

Financial Statements of

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

Year ended June 30, 2017



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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, 2017, 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, 2017, 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  
Fredericton, Canada  
February 23, 2018

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

Financial Statements

Year ended June 30, 2017

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, 2017, with comparative information for 2016

	2017	2016
<b>Assets</b>		
Investments <i>(note 3)</i>	\$ 325,458	\$ 301,359
Taxes recoverable	11	17
	325,469	301,376
<b>Liabilities</b>		
Benefits payable	—	348
Accounts payable and accrued liabilities	253	248
Net assets available for benefits	325,216	300,780
Pension obligations <i>(note 4)</i>	369,705	356,843
Commitments <i>(note 10)</i>		
<b>Deficit</b>	<b>\$ (44,489)</b>	<b>\$ (56,063)</b>

*See accompanying notes to financial statements.*

Approved on behalf of the Pension Board of Trustees:



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



Mr. Peter McDougall

# 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, 2017, with comparative information for 2016

	2017	2016
Increase in net assets:		
Net investment income ( <i>note 6</i> )	\$ 21,169	\$ 7,175
Contributions:		
Members	8,953	8,718
University of New Brunswick	8,953	8,718
	39,075	24,611
Decrease in net assets:		
Pension benefits	12,115	11,218
Investment management	935	766
Lump sum settlements	934	756
Administrative expenses ( <i>note 7</i> )	655	743
	14,639	13,483
Increase in net assets	24,436	11,128
Net assets available for benefits, beginning of year	300,780	289,652
Net assets available for benefits, end of year	\$ 325,216	\$ 300,780

*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, 2017, with comparative information for 2016

		<b>2017</b>		<b>2016</b>
Actuarial present value of pension obligations, beginning of year	\$	356,843	\$	320,751
Interest accrued on benefits		14,249		14,405
Normal actuarial cost		11,828		10,767
Benefits paid		(13,049)		(11,836)
Experience losses		(166)		(305)
Impact of change in actuarial assumptions		—		23,061
Actuarial present value of pension obligations, end of year	\$	369,705	\$	356,843

*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, 2017

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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 (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.

# 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, 2017

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## 1. Description of Plan *(continued)*

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

### (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 5)*

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. 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.

# 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, 2017

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## 1. Description of Plan *(continued)*

### (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.

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.

# 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, 2017

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## 1. Description of Plan *(continued)*

### (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.

### (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.

# 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, 2017

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## 1. Description of Plan *(continued)*

### (g) Pension escalation *(continued)*

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.

## 2. Significant accounting policies

### (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 5 for Funding Policy*).

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

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.

# 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, 2017

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## 2. Significant accounting policies *(continued)*

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

#### (i) Non-derivative financial assets *(continued)*

All other non-derivative financial assets 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 investment income in the statement of changes in net assets available for benefits.

#### (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.

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.

The fair value of the investments is based on the calculated daily net asset value per unit multiplied by the number of units held and represents the Plan's proportionate share of the underlying net assets at fair value determined using closing market prices.

# 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, 2017

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## 2. Significant accounting policies (continued)

### (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) Net investment income

Net investment income includes distribution income and realized and unrealized gains and losses in the value of the units held.

### (f) 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.

### (g) 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. Significant estimates and judgments are required in determining the reported estimated fair value of Level 3 investments and the measurement of pension obligation, since these determinations may include estimates of expected future cash flows, rates of return, rate of retirement, mortality, rates in termination, discount rates and the impact of future events. 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.

### (h) Income taxes

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

## 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 funds and limited partnerships. Each pooled fund and limited partnerships has a specific mandate. Investing in the pooled funds and limited partnerships 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 pooled fund and limited partnerships which an interest is held by the Plan as at June 30, 2017:

### *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.

# 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, 2017

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### 3. Investments (continued)

#### *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 Fixed Income Fund*

This fund actively invests 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 add 40 basis points to its benchmark, the S&P/TSX Composite Total Return 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 Composite Total Return 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 Composite Total Return Index.

