

Financial Statements of

**SHARED RISK PLAN FOR ACADEMIC  
EMPLOYEES OF THE UNIVERSITY OF NEW  
BRUNSWICK**

Year ended June 30, 2016



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## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees for the Shared Risk Plan for Academic Employees of the University of New Brunswick (the AESRP)

We have audited the accompanying financial statements of the AESRP, which comprise the statement of financial position as at June 30, 2016, the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Managements' Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as the 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 the 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 financial position of the AESRP as at June 30, 2016, and its changes in net assets available for benefits and changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

Chartered Professional Accountants  
March 24, 2017  
Fredericton, Canada

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Financial Statements

Year ended June 30, 2016

## Financial Statements

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# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Statement of Financial Position  
(in thousands of dollars)

June 30, 2016, with comparative information for 2015

	2016	2015
<b>Assets</b>		
Investments <i>(note 3)</i>	\$ 301,359	\$ 289,556
Taxes recoverable	17	96
Contributions receivable	—	471
	301,376	290,123
<b>Liabilities</b>		
Benefits payable	348	84
Accounts payable and accrued liabilities	248	387
Net assets available for benefits	300,780	289,652
Pension obligations <i>(note 5)</i>	356,843	320,751
<b>Deficit</b>	<b>\$ (56,063)</b>	<b>\$ (31,099)</b>

*See accompanying notes to financial statements.*

Approved on behalf of the Pension Board of Trustees:



Dr. Norman Betts, FCPA, FCA, ICD.D



Mr. Larry Guitard, CPA, CA

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Statement of Changes in Net Assets Available for Benefits  
(in thousands of dollars)

Year ended June 30, 2016, with comparative information for 2015

	2016	2015
Increase in net assets:		
Investment income	\$ 24,509	\$ 19,173
Change in fair value:		
Net realized loss on sale of investments	(7,691)	(1,859)
Change in net unrealized loss on investments	(9,643)	(4,206)
Contributions:		
Members	8,718	8,511
University	8,718	8,511
	24,611	30,130
Decrease in net assets:		
Pension benefits	11,218	10,338
Administrative expenses <i>(note 7)</i>	743	810
Investment management	766	1,083
Lump sum settlements	756	455
	13,483	12,686
Increase in net assets	11,128	17,444
Net assets available for benefits, beginning of year	289,652	272,208
Net assets available for benefits, end of year	\$ 300,780	\$ 289,652

*See accompanying notes to financial statements.*

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Statement of Changes in Pension Obligations  
(in thousands of dollars)

Year ended June 30, 2016, with comparative information for 2015

		2016		2015
Actuarial present value of pension obligations, beginning of year	\$	320,751	\$	309,656
Interest		14,405		13,920
Normal actuarial cost		10,767		10,298
Benefits paid		(11,836)		(10,932)
Experience gain (loss)		(305)		462
Impact of change in actuarial assumptions		23,061		(8,248)
Application of Funding Policy		—		5,595
Actuarial present value of pension obligations, end of year	\$	356,843	\$	320,751

*See accompanying notes to financial statements.*

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended June 30, 2016

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## 1. Description of Plan

The following description of the Shared Risk Plan for Academic Employees of the University of New Brunswick (the AESRP, or the Plan) is a summary of the main features of the plan only. For more complete information, reference should be made to the Plan Text.

By Agreement dated March 31, 2014 (the Shared Risk Agreement) the University of New Brunswick (the University) and the Association of University of New Brunswick Teachers (the AUNBT) agreed to convert the Pension Plan for Academic Employees of the University of New Brunswick (the "AEPP") into a Shared Risk Pension Plan (SRPP) in accordance with the Shared Risk Agreement and applicable legislation. The effective date of the conversion is July 1, 2013 (the Conversion Date).

SRPPs are legislated under the New Brunswick Pension Benefits Act which contains a number of requirements that must be met in order to qualify for registration by the New Brunswick Superintendent of Pensions. SRPPs are also subject to the Federal Income Tax Act. SRPPs are governed by a Board of Trustees. The objectives of SRPPs are to provide secure, but not guaranteed pension benefits to members of the plans and predictability and stability in contributions rates to both employers and employees.

