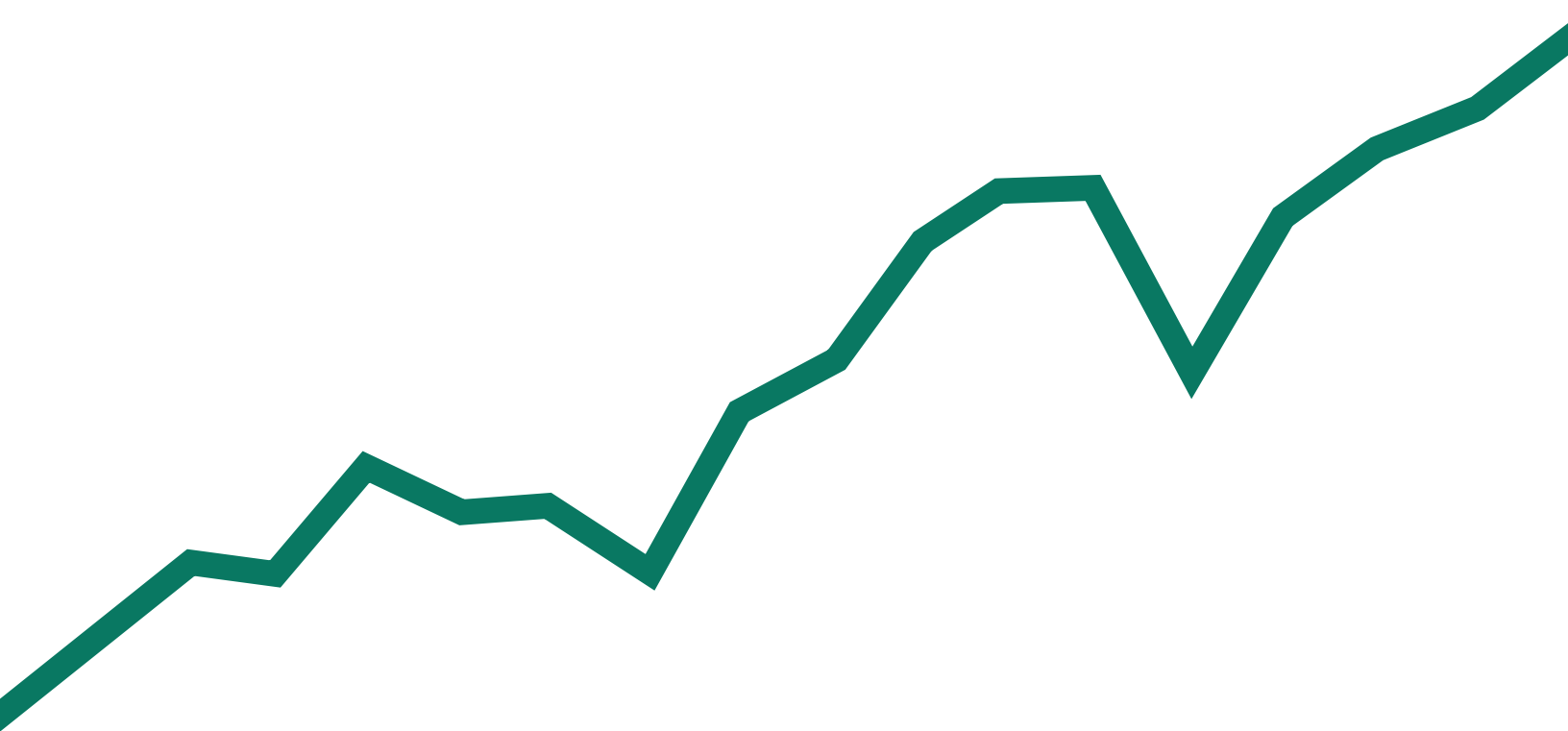




NB Investment Management Corp.
Société de gestion des placements NB

2012 – 2013

Annual Report



**CONTINUING TO EXCEED
LONG-TERM INVESTMENT OBJECTIVES**

BOARD OF DIRECTORS

Michael W. Walton
Chair of the Board

Joel Attis
Vice-chair of the Board

Wiktor Askanas
Director

Jane Garbutt
Director (ex officio, non-voting)

