

Statement of Investment Policies

New Brunswick Teachers' Pension Plan

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INTRODUCTION

The following document forms the Statement of Investment Policies of the New Brunswick Teachers' Pension Plan, herein referenced as the NBTTP (or the Pension Plan or Pension Fund as applicable). It has been approved by the NBTTP Board of Trustees as of May 13, 2015.

The Statement of Investment Policies includes the body of this document. This document has been created as one of the requirements laid out in the *Pension Benefits Act* (the "PBA") and the regulations thereunder and other documents and agreements associated with the *Teachers' Pension Plan Act* (the "TPPA").

The Vestcor Investment Management Corporation ("VIMC") has been appointed by the Board of Trustees as the sole discretionary manager of the Pension Fund. Pursuant to the Investment Management Agreement, VIMC is authorized to invest in pooled vehicles and may invest the assets of the Pension Fund in such pooled vehicles.

This document outlines the investment and reporting guidelines that the Board of Trustees wishes VIMC to follow. It can also be reviewed at the request of the Board of Trustees or upon recommendation from VIMC.

While not part of the Statement of Investment Policies, VIMC's investment operations are also governed by an Investment Procedures Manual, which identifies the role and responsibilities of VIMC's investment staff, and by a Code of Ethics and Business Conduct that sets out guidelines for VIMC's employees and Board members.

A. CHARACTERISTICS OF THE PLAN

In creating this Statement of Investment Policies, the Board of Trustees recognizes that the purpose of the Pension Plan is to provide secure benefits to members of the plan without an absolute guarantee but with a risk-focused management approach delivering a high degree of certainty that base benefits can be met in the vast majority of potential future economic scenarios.

It is also recognized that the Pension Plan structure is dependent on a funding and risk management framework that will:

- i) accrue a contingency reserve such that there is a reasonable expectation that indexing adjustment benefits will be realized, and
- ii) that there will be a very low probability that any benefit adjustments, in addition to increased contributions or the alteration of post retirement benefits, will be necessary.

The Board of Trustees believes that investment risks can be reduced by prudent and thoughtful diversification. The Board of Trustees further believes that diversification is achieved by investing in a variety of asset classes that are expected to behave differently depending on the economic environment. Furthermore, the asset mix must be selected by the Board of Trustees in a manner which takes into account the Funding Policy, the provisions of the Pension Plan, the contributions to the Pension Plan and the Risk Management Goal.

In this context the following general philosophy will apply:

- Given the long term nature of the liabilities, the Pension Fund assets will be managed within parameters of safety and prudence using a balanced investment program including bonds, public and private equities, real estate, and infrastructure. The Board of Trustees may consider limited investments in other types of instruments or investment strategies such as commodities or derivatives provided that the addition of such instruments continues to allow the Pension Fund to achieve the Risk Management Goals and otherwise complies with the applicable requirements of the PBA.

In carrying out the investment function:

- Members of the Board of Trustees and their agents shall exercise the care, diligence and skill in the administration and investment of the Pension Fund that a person of ordinary prudence would exercise in dealing with the property of another person and shall use in the administration and investment of the Pension Fund all relevant knowledge and skill that such member or agent possesses or by reason of that person's profession, business or calling, ought to possess. They must act in the best interests of the members or their beneficiaries and must not permit their personal interests to conflict with the exercise of their duties and powers.

B. RISK TOLERANCE AND FUND OBJECTIVES

One of the objectives in managing the Pension Fund is to meet the Risk Management Goal of achieving 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 Funding Policy provides guidance and specific rules regarding decisions that must or can be made by the Board of Trustees around funding levels, contributions and benefits.

In light of these requirements, the investment strategy employed by the Pension Fund should be consistent with the Funding Policy, the terms of the Pension Plan and the contributions to the Pension Plan.

- In the long term, the objectives will be to not only preserve the capital value of the Pension Fund, but also to provide the best possible long-term real return on investments while continuing to achieve the Risk Management Goal. It is understood that the policy portfolio may experience uneven returns from year to year consistent with general economic and investment cycles, but a diversified portfolio of long-term assets will partially mitigate the variability of the returns.
- Over shorter time periods, the objective will be to achieve competitive rates of return on each major asset class while avoiding undue investment risk and excessive market volatility.

Over the medium term, VIMC is expected to provide rates of return in excess of the policy benchmark returns (see C.3). A value-added contribution of 42 basis points, after deducting all investment management costs, is the portfolio's target four-year moving average rate of return.

