



NB Investment Management Corp.  
Société de gestion des placements NB

# 2011 – 2012

## Annual Report

MEETING INVESTMENT CHALLENGES  
THROUGH INNOVATIVE COST EFFECTIVE  
INVESTMENT MANAGEMENT IN NEW BRUNSWICK

## BOARD OF DIRECTORS

**Gilles Lepage**  
Chair of the Board

**Joel Attis**  
Vice-chair of the Board

**Elaine Albert**  
Director

**Earl Brewer**  
Director

**Marc-Antoine Chiasson**  
Director

**Jane Garbutt**  
Director (ex officio, non-voting)

**Gaston LeBlanc**  
Director

**Ronald B. Maloney**  
Director

**Darren Murphy**  
Director (ex officio)

**Cathy Rignanesi**  
Chair of Audit Committee  
Director

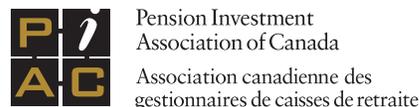
**John A. Sinclair**  
Director (ex officio)

**Richard C. Speight, Q.C.**  
Chair of Governance Committee  
Director

**Reno Thériault**  
Director

**Michael W. Walton**  
Chair of Human Resources &  
Compensation Committee  
Director

## MEMBERS OF



## CORPORATE OFFICERS

**John A. Sinclair**  
President and Chief Executive Officer  
Chief Investment Officer

**Jan Imeson, CA**  
Chief Financial Officer

**Inge Després**  
Corporate Secretary

## CORPORATE LEADERSHIP TEAM

**John A. Sinclair**  
President and Chief Executive Officer  
Chief Investment Officer

**James Scott, CFA**  
Vice-President Fixed Income

**Dan Goguen, CA, FRM**  
Vice-President Private Markets

**Jan Imeson, CA**  
Chief Financial Officer  
Vice-President Finance and  
Administration

**Mark Holleran, CFA**  
Vice-President Equities

**Andrea MacDonald, CHRP**  
Human Resources Coordinator

## New Brunswick Investment Management Corporation

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## Corporate Profile

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The New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of over 51,000 members of the Public Service, Teachers', and Judges' defined benefit pension plans. It was formed in 1996 under the New Brunswick Investment Management Corporation Act by the Province of New Brunswick.

The primary mission of NBIMC is to increase the long-term value of the pension funds it manages and to assist the plan sponsor in meeting the pension promise to its members.

To fulfill this mission NBIMC conducts the following activities:

- Acts as fund trustee.
- Develops the investment policy for each fund.
- Implements the investment policy for each fund.
- Adds value by generating high returns through active investment management net of organizational expenses.
- Manages risks associated with the investment of the pension assets.
- Provides administrative and support services such as accounting, performance measurement, and information technology.

Located in Fredericton, New Brunswick, NBIMC is the largest institutional investment manager in Atlantic Canada with assets under management of approximately \$9.4 billion at March 31, 2012.

## Corporate Mission

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*To provide innovative, cost effective and prudent investment management services that address the investment challenges of New Brunswick based public sector funds.*

Key Goals:

- To advance governance, management and organizational effectiveness.
- To exceed client long-term investment objectives through prudent asset allocation and risk management strategies.
- To maintain, develop and attract a highly skilled and experienced team of investment management professionals.
- To strengthen and expand stakeholder communications and relationships.
- To support effective and efficient information technology solutions.

## Corporate Vision

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*New Brunswick Investment Management Corporation (NBIMC) is the provider of choice for investment management services to New Brunswick public sector investment funds.*

NBIMC is recognized as a user of “best practices” by clients and peers. The company is:

- Acknowledged as being able to exceed clients’ long-term investment performance objectives.
- A provider of consistent value added for clients through a diverse range of multiple investment strategies.
- Recognized by stakeholders as having strong governance practices and a long-term strategic vision.
- Driven by a team of highly skilled investment management professionals working within a culture of innovation and risk management.
- Viewed as an employer of choice by both recent graduates and experienced investment management professionals.
- Seen as maintaining strong relationships and ongoing communication with key stakeholders.

## Corporate Values

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**PRUDENCE** – we guide investment activity within appropriate policy guidelines focused on asset allocation and risk management in accordance with client objectives.

**ACCOUNTABILITY** – we act in the best interests of our clients and use the highest standard of financial reporting, compliance, auditing and performance measurement.

**TEAMWORK** – we develop and sustain a learning culture of engaged employees who share expertise, clear roles, coordinated activity and working together to achieve our goals.

**TRANSPARENCY** – we produce clear and frequent communications to all stakeholders on operations, strategies and results.

**INTEGRITY** – we ensure honesty in all corporate undertakings guided by a Code of Ethics and Business Conduct.

**INNOVATION** – we encourage a diversity of innovative, well researched investment management strategies.

# PUBLIC SERVICE

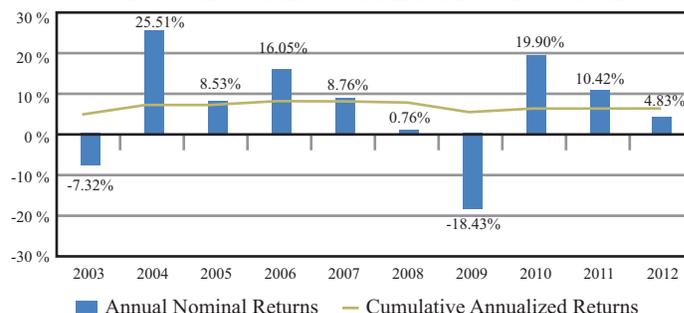
## 2011-2012

### Financial Highlights – as of March 31, 2012

#### TOTAL ANNUALIZED RETURNS

One Year **4.83%**  
 Four Year **3.15%**  
 Ten Year **6.16%**

#### ANNUAL TOTAL FUND RETURNS – 2003 - 2012

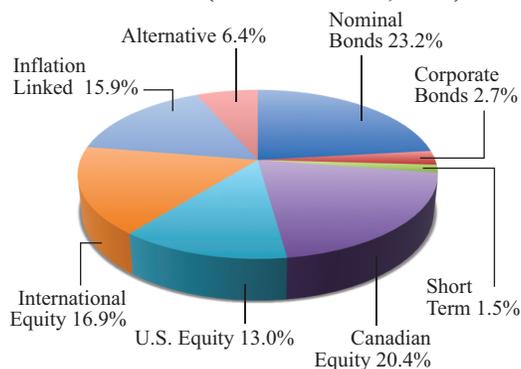


#### INVESTMENTS BY PORTFOLIO

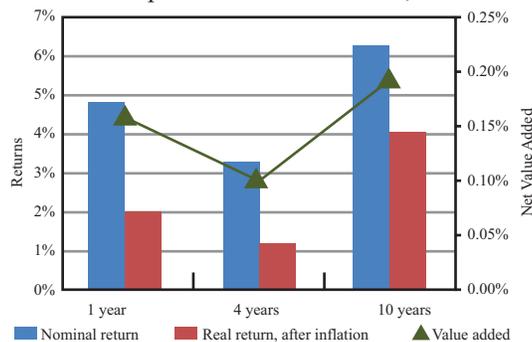
As of March 31, 2012  
 (\$ millions)

	2012	2011	2010
<b>Fixed Income</b>			
Nominal Bonds	\$ 1,210.1	\$ 1,409.5	\$ 1,259.4
Corporate Bonds	142.1	-	-
Short Term Assets	78.0	95.2	75.0
	1,430.2	1,504.7	1,334.4
<b>Public Equities</b>			
Canadian	1,064.8	1,064.0	970.9
US	679.2	546.4	537.7
International	881.7	721.2	690.7
	2,625.6	2,331.7	2,199.3
<b>Inflation Linked Assets</b>			
Real Return Bonds	456.7	462.1	416.7
Real Estate and Infrastructure	371.1	261.3	234.0
Commodities	-	(0.0)	(0.0)
	827.9	723.4	650.7
<b>Alternative Investments</b>			
Absolute Return	181.6	325.6	296.2
Private Equity	150.7	145.0	107.0
	332.2	470.7	403.2
<b>Total Investments</b>	<b>\$ 5,215.9</b>	<b>\$ 5,030.4</b>	<b>\$ 4,587.6</b>

#### ASSET MIX (As of March 31, 2012)



#### INVESTMENT PERFORMANCE For the periods ended March 31, 2012



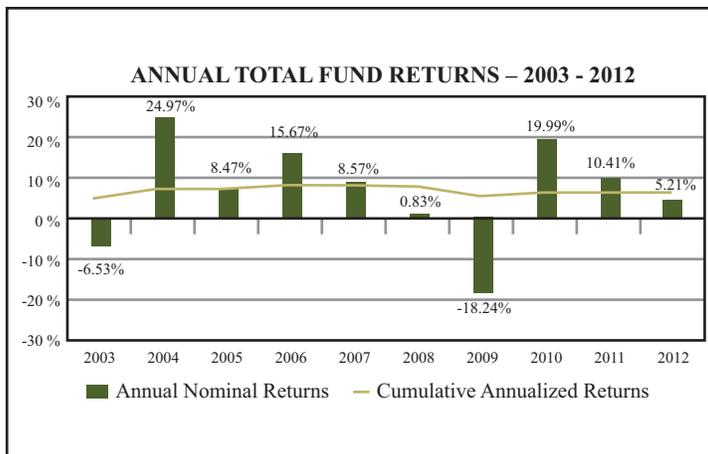
# TEACHERS'

## 2011-2012

### Financial Highlights – as of March 31, 2012

#### TOTAL ANNUALIZED RETURNS

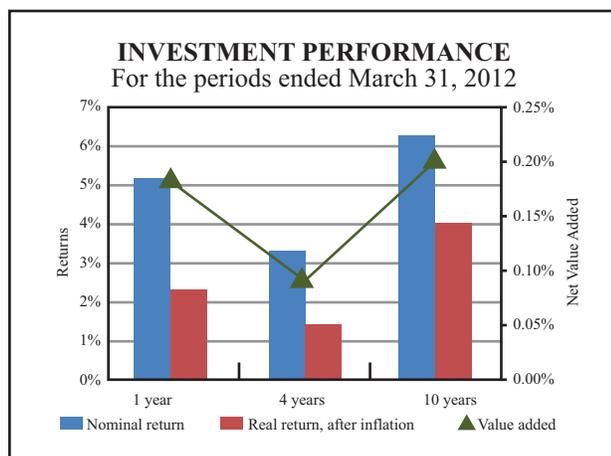
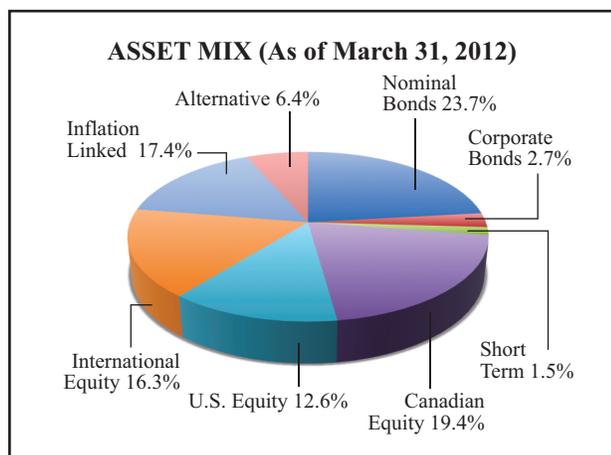
One Year **5.21%**  
 Four Year **3.32%**  
 Ten Year **6.22%**



