund has not received any claims or made any payments pursuant to such indemnifications.