PSSRP UPDATE

IN THIS ISSUE

Fall 2015

Public Service Shared Risk Plan

Volume 3

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MESSAGE FROM THE CHAIRPERSON

When the Board of Trustees was formed in 2014 to assume responsibility for the Public Service Shared Risk Plan (PSSRP), we knew that communication with all members must be a priority.

With that goal in mind, we organized the first Annual General Meeting (AGM) on September 23 (see below). We also delivered our first Annual Report, which details the Plan's performance in 2014 (available at www.gnb.ca/pssrp). We will keep you updated on important PSSRP matters as we continuously look to improve our communications. We will also rely on your feedback in order to improve our service to you. Please refer to our "Questions about the PSSRP?" card on page 3.

Your Board of Trustees is keenly aware of the complex nature of the PSSRP and the different opinions regarding the actuarial assumptions on which the Plan is based. We have also seen continuing commentary on the merits of a shared risk plan. While we understand there may be concerns, we can assure you that your Board is performing its duties as it should. Our actuarial valuations have been approved by the New Brunswick Superintendent of Pensions, and the Plan has performed well over its two years of operations.

In the coming year we will continue to remain focused on our main responsibilities as your Board to provide the necessary oversight to ensure the Plan's success, manage risk, and act in the best interest of all Plan members.

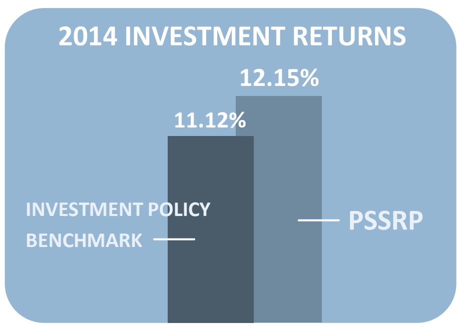
Sincerely,

Marilyn Quinn, PSSRP Chairperson

PSSRP HIGHLIGHTS

ASSETS AS OF DECEMBER 31, 2014

$6.57 BILLION



COST OF LIVING ADJUSTMENT

1.49%

SEE ARTICLE ON PAGE 3

PSSRP ANNUAL GENERAL MEETING

On September 23, 2015, the PSSRP Board of Trustees hosted an annual general meeting for all active and retired members. This was the first AGM since the plan was established, and it was an opportunity to hear about the PSSRP's progress in 2014. The meeting, held at the Delta Fredericton, was open to 250 on-site participants, and more than 180 plan members registered to join by conference call.

Yves Plourde, of the actuarial firm Morneau Shepell, delivered a presentation on the Plan's valuation, while John Sinclair, CEO of the New Brunswick Investment Management Corporation (NBIMC), spoke about the Plan's investment performance. The Board of Trustees then opened the floor for questions from attendees. Over the next hour, the Board and the evening's presenters addressed a number of questions related to how the Plan is administered and its performance over the last year.

At the conclusion of the AGM, attendees were invited to provide feedback that will be used to improve these meetings in future years. More than 100 people shared their thoughts through paper forms and an online survey. The most commonly shared feedback was to provide the Annual Report well in advance of the next AGM so members are able to prepare questions for the Board of Trustees and presenters. Other feedback included: providing more information on Board members' backgrounds, offering a waiting list to attend the AGM in person, and exploring technologies to improve the participation of members around the province. All feedback will be considered as we prepare for the AGM in 2016. Once again, we thank all Plan members for their participation and interest in this event.

If you were unable to attend the AGM, or would like to review the presentations, go to www.gnb.ca/pssrp. An audio file of the meeting along with the Annual Report and two PowerPoint presentations are available under "Latest Information."

ACTUARIAL VALUATION

VALUATION AS A SHARED RISK PLAN

The Actuarial Valuation Report for the PSSRP was completed as of January 1, 2015. As a shared risk plan, the PSSRP is subject to requirements under the *Pension Benefit Act* (*PBA)* when completing an annual valuation, which includes risk management testing and reporting on risk management goals.

