Financial Statements of

# NEW BRUNSWICK MUNICIPAL EMPLOYEES PENSION PLAN

And Independent Auditors' Report thereon

Year ended December 31, 2019

# NEW BRUNSWICK MUNICIPAL EMPLOYEES PENSION PLAN

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# INDEPENDENT AUDITORS' REPORT

To the Pension Board of New Brunswick Municipal Employees Pension Plan

## *Opinion*

We have audited the financial statements of New Brunswick Municipal Employees Pension Plan (the Plan), which comprise:

- the statement of financial position as at December 31, 2019
- the statement of changes in net assets available for benefits for the year then ended
- the statement of changes in pension obligations for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2019 and the changes in its net assets available for benefits and its changes in pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

## *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Plan in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Plan's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Plan or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Plan's financial reporting process.

### *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Plan's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Plan's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Plan to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

November 18, 2020

# NEW BRUNSWICK MUNICIPAL EMPLOYEES PENSION PLAN

Statement of Financial Position

December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| **Assets** | | |
| Receivables - contributions: | | |
| Employee | $ 213,907 | $ 295,423 |
| Employer | 213,907 | 295,423 |
| Receivable for investment sales | 9,665 | 350,251 |
| Investments (note 3) | 128,181,970 | 114,438,939 |
| | 128,619,449 | 115,380,036 |
| Liabilities: | | |
| Accounts payable and accrued liabilities | 42,795 | 127,587 |
| Net assets available for benefits | 128,576,654 | 115,252,449 |
| Pension obligations (note 6) | 129,218,500 | 122,790,400 |
| Subsequent event (note 10) | | |
| Deficit | $ (641,846) | $ (7,537,951) |

See accompanying notes to financial statements.

On behalf of the Pension Board:

_______________ Director _______________ Director

# NEW BRUNSWICK MUNICIPAL EMPLOYEES PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| Increase in net assets: | | |
| Interest income | $ 2,444,110 | $ 2,221,135 |
| Dividend income | 3,139,957 | 2,545,130 |
| Change in fair value: | | |
| Net realized gain on sale of investments | 4,091,008 | 810,741 |
| Change in net unrealized gains (losses) | 4,076,188 | (7,105,724) |
| Employee contributions: | | |
| Required | 3,324,314 | 3,255,742 |
| Past service | - | 13,374 |
| Employer contributions: | | |
| Required | 3,287,968 | 3,257,122 |
| Past service | - | 6,296 |
| | 20,363,545 | 5,003,816 |
| Decrease in net assets: | | |
| Benefit payments (note 4) | 5,750,409 | 5,502,514 |
| Administrative expenses (note 5) | 1,288,931 | 1,230,489 |
| | 7,039,340 | 6,733,003 |
| Increase (decrease) in net assets available for benefits | 13,324,205 | (1,729,187) |
| Net assets available for benefits, beginning of year | 115,252,449 | 116,981,636 |
| Net assets available for benefits, end of year | $ 128,576,654 | $ 115,252,449 |

See accompanying notes to financial statements.

# NEW BRUNSWICK MUNICIPAL EMPLOYEES PENSION PLAN

Statement of Changes in Pension Obligations

Year ended December 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|---|---|
| Pension obligations, beginning of year | $ 122,790,400 | $ 116,895,500 |
| Change in pension obligations | | |
| Net interest accrued on benefits | 7,364,000 | 7,020,700 |
| Benefits accrued | 4,898,800 | 4,851,200 |
| Benefits paid | (5,750,400) | (5,502,500) |
| Changes in actuarial assumptions | 139,600 | - |
| Actuarial experience | (223,900) | (474,500) |
| | 6,428,100 | 5,894,900 |
| Pension obligations, end of year | $ 129,218,500 | $ 122,790,400 |

See accompanying notes to financial statements.

## 1. Description of plan:

The following description of the New Brunswick Municipal Employees Pension Plan (the "Plan") is a summary only. For more information, reference should be made to the Plan Document.

(a) General:

The Plan is a defined benefit pension plan based on final average earnings. It has one benefit formula which applies to all members but with an earlier normal retirement age for police and firefighters and higher contribution rates for this group due to this added benefit.