#### INVESTMENTS BY PORTFOLIO

As of March 31, 2012  
 (\$ millions)

	2012	2011	2010
<b>Fixed Income</b>			
Nominal Bonds	\$ 985.0	\$ 1,147.7	\$ 1,037.3
Corporate Bonds	113.2	-	-
Short Term Assets	61.8	75.7	60.4
	1,160.0	1,223.4	1,097.7
<b>Public Equities</b>			
Canadian	806.3	810.1	747.7
US	523.1	420.0	419.1
International	675.6	551.3	535.4
	2,005.1	1,781.4	1,702.2
<b>Inflation Linked Assets</b>			
Real Return Bonds	384.6	389.7	355.5
Real Estate and Infrastructure	337.2	249.2	226.4
Commodities	-	0.0	0.0
	721.7	638.8	581.9
<b>Alternative Investments</b>			
Absolute Return	144.6	260.4	239.5
Private Equity	123.2	118.8	88.7
	267.8	379.1	328.2
<b>Total Investments</b>	<b>\$ 4,154.5</b>	<b>\$ 4,022.7</b>	<b>\$ 3,710.0</b>



# JUDGES'

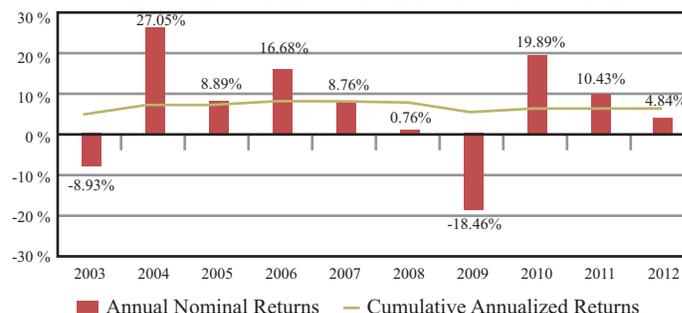
## 2011-2012

### Financial Highlights – as of March 31, 2012

#### TOTAL ANNUALIZED RETURNS

One Year **4.84%**  
 Four Year **3.14%**  
 Ten Year **6.19%**

#### ANNUAL TOTAL FUND RETURNS – 2003 - 2012

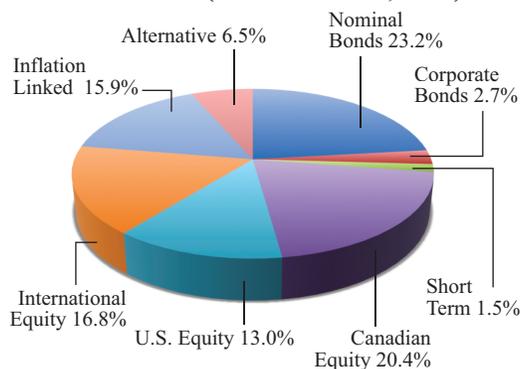


#### INVESTMENTS BY PORTFOLIO

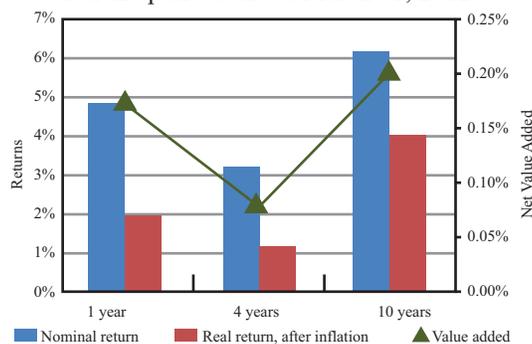
As of March 31, 2012  
 (\$ millions)

	2012	2011	2010
<b>Fixed Income</b>			
Nominal Bonds	\$ 7.2	\$ 8.3	\$ 7.4
Corporate Bonds	0.8	-	-
Short Term Assets	0.5	0.6	0.4
	8.5	8.8	7.9
<b>Public Equities</b>			
Canadian	6.3	6.2	5.8
US	4.0	3.2	3.2
International	5.2	4.2	4.1
	15.6	13.6	13.1
<b>Inflation Linked Assets</b>			
Real Return Bonds	2.7	2.7	2.5
Real Estate and Infrastructure	2.2	1.5	1.4
Commodities	-	(0.0)	(0.0)
	4.9	4.2	3.9
<b>Alternative Investments</b>			
Absolute Return	1.1	1.9	1.7
Private Equity	0.9	0.9	0.7
	2.0	2.8	2.4
<b>Total Investments</b>	<b>\$ 31.1</b>	<b>\$ 29.5</b>	<b>\$ 27.3</b>

#### ASSET MIX (As of March 31, 2012)



#### INVESTMENT PERFORMANCE For the periods ended March 31, 2012



## NBIMC's Investment Beliefs

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NBIMC operates under a few basic investment beliefs, upon which we continually reflect when setting investment strategy. These beliefs are:

1. NBIMC is a relatively low risk asset manager when compared to its peers.
2. Real Return Bonds, because of their long-term inflation-linked characteristics, are considered to be an excellent match for pension liabilities.
3. New asset classes and strategies are introduced incrementally in order to progressively gain experience and to minimize transition costs.
4. The establishment of the appropriate asset mix for each of the funds under management is heavily influenced by both the actuarial profile and funding status of each plan.
5. NBIMC believes that market inefficiencies present opportunities to add value through active management.

## Letter to Stakeholders

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On behalf of the Board of Directors and the staff of the New Brunswick Investment Management Corporation (NBIMC) we are pleased to present the following Fiscal 2011-2012 Annual Report.

The Corporation's investment program continues to perform well, producing a 5.00% overall annual return for the pension plans under our management during the fiscal year. The first half of the year was a very difficult investment environment due to increased sovereign debt concerns in Europe and anxiety from the continued slow rate of global economic growth. Our solid return, during a period in which many other pension portfolio managers struggled to just break even, can be directly attributed to the risk controlled long-term focus of our investment strategy.

Most importantly our annualized real investment returns (the return after adjusting for inflation) since NBIMC's inception remains above the return required as set out by the independent pension plan Actuary. These excess investment returns continue to help keep the pension plans on track with the Province's funding goals that were set out in the early 1990s.

### Fiscal 2011-12

Our investment portfolios continued to remain well positioned to take advantage of the relatively slow economic rebound that has occurred since the depths of the Fiscal 2008-09 financial markets crisis while at the same time providing protection against interim periods of increased volatility and market declines.

The fiscal year started out in a challenging environment as both the global economy and investor risk appetite was impacted by the tragic natural disaster in Japan, and the ongoing political upheaval in North Africa and the Middle East. These conditions worsened as Portugal was forced to ask their European Union partners for financial support, shortly followed by Greece requiring a second financial bail-out. Sovereign debt concerns culminated in early August as investors witnessed the U.S. governance dysfunction that occurred in trying to raise their debt ceiling followed by Standard & Poor's downgrading the debt rating of U.S. government backed securities. This downgrade not only impacted the sovereign debt market but also caused a very immediate risk adverse reaction by investors in most other financial markets.

Much like during the year prior, the overall mood changed in the fall of 2011 as governments focused on policies and programs to support their respective economies. The U.S. Federal Reserve Board began the process by starting a new financial asset purchasing program that continued to further reduce interest rate levels, while the European Central Bank and European Union introduced a number of measures that were finally perceived as being supportive in dealing with their respective sovereign debt troubles. These measures in combination with continued strong corporate earnings reports provided significant support to riskier financial assets such as the equity markets through the remainder of our fiscal year.

As noted earlier, our overall gross nominal rate of return for the year ending March 31, 2012 was 5.00% while our long-term annualized return since NBIMC's inception in 1996 is now at 6.64%. Most importantly our annualized real return (after adjusting for inflation) since inception is now 4.56%. This real return is now 0.56% per annum above the long-term 4% real return requirement that the pension funds' independent Actuary has continued to believe to be necessary to fund the pension plans under our management. We are very pleased that our relatively low risk investment approach continues to consistently meet the long-term funding goals of the pension plan sponsor while also attempting to minimize the exposure to the potential of large negative and positive swings from financial markets volatility in any one period.

Net assets under management increased to an all time high of \$9.415 billion from \$9.096 billion in the prior year. This increase in assets resulted from \$433 million in net investment earnings, \$160 million in special funding payments from the plans' sponsor, and net pension payouts of \$274 million. Management successfully added approximately \$27.8 million of investment earnings through active portfolio management activities versus their benchmarks, which provided the funds with approximately \$15.5 million in additional net earnings after covering the \$12.3 million in NBIMC's operating costs and the costs of third party service providers.

While not a primary consideration, our long-term investment returns on a risk adjusted basis continue to be very respectable versus peer pension portfolio managers. Our investment strategy has been especially justified in periods of weaker public equity returns and higher financial markets volatility such as we witnessed over the past fiscal year.

We also continue to have ample liquidity within our investment portfolios to fund pensioner payment obligations. Fiscal 2011-12 net payment obligations of \$114 million against a total portfolio asset value of \$9.415 billion illustrates our ability to make pension payments well into the future.

## Important Accomplishments

NBIMC achieved a number of important accomplishments during the year:

- As noted above, our long-term investment performance continues to exceed the actuarial real return target requirement for the pension plans under our management.
- Management continues to add relative value added returns, after covering all expenses, for the portfolios through active investment management activities.
- We concluded a full Asset Liability study for the Public Service Superannuation Plan (PSSA) based on an actuarial review received in early 2011. Investment Policy changes were approved by the Board to continue to provide the long-term investment returns required in a risk controlled fashion. Based on this work the Board of Directors also approved similar pro-rata changes to the Investment Policies for the Teachers' and Judges' Funds as well.
- Management developed and implemented new fixed income credit, Canadian publicly-traded real estate, and global low volatility publicly traded equity portfolios.
- Our biennial Workplace Environment Survey resulted in the highest overall satisfaction rate received by the Corporation to date and was based on a 100% participation rate by our employees.
- The Board of Directors approved a revised 2011-2016 Human Resources Strategic Plan.
- NBIMC conducted a number of stakeholder interactions with respect to the Government's structural review process and their Pension Task Force.
- The Board of Directors completed their biennial self-assessment process and subsequently developed a series of governance improvement objectives.
- Management designed and implemented an internal securities lending program that reduces counterparty risk and leads to additional cost efficiencies.
- In coordination with our Internal Auditor, we completed a review of the effectiveness of our various internal management committees, a best practices review on both compensation policies and practices, a review of our information technology program against the *Control Objectives for Information Technology* risk management framework, and completed an audit of our investment compliance and reporting processes.
- We continued to expand our direct private markets investment activity on both a local and global basis.
- In coordination with the Office of the Auditor General, we provided a follow up report with respect to their 2006 Governance, and 2008 Investment Performance and Cost Analysis audit recommendations.

Further details on NBIMC's mandate, activities and results are contained throughout later sections of this Annual Report.

## The NBIMC Advantage

A global debate continues in regards to the sustainability of Defined Benefit Pension Plans while the Government of New Brunswick is currently awaiting a report from their Pension Task Force that may impact the pension plans whose assets we manage.