Patricia LeBlanc-Bird
Director

Ronald B. Maloney
Director

Darren Murphy
Director (ex officio)

Cathy Rignanese
Chair of Audit Committee
Director

John A. Sinclair
Director (ex officio)

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

Reno Thériault
Chair of Human Resources &
Compensation Committee
Director

MEMBERS OF



CORPORATE OFFICERS

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

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

Mark Holleran, CFA
Vice-President Equities

Andrea MacDonald, CHRP
Human Resources Coordinator

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New Brunswick Investment Management Corporation

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E3B 5H8 Canada

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Email: nbimc@nbimc.com

Website: <http://www.nbimc.com>

Corporate Profile

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 higher 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 \$10.1 billion at March 31, 2013.

Corporate Mission

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

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

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

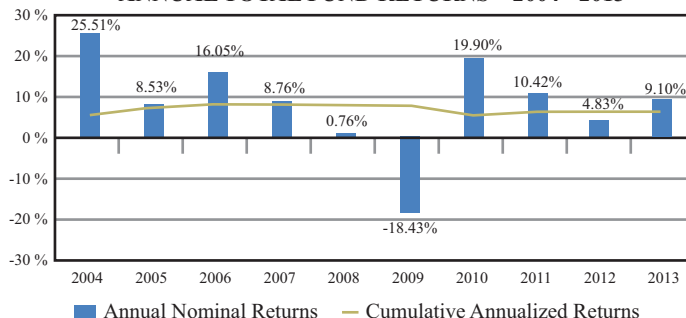
Fiscal 2012-13

Financial Highlights

TOTAL ANNUALIZED RETURNS (unadjusted)

One Year **9.10%**
 Four Year **10.93%**
 Ten Year **7.90%**

ANNUAL TOTAL FUND RETURNS – 2004 - 2013



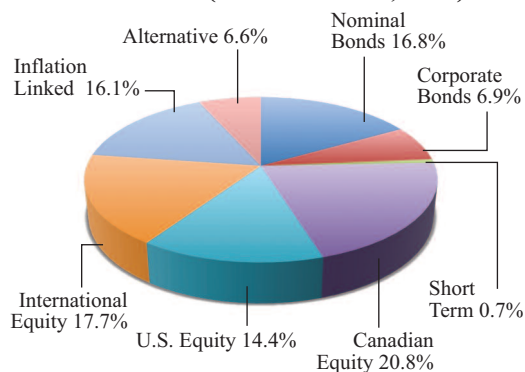
INVESTMENTS BY PORTFOLIO

As of March 31, 2013
 (\$ millions)

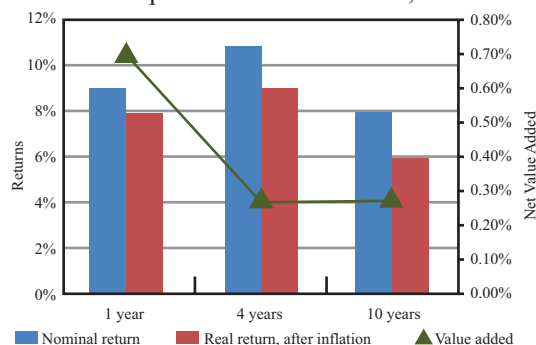
	2013	2012	2011
Fixed Income			
Nominal Bonds	\$ 945.0	\$ 1,210.1	\$ 1,409.5
Corporate Bonds	386.2	142.1	-
Short Term Assets	38.9	78.0	95.2
	1,370.1	1,430.2	1,504.7
Public Equities			
Canadian	1,168.7	1,064.8	1,064.0
US	808.4	679.2	546.4
International	991.9	881.7	721.2
	2,969.0	2,625.6	2,331.7
Inflation Linked Assets			
Real Return Bonds	512.7	456.7	462.1
Real Estate and Infrastructure	393.4	371.1	261.3
	906.0	827.9	723.4
Alternative Investments			
Absolute Return	196.1	181.6	325.6
Private Equity	174.9	150.7	145.0
	371.0	332.2	470.7
Total Investments	\$ 5,616.1	\$ 5,215.9	\$ 5,030.4

Amounts may not add due to rounding

ASSET MIX (As of March 31, 2013)



INVESTMENT PERFORMANCE For the periods ended March 31, 2013



TEACHERS'