The annual normal retirement benefit is calculated as 1.8% of final average earnings up to the average Year's Maximum Pensionable Earnings (YMPE) under the Canada Pension Plan, plus 2.0% of final average earnings in excess of the average YMPE, all times the number of years of pensionable service up to January 1, 1998. For service after January 1, 1998 the benefit accrual rate is 1.5% for average earnings up to the average YMPE and 2% of average earnings in excess of the average YMPE. The normal retirement age is 65 (60 for police and firefighters).

Effective January 1, 2014, the late retirement provisions were amended to provide members who retire after age 65 with a late retirement equalization of up to 5.4% per annum (0.45% per month) after age 65, subject to limits under the Income Tax Act.

For every month that a member's age at retirement is over normal retirement age, the pension will increase by the percentage indicated:

| | |
|---|---|
| On or before December 31, 2013 | 0.000% |
| On or after January 1, 2014 but on or before December 31, 2014 | 0.350% |
| On or after January 1, 2015 but on or before December 31, 2015 | 0.375% |
| On or after January 1, 2016 but on or before December 31, 2016 | 0.400% |
| On or after January 1, 2017 but on or before December 31, 2017 | 0.425% |
| On or after January 1, 2018 but on or before December 31, 2018 | 0.450% |

**1. Description of plan (continued):**

(b) Funding policy:

The benefits are financed by defined employee contributions and matching employer contributions as determined under the Plan. The determination of the value of benefits is made on the basis of an actuarial valuation (note 7).

(c) Death benefits:

If a member dies prior to retirement, or prior to the commencement of his pension payments a lump sum payment is due to the beneficiary equal to the commuted value of his pension accrued to the date of his death.

Upon the death of a retired member in receipt of retirement benefits, any payments due thereafter will be governed by the form of the normal benefit payable as follows:

The normal form of retirement benefit under the Plan is an annuity payable for the life of the Retired Member, with payments terminating with the payment due immediately prior to the date of his/her death. However, should the retired member die before he/she has received 120 monthly payments, payments of the same amount are continued monthly to his beneficiary until the balance of the 120 monthly payments has been paid.

(d) Retirement:

The normal retirement date of a member is the first day of the month coincident with or next following the month in which his/her 65th (60th if a policeman or fireman) birthday occurs. A member may elect to retire on the first day of any month within 10 years of his/her normal retirement date provided he/she has then completed at least 5 years of continuous service.

If by arrangement with his/her employer a member remains in employment after his/her normal retirement date and continues to make contributions, the payment of retirement benefits to him/her will be postponed until the member actually retires. Such postponed retirement date shall not be later than December 31st of the year of the member’s 71st birthday.

## 1. Description of plan (continued):

(e) Benefits on termination:

On termination with less than 5 years of continuous employment, the member's contributions with interest are refunded. On termination with either 5 years or more of continuous employment or 2 years of plan membership, any excess contributions owed to the member will be refunded. In addition, the member will be entitled to a deferred or immediate pension as described above and in item (a). The member may choose to transfer the Commuted Value of the pension out of the plan on a locked-in basis as allowed under the Pension Benefits Act. The transfer ratio of the Plan is less than 100%, and in accordance with the New Brunswick Pension Benefits Act a portion of a terminating member's entitlement is required to remain in the Plan for a five year period from his or her termination from the Plan.

(f) Income taxes:

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

(g) Reciprocal transfer agreements:

The Pension Board may enter into a reciprocal agreement with any "approved employer" which operates a superannuation or pension fund or plan for its employees.

## 2. Significant accounting policies:

The following is a summary of the significant accounting policies used in the preparation of these financial statements:

(a) Basis of presentation:

These financial statements have prepared in accordance with Canadian accounting standards for pension plans. 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 Municipalities. 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.

## 2. Significant accounting policies (continued):

(a) Basis of presentation (continued):

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 Chartered Professional Accountants of Canada ("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 statement of changes in net assets available for benefits as incurred.

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

All other non-derivative financial assets including contributions receivable and receivable for investment sales 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 or loss on sale of investments.

**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 accounts payable and accrued liabilities to be a non-derivative financial liability.

(iii) Derivative financial instruments:

Derivatives are financial contracts, the value of which is derived from the value of underlying assets, interest rates or exchange rates. The Plan utilizes such contracts for managing exposure to foreign currency volatility.