Irrespective of the outcome of these initiatives we feel that a dedicated investment manager such as NBIMC brings a number of benefits to the management of pension or other fiduciary based assets as follows:

- NBIMC provides a well structured, independent and transparent fiduciary based governance process.
- We create specific investment programs that are focused on providing dependable future retirement income for each pension plan and stability in employer and employee contributions.
- Our corporate goals and objectives are directly aligned with the best interests of the pension plan stakeholders.
- We provide a strong level of oversight through our Enterprise Risk Management Framework and asset safekeeping capabilities.
- The Funds receive cost effective access to professional fund management services gained through the economies of scale realized by pooling member plan assets. The majority of our lower investment management fees are also deployed at home in New Brunswick versus other international jurisdictions.

We expect that these advantages will continue to help keep the pension plans under our management on track in fulfilling their goals into the future.

## Outlook

For the third straight year we can reiterate that we continue to witness a general improvement in financial markets performance. This is primarily due to the continued action of the world's governments and central banks to provide very cheap liquidity and to some extent more limited economic stimulus. However while economic conditions have improved, high unemployment levels and a weak housing market in the United States continue to negatively affect market sentiment. A significant increase in sovereign debt concerns has also impacted financial markets throughout this past year. The tradeoff between the need to improve many sovereign fiscal situations without impacting economic growth have many investors concerned for the future.

While these concerns need to be monitored closely, economic growth does continue to slowly recover in most regions. Corporate earnings, while slowing are also still quite robust and consumers in emerging economies continue to contribute to a global rebound. We will continue to monitor these situations closely during the year ahead.

Once again this year we are also in the process of reviewing recently received updated actuarial reports for the two larger plans under our management and we understand that a report from the Province's Pension Task Force is expected during the upcoming fiscal year. NBIMC therefore expects to conduct a full Investment Policy review during the upcoming fiscal year based on the information received from these two sources. This type of analysis will continue to ensure that we can prudently meet each plan's long-term actuarial return goals in a risk controlled fashion.

## Appreciation of Dedicated Service

We would like to recognize our Board for their efforts and support to the Corporation during the year. Service on the Board continues to be a major responsibility and a significant commitment which is greatly appreciated.

Ms. Jane Garbutt, Deputy Minister of Finance, joined our Board of Directors in an ex-officio capacity in December 2011. She replaced Mr. Michael Ferguson who left the New Brunswick Government to become the Auditor General of Canada. While Mr. Ferguson only served on our Board for a relatively short period he had made a large contribution to NBIMC, starting with a 2006 Governance Review he conducted in a prior role as New Brunswick's Auditor General. We would like thank him for his input and wish him well with his new challenges.

On behalf of the Board we also wish to thank our team of professionals at NBIMC for their continued diligence and hard work in continuing to meet the goals of our clients. We are very pleased that the management team continues to provide long-term investment returns in excess of both actuarial funding requirements and policy benchmarks in an ongoing difficult economic and market environment.

Finally and consistent with our past annual letters, we remain confident that we have the strategy, people and processes in place that can continue to meet the long-term goals of our stakeholders.

Sincerely,



Gilles Lepage  
Chairperson



John A. Sinclair  
President and Chief Executive Officer  
Chief Investment Officer

May, 2012  
Fredericton, New Brunswick

## Pension Plan Governance

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The Province of New Brunswick is the **Plan Sponsor** for three legislated pension plans:

- New Brunswick Public Service Superannuation Act;
- New Brunswick Teachers' Pension Act; and
- Provincial Court Judges' Pension Act.

The Plan Sponsor is responsible for pension plan design, which includes setting the levels of contribution and benefits, and benefit administration. The Minister of Finance, as Chair of the Board of Management, is the Plan Governor and Plan Administrator.

The day to day administration of these pension plans is assigned to the Pensions and Employee Benefits branch of the Office of Human Resources (OHR) for the Province. OHR is responsible for collection of employee contributions, payment of benefits in accordance with the plan provisions and assisting plan members in understanding their pension entitlements.

Each of the pension plans undergoes a periodic actuarial valuation under the direction of an **Actuarial Valuation Committee**. This Committee is made up of senior level public servants from the Department of Finance, Office of Human Resources and the Office of the Comptroller who are supported by a professionally accredited Actuary.

An Actuary is an expert in the mathematics of finance, statistics and risk theory. The **Independent Actuary** is engaged to provide an actuarial valuation of the pension plan on a going-concern basis (i.e. assumes the plan continues to operate normally) and on a solvency basis (i.e. the plan is assumed to be wound up on the valuation date) in accordance with the standards set by the Canadian Institute of Actuaries. The Actuary obtains current membership data and asset mix information and considers the specific benefits available and contributions required under the plan legislation. The actuarial process involves setting informed assumptions relating to interest rates, inflation, salary increases and longevity. The valuation process determines the long-term funding requirements for each pension plan.

**NBIMC** is a Crown corporation established under the *New Brunswick Investment Management Corporation Act* (the "NBIMC Act") of 1994. NBIMC is primarily responsible for acting as investment manager and trustee for the pension fund assets of these three public sector pension plans.

As trustee of the funds under management, NBIMC is responsible for development of an investment policy that meets the Actuary's required long-term rate of return and implementing the investment policy within a risk-controlled framework.

NBIMC uses the specific pension plan cash flow data provided by the Actuary as well as long-term market expectation assumptions to model the risks and returns of potential investment strategies. Assumptions as to economic factors, geo-political risks and demographic trends are also considered. From this work, NBIMC develops recommendations for an asset mix which are reviewed with the Board of Directors. The Board decides on the appropriate asset mix and delegates to management its implementation.

NBIMC also receives the employers' and employees' pension contributions collected by OHR and deploys them according to the Investment Policy established by the Board. NBIMC also transfers sufficient funds to OHR to fund the pension benefit payment requirements.

## Management's Discussion & Analysis

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*Management's Discussion & Analysis (MD&A) is provided to enable the reader to interpret the material trends, the results and the financial condition of the pension funds. Key elements of the pension funds' annual financial statements are explained and this MD&A should be read in conjunction with these annual financial statements and related notes.*

*As well, this MD&A may contain forward-looking statements reflecting management's objectives, outlook and expectations which involve risks and uncertainties. Forward-looking statements are usually preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements.*

### Asset Mix

The development of the asset mix for each fund is highly dependent on the actuarial liability profile of each underlying pension plan. The respective asset mix is designed to provide annualized long-term returns that will exceed the actuarial return requirement for each plan, with the least amount of risk.

During the year, NBIMC had received an actuarial valuation for each of the Public Service Superannuation Plan, the Teachers' Pension Plan and the Judges' Superannuation Plan as at April 1, 2010 from which management conducted a thorough asset liability analysis based on the updated liability characteristics and funding position of Public Service Superannuation Plan. This review concluded that the asset mix and Investment Policy for each Fund needed to be adjusted in order to continue to realize the required actuarial returns that will be needed to continue to help keep each plan on track with the Plan Sponsor's funding goals.

The resulting asset mix changes can be summarized as follows:

- A reduction in the asset class weights of the short-term and absolute strategy portfolios due to expected low interest rates from a continuation of very accommodating central bank monetary policies.
- A reduction in the nominal bond weight due to the low absolute level of current bond yields.
- The creation of a new corporate credit fixed income portfolio to take advantage of the higher yields that are available from exposure to corporate credit risk and to take advantage of a slightly lower duration in the current low yield environment.
- The creation of a new Canadian public real estate portfolio to take advantage of their attractive annual yield characteristics and to provide additional portfolio diversification.
- The creation of new U.S. and international low volatility public equity portfolios to take advantage of the expected additional long-term equity risk premium but with expected lower annual return volatility.

The Board of Directors approved these recommendations and detailed copies of the related Investment Policy Statements are available from the governance section of our website ([www.nbimc.com](http://www.nbimc.com)).

As has been mentioned in an earlier section, we have recently received an updated actuarial valuation for both the Public Service and the Teachers' plans as at April 2011. We have begun our asset liability analysis process to determine if any asset mix changes are now warranted in light of these revised liability profiles and current long-term financial markets conditions.

### Investment Performance

The two main objectives, in terms of investment performance that NBIMC focuses on are the actuarial return requirements of each pension fund and in adding value through active management strategies.

The first objective is in regards to both the nominal and real return of the funds compared to the actuarial return assumption that has been determined necessary to appropriately fund each pension plan. Our overall nominal return of 5.00% and real return of 2.09% for the fiscal year was below our nominal and real return actuarial hurdles for the year but more importantly remained above their respective actuarial targets over the long term. These returns were also very respectable considering the volatility experienced during the year and versus the returns experienced by other pension fund managers.

The majority of our investment performance during the year came about from the strong performance in our fixed income portfolios as both nominal and real return bonds provided strong gains during the year. Central bank purchasing activities during the year continued to drive bond yields in both asset classes to historic lows, significantly increasing security prices in both portfolios. The U.S. public equity market also provided solid returns as corporate revenues and earnings continued a strong growth trend. Real estate and infrastructure portfolio returns were positive thanks to their steady yield characteristics and the strong investor demand for these types of assets in the current low yield environment. Finally our private equity portfolio realized strong gains through an increase in the sales of portfolio companies and business growth similar to that witnessed in public market companies.

A good example of this private equity trend was the very successful sale of our investment in Q1 Labs during the year from our NBIMC New Brunswick and Atlantic Canada Opportunities Equity Fund. We were one of the two original investors in this company back in 2003 as it emerged from an early commercialization stage after being developed at the University of New Brunswick. NBIMC remained a strong financial supporter of the company as it continued to grow its client base and included additional investor interest up to the point where it was purchased by IBM in the fall of 2011. Q1 Labs is a great example of an investment opportunity that provided an excellent investment return in line with our fiduciary obligations while at the same time helping to develop a knowledge based company with a significant employee base in New Brunswick.

The Canadian public equity portfolio was the biggest detractor during the year as Canadian stock markets finally underperformed their global peers after a number of years of outperformance. The Canadian market was particularly impacted by price declines in companies that are levered to global economic growth such as those with significant commodity exposure. International (ex. U.S.) markets were also weaker mainly due to concerns over the sovereign turmoil in Europe. Both our short term assets portfolio and our absolute return portfolios investment returns remained relatively minimal. Short-term interest rates remained low during the year as most central banks maintained their very low interest rate policies. Mid-year financial markets volatility made value added investment activity in our absolute return portfolios difficult again this year. Our absolute strategies focus on active equity investments based primarily in North American markets and both of these markets experienced conditions in which active investment managers had difficulty outperforming standard benchmarks.

The specific performance of each NBIMC asset portfolio and its respective benchmark is outlined in the table below.