The University shares the significant risk of the Plan on an equitable basis with the Plan members. Funding contributions, including any contribution adjustments, are shared equally (50/50 basis) between the University and the Plan members. There is a joint governance structure in place whereby the University and the Plan members share control over decisions relating to the administration of the Plan and the level of benefits and contributions. Each party appoints an equal number of trustees.

The University has no financial obligation or responsibility except to make contributions at the prevailing employer contribution rate as dictated by the Funding Policy.

The characteristics of the AESRP as described in the agreement between the University and the AUNBT to convert the former AEPP to the AESRP are as follows:

- i. Purpose of AESRP is to provide secure (but not guaranteed) pension benefits
- ii. Risk focused management approach to provide high degree of certainty that base benefits can be paid in the majority of future scenarios
- iii. Future cost of living adjustments (COLAs) and best average salary formula based benefits are replaced by contingent indexing
- iv. Plan is to provide a reasonable expectation, but no guarantee that some COLA can be granted
- v. Plan designed to result in low probability of base benefits ever being reduced
- vi. Funding Policy will include specific steps to recover from unacceptable funding levels that take priority over reduction of base benefits

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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## 1. Description of Plan

### (a) General:

#### The AEPP

The AEPP was established under a trust agreement between the University and the AUNBT. The AEPP provided pension and ancillary benefits to eligible academic employees of the University for service after January 1, 1993. The AEPP provided pensions based on length of service and final average earnings. The AEPP was registered under the Pension Benefits Act of the Province of New Brunswick.

#### The AESRP

The University and the AUNBT signed an amendment to the AEPP trust agreement to establish the AESRP. The Plan provides benefits to eligible academic employees of the University for service after July 1, 2013 while a member of the Plan and for service after January 1, 1993 while a member of the AEPP. The Plan is registered under the Pension Benefits Act of the Province of New Brunswick.

### (b) Funding Policy (*note 6*):

The Plan is financed by contributions from both Plan members and the University. Members are required to contribute at the initial contribution rates specified in the Plan expressed as a percentage of pensionable salary up to the maximum pensionable salary under the Income Tax Act. The initial contribution rates specified in the Plan may be adjusted by the Board of Trustees from time to time, subject to the triggering mechanism and limitations imposed by the Plan's Funding Policy. Initial member contribution rates have been set at a blended (above and below YMPE) rate of 11.5% of pensionable earnings to be matched by the University. Rates can fluctuate in accordance with the Funding Policy to a maximum of 2.25% above or below the initial contribution rates (*note 6*). In the event of a windup of the Plan within five year of the conversion date the Plan would be wound up under the Provisions of the former AEPP as a fixed contribution plan.

### (c) Service pensions:

Members who retired prior to the Conversion Date, surviving spouses or beneficiaries in receipt of a pension prior to the Conversion Date, and members with a deferred pension entitlement prior to the Conversion Date receive an annual pension under the Plan equal to the amount of pension paid or payable at the Conversion Date, plus all base COLAs granted by the Board of Trustees.



# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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## 1. Description of Plan (continued)

### (c) Service pensions (continued):

Members who retire, terminate employment or die prior to terminating employment on or after the Conversion Date receive an annual pension equal to the sum of:

For each year of pensionable service before July 1, 2007 while a member of the AEPP the sum of:

- i. 1.3% of the member's indexed best 60 consecutive months' average salary at conversion up to the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus
- ii. 2.0% of the member's indexed best 60 consecutive months' average salary at conversion in excess of the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

For each year of pensionable service between July 1, 2007 and June 30, 2013 while a member of the AEPP, the sum of:

- i. 1.0% of the member's indexed best 60 consecutive months' average salary at conversion up to the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus
- ii. 1.7% of the member's indexed best 60 consecutive months' average salary at conversion in excess of the Indexed Average Yearly Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan at conversion; plus

For each year of pensionable service while a member of the Plan on or after the Conversion Date, the sum of:

- i. 1.1% of the member's indexed pensionable salary up to the indexed YMPE; plus
- ii. 1.8% of the member's indexed pensionable salary up to the Maximum Pensionable salary at the date of determination in excess of the indexed YMPE; and

All Base Pension COLAs granted by the Board of Trustees following the member's date of retirement, termination of employment or death prior to termination of employment, as applicable.

