NBPSPP UPDATE

(formerly the PSSRP)

Fall 2016

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Questions about the NBPSPP?

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New Brunswick Public Service Pension Plan

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Full cost of living adjustment of **1.40%** to be awarded on January 1, 2017

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All risk management tests were **passed** as of December 31, 2015

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Termination Value Funded ratio of **106.9%** at December 31, 2015

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Pension Fund grew by $360 million in 2015 to end the year at **$6.93 billion**

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A NEW NAME - NEW BRUNSWICK PUBLIC SERVICE PENSION PLAN

In 2016, the Board of Trustees embarked on a process of building its mission and vision for the future and, as part of this process, decided to change the name of the pension plan. In April of 2016, the Board voted to rename the Plan as the New Brunswick Public Service Pension Plan (NBPSPP).

2016 ANNUAL GENERAL MEETING

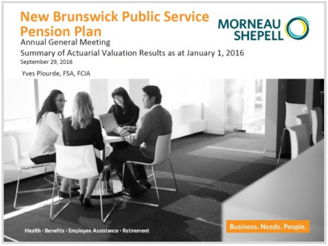
The NBPSPP held its second Annual General Meeting in Moncton on September 29, 2016. Plan members were able to attend the event onsite or through the live webcast.

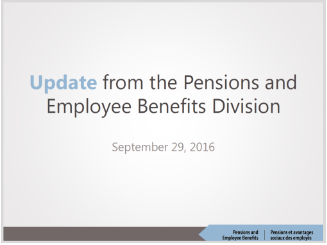
As part of the agenda, the participants received the following presentations:

Role of the Board of Trustees

2015 Investment Performance

2015 Actuarial Results





Update from the day-to-day administrator of the plan

You can watch the recorded webcast by visiting www.vestcor.org/nbpspp.

FULL COST OF LIVING ADJUSTMENT OF 1.40% TO BE PROVIDED

On September 14, 2016, the Board of Trustees announced that following a review of the results of the Actuarial Valuation Report for the NBPSPP that was completed as of January 1, 2016, it had approved a full cost of living adjustment of 1.40 percent.

"The financial position of the pension plan is such that it allows us to once again provide the full cost of living increase to plan members," said Marilyn Quinn, Chair of the NBPSPP Board. "The plan has provided the full cost increase every year since 2014, when the plan converted to a shared risk plan".

The adjustment will be applied on January 1, 2017, and is based on the increase in the average of the Consumer Price Index (Canada) for the 12-month period ending June 30, 2016.

Active members will have the increase applied to the benefit that they have earned up to December 31, 2015. Retirees will have this amount applied to their monthly pension benefit effective January 2017 and will receive notification outlining the increase that they will receive this December.

VESTCOR ORGANIZATION OPERATIONAL

The new organization has officially been in place since October 1, 2016. The Pensions and Employee Benefits Division became Vestcor Pension Services Corporation (VPSC), and the New Brunswick Investment Management Corporation became Vestcor Investment Management Corporation (VIMC).

Jointly-owned by the New Brunswick Public Service Pension Plan (NBPSPP) and the New Brunswick Teachers' Pension Plan (NBTPP), these not-for-profit organizations follow industry best practices and are a natural evolution in servicing the plans. They will provide services to their current clients but will also be better able to accept new public sector clients for pension and employee benefit plan administration and/or investment management services. Adding new clients can potentially reduce the expense to each individual plan by spreading these administrative costs over more clients, which benefits all clients.

You will continue to be served by the same expert team that has been providing services to your plan for years. For more information, visit Vestcor.org.

SOCIÉTÉ DES SERVICES DE RETRAITE
VESTCOR
PENSION SERVICES CORPORATION

SOCIÉTÉ DE GESTION DES PLACEMENTS
VESTCOR
INVESTMENT MANAGEMENT CORPORATION

ACTUARIAL VALUATION

VALUATION AS A SHARED RISK PLAN

The Actuarial Valuation Report for the NBPSPP was completed as of January 1, 2016. As a shared risk plan, the NBPSPP is subject to requirements under the *Pension Benefits 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 NBPSPP 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 NBPSPP has successfully passed these tests as part of their annual actuarial report as of January 1, 2016:

✓ The NBPSPP passed the Primary Risk Management Goal with a **98.55%** probability that benefits earned would not be reduced over the next 20 years.

