



NBIMC

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Statement of Investment Policies

Abridged Policies of the funds Trusteed to NBIMC

February 2008

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INTRODUCTION

The following document describes the investment objectives, risk preferences, strategy, performance measurement, governance and other miscellaneous issues for the management of the pension funds for which the NBIMC has been appointed Trustee. These are the New Brunswick Public Service Superannuation Fund (PSSF), the New Brunswick Teachers' Pension Fund (TPF), and the Pension Fund for New Brunswick Provincial Court Judges (JPF).

This document is an abridged amalgamation of three individual Statements of Investment Policies. While most provisions of this Statement of Investment Policies apply equally to all three funds, each strategy is fund-specific and reflects demographic characteristics, cash flow projections, and funding status of the individual plans. This document incorporates changes made during the FY2007-2008 which have been approved by NBIMC's Board of Directors.

The Statement of Investment Policies must be reviewed within a year of the receipt of any actuarial valuation or when dramatic events occur in capital markets. It can also be reviewed more frequently either at the request of the Board of Directors or upon recommendations from NBIMC staff.

While not part of the Statement of Investment Policies, NBIMC's investment operations are also governed by an Investment Procedures Manual, which identifies the role and responsibilities of NBIMC's investment staff, and by a Code of Ethics and Business Conduct that sets out guidelines for NBIMC's employees and Board members.

A. FUND OBJECTIVES

The investment objectives of the fund must take into account the plan's assets, liabilities, and risk profile. Thus, consideration must be made for long-term capital market opportunities, funding status, anticipated cash flows, actuarial data, and the Fund Sponsor's tolerance for risk. Under these considerations and the mandate given to NBIMC by provincial Legislation, the following long-term objectives form the basis of the benchmark portfolio:

- **Maximize** investment returns; and
- **Protect** accumulated assets.

One of NBIMC's objectives is to provide a long-term real rate of return on investment superior to the assumption used in the most recent actuarial valuation. It is understood that the current policy portfolio will translate in uneven returns from year to year, but a diversified portfolio of long-term assets will partially mitigate the variability of returns.

Over the medium term, NBIMC is expected to provide rates of return in excess of those achieved by passive management of the policy portfolio. A value-added contribution of **42 basis points**, after deducting NBIMC's operating costs, is the portfolio's target four-year moving average rate of return.

Moreover, given subsection 17(5) of the New Brunswick Investment Management Corporation Act, NBIMC shall have regard to investment opportunities in the Province while attempting to satisfy its two objectives. However, this mandate is secondary to the primary goals of maximizing returns and preserving capital and is explained in more detail in subsection D.5 (Local and Regional Investments).

B. RISK TOLERANCE

An important consideration for the investment benchmark portfolio is to determine the appropriate risk tolerance for the funds under NBIMC's management. In this regard, the Corporation wishes to maintain a relatively low level of risk in comparison to our peers for several reasons:

- First, fund income is required to pay for pensions; income has to be reliable to avoid the costs associated with the sales of long-term assets at potentially unfavourable prices.
- Second, preserving capital is one of NBIMC's objectives: as the equity allocation increases in the portfolio, the risk of experiencing a year of negative return rises, placing the fund's capital at a greater risk of erosion.
- Finally, a riskier asset mix could also lead to more volatility in the funding status of the pension fund.

This relatively low tolerance for risk will influence return objectives and deviations from policy allowed in this Statement of Investment Policies. From a portfolio perspective, the actuarial liability profile of the plan and the sponsor's tolerance for risk will also influence the riskiness of the invested portfolio when compared with other peers plans.

C. INVESTMENT STRATEGY

C.1 Policy Portfolio

The following policy portfolio (based on the market value of assets) is thought to represent the best trade-off between the dual objectives of return maximization and capital preservation, keeping in mind the Corporation's desire to assume a relatively low risk profile.

Benchmark and Permitted Deviations (market value of Assets)						
	Fixed Income		Public Equity		Inflation Linked Assets	Alternative Investments
	Short Term	Nominal Bonds	Canadian	Foreign		
TPF	2.5%	27.5%	19.0%	23.0%	17.5%	10.5%
PSSF	2.5%	27.0%	20.0%	24.0%	16.0%	10.5%
JPF	2.5%	27.0%	20.0%	24.0%	16.0%	10.5%
Permitted Deviations	±4.0%	±4.0%	±5.0%	±2.5%	±2.0%	±1.0%

Actual portfolio benchmark weights are permitted to deviate from policy target weights due to market price movements. Canadian Public Equity, Foreign Public Equity, Canadian Nominal Bonds, and Canadian Short Term Assets will be rebalanced to policy target weights if they exceed a deviation of +/- 1%.