RISK MANAGEMENT TESTING

Shared risk plans are required to undergo a series of annual risk management tests to ensure their security and ability to provide long-term benefits to their members. The results of these tests may cause the need for shorter-term adjustments, as outlined in the *PBA* and the PSSRP Funding Policy, in any one year to help preserve the long-term financial health of the Plan.

We are pleased to report that the Plan's actuary has confirmed that the PSSRP has successfully passed these tests as part of their annual actuarial report as of January 1, 2015:

- The PSSRP passed the Primary Risk Management Goal with a 98.55% probability that benefits earned would not be reduced over the next 20 years.
- The PSSRP passed the first Secondary Risk Management Goal with an assumption that PSSRP Plan members and retirees will receive 85.9% of CPI over the next 20 years.
- The PSSRP passed the second Secondary Risk Management Goal with an assumption that 97.8% of ancillary benefits (i.e., early retirement subsidy) will be provided over the next 20 years.

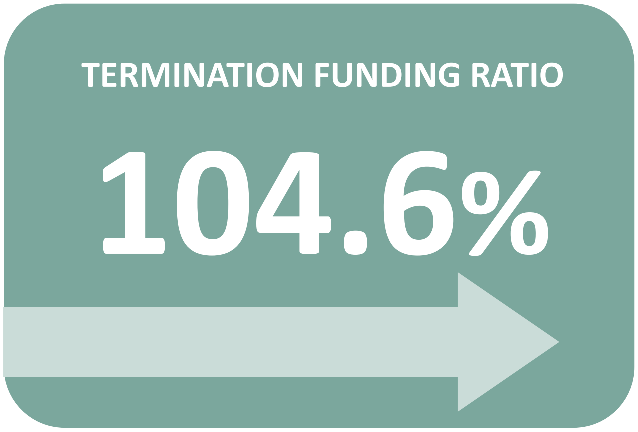
FUNDING STATUS OF THE PLAN

The *PBA* requires that the funding status of the pension plan be measured on two separate bases as part of the valuation:

Termination Funding Ratio

This ratio compares the fair market value of the Plan's assets to the Plan's liabilities at January 1st of every year and is used in the calculation of a member's benefits on termination of employment, death, marriage breakdown or retirement.

As of January 1, 2015, the Plan had $6.57 billion in assets and $6.28 billion in liabilities for a termination value funded ratio of 104.6%.



15-Year Open Group Funded Ratio

This is a very important ratio as it measures the Plan's ability to provide the benefits earned to date. It is also used to determine the actions, such as granting indexing, to be taken by the Board under the Plan's Funding Policy.

This ratio compares the fair market value of the Plan's assets, plus the present value of excess contributions over the next 15 years to the Plan's liabilities at January 1st of every year.

As of January 1, 2015, the Plan's open group funded ratio is 123.7%.

DID YOU KNOW?

If you are a retiree, you can receive future communiqués from the Board via email. Simply call the Pensions and Employee Benefits Division toll free at 1 (800) 561-4012 or (506) 453-2296 (Fredericton) and provide them with your email address.

FULL COST OF LIVING ADJUSTMENT PROVIDED FOR 2015

On September 18, 2015, the Board of Trustees announced that it had approved a full cost of living adjustment for 2015.

"Each year, the pension plan is taken through a series of risk management tests, as outlined in the PSSRP Funding Policy, that determine its financial health," said Board chairperson Marilyn Quinn. "With the positive performance of plan investments over the last year, the PSSRP will provide a full cost of living adjustment to members."

The 2015 adjustment is 1.49 per cent, and is based on the increase in the average of the Consumer Price Index (Canada) for the 12-month period ending the preceding June. It will be applied on January 1, 2016.