Normal retirement age is 65 with reduced benefits available starting at age 55.

### (d) Survivors' pensions:

The pension payable to the surviving spouse is equal to 60% of the member's accrued pension, payable for the lifetime of the spouse. A children's pension is payable where a member dies without leaving an eligible spouse or where a surviving spouse dies. The total children's pension is equal to the surviving spouse's pension and is payable until each child reaches the age of 18.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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## 1. Description of Plan (continued)

### (e) Minimum death benefit:

The benefits payable on or after the death of a non-retired member are guaranteed to be at least equal to the member's contributions to the Plan and to the AEPP with credited interest. In addition, where a survivor spouse's pension or a children's pension ceases to be payable and no person remains to whom a pension is subsequently payable, a lump sum benefit will be payable to the member's beneficiary or estate equal to the amount, if any, by which the member's own contributions to the Plan and the AEPP plus credited interest thereon exceeds the total of all pension payments made in respect of the member.

### (f) Termination benefits:

A member whose employment terminates after completing two years of Plan membership is eligible to receive a deferred pension commencing at normal retirement date equal to the pension accrued at the date of termination adjusted for Base Pension COLAs granted by the Board of Trustees since termination. Such a member may elect to start receiving pension payments on the first day of any month within 10 years preceding normal retirement date. In that case, the amount of early retirement pension will be equal to the normal retirement pension reduced by 5/12 of 1% for each month preceding normal retirement date for periods of service prior to the Conversion Date and to the actuarial equivalent pension for periods of service after the Conversion Date. The amount of deferred pension is also subject to the minimum requirements of New Brunswick pension legislation.

Such a member may elect to leave his or her entitlements in the Plan or, if not entitled to an immediate early retirement pension, transfer the termination value to a subsequent employer's pension plan, to an individual Registered Retirement Saving arrangement or to purchase a lifetime pension.

Any other terminating member is entitled to a refund of his or her contributions with interest.

### (g) Pension escalation:

The Plan provides that Base COLA may be provided by the Board of Trustees in accordance with the Funding Policy. Base COLA is comprised of Base Pension COLA and Base Consumer Price Index (CPI) COLA.

Base Pension COLA may be granted by the Board of Trustees in accordance with the Funding Policy for members who are receiving a pension or have terminated employment at the relevant date. The amount of eligible Base Pension COLA for a given year is determined based on the target indexing formula, which varies by period of pensionable service.

Base CPI COLA may be granted by the Board of Trustees in accordance with the Funding Policy for members who are accruing benefits at the relevant date. The amount of eligible Base CPI COLA for a given year is determined as 100% of the increase in the average CPI for the 12-months ending June 30 of the current year over the average CPI for the 12-months ending June 30 of the previous year.

Eligible Base Pension COLA and eligible Base CPI COLA for a given year may only be partially granted or waived depending on the funding excess available and the funding excess utilization priorities specified in the Funding Policy.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended June 30, 2016

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## 2. Significant accounting policies

General:

The financial statements have been prepared in accordance with Canadian accounting standards for pension plans.

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

### (a) Basis of presentation:

These financial statements are prepared on the going-concern basis and present the aggregate financial position of the Plan as a separate financial reporting entity independent of the University and the AUNBT. They are prepared to assist Plan members and others in reviewing the activities of the Plan for the fiscal period but they do not portray the funding requirements of the Plan or the benefit security of individual plan members (*see note 6 for Funding Policy*).

In selecting or changing accounting policies that do not relate to its investment portfolio or pension obligations, Canadian accounting standards for pension plans require the Plan to comply on a consistent basis with either International Financial Reporting Standards (IFRS) in Part I of the CPA Canada Handbook – Accounting or Canadian accounting standards for private enterprises (ASPE) in Part II of the CPA Canada Handbook – Accounting. The Plan has chosen to comply on a consistent basis with ASPE.