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 statement 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.

In determining fair value, as allowed under IFRS 13 Fair Value Measurement, if an asset or a liabilities 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.

## 2. Significant accounting policies (continued):

(c) Fair value measurement (continued):

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 statement of changes in net assets available for benefits as part of the change in unrealized gains (losses).

Fair values of investments are determined as follows:

(i) Short-term investments, which includes short-term notes, treasury bills, bankers acceptances 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;

(ii) 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;

(iii) Bonds and other fixed income securities are valued at closing prices where available. Where the closing price is not available, fair value is calculated using discounted cash flows based on current market yields of instruments with similar characteristics.

(d) Pension obligation:

The Plan is a defined benefit plan established for members. The pension obligations recognized in the statement of financial position are the actuarial present value of accrued pension benefits determined by using the projected unit credit method pro-rated on services and actuarial assumptions which reflect management's best estimate for the future.

(e) Pension contributions:

Contributions from Members and the Municipalities are recorded in the period that payroll deductions are made.

## 2. Significant accounting policies (continued):

(f) Investment income:

Income from investments is recognized on an accrual basis and includes dividend income (recognized on ex-dividend date) and interest income gross of investment manager fees.

(g) Net realized and net unrealized gains or losses on investments:

Net realized gains or losses on sale of investments are the difference between the proceeds received and the average cost of investments sold.

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

(h) 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.

*Pension obligations*

An independent actuary estimates the pension obligation using assumptions provided by management; however, the actual outcome may vary due to estimation uncertainties. The estimate of $129,218,500 (2018 - $122,790,400) is based on the following demographic assumptions: rates of retirement, mortality, rates in terminations and disability incidence rates. The economic assumptions used in the estimate are the rate of return on assets (which is also used as the discount rate), rate of salary increases, pension cost of living indexation rate, real rate of return, and inflation.

## 3. Investments:

The investments are held in trust by CIBC Mellon Trust Company and managed by Burgundy Asset Management Ltd. and CCL Investment Management Ltd.

The following table summarizes the investments:

| | 2019 | 2018 |
|---|---|---|
| Cash, equivalents, and short-term investments | $ 5,244,763 | $ 3,551,908 |
| Government bonds | 19,170,144 | 18,622,073 |
| Corporate bonds | 37,116,659 | 29,118,324 |
| Pooled funds (1) | 66,650,404 | 63,146,634 |
| | $ 128,181,970 | $ 114,438,939 |

(1) The Plan holds units in pooled funds as follows: Burgundy Focus Canadian Equity Fund in the amount of $12,015,934 (2018 - $18,819,636), Burgundy American Equity Fund in the amount of $15,045,383 (2018 - $13,929,213), Burgundy European Equity Fund in the amount of $9,605,492 (2018 - $9,191,421), Burgundy Asian Equity Fund in the amount of $5,079,382 (2018 - $4,534,623), Burgundy Emerging Markets Fund in the amount of $11,940,052 (2018 - $5,995,967), and CC&L High Yield Bond Fund in the amount of $12,964,161 (2018 - $10,675,774).

## 4. Benefit payments:

| | 2019 | 2018 |
|---|---|---|
| Retirement benefit payments | $ 4,313,317 | $ 3,963,085 |
| Termination benefit payments | 1,437,092 | 1,539,429 |
| | $ 5,750,409 | $ 5,502,514 |

## 5. Administrative expenses:

| | 2019 | 2018 |
|---|---|---|
| Investment management fees | $ 598,180 | $ 531,216 |
| Morneau Shepell consulting | 356,644 | 365,237 |
| Morneau Shepell administration | 152,061 | 164,360 |
| Custodial fees | 117,193 | 114,523 |
| Board administration | 39,696 | 31,741 |
| Professional fees | 25,157 | 13,800 |
| Liability insurance | - | 9,612 |
| | $ 1,288,931 | $ 1,230,489 |

## 6. Pension obligations:

The present value of accrued pension benefits was determined using the projected accrued benefit actuarial cost method pro-rated on services and the Pension Board's best estimate assumptions. An actuarial funding valuation was performed as of December 31, 2019 by Morneau Shepell, a firm of consulting actuaries. Significant long-term assumptions used in the funding valuation were:

| | 2019 | 2018 |
|---|---|---|
| Discount rate | 5.90 % | 5.90 % |
| Inflation | 2.10 % | 2.25 % |
| Annual wage and salary increase | 3.00 % | 3.00 % |
| Rate of pension escalation after retirement | 2.00% up to January 1, 2014; 0% thereafter | 2.00% up to January 1, 2014; 0% thereafter |

The next actuarial valuation will be valued as of December 31, 2020.