Actual benchmark weights for Inflation Linked assets and Private Equity may deviate further from policy target weights due to availability and the relatively high transaction costs associated with their implementation. Management will use their best efforts to obtain / maintain policy target weights for these asset classes in a prudent manner.

In the case of Private Equity which is the most illiquid asset class, under or over invested amounts will be adjusted against the relevant Public Equity asset class.

C.2 Permitted Active Deviations from Benchmark

Modest deviations from benchmark are permitted to allow the manager to maximize returns and limit potential losses by taking advantage of relative pricing opportunities amongst asset classes.

Deviations have been set based on a determination of the maximum levels needed to help provide value added targets. These levels are based on a combination of both past experiences and return simulation exercises.

Any inadvertent drift outside the above limits will be eliminated at the earliest opportunity and reported to the Board of Directors at its next meeting.

C.3 Performance Benchmarks

NBIMC's relative performance in various markets will be evaluated against benchmarks indicated below.

Asset Classes and Respective Benchmarks	
Asset Class	Benchmark
Canadian Public Equity	S&P/TSX Total Return Composite Index
Foreign Public Equity US Non US	S&P500 Total Return Composite in \$C MSCI EAFE Net Index in \$C.
Real Estate and Infrastructure U.S. Real Estate	FTSE - NAREIT Index in \$C
Canadian Real Estate and Infrastructure Investments	4% Real Return
Private Equity	S&P500 Total Return Composite in \$C for US Funds and MSCI EAFE Net Index in \$C for International Funds.
NB and Atlantic Opportunity	4% Real Return
Absolute Return Strategies	91 Day T-Bill (93%) plus One-day Call Loan (7%)
Commodity	S&P GSCI Total Return Index in \$C
Canadian Nominal Bonds	DEX All Government Bond Index
Canadian Real-return Bonds	DEX Real Return Bond Index
Canadian Short-term Assets	91 Day T-Bill (93%) plus One-day Call Loan (7%)

Note: DEX denotes Dexia.
GSCI denotes Goldman Sachs Commodity Index.
EAFE denotes Europe, Asia and Far East

The benchmarks, or components thereof, are created and published by external organizations; thus, they are deemed credible. They are also similar to those typically used by other institutional investors for such investment activities.

C.4 Foreign Currency Hedging

Foreign currency hedging will be conducted by management for core international policy exposure at the overall portfolio level, using a passive overlay approach. NBIMC's most significant exposures, which are in U.S. Dollar (\$US), UK Pound Sterling (£), Euro (€), and Japanese Yen (¥), will be 50% hedged to the best extent possible.

Hedging levels will be permitted to deviate between 52.5% and 47.5% of each of the above noted currency exposures and will be monitored, and rebalanced to 50% if the permitted deviations are exceeded, by management.”

C.5 Permissible Investments

Public Equity

- NBIMC is permitted to invest in equity instruments traded on exchanges of countries included in the Fund's benchmark portfolio as well as financial vehicles (listed or unlisted) that are convertible into equities traded on those same exchanges.
- On the above securities, NBIMC is additionally allowed to execute short sales.
- Direct holdings of any one stock measured at book value will be limited to 10 percent of the total assets.

Fixed Income

- Fixed income investments (including Canadian Real Return Bonds) are limited to investment-grade securities (defined as BBB or higher by S&P and DBRS; and Baa and higher by Moody's) issued, guaranteed, or secured by the Government of Canada or its agencies; or a province, territory or municipality of Canada.
- Notwithstanding these permissible investments, up to 5.0 percent of the fixed income portfolio may be invested in investment-grade non-government debt. These investments may include corporate debt, mortgage backed securities, or other structured debt product.
- Additionally, the fund is permitted to invest in corporate debt under the provisions contained in subsection C.6 (Local and Regional Investments)

