PSSRP Update

PUBLIC SERVICE SHARED RISK PLAN
This newsletter is a publication by the PSSRP Board of Trustees
Spring/Summer 2014, Volume 1
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In this issue

Major Highlights

- Board of Trustee Members announced on January 10, 2014
- PSSRP is on a solid footing - Termination Funding Ratio 100.3% / Open Group Funded Ratio 121.5% as of January 1, 2014 *(see page 2 - Funding Status of the Plan)*
- Investment return in 2013 of 13.06%
- Assets at December 31, 2013 of $5.96 billion

Welcome Message from the Chairperson

On behalf of the Public Service Shared Risk Plan (PSSRP) Board of Trustees, I am pleased to present the inaugural newsletter of your pension fund. We have been working diligently to transition the prior Public Service Superannuation Pension Plan to the PSSRP as the following report indicates. We are pleased to advise that the Plan is in a solid financial position.

We intend to keep you well informed. The spring newsletter will typically provide an update on the results of the annual actuarial valuation report and a year-end investment management performance report. The fall newsletter will provide information with respect to the applicable cost-of-living increase for the year ahead.

Please note, we are always interested in your feedback and questions.

Sincerely,

Marilyn Quinn, PSSRP Chairperson

Plan Governance

Purpose of the Pension Plan

The sole purpose of the PSSRP is to provide retirement benefits to Plan members, retirees and their beneficiaries in accordance with the Plan Text, Funding Policy and the *Pension Benefits Act (PBA)*.

Board of Trustees

A Board of Trustees (the "Board") has been appointed to administer the PSSRP. Three Trustees have been appointed by the Unions that were a party to the Memorandum of Understanding signed with Government and three Trustees have been appointed by the Deputy Minister of Finance. An additional four Members will be appointed at a later date.

The Trustees include:

- Marilyn Quinn, Chair – President of the New Brunswick Nurses Union
- Leonard Lee-White, Vice-Chair – Assistant Deputy Minister, Department of Finance
- Ross Galbraith – Business Manager of Local 37 of the International Brotherhood of Electrical Workers
- Mark Gaudet – Assistant Deputy Minister, Department of Transportation and Infrastructure
- Ernest MacKinnon – retired CEO of NBIMC and former Deputy Minister
- Susie Proulx-Daigle – President of the New Brunswick Union

Trustees must act independently of the organization that appointed them and always in the best interest of all Plan members, retirees and their beneficiaries. Trustees cannot be removed before their term expires by the group that appointed them, but they can be removed by the New Brunswick Superintendent of Pensions for failure to perform their duties as outlined in the *PBA*.

Duties of the Board of Trustees

The Board is responsible for the overall administration of the Pension Plan including oversight of the investments. The Pension Plan document, Declaration of Trust, Investment Policy and the Funding Policy are all important documents in guiding the Board in carrying out its duties.

The Board has entered into service level agreements with New Brunswick Investment Management Corporation to provide investment management services and with the Pensions and Employee Benefits Division to provide pension administration services.

The Board is required to meet at least four times each year. However, as the Board is in its first year of operation, it has been meeting monthly since January. The Board has been focusing its efforts on establishing governance policies and sub-committees (e.g., Governance, Audit) along with receiving ongoing updates from the Investment Manager and the Pension Benefits Administrator.

Actuarial Valuation

Valuation as a Shared Risk Plan

The Initial Actuarial Valuation Report for the PSSRP was completed as of January 1, 2014 and filed with the Superintendent of Pensions on February 28, 2014. As a shared risk plan, the PSSRP is subject to new requirements under the *PBA* when completing an annual valuation, which includes the requirement for risk management testing and for 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, 2014:

- The PSSRP passed the Primary Risk Management Goal with a 97.55% 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 85.3% of CPI over the next 20 years.
- The PSSRP passed the second Secondary Risk Management Goal with an assumption that 96.4% 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 as of January 1, 2014 and is used in the calculation of a member's benefits on termination of employment, death, marriage breakdown or retirement.
- As at January 1, 2014, the Plan had $5.96 billion in assets and $5.94 billion in liabilities for a termination value funded ratio of 100.3%.