C. INVESTMENT POLICY

C.1 Policy Portfolio

The Board of Trustees has targeted the following NBTPP policy portfolio (as a percentage of the market value of assets) based on the Plan Characteristics (as described in Part A), Fund Objectives (as described in Part B), and the Risk Management Goal.

It is also recognized that the transition of the asset weights from the prior Investment Policy target portfolio of the *Teachers' Pension Act* to the NBTPP target portfolio will need to take place in a prudent fashion over a period not to exceed two years from July 2014.

Asset Class	Prior TPA Target Portfolio	NBTPP Target Portfolio
Cash	1.5%	1.0%
Canadian Government Bonds	17.5%	15.7%
Corporate Bonds	7.0%	15.7%
Total Fixed Income	26.0%	32.4%
Real Return Bonds	9.5%	5.0%
Real Estate	4.0%	4.0%
Infrastructure	4.0%	4.0%
Total Inflation Linked	17.5%	13.0%
Absolute Return Strategy	3.5%	8.0%
Public Equity		
Canadian Equity	17.0%	8.0%
U.S. Public Equity	9.2%	6.8%
International Public Equity	13.8%	6.5%
Total Public Equity	40.0%	21.3%
Low Volatility Equity		
Canadian Equity	2.0%	5.0%
U.S. Public Equity	3.0%	6.8%
International Public Equity	3.0%	6.5%
Emerging Markets Public Equity	0.0%	3.0%
Total Low Volatility Equity	8.0%	21.3%
Private Equity	5.0%	4.0%
Total Equity	53.0%	46.6%
Total Assets	100.0%	100.0%

Absolute Return Strategy portfolios will use macroeconomic and industry themes to develop investment strategies that are not directly correlated to equity indices. Net individual company securities will not exceed 5.0% of the Absolute Return Strategy portfolios. Cash underlay will be held equal to all short positions to preclude leverage.

VIMC will transition the actual portfolio benchmark weights between the above noted Target Portfolio levels prudently over time as market conditions permit. The transition progress will be reported to the NBTPP Board of Trustees on a quarterly basis as part of the regular reporting guidelines.

Actual portfolio benchmark weights are permitted to deviate from policy target weights due to market price movements. Canadian Public Equity, Foreign Public Equity, Canadian Short Term Assets and the combination of Canadian Government Bonds and Canadian Corporate Bonds will be rebalanced to policy target weights if they exceed a deviation of +/- 1%. Actual benchmark weights for Real Estate and Infrastructure, Canadian Real Return Bonds, Absolute Return and Private Equity may deviate further from policy target weights due to availability and the relatively high transaction costs associated with their implementation. VIMC will use its best efforts to obtain / maintain policy target weights for all asset classes.

In the case of Private Equity, which is the most illiquid asset class, under or over-invested amounts will be adjusted against the relevant Public Equity asset class.

C.2 Tactical Asset Allocation

Modest deviations from benchmark are permitted to allow management to maximize returns and limit potential losses by taking advantage of relative pricing opportunities among asset classes.

Permitted Tactical Deviations from Benchmark

	Deviations from BM
Canadian Public Equities	± 2.5%
Foreign Public Equities	± 2.5%
Alternative Investments	± 1.0%
Real Estate & Infrastructure	± 1.0%
Canadian Government Bonds	± 4.0%
Canadian Corporate Bonds	± 4.0%
Canadian Real Return Bonds	± 2.0%
Canadian Short-Term Assets	± 1.5%

Note: Alternative Investment ranges, which include Absolute Return Strategies, and Private Equity assume a fully-invested position.

Notwithstanding the benchmark portfolio and asset allocation ranges shown above, the Board of Trustees may, at its discretion, authorize temporary asset allocation positions outside those ranges where appropriate including during the transition period following the conversion of the previous TPA Plan to the TPPA, to accommodate a Fund restructuring, a transition between Fund Managers or a Fund Manager request submitted in writing and providing the rationale for the request. If a permanent deviation is contemplated, this Statement of Investment Policies and Goals will be amended and filed as required by relevant pension legislation.

C.3 Performance Benchmarks

VIMC's relative performance in various markets will be evaluated against the following industry benchmarks indicated below.