### (b) Financial assets and financial liabilities:

#### (i) Non-derivative financial assets:

Financial assets are recognized initially on the trade date, which is the date that the Plan becomes a party to the contractual provisions of the instrument. Upon initial recognition, attributable transaction costs are recognized in the statements of changes in net assets available for benefits as incurred.

The Plan measures all of its investments at fair value through the statements of changes in net assets available for benefits.

All other non-derivative financial assets including contributions receivable are measured at amortized cost.

The Plan derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all 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 consideration received is recognized in the statement of changes in net assets available for benefits as a net realized gain (loss) on sale of investments.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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## 2. Significant accounting policies (continued)

### (b) Financial assets and financial liabilities (continued):

#### (ii) Non-derivative financial liabilities:

All financial liabilities are recognized initially on the trade date at which the Plan becomes a party to the contractual provisions of the instrument.

The Plan derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

The Plan considers its benefits payable and accounts payable and accrued liabilities to be a non-derivative financial liability.

#### (iii) Derivative financial instruments:

Derivative financial instruments are recognized initially at fair value and attributable transaction costs are recognized in the statement of changes in net assets available for benefits as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and all changes are recognized immediately in the statement of changes in net assets available for benefits.

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Plan has a legal right to offset the amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### (c) Fair value measurement:

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.

As allowed under IFRS 13, if an asset or liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The Plan uses closing market price as a practical expedient for fair value measurement.

When available, the Plan measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

All changes in fair value, other than interest and dividend income and expense, are recognized in the statements of changes in net assets available for benefits as part of the change in net unrealized gain (loss) on investments.

Fair values of investments are determined as follows:

Short-term notes, treasury bills and term deposits maturing within a year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended June 30, 2016

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## 2. Significant accounting policies (continued)

### (c) Fair value measurement (continued):

Pooled funds are valued at the unit values supplied by the pooled fund administrator, which represent the Plan's proportionate share of underlying net assets at fair values determined using closing market prices.

Investments in derivative financial instruments, including futures and forwards contracts, are valued at year-end quoted market prices.

### (d) Foreign currency:

Transactions in foreign currencies are translated into Canadian dollars at the exchange rate at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated into Canadian dollars at the exchange rate at that date.

### (e) Income recognition:

Investment income is recorded on an accrual basis and includes distribution income from pooled fund units to the extent of amounts distributed.

### (f) Net realized gain or loss on sale of investments:

The net realized gain or loss on sale of investments is the difference between proceeds received and the average cost of investments sold.

### (g) Change in net unrealized gain or loss on sale of investments:

The change in net unrealized gain or loss is the annual change of the difference between the fair value of investments and their cost.

### (h) Contributions:

Contributions from members and the University are recorded on an accrual basis. Required University and member contribution rates are determined by the Board of Trustees in accordance with the Funding Policy. The rates consist of the Funding Policy normal cost plus an additional amount required to meet the primary and secondary risk management goals for the Plan. Contributions are not identified as current service and past service contributions.

### (i) Use of estimates and judgments:

The preparation of the financial statements requires judgments, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities at the date of the statement of financial position and the reported amounts of changes in net assets available for benefits during the year. 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.

### (j) Income taxes:

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

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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### 3. Investments

On August 31, 2015 the Plan entered into an Investment Management Agreement with Vestcor Investment Management Corporation (VIMC). Under the terms of this agreement, VIMC assumed custody of the assets of the pension fund and began a transition to pooled unit trust funds managed by VIMC. Each unit trust fund has a specific mandate. Investing in the unit trust funds enables the Plan to achieve its required asset class weights in accordance with its Statement of Investment Policies and Procedures (SIPP). Following is a description of each unit trust fund in which an interest is held by the Plan as at June 30, 2016:

#### *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 rolling 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 rolling average.

#### *NBIMC Global Bond Fund*

This fund was created on November 6, 2015 to actively invest in securities in the Barclay's Global-Aggregate Total Return Index Value Hedged, CAD. The objective is to add 50 – 100 basis points to its benchmark over a four-year rolling average.

#### *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 T-Bill Index and 7% of the One-day Canadian Call Loan Rate.

#### *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 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 rolling average.