✓ The NBPSPP passed the first Secondary Risk Management Goal with an assumption that NBPSPP Plan members and retirees will receive **83.2%** of CPI over the next 20 years.

✓ The NBPSPP passed the second Secondary Risk Management Goal with an assumption that **97.7%** 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 VALUE FUNDED 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, 2016, the Plan had $6.93 billion in assets and $6.48 billion in liabilities for a termination value funded ratio of 106.9%.

15-YEAR OPEN GROUP FUNDED RATIO

- This is an 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, 2016, the Plan's open group funded ratio is 125.4%.

MID-YEAR INVESTMENT REPORT
(FOR JANUARY 1 TO JUNE 30, 2016)

SOCIÉTÉ DE GESTION DES PLACEMENTS
VESTCOR
INVESTMENT MANAGEMENT CORPORATION

INVESTMENT OBJECTIVES

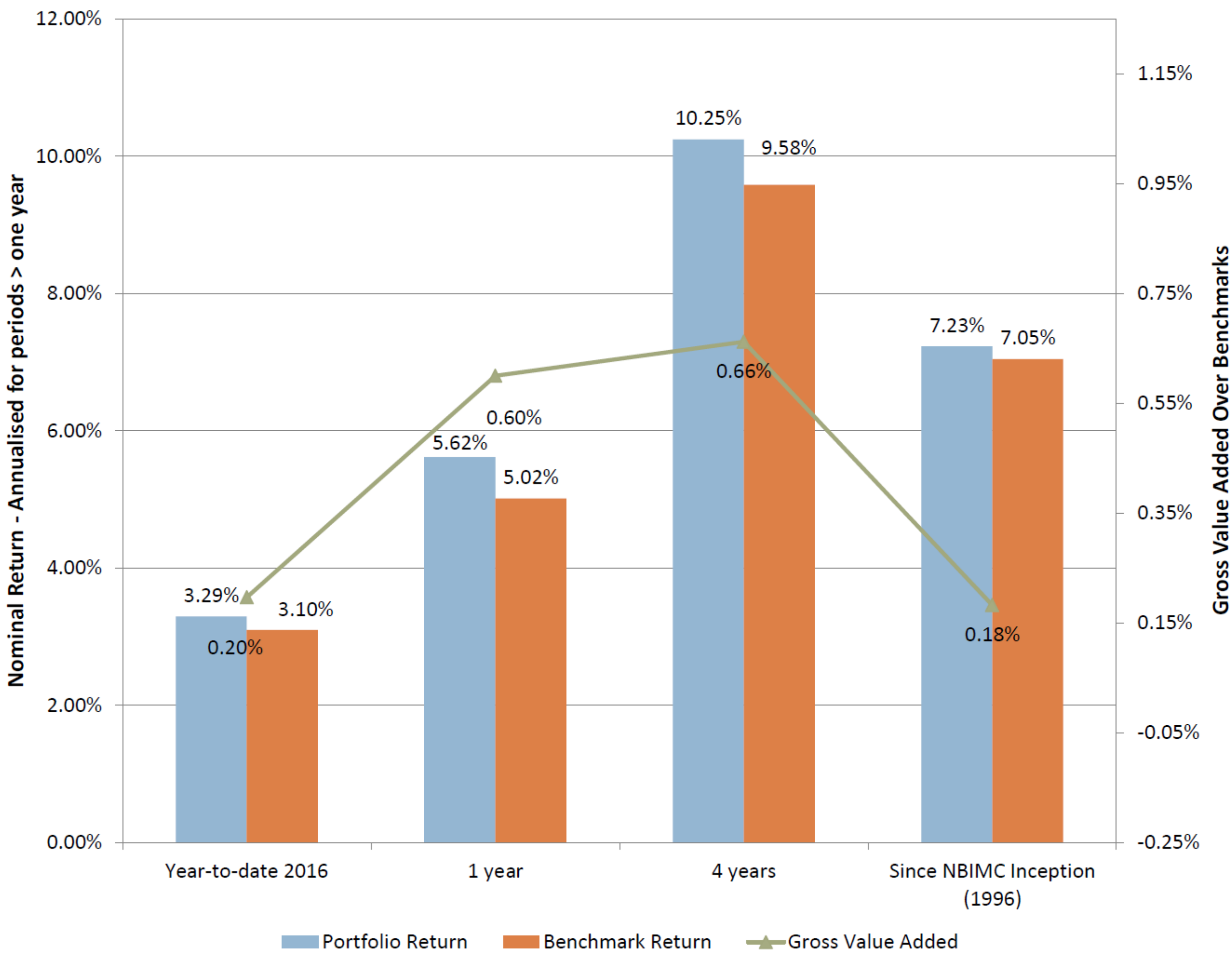
The long-term objectives for the investment of the pension fund are to preserve the capital value, provide the best possible long-term real return on investments and achieve the risk management goals as set out in the Funding Policy and the regulations under the *Pension Benefits Act*.