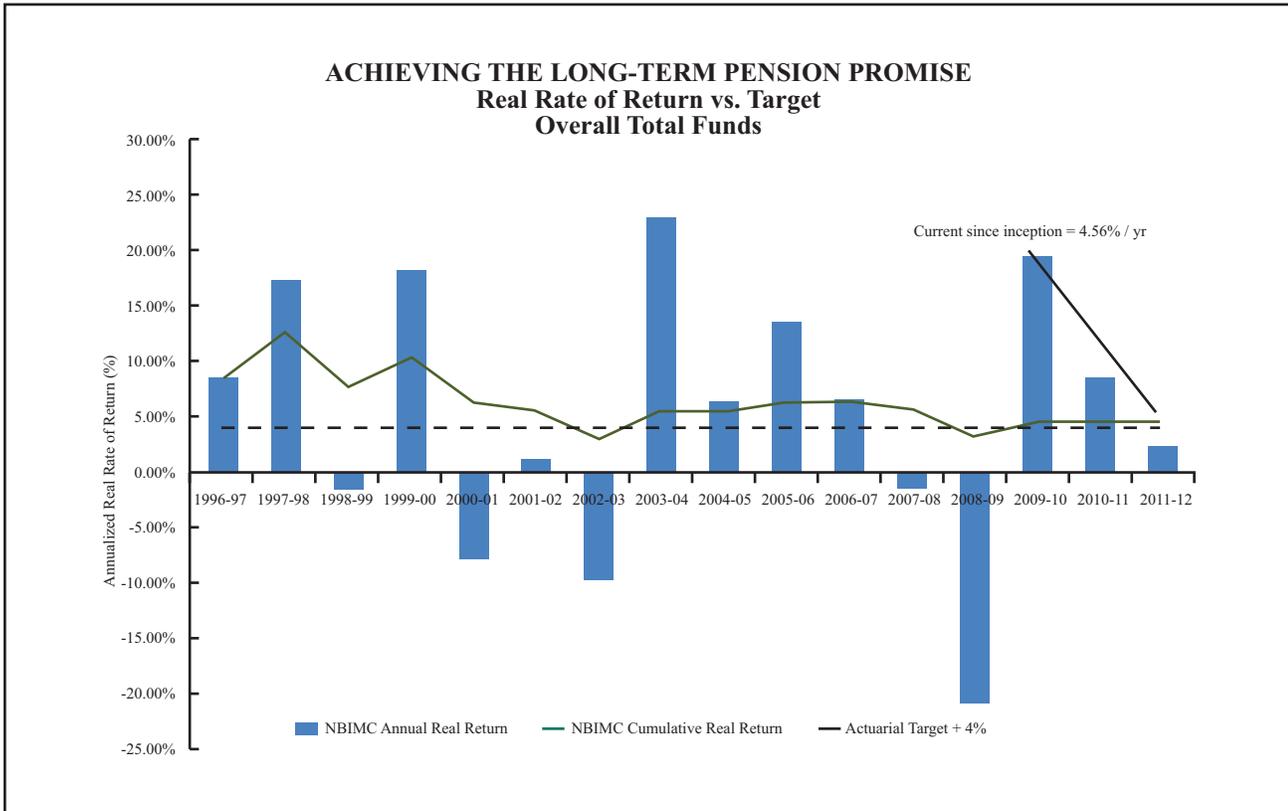
**Fiscal 2011-12 Rates of Return, calculated in Canadian dollars**

	Portfolio Return	Benchmark Return
<b>Fixed Income</b>		
Nominal Bonds	9.87 %	9.86 %
Corporate Bonds	2.25	1.38
Short Term Assets	1.33	0.94
<b>Public Equity</b>		
Canadian	(9.37)	(9.76)
United States	11.62	11.59
MSCI EAFE	(3.09)	(3.17)
<b>Inflation Linked Assets</b>		
Real Return Bonds	16.18	16.41
Real Estate/Infrastructure	16.40	12.41
<b>Alternative Investments</b>		
Absolute Return	(1.58)	0.94
Private Equity	12.74	2.95
<b>Total Investment Portfolio</b>	<b>5.00 %</b>	<b>4.70* %</b>

\*Board approved active management benchmark returns are equal to the benchmarks in the Schedule of Composite Performance calculated in accordance with Global Investment Performance Standards ® and net of an adjustment for private market investments made within the most recent 5 year period.

The **primary performance objective**, as outlined by the plan actuary, is to achieve a long term real return (i.e. return after inflation) objective of at least 4%. This is the most significant hurdle that we measure our performance against and is the primary factor in the security of the pension plan benefits.

As shown in the chart below, we are very pleased to point out that our long-term annualized real return since NBIMC's inception is now 4.56% and exceeds this actuarial requirement.



Our **second investment performance objective** is to add value, above our various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all of NBIMC's operating costs, and subsequently targets an additional 42 basis points (0.42%) per annum to each fund. A basis point is 1/100ths of a percentage.

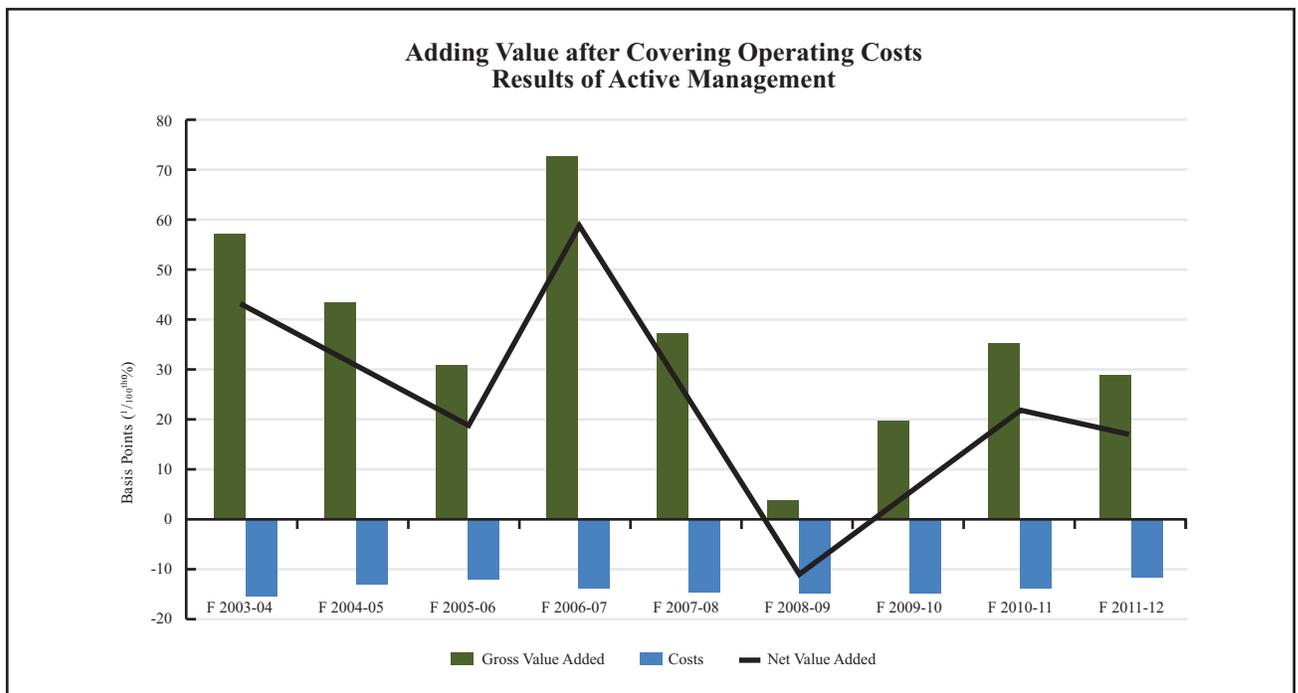
Our active management activities added 30.1 basis points of gross value and 16.8 basis points of net value, or approximately \$15.5 million, after covering all of the organization's operating costs.

Our longer-term four year average annual value added return, net of costs, was approximately 7.3 basis points per annum or approximately \$30.2 million in additional value over the four year period. The four-year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer term measure.

We are very pleased to note that we have continued to achieve value added performance since the financial market crisis of Fiscal 2008-09. As discussed in prior Annual Reports, NBIMC’s primary active investment activity is to differentiate between the securities in specific companies that we find attractive, versus those that we do not. This differentiation activity became very challenging during the financial markets crisis, as many investors headed to the perceived safety and liquidity of government securities and unfortunately did not necessarily care what securities they were selling in the process. Since the financial markets crisis we have found that markets have continued to normalize slowly however we continue to experience short interim periods of fairly significant volatility. These types of events continue to make active investment activity challenging and we remain vigilant on making sure that we do not take on an excessive amount of risk in these types of market conditions.

Our expectation continues to be that we should be able to return to a period of more consistent, and closer to long-term targeted value added active management as the global economy and financial markets continue to normalize.

The following chart illustrates both the relative value added and success rate from NBIMC’s active management activities over the past nine years. It is broken down in terms of gross value added performance, operating costs and excess (or net) value added performance.



NBIMC also prepares and presents Schedules of Composite Performance Results for each of the pension funds under management. These audited schedules are prepared in compliance with the Global Investment Performance Standards (GIPS®) and are available on our website, [www.nbimc.com](http://www.nbimc.com), when completed.

## **Risk Management**

NBIMC and the Pension Funds face a number of risks in attempting to fulfill their mandates. Our disciplined risk management focus is a critical part of NBIMC's investment management activities. Risk management is a key element in helping the plan sponsor provide stability in both pension plan contributions and benefits, and making sure that our investment management activities do not bring undue risk to the Plans' assets. All investment decisions are made in a risk context that not only focuses on the expected returns of our activities but also on the potential gains or losses that could be realized by those activities.

### ***Risk Management - Board Oversight***

Although management has the primary responsibility for managing risk, under its terms of reference, the Board of Directors is responsible for understanding the risks and the systems that management has put in place to mitigate and manage those risks. In this context, the Board has communicated guidelines to management's investment discretion in the Statements of Investment Policy for each Pension Fund. These Statements of Investment Policy are also available on the NBIMC website.

Within the Board structure, the Audit Committee focuses specifically on oversight of financial risks and risks relating to the systems of internal controls and financial reporting as well as fraud risk. The Human Resources and Compensation Committee focuses on risks relating to the leadership of the President and CEO, the ability to attract and retain qualified and motivated staff, leadership development and succession plans, and the overall prudence and sound business practices in Human Resource matters. The Governance Committee focuses on the leadership and effectiveness of the Board and the reputation and public image of the Corporation.

### ***Risk Management - Independent Audits***

To assist in its oversight of risk management, the Audit Committee has engaged an independent internal audit service provider (a firm external to NBIMC) to conduct reviews and provide advice on the effectiveness of NBIMC's internal controls and processes. Internal audit reports received in the current fiscal year have covered the following areas:

- Management Committee Effectiveness;
- Compensation Policies and Practices;
- COBIT® assessment; and
- Investment Compliance

These reviews did not uncover any significant weaknesses; however, they have been helpful in fine-tuning our processes to increase efficiency and effectiveness.

### ***Risk Management - Management Activities***

NBIMC has developed an Enterprise Risk Management Framework that can be found on our website at [http://nbimc.com/en/about\\_nbimc/enterprise\\_risk\\_management\\_framework](http://nbimc.com/en/about_nbimc/enterprise_risk_management_framework) . This Framework identifies three main categories of risk: strategic risk, investment risk and operational risk. The Framework highlights sixteen specific risk elements within these three categories, including a definition of each element, the responsibility for risk oversight and the measures taken by management and the Board to mitigate each risk.