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 as of January 1, 2014.
- As at January 1, 2014, the Plan's open group funded ratio is 121.5%.

Important Employee Information

PSSRP Employee Booklet

The PSSRP Employee Booklet has been finalized and can be found at: **www.gnb.ca/pssrp**.

Designation of a Beneficiary

The PSSRP allows Members the opportunity to name a Beneficiary. The Beneficiary will be eligible to receive benefits upon the death of a Member if there is no spouse (or if a Spousal Waiver form is completed at the time of retirement). In addition, for pre-retirement death, a Member with a dependent child or children must name them as a Beneficiary to ensure that they receive available death benefits if there is no spouse. More information can be found in the PSSRP Employee Booklet regarding the designation of a beneficiary.

Purchase of Service Window and New Purchase of Service Provisions

The window that allows Members to purchase eligible periods of service prior to January 1, 2014 at a favorable cost, will be closing on December 31, 2014. Any applications to purchase service on or after January 1, 2015, will be subject to the new purchase of service rules which can be found in the PSSRP Employee Booklet.

In addition, new purchase of service provisions have been adopted to allow the following:

- Purchase of eligible periods of service which fall on or after January 1, 2014;
- The ability for individuals who became new PSSRP members on or after January 1, 2014 to purchase eligible periods of service; and
- Purchase of PSSRP prior non-contributory part-time service.

Please note that the above-listed purchase of service provisions are immediately subject to the new purchase of service rules; further information on these provisions can be found in the PSSRP Employee Booklet.

Reciprocal Transfer Agreement with the Part-Time and Seasonal Plan

A new reciprocal transfer agreement between the PSSRP and the Pension Plan for Part-Time and Seasonal Employees of the Province of New Brunswick (the "Part-Time and Seasonal Plan") has been finalized. This agreement allows individuals who have assets with the Part-Time and Seasonal Plan to transfer these assets to the PSSRP in order to calculate a pension benefit under the PSSRP. More information regarding the agreement and the application form can be found at the link provided in the Contact section.

Contact

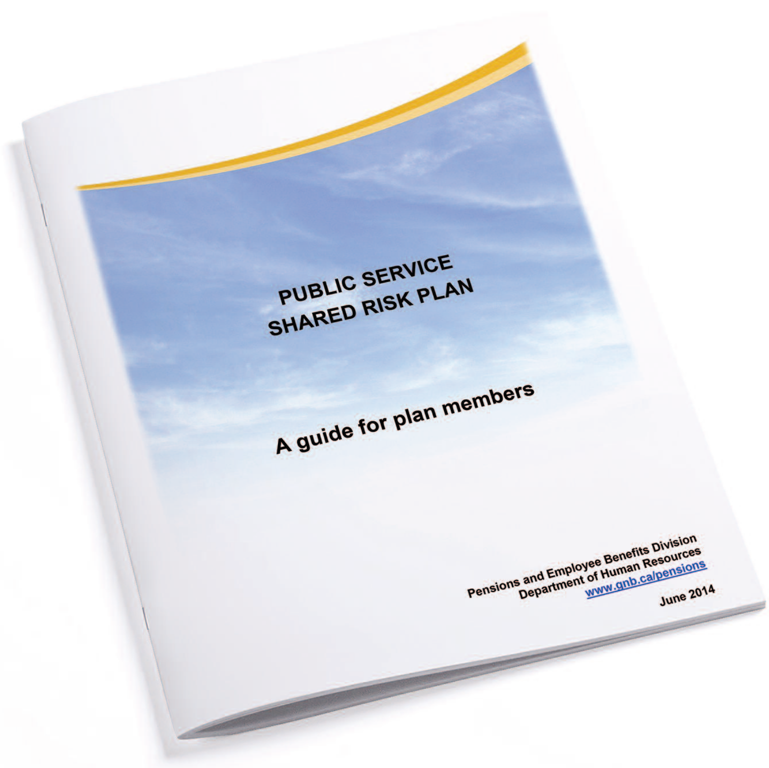
More information on your Pension Plan can be found at **www.gnb.ca/pssrp**.