Asset Classes and Respective Benchmarks	
Asset Class	Benchmark ¹
Canadian Standard Public Equity	S&P/TSX Total Return Composite Index
Canadian Low Volatility Public Equity	MSCI Canada Minimum Volatility Total Return Index
Foreign Standard Public Equity	
U.S.	S&P 500 Total Return Composite Index in \$C
Non U.S.	MSCI EAFE Net Total Return Index in \$C
Foreign Low Volatility Public Equity	
U.S.	MSCI USA Minimum Volatility (USD) Total Return Index, in \$C
Non U.S.	MSCI EAFE Minimum Volatility (USD) Total Return Index, in \$C MSCI Emerging Markets Minimum Volatility Daily Net Total Return Index, in \$C
Real Estate & Infrastructure	
Public U.S. Real Estate	FTSE – NAREIT Index in \$C
Public Canadian Real Estate	S&P/TSX Capped REIT Index
Private Real Estate and Infrastructure Investments	4% Real Return
Private Equity	S&P/TSX Total Return Composite Index for Canadian based partnerships, S&P 500 Total Return Composite in \$C for U. S. based partnerships, and MSCI EAFE Net Total Return Index in \$C for internationally-based (ex. U.S.) partnerships.
Absolute Return Strategies	91 Day T-Bill (93%) plus One-day Call Loan (7%)

¹ Low Volatility Canada, US and International Benchmarks effective October 1, 2014.

Asset Classes and Respective Benchmarks

Asset Class	Benchmark ¹
Canadian Government Bonds	FTSE TMX Canada All Government Bond Index
Canadian Corporate Bonds	FTSE TMX Canada All Corporate Index
Canadian Real-Return Bonds	FTSE TMX Canada Real Return Bond Index
Canadian Short-Term Assets	91 Day T-Bill (93%) plus One-day Call Loan (7%)

The benchmarks, or components thereof, are created and published by external organizations; thus, they are deemed credible. They are also similar to those typically used by other institutional investors for such investment activities.

C.4 Permissible Investments

Subject to compliance with the applicable requirements in the *Pension Benefits Act* and Regulation 91-195 and any applicable *Income Tax Act* (Canada) requirements, the following are permissible investments for the Pension Fund:

Public Equity

- VIMC is permitted to invest in equity instruments traded on exchanges of countries included in the Fund's benchmark portfolio as well as financial vehicles (listed or unlisted) that are convertible into equities traded on those same exchanges.
- Passive index portfolios will contain all of the securities in the respective benchmark.
- On the above securities, VIMC is additionally allowed to execute short sales.
- Direct holdings of any one stock measured at book value will be limited to 10 percent of the total assets.
- Low volatility portfolios will contain a minimum of 75 securities.

Fixed Income

- Canadian Nominal and Canadian Real Return Bond Portfolio investments are limited to investment-grade government securities (defined as BBB or higher by S&P and DBRS; and Baa and higher by Moody's). Government securities include those issued, guaranteed, or secured by the Government of Canada or its agencies; or a province, territory or municipality of Canada. Notwithstanding these permissible investments, up to 5% of these combined portfolios may be invested in investment grade non-government

debt.

- The Corporate Bond Portfolio may invest up to 10% of the portfolio in non-rated and/or non-investment-grade rated debt. Non-investment grade rated debt however must be rated at least BB or higher by the above noted agencies.
- Foreign currency bonds are limited to those issued by the Government of Canada or its guarantees; provinces or their guarantees; and other admissible foreign national governments² or investment grade rated corporations.
- Securities issued by a non-Canadian entity are limited to 10 percent of the Canadian Nominal Bond asset class and may be hedged against currency risk.
- Investments in short-term securities shall be limited to:
 - Treasury bills and promissory notes issued or guaranteed by the Government of Canada, any Canadian province, or Treasury bills of other admissible foreign national governments;
 - Deposit receipts, bearer notes, certificates of deposit, acceptances, swapped deposits and other similar instruments issued or endorsed by one of the six major Schedule I Canadian chartered banks³; and
 - Commercial paper issued by companies rated A2 or higher by S&P or R1 Low or higher by DBRS,
 - Asset Backed Commercial Paper (ABCP) rated R1 High by DBRS or A1 by S&P.
 - Additional eligible investments include coupons, residuals, and bonds (with a duration not to exceed 14 months) , Floating Rate Notes (FRNs) issued by eligible entities with a term less than three and four years for corporate and provincial FRNs respectively, futures and options on Bankers' Acceptances (BAs).
- Any fixed income security owned by the fund that fails to meet the above criteria due to unanticipated credit downgrades or other unforeseen circumstances, shall be brought to the attention of the Board of Trustees at its next meeting.

Derivatives

- The purchase of futures on equity and fixed income markets in Canada, United- States, and MSCI EAFE countries is allowed, provided that the equivalent amount is held in underlying money market securities to preclude the use of leverage.
- The use of foreign currency futures or forward contracts on currencies within our investment universe is permitted.