- Foreign currency bonds are limited to those issued by the Government of Canada or its guarantees; provinces or their guarantees; and other admissible foreign national governments¹.
- Securities issued by a non-Canadian entity are limited to 10 percent of the fixed income portfolio and must be hedged against currency risk.
- Investments in short-term securities shall be limited to:
 - Treasury bills and promissory notes issued or guaranteed by the Government of Canada, any Canadian province, or Treasury bills of other admissible foreign national governments;
 - Deposit receipts, bearer notes, certificates of deposit, acceptances, swapped deposits and other similar instruments issued or endorsed by one of the six major Schedule I Canadian chartered banks²; and
 - Commercial paper issued by companies rated A2 or higher by S&P or R1 Low or higher by the Dominion Bond Rating Service,
 - Asset Backed Commercial Paper (ABCP) rated R1 high by DBRS or A1 by S&P.
 - Additional eligible investments include coupons, residuals, and bonds (with a duration not to exceed 14 months), Floating Rate Notes (FRNs) issued by eligible entities with a term less than three and four years for corporate and provincial FRNs respectively, futures and options on Bankers' Acceptances (BAs).
 - Any fixed income security owned by the fund that fails to meet the above criteria due to unanticipated credit downgrades or other unforeseen circumstances, shall be brought to the attention of the Board of Directors at its next meeting, with a recommended course of action.

Derivatives

- The purchase of futures on equity and fixed income markets in Canada, United-States, and MSCI EAFE countries is allowed, provided that the equivalent amount is held in underlying money market securities to preclude the use of leverage.
- The use of foreign currency futures or forward contracts on the U.S. Dollar, U. K. Pound Sterling, Euro, and Japanese Yen is permitted.
- NBIMC is allowed to short futures on any of the equity markets where it can hold futures, as long as the total exposure for each market individually remains within the benchmarks set in the Statement of Investment Policies.

¹ United-States, Asian and European countries in line with the MSCI Europe Index are all eligible.

² These banks are the Royal Bank of Canada, Canadian Imperial Bank of Commerce, Bank of Montreal, Toronto-Dominion Bank, Bank of Nova Scotia, and the National Bank of Canada.

- NBIMC can hold total return swaps on permissible investment vehicles, when the swap is demonstrably more profitable than buying futures, index-based baskets, or the underlying credit in another market.
- NBIMC is permitted to enter into Interest Rate Swaps and Cross Currency Swaps against an underlying debt instrument.
- Swaps will be valued according to conventions set out in the Investment Procedures Manual.
- Volatility derivatives are considered an eligible investment for the purposes of adding value in the management of the portfolio. The underlying investment could be futures or total return swaps unless they are already offset by a short call option.
- NBIMC is permitted to buy or sell options on fixed income, equity and foreign exchange futures, cash market indices for Canada, United-States, and MSCI EAFE countries, and individual securities that are considered permissible investments described above.
- Options must be supported with a sufficient amount of physical exposure or cash underlay in the event the option is exercised and the underlying assets need to be sold or purchased.
- Options may be transacted either through physical option exchanges or through permitted external banks and dealers.

Inflation-linked Investments

- Based on the investment philosophy to hedge the inflationary characteristics of the pension liabilities and provide returns that are typically non-correlated to more traditional equity and / or fixed income asset classes, NBIMC is permitted to invest in commodity, real estate and infrastructure markets.
- Investments in the commodity market can be completed using futures or swaps contracts on the Goldman Sachs Commodity Index (GSCI) or the underlying future or swaps contracts of the GSCI.
- Funds invested in the commodity market must be underlayed with cash invested in money market instruments.
- Real Estate and Infrastructure investment must be domiciled in Canada or US and can be completed directly or by means of an external manager, limited partnership, or pension realty corporation.

Private Equity

- Private Equity investments must be primarily domiciled in Canada, the United States, or MSCI EAFE countries. It is understood however that the profile of investment partnerships in the private equity industry is opportunistic in nature, and may therefore have some exposure to countries outside of these primary limitations.
- These investments are to be completed primarily through an external manager or limited partnership structures.
- Investments are to be diversified by manager, geographic region, vintage year, and life cycle stage (i.e. buy-outs, venture capital, secondary transactions), while recognizing that the illiquid nature of this type of investment may result in some concentrations from time to time.

External Managers

- NBIMC is allowed to invest in permissible assets indirectly, by using an external manager. When funds are invested through an external manager, the majority of the investments must be domiciled in Canada, the United States or MSCI EAFE countries.
- Mandates extended to external managers should not exceed 25 percent of assets under management, measured at market value.
- For any one external manager, the mandate shall not exceed 5 percent of assets under management, measured at market value. Index mandates are exempt from this limit.
- External mandates will be used for investment in markets where NBIMC does not have the necessary expertise to provide effective active management or to provide additional diversification benefits.

Securities Lending

- With regard to the fund's holdings of traditional bonds and stocks, NBIMC is permitted to engage in securities lending and dividend re-investment plans to add to returns.