#### *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.

# 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, 2017

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### 3. Investments (continued)

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

This fund actively invests in securities in the MSCI EAFE Minimum Volatility (USD) Total Return 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 (2017) 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 U.S. Equity Index Fund – Class N*

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. This fund became restricted to non-pension fund unitholders only on April 28, 2017.

#### *NBIMC Low Volatility U.S. Equity (2017) Fund*

This fund actively invests in securities to gain exposure to the MSCI USA Minimum Volatility (USD) Total Return Index in \$C, Net. 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 Low Volatility U.S. Equity Fund – Class N*

This fund actively invests in securities to gain exposure to the MSCI USA Minimum Volatility (USD) Total Return Index in \$C, Net. 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. This fund became restricted to non-pension fund unitholders only on April 28, 2017.

#### *NBIMC Canadian Real Estate Investment Trust Fund*

This fund invests in publicly traded Canadian Real Estate Investment Trust (REITs) securities. The performance objective is add 15 basis points to its benchmark, the S&P/TSX Capped REIT Total Return Index.

#### *NBIMC International Real Estate (2017) Fund*

This fund is managed by an external manager that invests primarily in publicly traded securities of international REITs. The performance objective is to add 150 basis points to the countries' blended REIT Equity Indices in \$C, net of fees, over four year average

#### *NBIMC International Real Estate Fund – Class N*

This fund is managed by an external manager that invests primarily in publicly traded securities of international 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. This fund became restricted to non-pension fund unitholders only on April 28, 2017.

# 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, 2017

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### 3. Investments (continued)

#### *Vestcor Investments Private Real Estate, L. P.*

This fund invests in private domestic and international real estate investments through co-investments, limited partnerships or similar investment vehicles. The benchmark is inflation, as measured by the percentage change in the twelve-month average CPI-Canada All Items Index, plus 4%. The General Partner of this limited partnership is Vestcor Investments General Partner, Inc.

#### *NBIMC Public Infrastructure (2017) Fund*

This fund provides additional investment diversification by providing infrastructure-like exposure with enhanced liquidity. The performance objective is to add 150 basis points to its benchmark on a four-year average. The benchmark is inflation, as measured by the percentage change in the twelve-month CPI-Canada All Items Index, plus 4%.

#### *NBIMC Public Infrastructure Fund – Class N*

This fund provides additional investment diversification by providing infrastructure-like exposure with enhanced liquidity. The performance objective is to add 150 basis points to its benchmark over the long term. The benchmark is inflation, as measured by the percentage change in the twelve-month CPI-Canada All Items Index, plus 4%. This fund became restricted to non-pension fund unitholders only on May 31, 2017.

#### *Vestcor Investments Infrastructure, L. P.*

This fund provides additional investment diversification through direct investment in infrastructure through co-investment structures. The performance objective is to achieve a 4% real rate of return over a long-term investment horizon. The General Partner of this limited partnership is Vestcor Investments General Partner, Inc.

The Plan has also directly invested in two investments: Fiera Properties Core Fund and Global Diversified Infrastructure Fund that are managed by managers external to VIMC.

#### *Fiera Properties Core Fund*

Fiera Properties Core Fund – Managed by Fiera Properties Limited, this fund invests directly and indirectly in a diversified portfolio of real estate properties in well-populated, urban centres across Canada. The fund's objective is to provide investors with capital appreciation and low return volatility along with regular operating cash flows.

#### *Global Diversified Infrastructure Fund*

Global Diversified Infrastructure Fund – Managed by Colonial First State Infrastructure Managers (Australia) Pty Ltd, this fund invests in a diversified portfolio of mature, global unlisted infrastructure assets. The fund aims to generate an average internal rate of return of 9% per annum including a net cash yield of 4% to 6% per annum over the long-term.