#### *NBIMC Canadian Equity Active Long Strategy Fund*

This fund seeks to add value through prudent selection of individual securities and sector allocations through overweighting and underweighting of the index. The performance objective is to add 150 basis points to its benchmark, the S&P/TSX Total Return Composite Index.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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### 3. Investments (continued)

#### *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 add 150 basis points net of fees to its benchmark, the MSCI EAFE Total Return Index in \$C, Net, over a four-year rolling average.

#### *NBIMC EAFE Equity Index Fund*

This fund invests in publicly-traded securities in the MSCI EAFE Total Return Index in \$C, Net. The performance objective is to add 20 basis points net of fees to its benchmark, the MSCI EAFE Total Return Index in \$C, Net, over a four-year rolling average.

#### *NBIMC Low Volatility International Equity Fund*

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

#### *NBIMC Low Volatility U.S. Equity Fund*

This fund actively invests in securities to gain exposure to the MSCI USA Minimum Volatility (USD) Total Return Index in \$C, Net (pre-October 1, 2014 – the S&P 500 Total Return Index in \$C). 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 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 Total Return 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 in \$C, net of fees, over the long-term.

#### *NBIMC Public Infrastructure Fund*

This fund was created on April 27, 2015 to provide additional investment diversification by providing infrastructure-like exposure with enhanced liquidity. The benchmark is inflation, as measured by the percentage change in the twelve-month CPI-Canada All Items Index, plus 4%.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

## 3. Investments (continued)

Following are details of unit trust holdings as at June 30, 2016:

<i>(thousands, except for number of units and unit value)</i>	Number of Units <i>(rounded)</i>	Unit Value <i>(in dollars)</i>	Fair Value 2016	Fair Value 2015
<b>Fixed Income</b>				
NBIMC Nominal Bond Fund	15,547	2,700	\$ 41,985	\$ —
NBIMC Corporate Bond Fund	15,361	1,245	19,127	—
NBIMC Global Bond Fund	69,200	1,023	70,778	—
NBIMC Money Market Fund	1,145	1,600	1,832	—
Cash	—	—	—	818
Royal Bank STIF	—	—	—	3,259
BlackRock Universe Bond Index	—	—	—	54,792
			133,722	58,869
<b>Equities</b>				
NBIMC Canadian Equity Index Fund	10,969	3,096	33,956	—
NBIMC External Canadian Equity Fund	1,779	3,708	6,597	—
NBIMC Canadian Equity Active Long Strategy Fund	5,190	1,252	6,495	—
NBIMC External International Equity Fund	7,287	1,887	13,748	—
NBIMC EAFE Equity Index Fund	8,849	1,309	11,576	—
NBIMC Low Volatility International Equity Fund	5,979	1,912	11,434	—
NBIMC U.S. Equity Index Fund	17,521	2,387	41,817	—
NBIMC Low Volatility U.S. Equity Fund	7,371	2,487	18,330	—
Beutel Goodman Income Fund Class I	—	—	—	68,381
Blackrock Active Canadian Equity	—	—	—	56,058
GMO World Opportunities Fund	—	—	—	54,917
Sprucegrove Global Equity Pooled Fund	—	—	—	51,621
			143,953	230,977
<b>Real Assets</b>				
NBIMC Canadian Real Estate Investment Trust Fund	4,730	1,282	6,065	—
NBIMC International Real Estate Fund	797	7,613	6,066	—
NBIMC Public Infrastructure Fund	11,195	1,032	11,553	—
			23,684	—
<b>Other</b>				
State Street Global Advisors <i>(note 4)</i>	—	—	—	(290)
			\$ 301,359	\$ 289,556

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 for identical assets of liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the investment, either directly or indirectly.

Level 3 – Inputs that are unobservable that are used to measure fair value when observable inputs are not available.

All investments are classified as level 2.



# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended June 30, 2016

## 4. Derivative financial instruments

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, or exchange rates. The Plan utilizes such contracts for managing exposure to foreign currency volatility. Derivative contracts are transacted either on a regulated exchange market or in the over-the-counter market directly between two counterparties.