Contact Information

PSSRP Board of Trustees
c/o Pensions and Employee Benefits
P.O. Box 6000, Fredericton, NB E3B 5H1

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 **453-2296** (Fredericton) and provide them with your email address.



Investment Report from New Brunswick Investment Management Corporation (NBIMC)

NB Investment Management Corp.
Société de gestion des placements NB

As part of the conversion to a shared risk plan, the responsibility for the trusteeship of the Public Service Superannuation Fund (PSSF) has now transferred from NBIMC to the PSSRP Board of Trustees (the "Board"). Going forward, the Board will make the final decisions on the appropriate investment policy for the Plan, subject to specific risk management constraints set out in their Funding Policy and the Pension Benefits Act *(PBA)*.

The Board as noted earlier, has however, entered into a renewable Investment Management Agreement with NBIMC for a minimum term of five years. In addition to providing investment management services to the PSSRP, NBIMC will assist the Trustees with their responsibilities through our investment policy research and risk management advisory capabilities.

It is also important to point out that the Plan now has a December 31st fiscal year end, rather than prior March 31st. The following investment report concludes our reporting responsibilities in our previous role as Trustee of the PSSF for the nine months ended December 31, 2013. Please note that NBIMC will provide a final performance attribution of our prior role in our upcoming Fiscal 2013-14 Annual Report which should be released this summer.

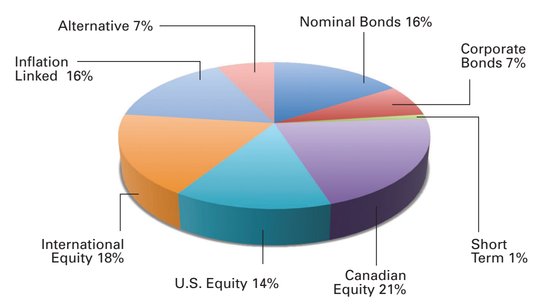
We will also continue to provide a detailed account of our activities, including our specific investment activities and financial information, through information that can be obtained on our website at **www.nbimc.com**.

PSSF Asset Mix

The development of the asset mix for the PSSF had been highly dependent on the actuarial liability profile of the Pension Plan. The respective asset mix was designed to provide annualized long-term returns that would exceed the actuarial return requirement for the Plan, with the least amount of risk.

Total assets under management as at December 31, 2013 stood at $5.96 billion and the asset mix had essentially remained unchanged as shown in the following chart:

PSSF ASSET MIX (December 31, 2013)

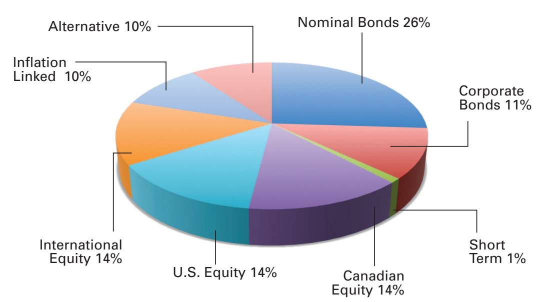


Future PSSRP Asset Mix

The development of the asset mix for the PSSRP is not only highly dependent on the actuarial liability profile of the Fund, but also the ability to pass the risk management tests under the Funding Policy and the requirements of the *PBA*. To ensure the long-term security and stability of the PSSRP, the asset mix is in the process of being transitioned to a lower risk portfolio that will now be expected to provide a long-term nominal investment return of 4.75%, or a real return (after inflation) of 2.50% per annum.