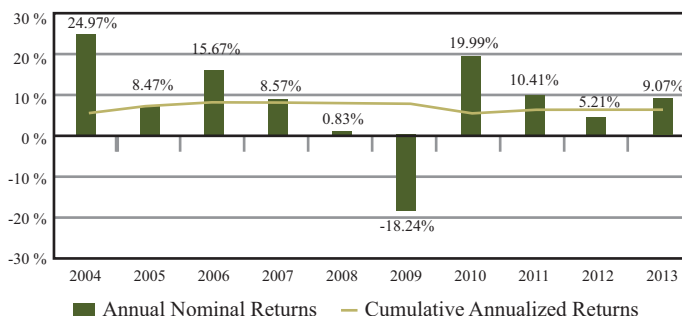
Fiscal 2012-13

Financial Highlights

TOTAL ANNUALIZED RETURNS (unadjusted)

One Year **9.07%**
 Four Year **11.04%**
 Ten Year **7.87%**

ANNUAL TOTAL FUND RETURNS – 2004 - 2013



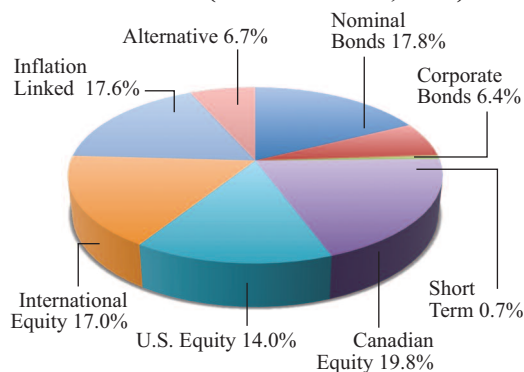
INVESTMENTS BY PORTFOLIO

As of March 31, 2013
 (\$ millions)

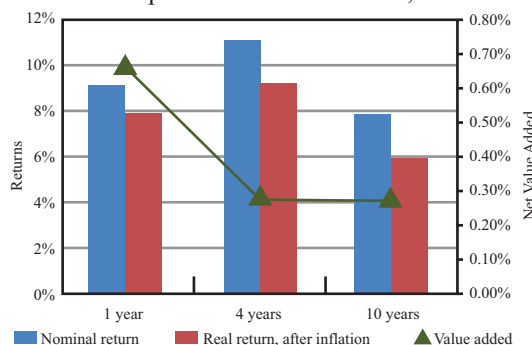
	2013	2012	2011
Fixed Income			
Nominal Bonds	\$ 793.0	\$ 985.0	\$ 1,147.7
Corporate Bonds	283.5	113.2	-
Short Term Assets	30.4	61.8	75.7
	1,106.9	1,160.0	1,223.4
Public Equities			
Canadian	880.4	806.3	810.1
US	621.1	523.1	420.0
International	757.1	675.6	551.3
	2,258.5	2,005.1	1,781.4
Inflation Linked Assets			
Real Return Bonds	428.1	384.6	389.7
Real Estate and Infrastructure	355.9	337.2	249.2
	784.0	721.7	638.8
Alternative Investments			
Absolute Return	155.2	144.6	260.4
Private Equity	141.5	123.2	118.8
	296.7	267.8	379.1
Total Investments	\$ 4,446.2	\$ 4,154.5	\$ 4,022.7

Amounts may not add due to rounding

ASSET MIX (As of March 31, 2013)



INVESTMENT PERFORMANCE For the periods ended March 31, 2013



JUDGES'

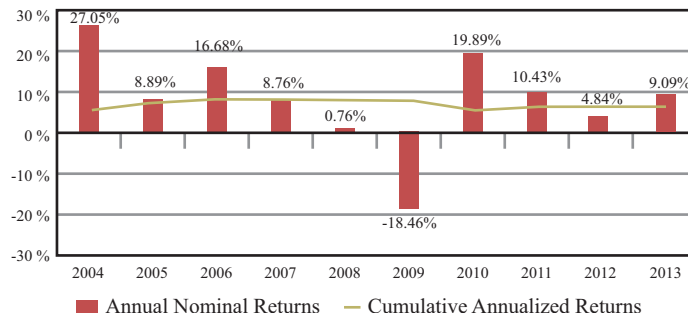
Fiscal 2012-13

Financial Highlights

TOTAL ANNUALIZED RETURNS (unadjusted)