² United-States, Asian and European countries in line with the MSCI EAFE Index are all eligible.

³ These banks are the Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Toronto-Dominion Bank, Bank of Nova Scotia, and the National Bank of Canada.

- VIMC may short futures on any of the equity markets where it can hold futures, as long as the total exposure for each market individually remains within the limits set in the Statement of Investment Policies.
- VIMC may hold total return swaps on permissible investment vehicles, when the swap is demonstrably more profitable than buying futures, index-based baskets, or the underlying credit in another market.
- VIMC is permitted to enter into Interest Rate Swaps and Cross Currency Swaps against an underlying debt instrument.
- Swaps will be valued according to conventions set out in the Investment Procedures Manual.
- Volatility derivatives are considered an eligible investment for the purposes of adding value in the management of the portfolio. The underlying investment could be futures or total return swaps unless they are already offset by a short call option.
- VIMC is permitted to buy or sell options on fixed income, equity, and foreign exchange futures, cash market indices for Canada, United-States, and MSCI EAFE countries, and individual securities that are considered permissible investments described above.
- Options must be supported with a sufficient amount of physical exposure or cash underlay in the event the option is exercised and the underlying assets need to be sold or purchased.
- Options may be transacted either through physical option exchanges or through permitted external banks and dealers.

Inflation-linked Investments

- Investments that are expected to provide inflationary return characteristics are typically less correlated to more traditional equity and/ or fixed income asset classes. Real estate and infrastructure assets have been identified as providing these types of long-term return characteristics.
- Real Estate and Infrastructure investments must be domiciled in Canada, the U.S., or other OECD countries and can be made directly, through publicly-traded real estate investment trusts or by means of externally managed structured vehicles such as limited partnerships, or pension realty corporations. It is understood however that the profile of investment vehicles in real estate and infrastructure are opportunistic in nature, and may therefore have some exposure to countries outside of these primary limitations.

Private Equity

- Private Equity investments must be primarily domiciled in Canada, the United States, or MSCI EAFE countries. It is understood however that the profile of investment vehicles in the private equity industry is opportunistic in nature, and may therefore have some exposure to countries outside of these primary limitations.
- These investments are to be completed primarily through externally managed structured vehicles such as limited partnerships.
- Investments are to be diversified by manager, geographic region, vintage year, and life cycle stage (i.e. buy-outs, venture capital, secondary transactions), while recognizing that the illiquid nature of this type of investment may result in some concentrations from time to time.

External Managers

- VIMC is allowed to invest in permissible assets indirectly, by using an external manager. When funds are invested through an external manager, the majority of the investments must be domiciled in Canada, the United States, or MSCI EAFE countries.
- Mandates extended to external managers should not exceed 25 percent of assets under management, measured at market value.
- For any one external manager, the mandate shall not exceed 5 percent of assets under management, measured at market value. Index mandates are exempt from this limit.
- External mandates will be used for investment in markets where VIMC does not have the necessary expertise to provide effective active management or to provide additional diversification benefits.

Securities Lending

- With regard to the fund's holdings of traditional bonds and stocks, VIMC is permitted to engage in securities lending and dividend re-investment plans to add to returns. Internal securities lending, because it involves both a passive index portfolio as the lender and an active portfolio as the borrower, may result in situations where there could be a conflict of interest between these portfolios pertaining to corporate action elections. Accordingly, the passive index portfolio will decide all corporate action elections.

C.5 Basis for Valuation of Investments Not Regularly Traded

For securities not traded on a public market, such as non-traded pooled or closed funds, limited partnership interests, private placement bonds or equity investments, fair value is a subjective process. Private investment fund valuations are initially provided by the external fund managers and are estimated using one or more methodologies, including discounted cash flows, multiples of earning measures, third party valuation and comparable recent transactions. VIMC's Chief

Financial Officer and the Vice President, Private Markets, review the external valuations quarterly. An internal Valuation Committee, consisting of the aforementioned positions, as well as VIMC's Chief Executive Officer/Chief Investment Officer, Vice President Fixed Income, Senior Portfolio Manager, Private Markets, and the Manager, Operations also meets annually to consider the need to adjust the valuation estimates.

D. PERFORMANCE EVALUATION

D.1 Pension Fund Performance

To evaluate the Pension Fund's performance in a given period, the following steps are required:

1. Determine the rate of return of the Pension Fund's portfolios based on the fair value of their assets;
2. Calculate the benchmark return by multiplying index rates of returns for all asset classes by the respective benchmark weights;
3. The difference between those two measures represents VIMC's gross contribution to the Pension Fund's performance on a \$C basis.