The following target asset mix has been approved by the Trustees as of January 1, 2014 as part of their Investment Policy and has been filed with the Superintendent of Pensions as part of the PSSRP Conversion Plan and Initial Actuarial Valuation Report. NBIMC is currently assisting the Trustees in reviewing other possible strategic adjustments to this approach and in developing an asset transition implementation strategy.

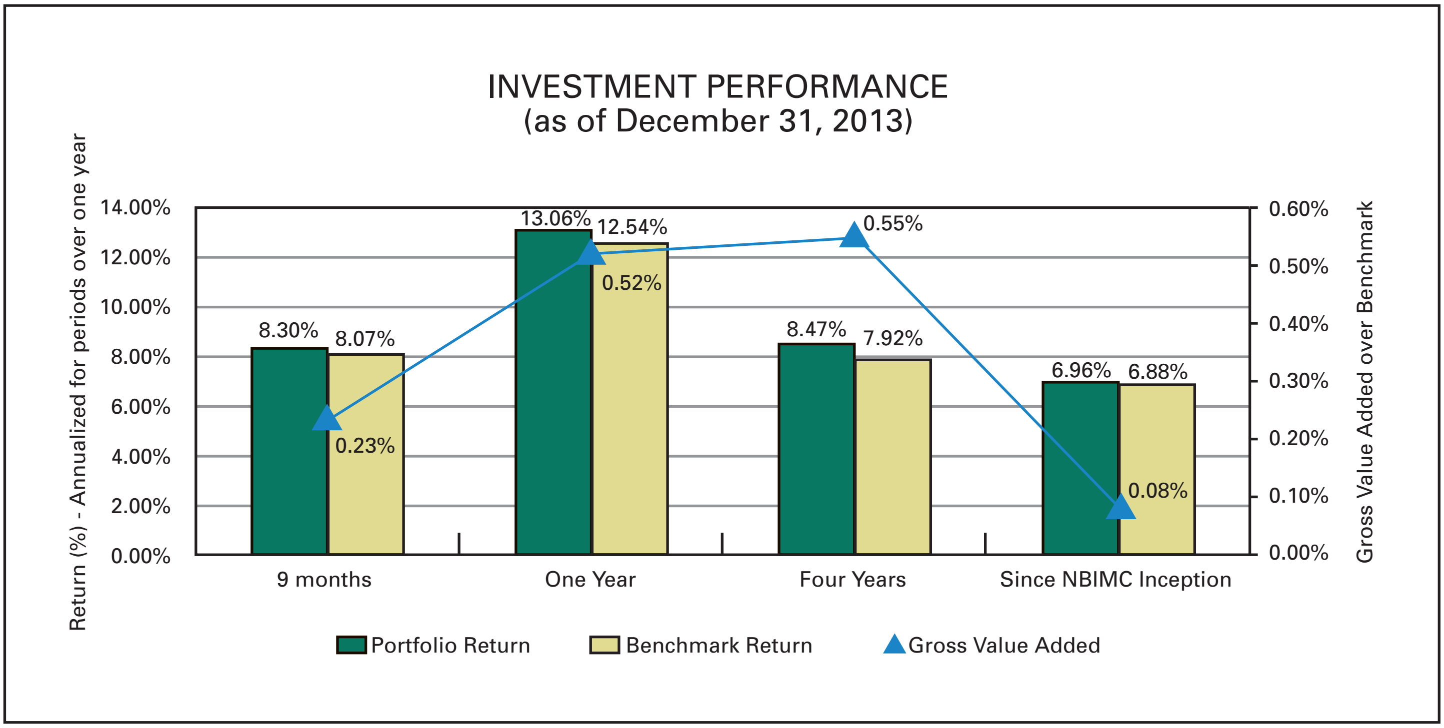
Future PSSRP Asset Mix



Investment Performance (as of December 31, 2013)

Our two main objectives, in terms of the investment performance that NBIMC focused on during this reporting period remained the actuarial return requirements of the PSSF and in adding value above investment benchmarks through active management strategies.