Futures and forwards are contractual obligations either to buy or to sell a specified amount of foreign currencies at predetermined future dates and prices. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining. Forwards are customized contracts in the over-the-counter market.

At June 30, 2016, the Plan directly held the following derivative contracts:

	Fair value	
	2016	2015
Foreign exchange contracts	\$ —	\$ (290)

Notional amounts are the contract amounts used to calculate the cash flows to be exchanged. They are a common measure of volume of outstanding transaction but do not represent credit or market risk exposure.

## 5. Pension obligations

On conversion to a SRPP, the present value of accrued pension benefits was calculated using the actuarial cost method for Funding Policy valuations prepared to meet the requirements of the Pension Benefits Act (New Brunswick) and the Shared Risk Plan Regulation under the Act. The Funding Policy liability has been calculated using the projected unit credit cost method. An actuarial valuation was prepared as of July 1, 2016 by Willis Towers Watson, a firm of consulting actuaries. The next Funding Policy valuation is expected to be performed no later than July 1, 2017.

The Funding Policy liability was calculated as the actuarial present value of each active and disabled member's prospective base benefits and ancillary benefits accrued for credited service to date (the benefit accrual method), excluding any escalated adjustments that do not form part of the base benefits at the actuarial valuation date. However, the Funding Policy liability does include the value of any escalated adjustments attributable to future progress-through-the-ranks (PTR) adjustments in respect of credited service prior to the actuarial valuation date, based on the Indexed PTR adjustment in effect at the actuarial valuation date. The calculation of the actuarial present value of the members' prospective benefits is at least equal to the members' contributions with interest. The Funding Policy liability for retired members and beneficiaries and terminated vested members was calculated as the actuarial present value of their respective benefits.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

## 5. Pension obligations (continued)

The financial position of the Plan on a funding-policy basis is determined by deducting the Funding Policy liability from the Funding Policy asset value. For Funding Policy purposes only, the asset value includes the present value of excess contributions of \$78,788 (2015 - \$84,702) defined as the excess of expected contributions less Funding Policy normal cost for each year in the 15 years after the actuarial valuation date. This amount is added to the asset value for policy testing in order to determine the Plan funded status for the purpose of the application of the Funding Policy. The present value of the excess contributions does not represent an asset as per the accounting standards and is therefore excluded when determining the net assets available for benefit for financial statement purposes.

The main assumptions used in determining the actuarial present value of accrued pension benefits are as follows:

	2016	2015
Discount rate	4.00%	4.50%
Inflation	2.00%	2.00%
Salary escalation rate	3.00% per annum *	3.00% per annum*
Mortality	2014 Public Sector Canadian Pensioners' Mortality Table, projected generationally using Scale B, adjusted for industry classification (86.6% Male and 94.2% Female)	2014 Public Sector Canadian Pensioners' Mortality Table, projected generationally using Scale B, adjusted for industry classification (86.6% Male and 94.2% Female)

\*Plus annual PTR adjustments

## 6. Funding Policy

As required by applicable pension legislation, the University and the AUNBT have approved a Funding Policy for the Plan. The Funding Policy provides the rules under which the Board of Trustees is required to manage the contributions and benefits under the Plan.

The primary risk management goal for the Plan is that there is at least a 97.5% probability that past Base Benefits will not be reduced in any year over a 20-year projection period.

The secondary risk management goal for the Plan is that the total COLA expected to be provided, on average over a 20-year projection period, as a percentage of total eligible Base COLA will not be less than:

- i. For pensions in payment for members who have retired or surviving spouses and beneficiaries, and pensions payable for members with a deferred pension entitlement, 75% of the cumulative annual indexing that would have been provided if the AEPP had not been converted; plus
- ii. For members who have not retired, terminated or died, 75% of the cumulative percentage increase in CPI for each year on or after the Conversion Date in respect of the accrued benefits.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

## 6. Funding Policy (continued)

The Funding Deficit Recovery Plan is triggered when the open group funded ratio drops below 100% in two successive actuarial valuation reports. The following actions must be applied in succession until the funding goals and risk management objectives are met:

- i. Increase Member and employer contributions equally, subject to Funding Policy limits; and
- ii. Reduce Base Benefits in equal proportion for all members (required only if the primary risk management goal is not met following the maximum permitted contribution increase).