NBIMC uses six internal Management Committees to monitor and address specific issues arising from the Enterprise Risk Management Framework. These committees have cross-functional membership, including management and non-management positions as well as some overlap among the committees, providing a rich opportunity for sharing perspectives and insights:

<p><b>Enterprise Risk Management Council (ERMC)</b></p>	<p>In accordance with its Terms of Reference, the ERMC is responsible for reviewing the status of the Enterprise Risk Management Framework on a quarterly basis in advance of presentation of the quarterly risk matrix report to the Board of Directors and advising the President &amp; CEO of areas of emerging risk.</p> <p>In fulfilling this mandate, the ERMC reviews:</p> <ul style="list-style-type: none"> <li>• Weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies;</li> <li>• Asset mix stress testing and back-testing results;</li> <li>• A quarterly Pension Fund liquidity analysis;</li> <li>• Monthly counterparty exposure reports;</li> <li>• Quarterly securities lending compliance reports;</li> <li>• Results from the annual fraud risk assessment; and</li> <li>• Recommendations from independent audit reviews.</li> </ul>
<p><b>Investment Risk Management Committee (IRMC)</b></p>	<p>In accordance with its Terms of Reference, the IRMC is responsible for the following:</p> <ul style="list-style-type: none"> <li>• monitors investment risk measures</li> <li>• considers risks associated with new investment strategies and products</li> <li>• proposes procedures to measure and monitor investment risk, subject to the approval of the Chief Investment Officer and within the parameters established by the Board</li> </ul>
<p><b>Trade Management Oversight Committee (TMOC)</b></p>	<p>In accordance with its Terms of Reference, the TMOC is responsible for the following:</p> <ul style="list-style-type: none"> <li>• monitors trading policies and practices</li> <li>• approves broker selection to ensure best trade execution possible</li> <li>• manages exposure to broker counterparty risk</li> </ul>
<p><b>Information Technology Risk Management Committee (ITRMC)</b></p>	<p>In accordance with its Terms of Reference, the ITRMC, which includes an external senior IT executive, is responsible for the following:</p> <ul style="list-style-type: none"> <li>• assists in the development of IT strategy and future direction</li> <li>• approves new application risk assessments</li> <li>• monitors adherence to IT policies and processes</li> </ul>

<b>Business Continuity Plan Team (BCP)</b>	In accordance with its Terms of Reference, the BCP is responsible for the following: <ul style="list-style-type: none"> <li>• develops and implements the Business Continuity Plan including disaster recovery</li> <li>• discusses possible disaster scenarios</li> <li>• uses passive and active tests to practice response protocols</li> </ul>
<b>Occupational Health &amp; Safety Committee</b>	In accordance with its Terms of Reference, the Occupational Health & Safety Committee is responsible for the following: <ul style="list-style-type: none"> <li>• considers physical environment risks</li> </ul>

## Investment Management Costs

One of the most important considerations in assessing investment performance is the cost incurred. Although the industry standard for investment performance is to report gross returns, it is the returns net of costs that pay the pension promise. Lower costs result in higher comparative net returns and help to maximize the assets that are available to pay pension benefits.

Investment management costs are influenced by many factors. Generally, industry cost comparisons prove that it is more efficient to manage assets internally than to outsource the investment process to third parties. Also, passive investment strategies – those strategies that are designed to mimic a market index – are less expensive than active strategies which depend on judgment and opportunity to differentiate returns from the benchmark.

The Pension Funds' investment management costs, in millions of dollars, for the year ended March 31, 2012 consist of the following:

(\$ Millions)	2012	2011
<b>NBIMC Operational Expenses</b>	\$ 8.3	\$ 8.1
<b>Third Party Service Providers</b>		
Investment counsel fees	3.3	2.8
Securities custody - internally managed	0.6	0.7
- externally managed	0.1	0.1
	\$ 12.3	\$ 11.7
<b>Total Assets Under Management (GAAP basis)</b>	\$ 9,414.8	\$ 9,096.0

NBIMC manages approximately 85% of the assets of the Pension Funds internally, using our investment management professionals and technology systems that permit global trading activity from our location in Fredericton, New Brunswick. The costs incurred to manage investment strategies internally, measured over average assets, were 0.116% or 11.6 basis points (bps) for the year ended March 31, 2012 (2011 - 11.8 bps). NBIMC has outsourced approximately 15% of the assets under management where access to the desired investment opportunities or specific strategy expertise is not available internally. The cost of managing investments through our external investment managers, also measured on average assets, was 22.8 bps for the year ended March 31, 2012 (2011 - 20.8 bps). In total, investment management costs were

approximately 13.3 basis points of average assets under management during the year, versus 13.4 last year.

We benchmark our investment management costs against other peer pension fund managers annually. We continue to compare favourably to publicly available information offered by other public sector peer funds. We also participate in an annual survey of defined benefit pension plans conducted by CEM Benchmarking Inc. CEM's calendar 2010 survey compared our costs against the average investment management costs for 93 participants in the Canadian universe of defined benefit peer pension funds, responsible for an aggregate of \$818 billion. Through this benchmarking survey, we believe that our costs are approximately 17 basis points lower than our peers. This cost differential means that in the year ended March 31, 2012 the Pension Funds were able to retain over \$15.8 million due to our low cost advantage. This cost advantage has been a cornerstone of our service delivery since our inception sixteen years ago. We have submitted our 2011 data and are currently awaiting the survey results.

In addition to investment management costs, the Pension Funds incur administrative expenses paid to the Plan Sponsor for costs associated with the independent actuaries' periodic actuarial valuations, and the costs to administer plan member entitlements and payments of benefits to plan beneficiaries. These costs are reported on the Statement of Changes in Net Assets Held in Trust in the accompanying audited financial statements for each Pension Fund.

## **Future Accounting Policy Changes**

### ***International Financial Reporting Standards***

The Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) has announced a further deferral in the mandatory International Financial Reporting Standards (IFRS) conversion date for Investment Entities to years beginning on or after January 1, 2014. The Pension Funds meet the definition for Investment Entities. This deferral is to accommodate pending changes to IFRS that propose to permit an exemption for investment funds from following consolidation accounting in favour of fair value accounting for investees. Accordingly the Pension Funds expect to adopt IFRS for their fiscal year ending March 31, 2015. Except for the current requirement under IFRS to follow consolidation accounting, management has not identified any accounting adjustments to the financial reporting of the Pension Funds upon conversion to IFRS.

In the event that IFRS is not amended to provide an exemption to consolidation accounting for Investment Entities, the AcSB has proposed to include those Investment Entities that are separate from a pension plan and whose sole purpose is to hold and invest assets received from one or more pension plans but does not itself have a pension obligation into the scope of Section 4600 *Pension Plans* in Part IV of the CICA Handbook. Section 4600 requires that the entities to which it applies should measure their investments at fair value.

### ***Public Sector Accounting Standards***

As a provincial Crown corporation, NBIMC adopted Public Sector Accounting Standards (PSAS) for the year ended March 31, 2012. Adopting PSAS included determining an opening balance sheet as of April 1, 2010 and restating the comparative figures in the NBIMC audited financial statements for the year ended March 31, 2011 to be prepared in accordance with PSAS. Although the impact of initially adopting PSAS was not material, readers are referred to Note 3 to the financial statements for New Brunswick Investment Management Corporation for the year ended March 31, 2012 for a detailed discussion of the accounting differences that these new standards have had for the current year.

The Public Sector Accounting Standards Board (PSAB) has a number of projects on its current agenda which, when finalized, may have an impact on NBIMC's financial reporting. In particular, the PSAB has current projects examining revenue recognition standards and accounting for related party transactions, among others. Management is monitoring these projects.

# Compensation Program

# Exhibit A

## Base Salary

<b>Eligibility</b>	All Staff
<b>Objectives</b>	Reward level of responsibility, expertise, competency and relevant experience

## Variable Compensation Program

	<b>Annual Incentive</b> (targets 15% -55% of base salary)		<b>Long-Term Incentive</b> (targets 15% -75% of base salary)
	<b>Short-term</b>	<b>Long-term</b>	<b>Deferred</b>
<b>Eligibility</b>	Investment and research staff and the Chief Financial Officer provided a minimum of six months employment.	Investment and research staff and the Chief Financial Officer provided a minimum of six months employment.	Investment and research staff and the Chief Financial Officer provided a minimum of four years employment.
<b>Objectives</b>	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth.  Strengthen team cooperation.  Reward individual performance.	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth.  Strengthen team cooperation.	Align eligible employee compensation to total fund investment performance with an incentive to achieve sustained asset growth.  Strengthen team cooperation.
<b>Time horizon</b>	1 year	4 year (prorated)	4 year
<b>Type of program</b>	Cash	Cash	Cash
<b>Performance metric(s)</b>	Total fund return in excess of benchmark, net of investment management expenses.  Investment team(s) active return in excess of benchmark.  Individual performance versus Board approved pre-determined Annual Business Plan Objectives.	Total fund return in excess of benchmark, net of investment management expenses.  Investment team(s) active return in excess of benchmark.	Total fund return in excess of benchmark, net of investment management expenses.
<b>Range:</b>			
<b>Threshold</b>	Full NBIMC cost recovery	Full NBIMC cost recovery	Full NBIMC cost recovery
<b>Target</b>	42 bps after costs	42 bps after costs	42 bps after costs
<b>Maximum</b>	84 bps after costs	84 bps after costs	75 bps after costs

## Indirect Compensation

	<b>Membership in the Public Service Superannuation Pension Plan and retirement allowance*</b>	<b>Employee benefits and post-retirement benefits</b>	<b>Perquisites</b>
<b>Eligibility</b>	Full-time staff with a minimum of five years employment.	Full-time staff.	Full-time staff.
<b>Objectives</b>	Encourage long-term retention by rewarding continued service and contributing to post-retirement income.	Provide staff and their families with assistance and security so that they can focus on their professional responsibilities and achieving the corporate mission.	Offers a limited number of benefits to complement total compensation including parking and a health spending account allowance.

\*Retirement allowance only for employees hired prior to September 2011

# Compensation Discussion and Analysis

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## Compensation Governance

The Board of Directors is responsible for the oversight of NBIMC's compensation principles, policies and programs. The Board approves the compensation program and awards, including the compensation of the President & CEO, based upon the recommendations made by the Human Resources and Compensation Committee (HRCC).

### *HRCC Mandate*

The HRCC assists the Board in fulfilling its obligations relating to the establishment of policies for compensation of directors and employees, leadership succession planning, and setting of human resource policies and practices.

The Committee is composed of seven directors, six of whom are independent and one of whom is an *ex officio* director. The Committee meets at a minimum quarterly. External human resources consultants may be used to assist the Committee with fulfilling its mandate.

The HRCC's Terms of Reference are available at [http://nbimc.com/en/governance/corporate\\_governance/human\\_resources\\_and\\_compensation\\_committee](http://nbimc.com/en/governance/corporate_governance/human_resources_and_compensation_committee). Key responsibilities include:

- Participation in an annual performance appraisal process for the President & CEO, including establishment of measurable goals and objectives, and recommendations for compensation arrangements including performance incentive awards;
- Development of a Compensation Philosophy that articulates principles to follow in approaching compensation decisions that will align with NBIMC's business objectives, operations and risks;
- Oversight of adjustments to competitive compensation ranges, incentive compensation plans, employee benefit plans and operational travel and expense policies;
- Recommendation of changes to the organization's structure, appointment of officers, and amendments to job descriptions as well as any management severance arrangements;
- Consideration of NBIMC's leadership development initiatives and succession plans for key employees;
- Approval of a long range Human Resource Strategic Plan that includes appropriate strategies and policies to attract and retain talented employees;
- Review and recommendation to the Board for approval of the year-end incentive compensation pool for eligible employees.

### *Independent Advice*

The HRCC has retained the help of independent compensation advisors from time to time. The role of the advisor is to periodically review the Total Compensation levels offered to all employees within the context of NBIMC's Compensation Philosophy. This review typically uses a comparator group to represent the marketplace for employee positions. For Investment positions, the comparator group consists of pension funds of similar asset size and investment strategies. Finance and Administration positions are compared to similar positions in the Investment Comparator group, adjusted for regional differences, and to other Atlantic Canada organizations.