D.2 Portfolio Performance

Individual portfolio performance is obtained by calculating the difference between the rate of return on each portfolio based on market valuation of assets and the rate of return on the relevant benchmark index.

D.3 GIPS® Compliance

VIMC complies with the composite construction requirements of the CFA Institute's Global Investment Performance Standards (GIPS®) on a firm-wide basis. VIMC has designed its processes and procedures to calculate and present performance results in compliance with GIPS®.

E. CONFLICTS OF INTEREST

E.1 Conflict of Interest

The Board of Trustees, each member of the Board of Trustees, and any agent or employee of the Board of Trustees are subject to a statutory duty to avoid conflict of interest situations or situations where there may be a perception of a potential conflict. A conflict of interest may appear when an individual is put in a position of judging between the interest of the NBTPP and his/her personal interests or those of another party in which they may have an interest. When conflicts are present, the Board, Board members and their agents and employees are under a statutory duty to carry out the purposes of the NBTPP. Furthermore, individuals who are acting as a fiduciary must hold their fiduciary duty above their personal interests.

E.2 Disclosure and Elimination of Conflict

Any member of the Board of Trustees or any agent or employee of the Board of Trustees who believes that he/she/it has or may have an actual or potential conflict of interest or may be in a situation which could give rise to a perception of a conflict of interest must report it as soon as practicable to the person the individual reports to. For Board members and agents of the Board, that person is the Chair of the Board. If the Chair of the Board believes he/she has or may have an actual or potential conflict of interest or may be in a situation which could give rise to a perception of a conflict of interest, he/she must report it as soon as practicable to the Vice-Chair of the Board.

All efforts must be taken to remove the conflicted individual from situations where decisions, opinions or actions are required in regards to the conflict issue.

E.3 Related Party Transactions

The assets of the Pension Fund shall not be loaned to or, except where they are traded publicly, invested in the securities of:

- (a) a member of the Board of Trustees,
- (b) an officer or employee of the Board of Trustees,
- (c) a person responsible for holding or investing the money of the Pension Fund or any officer or employee of such person,
- (d) a trade union representing members of the pension plan or an officer or employee of the trade union,
- (e) an employer who contributes to the plan, an employee of the employer and, where the employer is a corporation, an officer or director of the employer,
- (f) the spouse, common-law partner or child of any person referred to in paragraphs (a) to (e),
- (g) an affiliate of a person referred to in (a) to (f).

Notwithstanding the foregoing, the assets of the Pension Plan may be invested in securities issued by the Province of New Brunswick or any agency or Crown Corporation of the Province of New Brunswick. Furthermore as discussed above, the assets of the Pension Fund may be invested in pooled investment vehicles established by VIMC. Such pooled investment vehicles are managed by VIMC on a discretionary basis subject to conflict of interest policies adopted by VIMC and the provisions of this Part E shall not operate to restrict or limit transactions by any such pooled investment vehicles or between the Pension Fund and any such pooled investment vehicle.

F. POLICY REVISIONS AND IMPLEMENTATION

An investment policy should provide managers with a stable and predictable environment in which to form and implement sound investment decisions. However, a policy is a tool that can evolve, improve, and be flexible to changing conditions.

As per subsection 13(4) of Regulation 2012-75 of the PBA, this Statement of Investment Policies must be reviewed within one month after the end of each plan year. It can also be reviewed more frequently either at the request of the Board of Trustees or upon recommendation from VIMC staff.

G. MISCELLANEOUS

The voting rights on shares held by VIMC on behalf of the NBTPP shall be exercised by VIMC according to its objective of maximizing returns to shareholders and in compliance with its proxy voting policies as described in the NBIMC Responsible Investment Guidelines.

The NBTPP Board of Trustees delegates to the President and Chief Executive Officer, and the President and Chief Executive Officer may delegate to any Vice-President, voting rights on shares held by VIMC on behalf of the pension fund. Moreover, the President and Chief Executive Officer (or any Vice-President as proxy), if he/she believes it is warranted, shall consult with the Chairman of the Board of Trustees to determine whether a Board of Trustees meeting is required when the vote involves complex issues.

While all investment decisions of VIMC are subject to paragraph C.4 (Permissible Investments), for ease of management and to ensure equal returns in every asset class with other funds managed by VIMC, the NBTPP holds units of the pooled investment funds managed by VIMC for each asset class.