INVESTMENT RETURNS

We are pleased to report that the gross investment return for the NBPSPP Trust for the six months ended June 30, 2016 was 3.29% during a challenging investment environment. This compared favourably to a total fund benchmark return of 3.10%. Long-term investment results remain in excess of the 4.75% annual long-term return required by the independent actuary. Investment returns were generally solid across each asset class as most of our investment portfolios produced positive nominal returns for the six months ended June 30, 2016.

VIMC's active investment management activities continue to produce gross investment value of approximately 0.20% over the investment policy benchmarks during this six-month period.

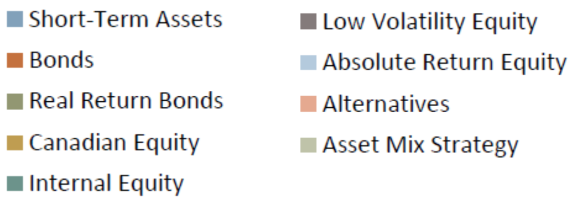
As of June 30, 2016

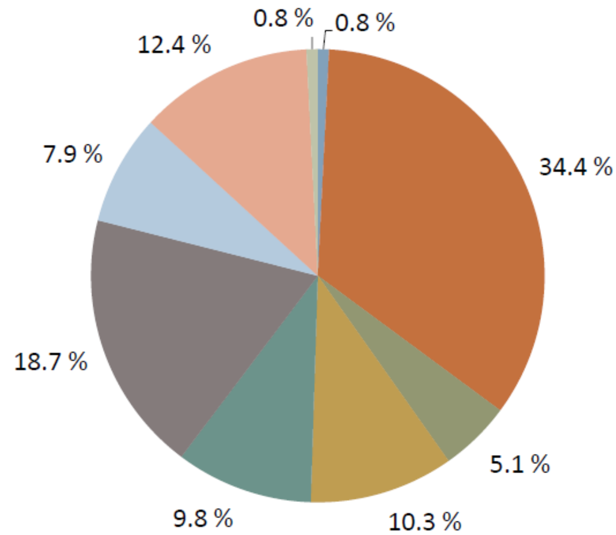


Total investment costs remained low at approximately $5.283 million or 0.07% of assets under management.

INVESTMENT ASSETS

The fair value of the NBPSPP Trust assets at June 30, 2016 was $7.065 billion, up $154 million from the December 31, 2015 fair value. Investment asset mix weights were held fairly close to investment policy targets during the period and the following pie chart outlines our asset mix at June 30, 2016:





INVESTMENT OUTLOOK

Financial markets started 2016 in a volatile fashion with many of the negative themes we had seen from time to time in 2015 reappearing with a vengeance. The Chinese equity market dropped significantly during the first week of trading due to the recurring concerns of declining economic growth and a further lack of confidence with their local stock markets. A more general global recession fear subsequently took hold as energy and materials prices declined further, U.S. corporate exports continued to struggle due to the high $US, and European banking system funding concerns re-emerged.