C.6 Local and Regional Investments (NB and Atlantic Opportunities)

- As a New Brunswick-based investor, NBIMC will use its geographic advantage to make investments within the Province and the Atlantic region that suit

NBIMC's risk and return requirements as well as its fiduciary duties. When considering New Brunswick and regional investments not eligible under paragraph C.5 (Permissible Investments), the following criteria apply:

- In aggregate, investments will not exceed 2.0 percent of total fund assets, measured at book value;
 - Any individual investment will not exceed 0.5 percent of the total fund assets, measured at book value; and
 - NBIMC's commitment will normally not exceed 33.3 percent (one third) of the funds raised from the target's investors and will be on the same terms as the other participants.
- These investments will require approval from the NBIMC Board of Directors.
 - All investments made under this mandate are to be recorded at acquisition (book) value but subsequently measured at fair value following the procedures adopted by senior management and contained in *Valuation Policies* (December 2007); all values are to be reviewed and updated at least annually.

D. PERFORMANCE EVALUATION

D.1 Total Fund Performance

To evaluate the Fund's performance in a given period, the following steps are required:

1. Determine the rate of return of the total funds based on the fair value of assets;
2. Calculate the benchmark return by multiplying index rates of returns for all asset classes by the respective benchmark weights; and
3. The difference between those two measures represents NBIMC's net contribution to the total Fund's performance on a \$C basis; and
4. Include gains and losses from the Foreign Currency hedging activity to determine the net Fund return.

D.2 Manager's Performance

An individual manager's performance for a specific period measures their value-added contribution through active management. Similar principles and methodology apply to this calculation, as above.

Tactical asset mix contributions are obtained by taking the difference between the actual weighted index returns and subtracting the portfolio's benchmark return calculated in step 2 above.

Individual portfolio contributions are obtained by calculating the difference between the rate of return on each manager's portfolio based on market valuation of assets and the rate of return on the relevant benchmark index.

D.3 GIPS® Compliance

The **calculations, presentation, and disclosure** of the *Schedules of Investment Performance*, prepared annually by NBIMC staff for dissemination to the Board of Directors and available to the public, shall be in accordance with Global Investment Performance Standards (GIPS® - February 2005) and be subject to verification by an independent third party.

The **calculations** of performance results, prepared by NBIMC staff quarterly for dissemination to the Board of Directors and yearly for the *Annual Report*, are similar to those used in the *Schedules of Investment Performance*.

E. GOVERNANCE

In accordance with the New Brunswick Investment Management Corporation Act, **the Board of Directors is responsible for the approval of a Statement of Investment Policies on behalf of the funds** and administering the affairs of NBIMC on a commercial basis following sound business practices including effective internal controls.

NBIMC is responsible for the investment the PSSF funds in accordance with the Trustees Act and the Statement of Investment Policies and having regard to the investment opportunities in the Province.

The President and Chief Executive Officer's responsibility is to ensure that proper information systems and control procedures are in place to rigorously monitor NBIMC's investment activity. The President and Chief Executive Officer shall ensure that the legislative provisions and this Statement of Investment Policies are followed and shall utilize a performance measurement system to report investment results against goals and relevant benchmarks specified elsewhere in this policy.

The Chief Investment Officer's (CIO) responsibility is to develop and implement strategies under the guidance of this Statement of Investment Policies. In addition, the CIO is charged with managing relationships with outside investment counselors, where deemed prudent to augment internally managed investment activities. A structured evaluation process for selection and retention will be established by which the CIO can

effectively choose between numerous services and investment styles offered by outside managers.

F. POLICY REVISIONS AND IMPLEMENTATION

An investment policy should provide managers with a stable and predictable environment in which to form and implement sound investment decisions. However, a policy is a tool that can evolve, improve, and be flexible to changing conditions. This Statement of Investment Policies must be reviewed within one year of the completion of any actuarial valuation or when dramatic events occur in capital markets but can be reviewed more frequently either at the request of the Board of Directors or upon recommendations from NBIMC staff.

G. MISCELLANEOUS

The NBIMC has developed **Responsible Investing Guidelines** that are used in executing its' ownership responsibilities with both public and private investments.

These guidelines include direction in terms of proxy voting procedures and guidance on socially responsible investment issues. These guidelines are the responsibility of the President and have been formulated with the input of a cross company working group and the NBIMC Board of Directors.

In all cases, these guidelines are based on the following two objectives that form the basis of each of the investment policies for our funds under management:

- Maximize risk adjusted investment returns, and
- Protect accumulated assets.

While all investment decisions of NBIMC are subject to paragraph C.5 (Permissible Investments), for ease of management and to ensure equal returns in every asset class with other funds managed by NBIMC, the various pension funds hold **units of the pooled investment funds managed by NBIMC** for each asset class.