One Year **9.09%**
 Four Year **10.93%**
 Ten Year **8.13%**

ANNUAL TOTAL FUND RETURNS – 2004 - 2013



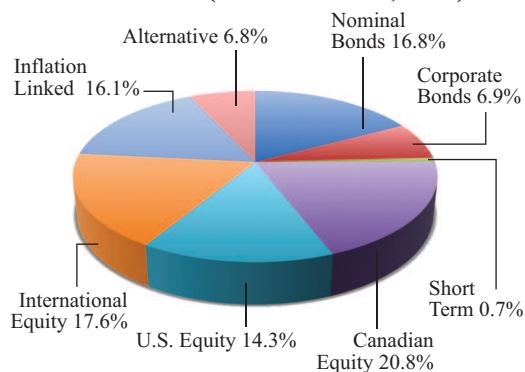
INVESTMENTS BY PORTFOLIO

As of March 31, 2013
 (\$ millions)

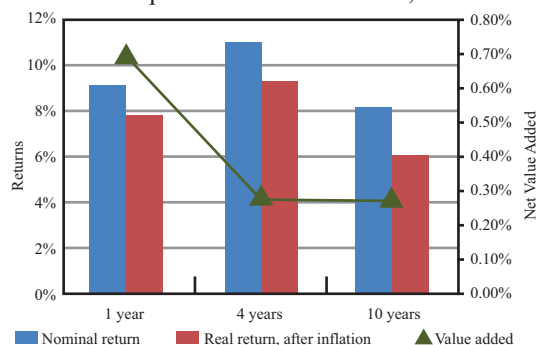
	2013	2012	2011
Fixed Income			
Nominal Bonds	\$ 5.6	\$ 7.2	\$ 8.3
Corporate Bonds	2.3	0.8	-
Short Term Assets	0.2	0.5	0.6
	8.2	8.5	8.8
Public Equities			
Canadian	7.0	6.3	6.2
US	4.8	4.0	3.2
International	5.9	5.2	4.2
	17.6	15.6	13.6
Inflation Linked Assets			
Real Return Bonds	3.1	2.7	2.7
Real Estate and Infrastructure	2.3	2.2	1.5
	5.4	4.9	4.2
Alternative Investments			
Absolute Return	1.2	1.1	1.9
Private Equity	1.1	0.9	0.9
	2.3	2.0	2.8
Total Investments	\$ 33.4	\$ 31.1	\$ 29.5

Amounts may not add due to rounding

ASSET MIX (As of March 31, 2013)



INVESTMENT PERFORMANCE For the periods ended March 31, 2013



NBIMC's Investment Beliefs

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.

Chairperson Letter

On behalf of the Board of Directors and management of the New Brunswick Investment Management Corporation (NBIMC) I am pleased to present the following Fiscal 2012-13 Annual Report, which marks the conclusion of our seventeenth year of successful operations.

The following report provides a detailed account of another solid year of long-term investment performance in a difficult investment environment. During the year, management was able to increase the total fund long-term annualized return to a higher rate than the year prior while also making strong inroads into the objectives outlined in our Strategic Plan. Most importantly long-term investment returns remain well in excess of what is required by the pension funds independent actuary.

The Board of Directors also remained very active on a number of initiatives during the year as outlined throughout this report. I would like to particularly point to the development of a new series of performance objectives that were created during the year in an effort to highlight the transparency and communication of our investment management activities.

Pension Reform

In May 2012, the Government of New Brunswick, through their Task Force on Protecting Pensions, published a background document on pension reform. This document was followed by the introduction of a new Shared Risk Pension Model, as well as amendments to the *Pension Benefits Act* legislation and regulations relating to the new model. The 2013-14 Provincial Budget confirmed that the government views the shared risk pension model as the best alternative for public sector pension plans including the Public Service Superannuation Plan.

NBIMC Directors are making every effort to ensure the Corporation is prepared to respond to any proposed changes that may impact the roles and responsibilities of our organization. NBIMC Directors and management look forward to sharing their investment experience to the process where warranted.

Throughout this reform process it is important to note that the Board will continue to work in the best interests of each of the pension funds under our management as per our responsibilities as their Trustee.