## 7. Funding policy:

In accordance with the Plan agreement, employees are required to contribute 7.41% (8.20%) for police and firefighters) of salary up to the YMPE and 9.88% (10.93% for police and firefighters) salary in excess of the YMPE.

The most recent actuarial valuation for funding purposes was prepared by Morneau Shepell as of December 31, 2019. The valuation disclosed an unfunded liability on a going-concern basis of $641,800 (2018 - $7,538,000). The valuation disclosed an unfunded liability (on a solvency basis) of $54,785,600 (2018 - $47,955,400). Effective November 5, 2012, the Plan has been exempt from making solvency special payments pursuant to section 42.1 of the General Regulation – Pension Benefits Act.

## 8. Financial instruments:

For all of the risks noted below, there has been no change in how the Plan manages those risks from the previous year.

(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 contributions receivable, receivable for investment sales, and accounts payable and accrued liabilities, approximate their carrying values due to the short-term nature of these financial instruments.

Fair value measurements recognized in the statement of financial position are categorized using a fair value hierarchy that reflects the significance of inputs used in determining the fair values.

(i) Level 1 - unadjusted quoted prices in active markets for identical assets or liabilities;

(ii) Level 2 - inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

(iii) Level 3 - inputs for the assets or liabilities that are not based on observable market data.

## 8. Financial instruments (continued):

(a) Fair values (continued):

The following tables illustrate the Plan's assets recognized at fair value as at December 31:

($ millions)

| 2019 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash, equivalents and short-term investments | - | 5.24 | - | 5.24 |
| Government bonds | - | 19.17 | - | 19.17 |
| Corporate bonds | - | 37.12 | - | 37.12 |
| Pooled funds | - | 66.65 | - | 66.65 |
| Total | - | 128.18 | - | 128.18 |

($ millions)

| 2018 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash, equivalents and short-term investments | - | 3.55 | - | 3.55 |
| Government bonds | - | 18.62 | - | 18.62 |
| Corporate bonds | - | 29.12 | - | 29.12 |
| Pooled funds | - | 63.15 | - | 63.15 |
| Total | - | 114.44 | - | 114.44 |

## 8. Financial instruments (continued):

(b) Associated risks:

(i) 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 Plan's financial instruments are carried at fair value with fair value changes recognized in the statement of changes in net assets available for benefits, all changes in market conditions will directly result in an increase (decrease) in net assets. The managers of the portfolio moderate this risk through a careful selection and diversification of securities and other financial instruments within the limits of the Plan’s investment objectives and strategy. The maximum risk resulting from financial instruments is determined by the market value of the financial instruments. The Plan’s overall market positions are monitored on a daily basis by the portfolio managers.

The impact on net assets of the Plan due to a 1% change in the benchmark, with all other variables held constant as at December 31, 2019 is estimated to be $1,083,656 (2018 - $970,433).

## 8. Financial instruments (continued):

(b) Associated risks (continued):

(ii) Liquidity risk:

Liquidity risk is the risk that the Plan may be unable to cover benefits payable, withdrawals and other liabilities. Liquidity risk is a normal part of Plan operations but can be heightened by market events or investment specific circumstances. Pooled funds and short-term investments are approximately 52% and 4% respectively of the investments and are readily available on short notice. Although market events could lead to some investments becoming illiquid, the diversity of the portfolios should ensure that liquidity is available for benefit payments. The liquidity position of the Plan is monitored on an ongoing basis.