The financial markets also struggled to try to interpret the impact of the new US Federal Reserve Board (Fed) interest rate tightening cycle that started in December, while almost all other global central banks continued to have a very accommodative monetary policy. This policy differential continues to have a significant impact on the value of the $US, resultant global trade flows, and ultimately corporate earnings growth.

Market concerns were partially mitigated in February and March due to supportive statements from the European Central Bank and the US Fed, and continued slow but positive economic and corporate performance. Volatility however re-emerged strongly in late June thanks to the surprising outcome of the UK “Brexit” referendum to end their European Union membership. Most market pundits and economic indicators had forecasted a “remain” verdict, and the opposite outcome came as a significant shock to financial markets. European asset prices were impacted significantly with the UK currency in particular depreciating materially.

Considering the unknown impact of Brexit on an already low global economic growth rate, Central Bank interest rate increases are now firmly expected to be on hold until more measurable impacts become evident. Fixed Income market yields have continued to move significantly lower due to an even larger appetite for yielding assets, and riskier corporate and sovereign debt has showed strong gains.

North American and Asian (e.g., Japan) equity markets were generally positive during the period, while the Brexit shock negatively impacted European equities. A stronger Canadian dollar, after many months of decline, also negatively impacted foreign asset returns in $C terms. Defensive higher dividend-paying equity securities performed well due to the above noted interest in yield. Financial company stocks were particularly hard hit due to a combined concern around the Brexit related impact to the already weak European financial sector and the view that continued low interest rates will impact income growth opportunities.

Our near term view remains generally unchanged from prior periods. Although the absolute level of interest rates has continued to move lower there continues to remain a strong demand for perceived safe haven yield producing assets, and we therefore feel that rates can continue to remain at these relatively low levels for some time. The increased economic uncertainty brought about by the UK Brexit situation, in combination with the increasingly divisive upcoming US election will likely continue to keep markets volatile. We also continue to remain cautiously biased towards equities as a more attractive asset class versus a number of similar highly priced alternative choices in a continued low growth environment.

CLIENT SATISFACTION SURVEYS

Over the coming months, client satisfaction surveys will be developed and provided to a sample of active plan members and retirees who have recently received services (e.g., request for pension estimates, purchases of service, etc.) from Vestcor Pension Services Corporation. The purpose of the surveys is to determine where improvements in service delivery can be applied. This initiative is consistent with Vestcor's ongoing objective to provide accurate, reliable, and clear information in a timely manner.

PENSION PLAN TEXT AMENDMENTS

New Brunswick's *Pension Benefits Act* requires that members be provided with an update on any amendments to the NBPSPP Text. The following amendments have been filed since the last newsletter:

- Appendix E of the Plan Text was amended to add "Vestcor Pension Services Corporation" and "Vestcor Investment Management Corporation";
- The Plan Text, Funding Policy and Statement of Investment Policies were updated to replace "Public Service Shared Risk Plan" with "New Brunswick Public Service Pension Plan".

INFORMATION ITEM FOR NEW RETIREES

In order to minimize the costs associated with paying benefits by cheque and to minimize risk to the Plan and Plan members, the NBPSPP will require that all new retirees enroll for direct deposit of their monthly pension benefit at the time of retirement. Please note that this requirement will apply to all new retirees on a go-forward basis only.

REMINDER FOR RETIREES

If you are a retiree, you can receive future communiqués from the Board of Trustees via email. Simply contact Vestcor Pension Services Corporation at 1-800-561-4012 (toll free) or 453-2296 (Fredericton) or by email at pension@gnb.ca and provide your email address.

Your pension is deposited on the 24th of each month, unless, the 24th falls on a weekend or holiday.
Here are the deposit dates for 2017:

January	**24**	**April**	**24**	**July**	**24**	**October**	**24**
February	**24**	**May**	**24**	**August**	**24**	**November**	**24**
March	**24**	**June**	**23**	**September**	**22**	**December**	**18**

For questions, please contact Vestcor Pension Services Corporation at 1 (800) 561-4012 (toll free) or 453-2296 (Fredericton).

DISCLAIMER: This publication is intended to provide information about the New Brunswick Public Service Pension Plan. If there is a discrepancy between the information contained herein and the Plan Text, the latter will prevail.