Appreciation of Dedicated Service

I would like to recognize our Board for their efforts and support to the Corporation during the year, and provide a note of appreciation to a number of our Directors whose terms expired during the fiscal year.

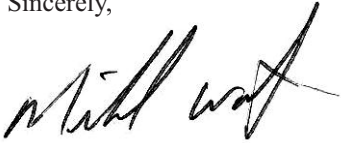
The terms of Ms. Elaine Albert and Mr. Gaston LeBlanc expired in June of 2012, while the terms of Mr. Earl Brewer and Mr. Marc-Antoine Chiasson expired at fiscal year end. Each of these Directors did not wish to reoffer their services and have therefore concluded their participation. We sincerely thank these retiring Directors for their contribution during their terms. NBIMC benefits from the input of individuals in the business community and each of these Directors have contributed greatly to our success.

Ms. Cathy Rignanesi and Mr. Richard Speight's terms also expired at year end and they were subsequently re-appointed to another three year term. We are also pleased to welcome back Mr. Wiktor Askanas to our Board, along with acknowledging the recent appointment of Ms. Patricia LeBlanc-Bird. Service on the Board continues to be a major responsibility and a significant commitment which is greatly appreciated.

I would also like to provide a special note of appreciation to Gilles Lepage whose term as Chairperson also expired at fiscal year end. Gilles was a founding NBIMC Director who joined the Board in 1996 and became Chairperson in 2006. The Corporation's long-term investment success can be largely attributed to the strong independent governance model that has been developed and led by Directors with long serving terms of service such as Gilles.

On behalf of the Board we also wish to thank our team of New Brunswick based 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.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael W. Walton". The signature is fluid and cursive, with a large initial "M" and "W".

Michael W. Walton
Chairperson

June 4, 2013
Fredericton, New Brunswick

CEO Letter to Stakeholders

The Corporation's investment program continues to perform very well having surpassed both our primary investment objective of exceeding the long-term actuarial returns required to fund the pension plans under our management and our secondary investment objective of producing value added returns that exceed our investment policy benchmarks.

Our investment program produced a 9.08% overall annual return for the pension plans under our management during the fiscal year with a lower management expense ratio than the year prior. This return also exceeded our investment policy benchmarks by 0.81% before investment management costs.

NBIMC's solid return can be directly attributed to our continued focus on our clients' specific investment requirements and the risk controlled long-term focus of our investment strategy. **Most importantly our annualized long term nominal and real investment returns (the return after adjustment for inflation), and after all investment management expenses, remains well above the return required as set out by the independent pension plan Actuary.**

Fiscal 2012-13

Our investment portfolios continue 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.

Investment policies were also revisited by our Board and management during the year upon receipt of new actuarial information, and adjustments were instituted to ensure that we continue to generate the long-term investment returns required by our pension plan clients with similar risk characteristics.

The fiscal year started out in a challenging fashion that was somewhat similar to the prior two years. The first quarter of the fiscal year presented a challenging investment environment due to revisited sovereign debt concerns in Europe, fiscal challenges in the U.S., and continued anxiety due to slower rates of global economic growth, particularly in China. Global markets rebounded strongly in the second quarter by what looked to be the coordinated support of global central banks and the particularly strong words of support to the Euro currency that came from the head of the European Central Bank. The U.S. Federal Reserve Board provided additional support to risk assets in the third fiscal quarter of the year by announcing they will continue to provide supportive monetary policy efforts until explicit inflation and employment targets are met. The conclusion of the U.S. election process and signs of some type of fiscal compromise also supported markets into the calendar year end. Financial markets ended our fiscal year very strong as many asset class levels approached record high returns thanks to the continued low interest rate environment and strong corporate earnings growth.

As noted earlier, our overall gross nominal rate of return for the year ending March 31, 2013 was 9.08% while our long-term annualized return since NBIMC's inception in 1996 is now at 6.79%. Most importantly our annualized real return (after adjusting for inflation) since inception is now 4.75%. This real return is now 0.75% per annum above the long-term 4% real return requirement that the pension funds' independent Actuary has continued to believe is necessary to fund the pension plans under our management.