NBIMC also participates in and uses various compensation surveys conducted by compensation consultants to ensure that compensation trends are monitored regularly and trends are identified and reported to the HRCC.

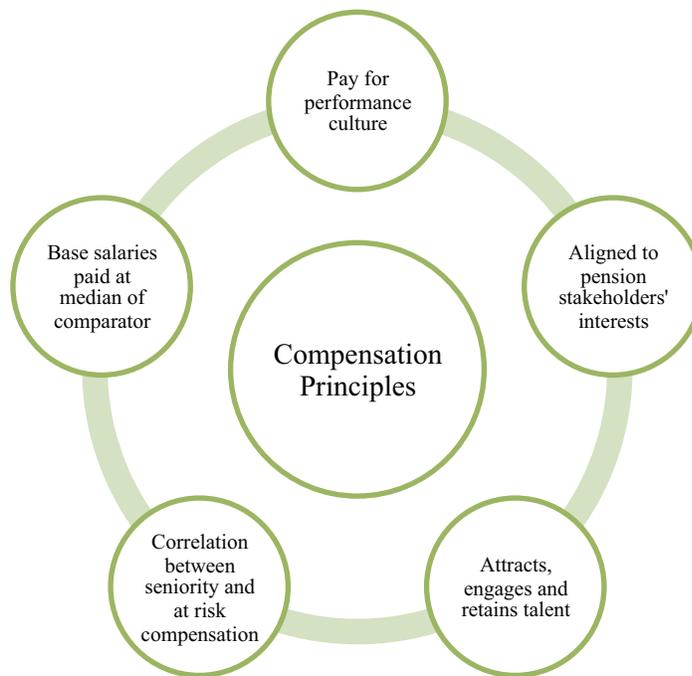
## Corporate Compensation Philosophy

NBIMC believes that employees are key to the performance of the Corporation and is committed to providing a positive working environment and competitive compensation. NBIMC also believes that the achievement of its mission will be facilitated by having meaningful alignment between employees' interests and the interests of its pension plan stakeholders.

Accordingly, NBIMC has developed a Compensation Philosophy to address the following objectives:

- Provide competitive, performance-based compensation based upon market practices;
- Attract and retain high-quality people;
- Reinforce the strategy, culture and investment policies of NBIMC;
- Promote awareness and attainment of individual, team and corporate strategic objectives;
- Enhance NBIMC's reputation as an employer of choice; and
- Treat employees fairly.

The principles on which this philosophy is based are summarized as follows:



## Compensation Risk Management

During Fiscal 2011-12, the Board of Directors and the HRCC jointly requested Deloitte & Touche LLP, an independent professional services firm serving as NBIMC's Internal Auditor, to conduct an assessment of the alignment of NBIMC's Compensation Policies and Practices against the Financial Stability Board's (FSB) Principles for Sound Compensation Practices and Implementation Standards. The FSB issued this guidance after the 2008-09 market crisis to encourage global financial institutions to avoid excessive risk-taking by virtue of the design of their compensation programs.

Deloitte's subsequent report acknowledged that the Corporation's compensation policies and practices are consistent with the FSB Principles and Standards. This report was subsequently shared with the Minister of Finance and is available at [http://nbimc.com/en/governance/corporate\\_governance/human\\_resources\\_and\\_compensation\\_committee/compensation\\_oversight](http://nbimc.com/en/governance/corporate_governance/human_resources_and_compensation_committee/compensation_oversight).

## Compensation Decision-Making

The annual process for determining compensation includes the following steps:



### *Establish target compensation levels*

The HRCC annually reviews the compensation program design and pay levels of the comparator groups to ensure that NBIMC's programs remain competitive. Market information received from various compensation and salary surveys is reviewed as it becomes available. The Independent Compensation Advisor, is periodically asked to conduct a Total Compensation Review. Compensation information from public disclosures of other relevant entities is also considered.

The HRCC also annually considers whether changes may be required to the NBIMC Incentive Plan for Research Staff, Investment Staff and the Chief Financial Officer.

### *Set target compensation mix and pay at-risk*

Total compensation is a mix of base salary, benefits and, for eligible employees, performance incentives. The mix varies by role and seniority, reflecting the opportunity to influence performance. In determining the mix, market practices are considered and NBIMC's compensation principles, including alignment with pension plan stakeholders' interests. A significant portion of the performance incentives are earned over a four year cycle to discourage short-term risk-taking.

### *Establish performance objectives*

Early in the fiscal year, the Board establishes an annual business plan designed to support achievement of the five year Strategic Plan. This annual business plan contains a balanced mix of financial, investment strategy and operational performance objectives and key initiatives. Each of these performance objectives and key initiatives is then weighted according to its level of importance to the overall Strategic Plan. The President and CEO delegates the key initiatives among the various functional teams based on their specific roles and responsibilities.

### *Evaluate performance against objectives*

The performance of the Corporation is assessed against the objectives that are established early in the fiscal year. Real returns (i.e. after inflation) and nominal investment returns and other financial key performance indicators are assessed quantitatively against objectives, while achievement of key business initiatives are assessed both quantitatively and qualitatively. The President and CEO recommends to the HRCC the factors to be used in assessing achievement of each element of the annual business plan, as well as the overall weighted factor.

### *Determine performance based awards*

The HRCC is responsible for recommending for board approval the amount of performance incentive compensation to be awarded to the President and CEO and the overall weighted factor based on the evaluations noted above. The President and CEO does not participate in this discussion. The President and CEO in turn reviews performance evaluations for each member of the Incentive Plan and allocates the individual awards based on individual contribution.

## Compensation Program

The Compensation Program is outlined in Exhibit A on page 20. The program takes the form of salary and benefits and for certain staff, an annual investment and individual performance-based incentive plan, and a long-term investment-based incentive plan.

The compensation program has been developed by the HRCC with the help of an independent compensation consultant to align with the above Compensation Philosophy. Total compensation levels are periodically benchmarked using independent compensation consultants and against external peer institutional pension fund or other relevant compensation surveys.

### *Salary and benefits*

Base salary is determined as a range of pay for each job position, after giving recognition to specific job responsibilities. NBIMC provides full-time employees with benefits that include vacation entitlement, life and disability insurance, health and dental benefits, and an employee assistance plan.

For employees hired prior to September 1, 2011, NBIMC provides a retirement allowance with a minimum vesting requirement of five years of service that pays five working days of salary for each full year of continuous employment up to a maximum of one hundred and twenty five working days, calculated on the level of salary at time of retirement or termination without cause.

In addition, all full-time employees participate in a defined benefit pension plan pursuant to the Public Service Superannuation Act (PSSA). The PSSA provides for a pension upon retirement equal to 2% of the average annual salary for the five consecutive years of highest salary, multiplied by the number of years of pensionable service. The plan is integrated with the Canada Pension Plan at age 65 and is indexed for inflation to a maximum of 5%. The plan requires a five year vesting period.

### *Annual incentive plan*

Full-time Investment and Research employees and the Chief Financial Officer are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months.

The AIP is calculated as a percentage of salary, weighted to reflect the role and impact that each eligible employee has on achievement of corporate business plan objectives. The AIP includes components based on quantitative investment performance and individual achievement. Investment performance is measured quantitatively as total fund net value added investment returns on both a one year and four year cumulative basis, compared against an annual target set by the Board. Total fund net value added investment returns for AIP purposes exclude private equity investments made within the most recent five year period to best represent the long-term nature of the asset class. Net value added returns represent the gross investment return in excess of the benchmark, after deducting all investment management costs. The one year investment results have a relatively lower weighting relative to four year results to reinforce the importance of consistency over a longer period and to encourage employee retention.

The AIP also includes a team award for asset class value added returns of actively managed portfolios to promote teamwork within these asset classes. Investment employees are organized into one of three teams focused on asset class: Fixed Income, Equities or Private Markets. The President and CEO, the Chief Financial Officer and Investment Research employees do not participate in the team award due to the overarching focus of their responsibilities.

On the recommendation of the HRCC, the Board also approves an individual component determined by comparing annual business plan achievements to targets established in the five year corporate strategic plan. The overall individual component is then allocated by management based on team and individual contributions to the business plan achievements.

### *Long-term incentive plan*

NBIMC also has a long-term incentive plan (LTIP) for Investment and Research staff and the Chief Financial Officer provided they have a minimum of four years of employment with NBIMC. The LTIP is designed to reinforce the alignment of employee interests with long-term investment performance objectives and corporate strategy and assist in attracting and retaining key personnel. The LTIP is based on total fund performance in excess of Board-approved benchmarks measured over a retroactive period of four consecutive fiscal years.

The LTIP formula also excludes private equity investment returns made within the most recent five years as discussed in the AIP section earlier. The LTIP does however include the investment returns of the NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund due to the extent of the direct long-term efforts required by management for these particular investments.

## **Impact of Performance Results for Fiscal 2011-12**

The overall nominal fund return was 5.00% in Fiscal 2011-12 (10.42% in Fiscal 2010-11). Additional net relative investment value added for the current fiscal year, consisting of investment returns in excess of benchmarks and all organizational expenses, was \$15.5 million for AIP purposes. Over the past four years, the Corporation has been able to add approximately \$30.2 million of net relative investment value in excess of market benchmarks.

The Board approved a limited number of adjustments to base salary to reflect merit or competitive market conditions, as well as a 2% overall increase reflecting the continuing low inflation environment. Together, these changes resulted in the base salary component increasing by 3.5% over base salaries for the previous fiscal year.

The performance-based incentive component of total compensation is \$905,984 (dollars) for the year ended March 31, 2012, compared to \$865,854 for the year ended March 31, 2011, an increase of 4.6%.

The AIP component is \$545,602 for the current year, compared to \$576,406 for the year ended March 31, 2011, a decrease of 5.3%. The AIP consists of both an investment performance component and a business plan achievement component.

The AIP related to the investment performance component was \$246,797, a decrease of 26.2% as compared to \$334,397 in the previous year. One quarter of this component is based on the one year net value added result and the remaining three quarters is based on the four year annualized net value added. The one year net value added result was 16.8 basis points (bps), down from the previous year's result of 21.7 bps, reflecting the continuing difficult investment environment. A basis point is 1/100th of one percent. The four year annualized net value added result for AIP purposes is 7.3 bps, down from the previous year's result of 8.8 bps. The four year component continues to include the loss realized during the Fiscal 2008-09 financial markets crisis.