Active members will have the increase applied to the benefit that they have earned up to December 31, 2014. Retirees will have this amount applied to their monthly pension benefit and will receive notification in December outlining the increase they will receive in their monthly benefit starting in January 2016.

PENSION PLAN TEXT AMENDMENTS

New Brunswick's *Pension Benefits Act (PBA)* requires that members be provided with an update on any amendments to the PSSRP Text. The following amendments were filed in 2015:

Plan Text

- Subsection 12.1 (iv)
    - Added wording to clarify that any bridge benefit received by the member would be considered when determining whether a residual benefit is payable.
- Appendix E
    - Added FacilicorpNB as an employer as of January 1, 2014 as it had been inadvertently omitted.
    - Added the International Brotherhood of Electrical Workers (IBEW) Local 37 as an employer as of February 6, 2015.

Funding Policy

- Section V: Funding Excess Utilization Plan, C. Other Actions
    - Added wording to clarify how the Consumer Price Index (CPI) is calculated.

QUESTIONS ABOUT THE PSSRP?

1 (800) 561-4012 (Toll free) or
(506) 453-2296 (Fredericton)

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pensions@gnb.ca

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MID-YEAR INVESTMENT REPORT

INVESTMENT OBJECTIVES

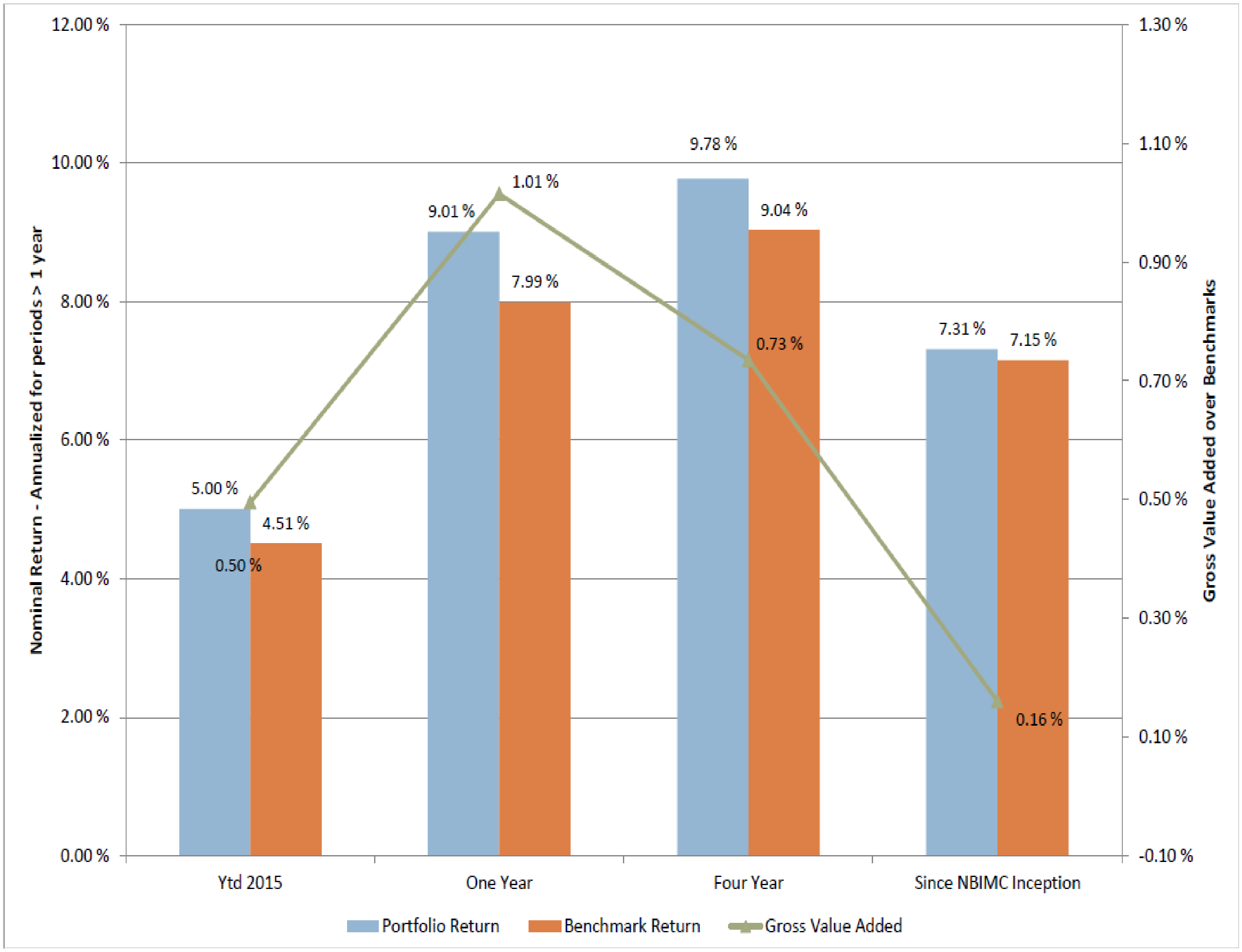
The long-term objectives for the investment of the pension funds are to preserve the capital value, provide the best possible long-term real return on investments and achieve the risk management goals as set out in the Funding Policy and the regulations under the *Pension Benefits Act*.