# 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, 2017

### 3. Investments (continued)

Following are details of the investments as at June 30, 2017:

<i>(thousands, except for number of units and unit value)</i>	<b>Number of Units (rounded)</b>	<b>Unit Value (in dollars)</b>	<b>Fair Value 2017</b>	<b>Fair Value 2016</b>
<b>Fixed Income</b>				
NBIMC Nominal Bond Fund	15,808	2,690	\$ 42,520	\$ 41,985
NBIMC Corporate Bond Fund	14,241	1,276	18,165	19,127
NBIMC Global Fixed Income Fund	74,987	1,023	76,695	70,778
NBIMC Money Market Fund	815	1,617	1,316	1,832
			138,696	133,722
<b>Equities</b>				
NBIMC Canadian Equity Index Fund	9,037	3,452	31,195	33,956
NBIMC External Canadian Equity Fund	1,782	4,132	7,364	6,597
NBIMC Canadian Equity Active Long Strategy Fund	4,290	1,381	5,926	6,495
NBIMC External International Equity Fund	7,288	2,351	17,135	13,748
NBIMC EAFE Equity Index Fund	5,406	1,577	8,526	11,576
NBIMC Low Volatility International Equity Fund	5,962	2,153	12,838	11,434
NBIMC U.S. Equity Index (2017) Fund	12,914	2,810	36,284	—
NBIMC U.S. Equity Index Fund – Class N	—	—	—	41,817
NBIMC Low Volatility U.S. Equity (2017) Fund	6,928	2,720	18,847	—
NBIMC Low Volatility U.S. Equity Fund – Class N	—	—	—	18,330
			138,115	143,953
<b>Real Assets</b>				
NBIMC Canadian Real Estate Investment Trust Fund	8,182	1,291	10,559	6,065
NBIMC International Real Estate (2017) Fund	1,532	7,677	11,763	—
NBIMC International Real Estate Fund – Class N	—	—	—	6,066
Vestcor Investments Private Real Estate, L. P.	358	979	350	—
NBIMC Public Infrastructure (2017) Fund	14,896	1,075	16,014	—
NBIMC Public Infrastructure Fund – Class N	—	—	—	11,553
Vestcor Investments Infrastructure, L. P.	2,620	991	2,597	—
Fiera Properties Core Trust Fund	1,797	1,118	2,008	—
Global Diversified Infrastructure Fund	2,742,094	1,9532	5,356	—
			48,647	23,684
			\$ 325,458	\$ 301,359

# 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, 2017

## 4. 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, 2017 by Willis Towers Watson, a firm of consulting actuaries. The next Funding Policy valuation is expected to be performed no later than July 1, 2018.

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.

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 \$81,461 (2016 - \$78,788) 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:

	2017	2016
Discount rate	4.00%	4.00%
Inflation	2.00%	2.00%
Salary escalation rate	1.80% for 3 years, 3% thereafter*	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

# 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, 2017

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## 5. 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.

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.

# 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, 2017

## 6. Net investment income

Net investment income by fund for the year ended June 30, 2017, after allocating net gains (losses) on investments, is as follows:

<i>(\$ thousands)</i>	<b>2017</b>	<b>2016</b>
<b>Fixed Income</b>		
NBIMC Nominal Bond Fund	\$ (54)	\$ 3,809
NBIMC Corporate Bond Fund	480	1,576
NBIMC Global Fixed Income Fund	112	1,578
NBIMC Money Market Fund	14	4,304
	<b>552</b>	<b>11,267</b>
<b>Equities</b>		
NBIMC Canadian Equity Index Fund	3,477	1,823
NBIMC External Canadian Equity Fund	755	197
NBIMC Canadian Equity Active Long Strategy Fund	660	93
NBIMC External International Equity Fund	3,386	(1,136)
NBIMC EAFE Equity Index Fund	1,734	(930)
NBIMC Low Volatility International Equity Fund	1,435	(1)
NBIMC U.S. Equity Index (2017) Fund	5,378	–
NBIMC U.S. Equity Index Fund – Class N	1,086	322
NBIMC Low Volatility U.S. Equity (2017) Fund	1,534	–
NBIMC Low Volatility U.S. Equity Fund – Class N	213	1,162
	<b>19,658</b>	<b>1,530</b>
<b>Real Assets</b>		
NBIMC Canadian Real Estate Investment Trust Fund	267	849
NBIMC International Real Estate (2017) Fund	(34)	–
NBIMC International Real Estate Fund – Class N	7	816
Vestcor Investments Private Real Estate, L. P.	(1)	–
NBIMC Public Infrastructure (2017) Fund	443	–
NBIMC Public Infrastructure Fund – Class N	191	772
Vestcor Investments Infrastructure, L. P.	(39)	–
Fiera Properties Core Trust Fund	8	–
Global Diversified Infrastructure Fund	117	–
	<b>959</b>	<b>2,437</b>
Income earned outside of VIMC investment entities	–	(8,059)
	<b>\$ 21,169</b>	<b>\$ 7,175</b>

# 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, 2017

## 7. Administrative expenses

	2017	2016
Actuarial services	\$ 330	\$ 154
Benefits administration	254	383
Legal and audit services	39	40
Insurance	37	26
Other	8	4
Investment consulting fees	—	136
HST recovery	(13)	—
	\$ 655	\$ 743

## 8. Financial instruments

### (a) Fair values

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

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

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.

The units held in each of the NBIMC pooled funds are classified as Level 2 investments since the units are priced based on each pooled fund net asset value, which is observable, but the units are not traded in an active market.

The units in each of the Vestcor Investment Private Real Estate, L. P., Vestcor Investment Infrastructure, L. P., Fiera Properties Core Trust Fund and the Global Diversified Infrastructure Fund are Level 3. There were no significant transfers between Level 2 and Level 3 during the year.

# 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, 2017

## 8. Financial instruments (continued)

### (a) Fair values (continued)

The following table shows the changes in the fair value measurement in Level 3 of the fair value hierarchy:

<i>(thousands)</i>	Fair value, June 30, 2016	Gains (losses) in net investment income	Purchases	Sales	Fair value, June 30, 2017
Vestcor Investment Private Real Estate, L. P.	\$ —	\$ (1)	\$ 351	\$ —	\$ 350
Vestcor Investment Infrastructure, L. P.	—	(39)	2,636	—	2,597
Fiera Properties Core Trust Fund	—	8	2,000	—	2,008
Global Diversified Infrastructure Fund	—	117	5,210	29	5,356
	\$ —	\$ 85	\$ 10,197	\$ 29	\$ 10,311

The fair value of Level 3 investments is based on the net asset value using the most recently reported fair value provided by the General Partner or Investment Manager. The General Partner or Investment Manager uses a number of valuation techniques to value the underlying investments. This requires the use of significant estimates and assumptions.

It is reasonably possible that the valuations used may require material adjustment to the carrying amount of the Level 3 investments. The maximum exposure to loss is the carrying value of the investments plus uncalled commitments (see note 10).

### (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. Sources of liquidity include pension contributions collected from the employer and employees as well as redemption of pooled fund units. Uses of liquidity include payments to the Plan beneficiaries, Plan service providers and purchases of pooled fund units.

# 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, 2017

## 8. Financial instruments (continued)

### (c) Liquidity risk (continued)

The Plan's asset mix is specifically designed to ensure that sufficient liquid assets are available to meet pension benefit obligations as they are required. Other than investment in the NBIMC Money Market Fund, the most liquid asset class is the NBIMC Nominal Bond Fund whereas privately-held debt, equity, real estate and infrastructure investments are considered highly illiquid due to the lack of a readily available market and the longer term to maturity for these investments.

The majority 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 investments should ensure that liquidity is available for benefit payments.