A summary table of the one year value added results used to determine the four year cumulative net value added AIP result is as follows:

	<b>One Year</b>	
	<b>Net Value Added (bps)</b>	<b>Percentage of Target (%)</b>
2008-09	(10.6)	(25.1)
2009-10	5.2	12.5
2010-11	21.7	51.7
2011-12	16.8	39.9
Annualized Four Year	7.3	17.3

The AIP related to business plan achievements is \$298,804 for the year ended March 31, 2012 compared to \$242,009 last year. This component is based on an achievement factor of 1.25 approved by the Board of Directors, compared to an achievement factor of 0.96 for the year ended March 31, 2011. In establishing this achievement factor, the Board considered the achievement of key performance indicators associated with each of the six key goals in the NBIMC Corporate Mission (see page 1) and the following accomplishments:

- Completed an asset liability study upon receipt of three new actuarial valuations as at April 1, 2010, resulting in recommendations for asset mix changes to the applicable Investment Policies;
- Implementation of four new investment strategies designed to respond to lower investment return environments, resulting from the asset mix decisions noted above;
- Continued to produce strong nominal investment returns in a difficult market environment:
  - Long-term since inception annualized real returns continue to exceed actuarial target
  - Long-term risk adjusted returns continue to exceed median peer pooled fund survey data
- Participation in the planned government review of public sector pension plans, including:
  - assistance to the Minister of Finance in his structural review of government through work completed for an independent review of performance and cost efficiency; and
  - Proactively meeting with the Public Pensions Review Task Force to introduce NBIMC and its role in the public pension governance framework;
- Continued internally developed Board education and development program including a one day session as well as a series of one hour seminars in advance of each Board meeting throughout the year.
- Assistance to the Board with its self-assessment survey process and development of related Fiscal 2011-12 governance improvement initiatives;
- Coordination of operational governance initiatives among the Board committees;
- Implementation of rigorous internal control testing to respond to ongoing fraud risk management program;
- Continued focus on evolving accounting standards in preparation for conversion to International Financial Reporting Standards, including participation with peer group's efforts to influence standard-setting decisions;
- Due diligence performed on potential for expansion of private equity mandate;
- Continued growth of direct private real estate and infrastructure opportunities;
- Achievement of continued efficiencies and operational improvements related to securities trading and settlements;
- Completed revisions to Human Resources Strategic Plan, including organization structure changes;
- Supported ongoing employee professional development initiatives;
- Evaluated cost efficiency alternatives for Employee Benefits Program;
- Executed refinements to the Strategic Communications Plan that resulted in increased stakeholder and shareholder interactions;
- Active participation in the Future NB and New Brunswick Securities Commission's capital markets development efforts;
- Executed on five year Information Technology Strategic Plan including:
  - implementation of Windows 7; and
  - completion of an assessment of information technology controls and governance in accordance with the *Control Objectives for Information and related Technology* (COBIT®) risk framework.

The LTIP component is \$360,482 for the year ended March 31, 2012 compared to \$289,448 for the comparative year. The LTIP component is also based on total fund returns adjusted for private equity investment returns within the past five years however also includes the investment returns from the NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund. For Fiscal 2011-12, the sale of one New Brunswick-based investment to a strategic global purchaser during the year resulted in a significant realized gain. This gain will be included in the annualized four year investment return calculation for the next three years.

A summary table of the one year value added results used to determine the four year cumulative net value added LTIP result is as follows:

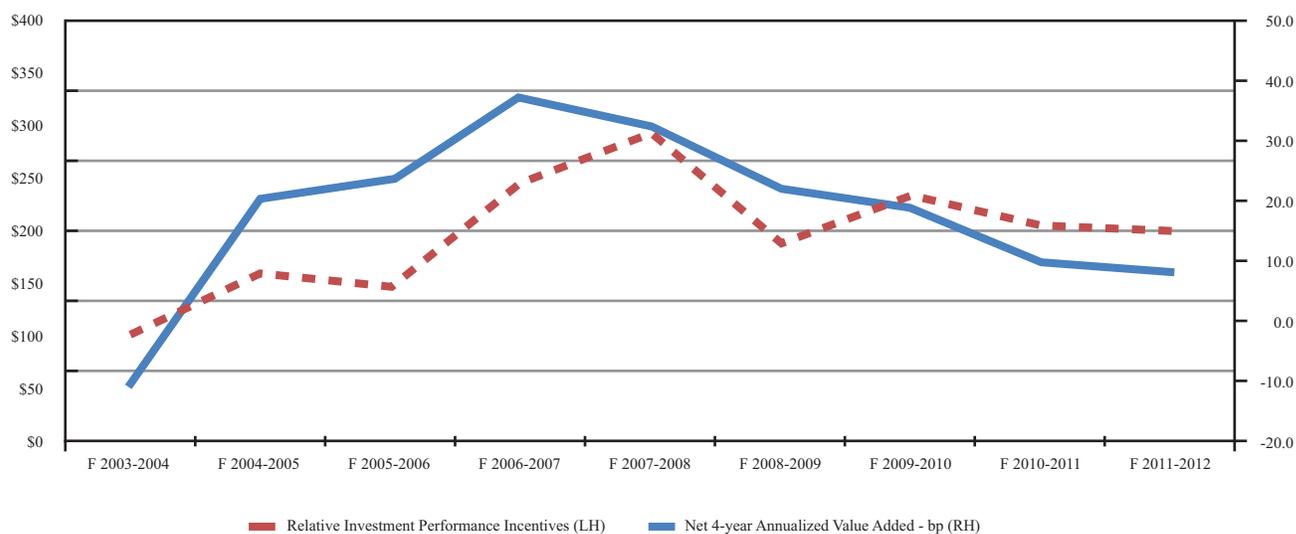
One Year		
	Net Value Added (bps)	Percentage of Target (%)
2008-09	(8.6)	(20.5)
2009-10	6.2	14.8
2010-11	32.5	77.4
2011-12	41.2	98.0
Annualized Four Year	16.6	39.6

## Compensation Linked to Investment Performance

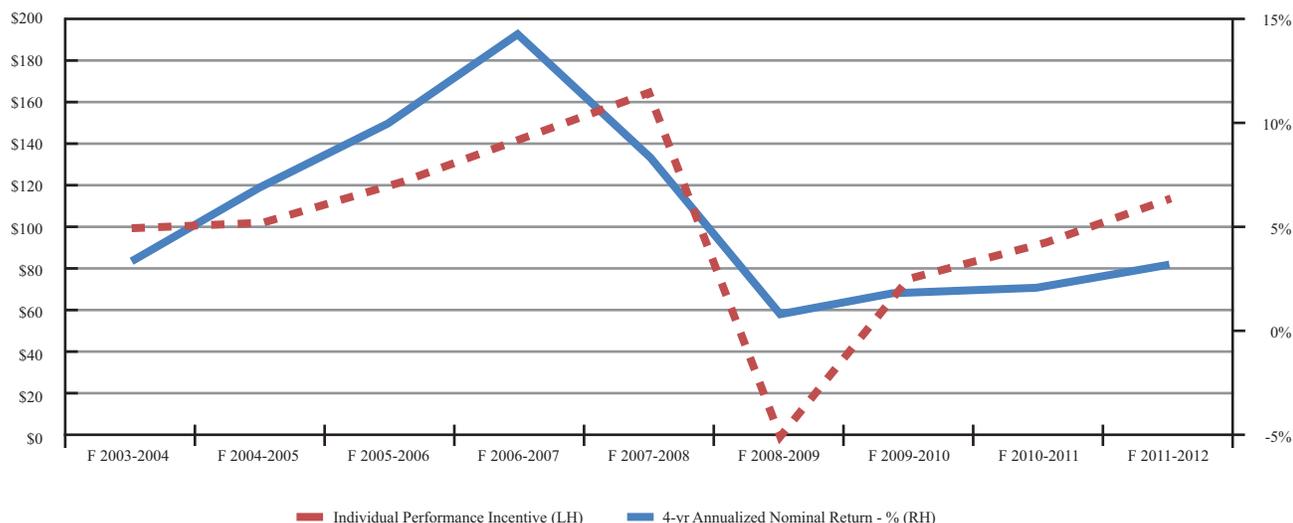
The objective of performance-based compensation is to encourage alignment of employee interests with those of the pension plan stakeholders, including an appropriate balance between maximizing long-term returns and minimizing risks. Our investment performance with respect to incentive compensation can be generally summarized in two categories: (i) long-term relative investment returns versus benchmarks, and (ii) long-term nominal total fund portfolio returns.

The following charts compare the respective incentive compensation payments awarded over time for each of these two categories, commencing with a base value of \$100. The resulting graphical correlation indicates a relatively strong relationship between actual incentive compensation and investment performance as is intended in the design of the incentive plan.

### i) Long-Term Relative Value Added Returns versus Benchmarks:



ii) Long-Term Nominal Total Fund Returns:



Specific compensation information for the organization is published annually on a calendar year basis by the Office of the Comptroller for the Province of New Brunswick in the Public Accounts.

## Directors' Remuneration

Directors' remuneration is established in NBIMC's By-Laws and includes an annual retainer for the Chairperson and a per diem allowance for meeting attendance and preparation time. Directors who are *ex-officio* are not paid. Directors who travel to attend meetings receive a reimbursement for reasonable accommodation costs, and other out of pocket expenses as well as a car expense reimbursement based on the number of kilometres traveled.

The cost of the Board function, including per diems, director orientation and Board education, for the year ended March 31, 2012 was \$124,882 (March 31, 2011 - \$139,209) plus travel and accommodation reimbursements of \$14,632 (March 31, 2011 - \$16,325).

## Corporate Governance

As a Crown corporation, NBIMC is accountable to the Crown Corporations Committee of the Legislative Assembly. NBIMC most recently appeared before the Crown Corporations Committee in January 2012 to present and discuss its objectives and performance results for the fiscal year 2010-2011.

The selection process and duties of the NBIMC Board of Directors are outlined in the NBIMC Act. Governance of the organization is the primary consideration of the Board which acts solely in a fiduciary capacity as Trustee for the funds under management. Board members do not represent any specific stakeholder interest. The Board ensures that all of NBIMC's transactions are conducted on a purely commercial basis, and that decisions and actions are based on sound business practices.

The Board is responsible for the stewardship and strategic direction of NBIMC and its investments. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President, and oversight of the business planning process, financial position and results, risk management, internal controls and information systems, human resources, communications and stakeholder relations. To ensure its on-going effectiveness, the Board performs a biennial self-assessment against these responsibilities.

The Board is assisted in its endeavors by the efforts of three Committees: the Audit Committee, the Human Resources and Compensation Committee and the Governance Committee, whose reports follow. Day-to-day management of NBIMC is delegated to the Chief Executive Officer, while investment-related matters are delegated to the Chief Investment Officer.



Additional information about our corporate governance practices is available on our website at [www.nbimc.com](http://www.nbimc.com). This includes: our governing statutes, Board composition, Board and Committee Terms of Reference, Nomination Guidelines, Director Orientation and Education Policy and Code of Ethics and Business Conduct.

## Board Attendance

Board members are expected to attend the board meetings and meetings of committees of which they are a member. The following table provides the number of meetings held and attendance by each of the appointed directors in Fiscal 2011-12:

Appointed Director <sup>1</sup>	Board <sup>2</sup>	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Gilles Lepage	8/8	4/4	3/4	3/3
Elaine Albert	6/8	3/4	n.a.	n.a.
Joel Attis	8/8	n.a.	4/4	3/3
Earl Brewer	7/8	n.a.	n.a.	2/3
Marc-Antoine Chiasson	6/8	1/4	n.a.	n.a.
Gaston LeBlanc	7/8	4/4	n.a.	n.a.
Ronald Maloney	8/8	n.a.	n.a.	3/3
Cathy Rignanesi	8/8	4/4	4/4	n.a.
Richard Speight	8/8	n.a.	4/4	n.a.
Reno Thériault	8/8	n.a.	n.a.	3/3
Michael Walton	6/8	n.a.	2/4	2/3

<sup>1</sup> The Board of Directors also includes three ex-officio members: the President & CEO of NBIMC, the Deputy Minister of Finance (non-voting), and the Vice-President of Finance of the New Brunswick Power Holding Corporation.