Our relatively low risk investment approach continues to meet the long-term investment goals of the pension plan sponsor while also attempting to minimize the exposure to the potential of large swings from financial markets volatility in any one period. The following table further summarizes our investment performance as of the end of the fiscal year:

Annualized Returns (as of March 31, 2013)

	Real Return (vs. 4% Requirement)	Nominal Return (vs. 6.6% Requirement)
1-Year Performance	7.83%	9.08%
4-Year Performance	9.23%	10.98%
Since Inception of NBIMC (17 years)	4.75%	6.79%

Net assets under management increased to an all time high of \$10.1 billion from \$9.4 billion in the prior year, as each of our asset classes provided positive returns for the year. This increase in assets resulted from \$829.9 million in net investment earnings, \$166.6 million in special funding payments from the plans' sponsor, and net pension payouts of \$306.2 million. Management also successfully added approximately \$79.3 million of investment earnings through active portfolio management activities versus their benchmarks, which provided the funds with approximately \$66.9 million in additional net earnings after covering the \$12.4 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 also continue to be very respectable versus peer pension portfolio managers. Our investment strategy has been particularly designed to protect against periods of weaker public equity returns and higher financial markets volatility, and has been performing accordingly.

We also continue to have ample liquidity within our investment portfolios to fund pensioner payment obligations. Fiscal 2012-13 net payment obligations of \$306.2 million against a total portfolio asset value of \$10.1 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 Teacher's Pension Act (TPA) based on actuarial review information received in 2012. Related 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 Public Service and Judges' Funds.
- Management developed and implemented a new Canadian low volatility publicly traded equity portfolio, and further developed the corporate credit portfolio that was deployed during the prior year.
- The Board of Directors approved a revised 2012-2017 Human Resources Strategic and Succession Plan.
- We assisted the Minister of Finance by addressing recommendations arising from his department's structural review of NBIMC's investment performance and cost efficiency.
- The Board of Directors reviewed the NBIMC Enterprise Risk Management Framework, including the determination of inherent risk in each risk category, mapping of risk mitigation activities and the development of a residual risk rating consensus for planning and monitoring purposes.
- Continued Board governance improvement initiatives arising from the prior year's Board self-assessment process.
- Developed and implemented a new stress testing protocol aligned with best practices adopted by the Office of the Superintendent of Financial Institutions for federally-regulated pension plans.

- 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

As noted in our Annual Report last year, both a global and more local debate continues in regards to the sustainability of Defined Benefit Pension Plans. Actuarial life expectancy increases have resulted in Defined Benefit Plans having to revisit and protect the sustainability of each plan's design by:

- Ensuring that they include the use of realistic investment assumptions.
- Having thorough risk management capabilities.
- Providing an alignment of all participant interests.
- Operating in a cost effective manner.

The Government of New Brunswick has continued to work with their Pension Task Force on potential changes that may impact the pension plans whose assets we manage. Irrespective of the outcome of this initiative we continue to feel that a dedicated investment manager such as NBIMC continues to bring a number of benefits to the management of pension or other fiduciary based assets as follows:

- NBIMC provides a well structured, experienced, 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 fourth straight year, since the Fiscal 2008-09 financial markets crisis, we can reiterate that we continue to witness a general improvement in financial market conditions. The consequences of this improvement however is that both equity and debt markets are at very high levels which makes investment allocation decisions challenging. The low level of interest rates provide a particular concern and challenge for the future, however markets also generally reflect a belief that any eventual interest rate increases should occur in a measured fashion over a long time period. A particularly noticeable factor that has been observed over the year has been the general reduction in both the actual and implied market volatility to pre-crisis levels.

The economy continues to slowly recover in most regions and corporate earnings remain strong. Particularly encouraging has been the reports of growth in the U.S. economy including their housing market and related businesses, and their developing energy independence. Low rates of inflation have also continued to provide a supportive backdrop to investment activity.

While these market conditions are encouraging, we do not discount the fact that market gains continue to be primarily due to the continued action of the world's governments and central banks to provide very cheap liquidity and to a lesser extent more limited economic stimulus. High unemployment levels and limited corporate revenue growth continues to negatively affect market sentiment at times, while political challenges also remain in many jurisdictions as incumbent leaders have felt the negative effects of their electorates displeasure with austerity programs.