Net liquid assets are defined to include the fair value of all assets excluding private real estate, private infrastructure and the Plan's proportionate share of the fair value of collateral pledged with brokers and counterparties, and any unfunded investment commitments.

The following table shows the determination of net liquid assets as at June 30:

	2017	2016
Net assets available for benefits	\$ 325,216	\$ 300,780
Less investments in:		
Vestcor Investments Private Real Estate, L. P.	(350)	—
Vestcor Investments Infrastructure, L. P.	(2,597)	—
Fiera Properties Core Trust	(2,008)	—
Global Diversified Infrastructure Fund	(5,356)	—
Collateral pledges (note 8d)	(91)	—
Investment commitments (note 10)	(2,973)	—
<b>Net liquid assets</b>	<b>\$ 311,841</b>	<b>\$ 300,780</b>

### (d) Market price risk

The Plan holds investments in pooled funds and limited partnerships that invest in active and passive investment strategies and are diversified among domestic and international markets. 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 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, 2017

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## 8. Financial instruments (continued)

### (d) Market price risk (continued)

Investment strategies used by the managers may involve the use of financial derivatives such as forward foreign exchange contracts or total return swaps. Investment strategies also include “market neutral” strategies whereby an investment in a long position in one stock is matched with a short position in another stock, typically within the same industry sector. With the limited exception of prudent financing for investments in real property, the SIPP for the Plan precludes the use of leverage in the investment portfolio. Accordingly, to the extent that there is market exposure from derivative investments and short positions, each fund will hold cash underlay equal to the amount of market exposure. Market neutral strategies help to mitigate market risk through adherence to maximum investment limits and stop-loss constraints, and have a lower correlation to broad market indices.

VIMC conducts certain of its investment activities in the pooled funds on behalf of the Plan by trading through broker channels on regulated exchanges and in the over-the-counter market. Brokers typically require that collateral be pledged against potential market fluctuations when trading in derivative financial instruments or when shorting security positions. As at June 30, 2017 the fair value of securities that have been deposited or pledged with various financial institutions as collateral was \$91 (2016 - nil).

### (e) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Plan’s investments are primarily in Canadian dollar denominated funds however, certain of the funds are denominated in foreign currencies. Approximately 1.65% (2016 - nil) of the Plan’s investments are denominated in the U.S. dollar currency.

A 1% absolute increase or decrease in the value of the Canadian dollar against the U.S. dollar with all other variables held constant would result in an approximate decrease or increase in the value of the net investment assets at June 30, 2017 of \$54 (2016 - nil).

### (f) Securities Lending

The Plan’s SIPP permits Vestcor to enter into a securities lending arrangement externally with their securities custodian or internally among its pooled funds with the objective of enhancing portfolio returns.

Under the external program, the securities custodian, who is an independent third party, may loan securities owned by the pooled funds to other approved borrowers in exchange for collateral in the form of readily marketable government-backed securities equal to at least 105% of the value of securities on loan and a borrowing fee. Vestcor has restricted the approved borrowers under the external securities lending program to manage exposure to counterparty credit risk. As at June 30, 2017, underlying securities in the amount of \$37,285 (2016 - \$31,870) were loaned on behalf of the Plan.

Under an internal securities lending program, certain Vestcor Investment Entities may loan securities to a borrowing Vestcor Investment Entity subject to an intra-fund collateral management agreement and a borrowing fee. As at June 30, 2017, underlying securities in the amount of \$3,348 (2016 - \$57,366) were loaned on behalf of the Plan and \$2,738 (2016 - \$60,340) were borrowed.

# 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, 2017

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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 5*), 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.

## 10. Commitments

The Vestcor Investments Infrastructure, L. P. and the Global Diversified Infrastructure Fund have committed to enter into investments that may be funded over the next several years in accordance with the terms and conditions agreed to in partnership agreements. The Plan's share of unfunded commitments for these investments as at June 30, 2017 is \$1,674 (2016 - nil) and \$1,299 (2016 - nil) respectively.

## 11. Comparative figures

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