<sup>2</sup> 6 regular and 2 special meetings occurred during the full fiscal year

The Board welcomed one new appointee in Fiscal 2011-12 and accordingly, conducted an in-depth director orientation session in accordance with its Director Orientation and Education Policy. The Director Orientation Program assists new directors in understanding the mandate and stakeholders of NBIMC. A significant focus of the initial new director orientation is to explain the roles and responsibilities of the Board and the Board committees. It also outlines NBIMC's organizational structure, introduces the senior leadership team, and provides a primer on the pension and investment industries.

On-going director education includes exposure to relevant news and articles of interest as well as a program of educational sessions. Structured education sessions included a discussion of Plan Sponsor investment expectations and risk appetite, an introduction to portfolio leverage and fixed income credit strategies, a review of the NBIMC New Brunswick and Atlantic Canada Opportunity Fixed Income and Equity Funds, a discussion concerning our Responsible Investment initiatives and an in-depth discussion of fixed income trading strategies.

Major decisions made by the Board during the year, in addition to the matters referred to it by the Board Committees (*see Committee reports following*) include:

- Approval of asset mix changes based on asset liability analysis following receipt of new actuarial valuations for each of the pension plans as at April 1, 2010;
- Approval of the decision to add a real estate investment trust portfolio to the NBIMC Canadian Real Estate Fund, as well as add three new investment strategies (NBIMC Corporate Bond Fund, NBIMC Low Volatility International Equity Fund, and NBIMC Low Volatility U.S. Equity Fund) to the current asset mix for each of the Pension Funds under management, together with consequent changes to the Investment Policy Statements for each of the Pension Funds and the Pooled Funds;
- Approval of the Fiscal 2011-12 Annual Business Plan;
- Approval of the Fiscal 2012-13 Annual Budget.

## BOARD COMMITTEE REPORTS

### *Report of the Audit Committee*

The Audit Committee oversees the financial affairs of NBIMC and the funds under management, including the selection of accounting policies to be followed in the preparation of financial statements, the systems of internal control and management information, financial risks, and the relationships with the external and internal auditors.

Management is responsible for the preparation of the financial statements and for maintaining appropriate accounting policies, processes, procedures and systems of internal control to ensure compliance with accounting standards and applicable laws and regulations. The external auditor is responsible for planning and carrying out an audit of the annual financial statements.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

#### **Fiscal 2011-12 Highlights**

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in Fiscal 2011-12:

- Reviewed the annual audited financial statements for the Pension Funds, the NBIMC North American Market Neutral Fund, the NBIMC Quantitative Strategies Fund and NBIMC for the year ended March 31, 2012 and recommended their approval by the Board;
- Reviewed the unaudited financial statements for the Unit Trust Funds for the year ended March 31, 2012 and recommended their approval by the Board;
- Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards and recommended their approval by the Board;

- Received the draft Annual Report material for the year ended March 31, 2012 and approved the financial content and earnings press release;
- Reviewed the quarterly financial statements for the Pension Funds, Unit Trust Funds and NBIMC together with management's certifications regarding changes in accounting policies, significant accounting estimates, errors, material weaknesses in internal controls over financial reporting, fraud or illegal acts and subsequent events;
- Reviewed the mid-year financial press release and recommended its approval by the Board;
- Reviewed quarterly status reports from management concerning the conversion of financial reporting for the Pension Funds and Unit Trust Funds to International Financial Reporting Standards and for NBIMC to Public Sector Accounting Standards;
- Approved the External Auditor's engagement, audit plan, timing, staffing and fees for the year ended March 31, 2012 and pre-approved any non-audit, tax or other services to be performed by the External Auditor in accordance with the Audit Committee's Pre-Approval Policy;
- Reviewed the External Auditor's Audit Findings Report for the year ended March 31, 2012 and obtained confirmation of the External Auditor's independence;
- Approved the Internal Auditor's annual plan and budget for the upcoming year ending March 31, 2013;
- Received the Internal Audit recommendations and management's responses for four internal audits: Management Committee Effectiveness; Compensation Policies and Practices; COBIT assessment and Investment Compliance;
- Reviewed a Follow-Up Report from the Internal Auditor concerning management's responses to previous recommendations;
- Each quarter met independently with each of the External Auditor, the Internal Auditor and management;
- Established key performance indicators for management to encourage timely resolution of all external and internal audit recommendations;
- Completed an annual review of the Enterprise Risk Management Framework;
- Reviewed a quarterly risk coverage chart highlighting independent reviews of risk areas in order to ensure appropriate focus on key risks;
- Reviewed a quarterly risk matrix showing trends in key risk areas;
- Reviewed management's report of their annual fraud risk assessment;
- Reviewed and approved changes to the Investment Authority limits;
- Reviewed and approved a proposal for an independent review of U.S. tax compliance;
- Received quarterly reporting of legal and regulatory compliance;
- Reviewed the insurance coverage of significant business risks and uncertainties;
- As part of a continuous development initiative, read and discussed audit committee effectiveness material covering financial reporting and disclosures, relationships with external auditors, financial statement errors and fraud investigations, risk management, systems of internal controls, culture and compliance.
- Completed an annual review of the Committee's terms of reference, accomplishments for the year ended March 31, 2012 and set objectives for the upcoming fiscal year.

This report has been approved by the members of the Audit Committee.

**C. Rignanesi (Chair), E. Albert, M. Chiasson, G. LeBlanc, G. Lepage (ex-officio), D. Murphy**

## ***Report of the Governance Committee***

The Governance Committee annually reviews the terms of reference for the Board and each committee, all Board policies and the Nomination Guidelines for new directors to ensure that they continue to meet evolving corporate governance best practices. They also oversee the Director Orientation and Education programs and the Code of Ethics and Business Conduct. The biennial Board self-assessment process is facilitated by the Governance Committee.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

### **Fiscal 2011-12 Highlights**

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in Fiscal 2011-12:

- Established Board Goals for Fiscal 2011-12;
- Reviewed the Director Orientation and Education program and Fiscal 2011-12 Board education plan;
- Reviewed the quarterly Code of Ethics and Business Conduct reports;
- Conducted an annual review of the Governance Committee's mandate and effectiveness;
- Recommended the appointment of a new director to the Governance Committee;
- Completed an annual review of all governing documents and Committee Terms of Reference and established the meeting schedules for 2012;
- Reviewed the assessment process for annual Board and Committee chairs and expanded to include a director peer evaluation;
- Completed the annual evaluation of Board, chair and committees;
- Reviewed the June 2011 progress report for the Governance 2006 Vol. 2 and Investment Performance 2008 Vol. 2 Reports from the Office of the Auditor General;
- Reviewed upcoming director term expirations and updated the director skills assessment for new candidate consideration. Communicated these findings to the Minister of Finance;
- Reviewed the status of the Strategic Communications Plan;
- Monitored management's progress for delivering information requests related to the New Brunswick Public Sector Pension Task Force review;
- Reviewed the annual reporting of the Code of Ethics and Business Conduct at March 31, 2012 for employees and directors;
- Reviewed Director compensation and a summary of expense claims for each Director and the President and CEO for the year ended March 31, 2012; and
- Reviewed the draft Plan and Corporate Governance disclosure for the Fiscal 2011-12 Annual Report and recommended its approval by the Board.

This report has been approved by the members of the Governance Committee.

**R. Speight (Chair), J. Attis, J. Garbutt, G. Lepage (*ex-officio*), C. Rignanesi, M. Walton**

### ***Report of the Human Resources & Compensation Committee***

The Human Resources and Compensation Committee annually conducts a performance appraisal for the President and CEO. It also oversees changes to the Compensation Philosophy, compensation and benefits, incentive plans and organizational structure as well as monitors management's compliance with employment-related regulatory and legislative matters.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

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#### **Fiscal 2011-12 Highlights**

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in Fiscal 2011-12:

- Reviewed the Committee's Terms of Reference Business;
- Set the Committee's objectives for Fiscal 2012 and reviewed subsequent achievements;
- Received quarterly certification from management as to regulatory compliance with various legislative requirements;
- Reviewed the individual incentive plan weightings of the NBIMC Fiscal 2011-12 Annual Business Plan and recommended their approval by the Board;
- Reviewed the Succession Plan Review for the President & CEO and senior management positions and recommended its approval by the Board;
- Reviewed the Annual Compensation Report, including comparisons to various compensation surveys conducted by independent consultants;
- Reviewed the Organizational Structure Review and recommended its approval by the Board;
- Reviewed the Human Resources Strategic Plan and recommended its approval by the Board;
- Reviewed the Benefits Review and recommended its approval by the Board;
- Reviewed the 2011 Workplace Environment Survey results and compared these results to historical results from 2002 – 2011;
- Reviewed the Leadership Feedback Questionnaire result for the President & CEO and Chief Investment Officer;
- Reviewed modifications to the Incentive Plan documentation and recommended their approval by the Board;
- Approved a new position of Equity Investment Analyst;
- Reviewed Fiscal 2011-12 corporate results versus the Annual Business Plan and recommended approval by the Board of the individual incentive performance award;
- Reviewed and approved the performance of the President and CEO against annual targets;
- Reviewed the reappointment process for the President & CEO;
- Reviewed the overall Incentive Compensation Pool for Fiscal 2011-12; and
- Reviewed the Compensation Discussion and Analysis section of the Fiscal 2011-12 Annual Report and recommended its approval by the Board.

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This report has been approved by the members of the Human Resources & Compensation Committee.

**M. Walton (Chair), J. Attis, E. Brewer, G. Lepage (*ex-officio*), R. Maloney, R. Thériault**

## Employee Activity in our Communities

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NBIMC Management and staff continued to be very active with a number of important causes in our local communities. These efforts can vary from volunteering time or professional expertise to the donation of personal financial resources.

During the year, staff continued to exceed their target contribution level for the annual corporate United Way campaign, while at the same time provided an average of over 50 hours per volunteer to 37 non-profit organizations. Four additional charitable causes were also supported through other internal corporate fund-raising initiatives.

Of particular note, NBIMC recognized four individuals: Ms. H. Giles, Ms. A. MacDonald, Mr. D. Goguen and Mr. M. Holleran as our “Volunteer of the Year” for the significant contributions that they have made to our community. We were also pleased to recognize three corporate teams this year: our “Run for the Cure” team (breast cancer research), our “Movember” team (prostate cancer research) and the “Bowl for Kids Sake” team (Big Brothers and Big Sisters).

A nominal donation to each of their causes was made in thanks.

## Communications and Accountability

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As a Crown Corporation, NBIMC is accountable to the Legislature of the Province of New Brunswick through the Crown Corporations Committee of the Legislature.

As the investment manager and trustee of the pension funds, NBIMC reports to the Plan Governor, the Minister of Finance as the Chair of the Board of Management, via this Annual Report, as well as an annual budget presentation and quarterly performance reports.

NBIMC also reports to a number of stakeholder groups at least annually through the following means:

- PSSA Consultation Committee or delegates
- NBTA / AEFNB Pension Committee
- NB Teachers Federation
- PSSA, TPA, and JSP Echo Newsletters (jointly with the Office of Human Resources)
- Annual and semi-annual press releases on financial results
- <http://www.nbimc.com>

## Public Interest Disclosure Act

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As required under Section 18 – Report about disclosures of the Public Interest Disclosure Act, we hereby report that for Fiscal 2011-12:

- there were no disclosures received or enacted upon,
- no investigations were therefore commenced due to disclosure receipt,
- no claims had been referred from the Commissioner under section 23, and
- no investigations were therefore commenced due to a referral receipt.