NB Investment Management Corp.
Société de gestion des placements NB

INVESTMENT RETURNS

We are pleased to report that the gross investment return for the PSSRP Trust for the six months ended June 30, 2015 was 5.0% compared to its total fund benchmark of 4.51%. This mid-year result, and each of the longer-term results, exceeds the 4.75% annual long-term return required by the independent actuary. Investment returns were generally solid across each asset class as all but one of our investment portfolios produced positive nominal returns for the six months ended June 30, 2015.

NBIMC's active investment management activities produced gross investment value of 0.50% over the investment policy benchmarks during this six-month period.



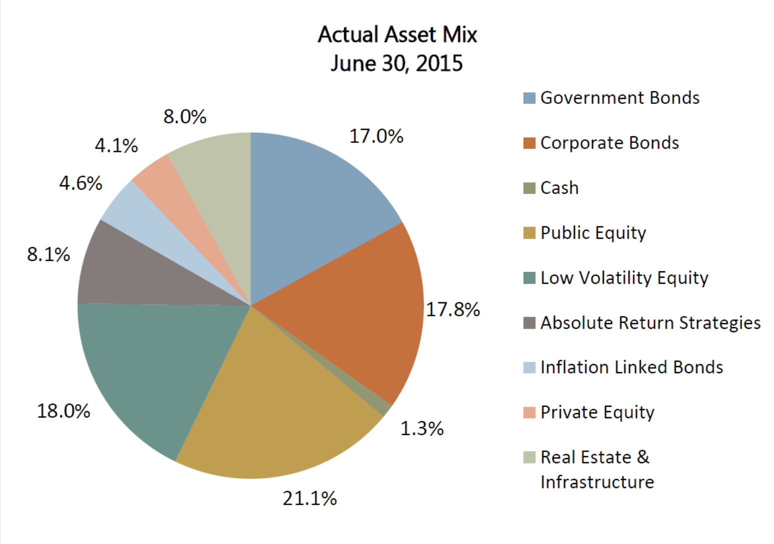
Total investment management costs remained low at approximately $5.8 million or 0.086% of assets under management.

INVESTMENT ASSETS

The fair value of the PSSRP Trust assets at June 30, 2015 was $6.82 billion, up $259.4 million from the December 31, 2014 fair value.

We are pleased to report that we have now substantially completed the transition of the pension fund from the former *PSSA* asset mix to the new asset mix approved by the PSSRP Board in August 2014. Further diversification of real estate and infrastructure investments will take place on an opportunistic basis in the future.

This pie chart outlines our asset mix at June 30, 2015.



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.