The **primary performance objective** was in regards to both the nominal and real (after inflation) return of the PSSF compared to the actuarial return assumption that had been determined necessary to appropriately fund the Pension Plan. Our overall nominal return of 8.30% and real return of 7.54% for the nine months ended December 31, 2013, was well above our nominal and real return actuarial hurdles for the year of 6.60% and 4.00% respectively—but more importantly, remained above their respective actuarial targets over the long term. On a one year basis ending December 31, 2013, our nominal and real returns were 13.06% and 12.00% respectively.



Our **secondary investment performance objective** is to add value, above our various asset class benchmarks, through active management strategies. This value added is expected to first cover all investment management costs, and subsequently targets an additional 42 basis points (0.42%) per annum to each fund. A basis point is 1/100ths of a percentage. For the nine months ended December 31, 2013, our active management activities added 23.2 basis points of gross value and 14.2 basis points of net value, or approximately $8.2 million, **after** covering all of the organization's operating costs and investment management costs of third parties.

Our longer-term four year average annual value added return, net of costs, was approximately 41.7 basis points per annum or approximately $65.1 million in additional value over the four year period ended December 31, 2013. The four-year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer term measure.

Investment returns across most major asset classes were generally positive during the year, however equity markets significantly outperformed other types of investments thanks to the slowly improving economy and continued solid corporate earnings growth. The only asset class that detracted from our overall portfolio performance was our longer term real return bonds, as they along with other longer-term interest rate sensitive securities, were negatively impacted by concerns about changing central bank interest rate policies.

We are particularly pleased that recent investment policy changes have helped to provide better returns to our investment portfolios. In recent years, we have reduced our longer-term government debt exposure to other asset classes, to provide similar long-term risk adjusted returns. In particular, we have reduced our real return bond exposure in favour of increased real estate exposure and have reduced nominal bond exposure in favour of low volatility public equities.

The other recent investment policy change that performed very well during the year was the funding of a new corporate bond portfolio over the past two years from our nominal bond portfolio. As noted above, fixed income markets were impacted due to uncertainty around central bank interest rate policy. The shorter duration and additional credit spread gained in the corporate portfolio has provided significantly better returns than the government bonds held in the nominal bond portfolio.

The largest portfolio gains came from our public and private global developed market equity exposure. The U.S. and EAFE (Europe, Australasia and Far East) markets provided the largest returns, as the Canadian market's higher exposure to materials and energy held our equity market back, due to a combination of the declining growth rate concern in China and the successful development of the domestic energy market in the United States. Returns from our foreign investment exposure also benefited from the decline in value of the Canadian dollar later in the year.

Private real estate and infrastructure returns were solid once again during the year as they remained an attractive investment alternative to many investors in the current low interest rate environment.

Investment Outlook

Economic activity is generally expected to advance in 2014 as suggested by a number of recent economic indicators and production data improvements. Employment data continues to strengthen and consumer spending and confidence data has also been encouraging. Global Central Banks have continued to provide very accommodative monetary policies and the U.S. Federal Reserve Board has been able to prudently begin to taper their Quantitative Easing Program.

Public equity volatility in developed markets continues at close to record low levels. Bond yields, while remaining at low levels, have generally traded in a fairly stable range. Emerging markets have been impacted in the first quarter of the year due to longer term interest rate concerns and the Russia Ukraine situation.

We expect equity markets to continue to provide favourable returns versus bonds, but perhaps at lower levels than witnessed in 2013. We will however continue to closely monitor the impact of the Federal Reserve's tapering activities and the geo-political situation in Eastern Europe. One other ongoing area of potential concern we continue to monitor closely is the declining economic growth rate in China.

We look forward to continuing to work hard in meeting the PSSRP's investment management challenges in the year ahead.