The Funding Excess Utilization Plan is triggered when the open group funded ratio exceeds 105%. The Policy provides that 17% of the funding excess between funding levels 105% and 140%, and 100% of any funding excess above a 140% funding level, is available for benefit improvements. The following actions, in order of priority, must be taken:

- i. Reverse any previous reductions to base benefits;
- ii. Remove any contribution increases in effect;
- iii. Provide Base COLA; and
- iv. After the above priorities have been met, 50% of any available funding excess will be used to provide PTR recapture, and 50% of any available funding excess above a 140% funding level shall be used to reduce contributions in accordance with the Funding Policy limits.

## 7. Administrative expenses

	2016	2015
Benefits administration	\$ 383	\$ 228
Actuarial services	154	166
Investment consulting fees	136	336
Legal and audit services	40	23
Insurance	26	39
Other	4	18
	\$ 743	\$ 810

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)

(in thousands of dollars)

Year ended June 30, 2016

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## 8. Financial instruments

### (a) Fair values:

Determination of fair values of investments and derivatives are as described in note 2(c).

The fair values of other financial assets and liabilities, being contributions receivable, benefits payable and accounts payable and accrued liabilities approximates their carrying amounts due to the short term nature of these financial instruments.

### (b) Credit risk:

Credit risk is the risk that an issuer or counterparty will be unable or unwilling to meet a commitment that it has entered into with the Plan. Credit risk is generally higher when a non-exchange traded financial instrument is involved because the counterparty for non-exchange traded financial instruments is not backed by an exchange clearing house.

The Plan invests only in high quality funds and as such does not expect any counterparty to fail to meet its obligations.

### (c) Liquidity risk:

Liquidity risk is the risk that the Plan will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. All of the Plan's investments are currently held in pooled funds that are readily available on short notice. Although market events could lead to some investments becoming illiquid, the diversity of the Plan's portfolios should ensure that liquidity is available for benefit payments.

### (d) Market price risk:

Market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. As all of the financial instruments are carried at fair value with fair value changes recognized in the statement of net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. Market price risk is managed by the construction of a diversified portfolio of instruments traded on various markets and across various industries through its pooled fund investments.

### (e) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. All of the Plan's investments are in Canadian dollar denominated unit trust funds managed by VIMC; however, certain of the NBIMC unit trust funds invest in assets denominated in foreign currencies or domiciled in foreign jurisdictions. Consequently, the Plan is exposed to risk that the exchange rates may change in a manner that has an adverse effect on the value of the portion of the Plan's assets or liabilities denominated in currencies other than the Canadian dollar.

# SHARED RISK PLAN FOR ACADEMIC EMPLOYEES OF THE UNIVERSITY OF NEW BRUNSWICK

Notes to Financial Statements (continued)  
(in thousands of dollars)

Year ended June 30, 2016

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## **9. Capital management**

The capital of the Plan is represented by the net assets available for benefits. The purpose of the Plan is to provide secure, but not guaranteed, pension benefits to Members of the Plan with a risk focused management approach, as set out in the Funding Policy (*note 6*), to deliver Base Benefits. In order to meet the requirements, the investment strategy employed should be consistent with the Funding Policy. The Plan adheres to specific investment policies outlined in its SIPP, which is reviewed annually. A new SIPP was approved by the Board of Trustees on August 31, 2015.

The Plan's investment positions expose it to a variety of financial risks which are discussed in note 8. The Plan manages net assets by engaging a knowledgeable institutional investment manager who is charged with the responsibility of investing existing funds and new funds (current year's employee and employer contributions) in accordance with the approved SIPP.

Increases in net assets available for benefits are a direct result of investment income generated by investments held by the Plan and contributions into the Plan by eligible employees and by the University. The employer is required under the Pension Benefits Act to pay contributions, based on actuarial valuations, necessary to ensure the benefits are funded in accordance with the Funding Policy. More details on employee and employer contributions that were paid during the year is disclosed in the statement of changes in net assets available for benefits.