The following summarizes the contractual maturities of all bonds held at December 31:

| Maturity date | 2019 Fair value | 2018 Fair value |
|---|---|---|
| Less than 1 year | $ - | $ - |
| 1-3 years | 2,610,846 | 4,283,332 |
| 3-5 years | 4,938,824 | 3,893,673 |
| Greater than 5 years | 48,737,133 | 39,563,392 |
| Total | $ 56,286,803 | $ 47,740,397 |

(iii) Foreign currency risk:

Foreign currency risk is the risk that the value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. All of the Plan's investments are in Canadian dollars, however, certain of the pooled funds invest in assets denominated in foreign currencies. As such, the Plan is not directly exposed to foreign currency risk.

**8. Financial instruments (continued):**

(b) Associated risks (continued):

(iv) Credit risk:

Credit risk is the risk that an issuer or counterparty to a financial instrument 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 bonds and short-term investments are primarily Canadian-issued instruments and are diversified among federal, provincial, municipal and corporate issuers. In order to minimize the exposure to credit risk, a comprehensive investment policy has been developed. The maximum credit risk exposure as at December 31, 2019 is $61,531,566 (2018 - $51,292,305).

The following is a breakdown of the bonds by credit rating as at December 31:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Fair value | Percentage of portfolio | Fair value | Percentage of portfolio |
| AAA | $ 4,930,716 | 9 % | $ 7,658,244 | 16 % |
| AA | 19,960,113 | 35 % | 16,710,279 | 35 % |
| A | 18,400,909 | 33 % | 14,297,882 | 30 % |
| BBB | 12,995,065 | 23 % | 9,073,992 | 19 % |
| <BBB | - | - % | - | - % |
| | $ 56,286,803 | 100 % | $ 47,740,397 | 100 % |

Credit ratings are obtained from Standard & Poor’s, Moody’s, Fitch or Dominion Bond Rating Service. Where one or more rating is obtained for a security, the lowest rating has been used.

(v) Interest rate risk:

Interest rate risk is the risk that the market value of the investments will fluctuate due to changes in market interest rates. To properly manage the interest rate risk, appropriate guidelines on the weighting and duration for the bonds and other fixed income investments are set and monitored. The investments in fixed income, which includes bonds and short-term investments, are sensitive to interest rate movements. An immediate hypothetical 100 basis point or 1% increase in interest rates, with all other variables held constant, would impact fixed income investments by an estimated loss of $3,940,000 (2018 - $3,342,000).

## 9. Capital management:

The Plan employs a capital management plan, a Statement of Investment Policies and Procedures (“SIPP”) that is reviewed annually by the Board of Trustees. The SIPP dictates the Plan’s approach to growth, credit quality and profitability objectives. The SIPP was amended in February 2019.

The overall objectives in investing the assets of the Plan are to preserve and enhance the value of capital through adequate diversification in high quality investments and achieve the highest investment return that can be obtained with the assumption of an acceptable degree of risk.

The SIPP’s investment guidelines outline that the Plan’s assets shall be invested in fixed income and equity securities in such proportions as may be established from time to time by the Trustees in consultation with the fund managers. The Plan’s investment in equities, bonds and short term securities shall be diversified by industry group and by individual companies with industry groupings, but not to degree whereby the portfolio is fragmented into individual holdings of uneconomic and unmanageable size. The Plan’s investment in income or unit trusts and similar investment instruments is limited to those securities that are listed on a recognizable stock exchange and are resident in jurisdictions that provide limited liability to unit holders. The fund managers shall have complete freedom in determining the asset mix of the fund, subject to 25% - 65% investment in equities (including 10% - 25% in Canadian equities, 20% - 40% in foreign investments), 30% - 70% investment in fixed income (including 0% - 5% short term securities including cash, 5% - 15% in Domestic Universe, 8% - 20% in Domestic Long Term, 5% - 15% in Domestic Corporate, 8% - 20% in Domestic Long Corporate, and 5% - 15% in Global High Yield) and 0% - 15% in infrastructure investments based on the Asset Mix Policy in the SIPP. In unique circumstances the fund managers may be granted approval by the Trustees to temporarily alter the asset mix limitation guidelines.

## 10. Subsequent event:

Subsequent to December 31, 2019, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian and New Brunswick governments, enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally and in New Brunswick resulting in an economic slowdown. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions however the success of these interventions is not currently determinable. The current challenging economic climate may lead to adverse changes in cash flows, which may also have a direct impact on the Plan’s financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect the Plan is not known at this time.