Once again this year we expect to conduct a full Investment Policy review for the two larger plans under our management upon receipt of 2012 actuarial reports. The Plan Sponsor may also provide direction with respect to more significant changes brought about through the Government's pension reform initiative. In either case our review will be conducted to ensure that we can prudently continue, in a risk controlled fashion, to meet each plan's long-term actuarial return goals, given the market challenges noted above.

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,



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

June 4, 2013
Fredericton, New Brunswick

Pension Plan Governance

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 Division 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 Actuarial Valuation Committee approves the actuarial assumptions used for the accounting valuation of the pension plans, used for financial reporting purposes in the Public Accounts.

The **Independent Actuary** is also 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 Independent 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. The Independent Actuary is responsible for the assumptions used in the actuarial valuation on a going-concern basis and solvency basis.

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 is appointed as 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 Independent 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 Independent 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

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 the Teachers' Pension Plan ("TPA") and the Public Service Superannuation Plan ("PSSA") as at April 1, 2011. NBIMC also subsequently received supplemental preliminary 2012 actuarial estimates, which indicated a significant negative change to their liability characteristics and funding positions. After reviewing these valuations, the Board confirmed its belief that it would not be prudent to assume any additional risk to deliver a return other than the required actuarial investment return of 6.6% before inflation (4% real return after inflation) in an effort to try to address the increased liabilities in the short term.

During the review process, NBIMC also received a presentation from the Independent Actuary concerning the Canadian Institute of Actuaries' proposed adoption of revised mortality assumptions that reflect the longer life expectancy of Canadians. The use of these mortality assumptions led to the significant change in the funding status of the PSSA and, to a somewhat lesser extent, the TPA as outlined in the supplemental estimates.

Although the detailed actuarial valuations with these revised mortality assumptions had not yet been obtained, the Board concluded that the asset mix and Investment Policy for each Fund warranted some interim adjustment, particularly whereby such adjustments could enhance return expectations with the same expected risk of the current policy. It is expected that further adjustments may be required once an actuarial valuation that incorporates these new assumptions is finalized.

The resulting asset mix changes made can be summarized as follows:

- A 3% reduction in the nominal government bond weight in favour of a 3% increase to corporate bonds. This shift was conducted to increase long-term expected returns while also lowering the overall fixed income asset class duration in an attempt to provide protection against possible future interest rate increases.
- A further 2% reduction in the nominal government bond weight in favour of a 2% weighting in a new portfolio, the NBIMC Low Volatility Canadian Equity Fund.
- A transfer of 1% of the equity weightings from each of the U.S. and International Equity passive market capitalized index strategies to the respective low volatility equity strategies to take advantage of the 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).

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 9.08% and real return of 7.83% for the fiscal year was well above our nominal and real return actuarial hurdles for the year of 6.60% and 4.00% respectively, but more importantly, remained above their respective actuarial targets over the long term.

In a somewhat unusual fashion, each of our main investment asset classes provided a positive return during the year as illustrated in the Table below. The majority of our investment performance during the year came about from the strong performance in our public equity portfolios. The U.S. and International EAFE portfolio produced particularly strong double digit returns due primarily to the continued strong levels of corporate earnings, supportive actions from each of the region's Central Banks, and the benefit of a slightly weaker Canadian dollar. Particularly encouraging was the results of the low volatility portfolios that we added to our investment strategies last year. These strategies are typically expected to outperform standard market capitalized indices in weaker periods, however during the year our U.S. and EAFE low volatility strategies actually outperformed the general market during a relatively strong period for equity returns.

Fiscal 2012-13 Rates of Return, *calculated in Canadian Dollars*

Aggregated Asset Class	Portfolio Return	Benchmark Return
Fixed Income		
Nominal Bonds	4.13 %	3.86 %
Corporate Bonds	6.29	6.32
Short Term Assets	1.47	1.02
Public Equity		
Canadian	6.67	6.11
United States	15.84	15.84
International	13.66	13.12
Low Volatility United States	22.67	15.84
Low Volatility International	18.59	13.12
Inflation Linked Assets		
Real Return Bonds	2.35	2.09
Real Estate / Infrastructure	13.22	13.19
Alternative Assets		
Absolute Return	3.18	1.02
Private Equity	10.10	14.14
Total Investment Portfolio	9.08 %	8.27 %

**Note:*

Detailed unit trust fund performance information is provided in a section at the end of this Annual Report (page 42).

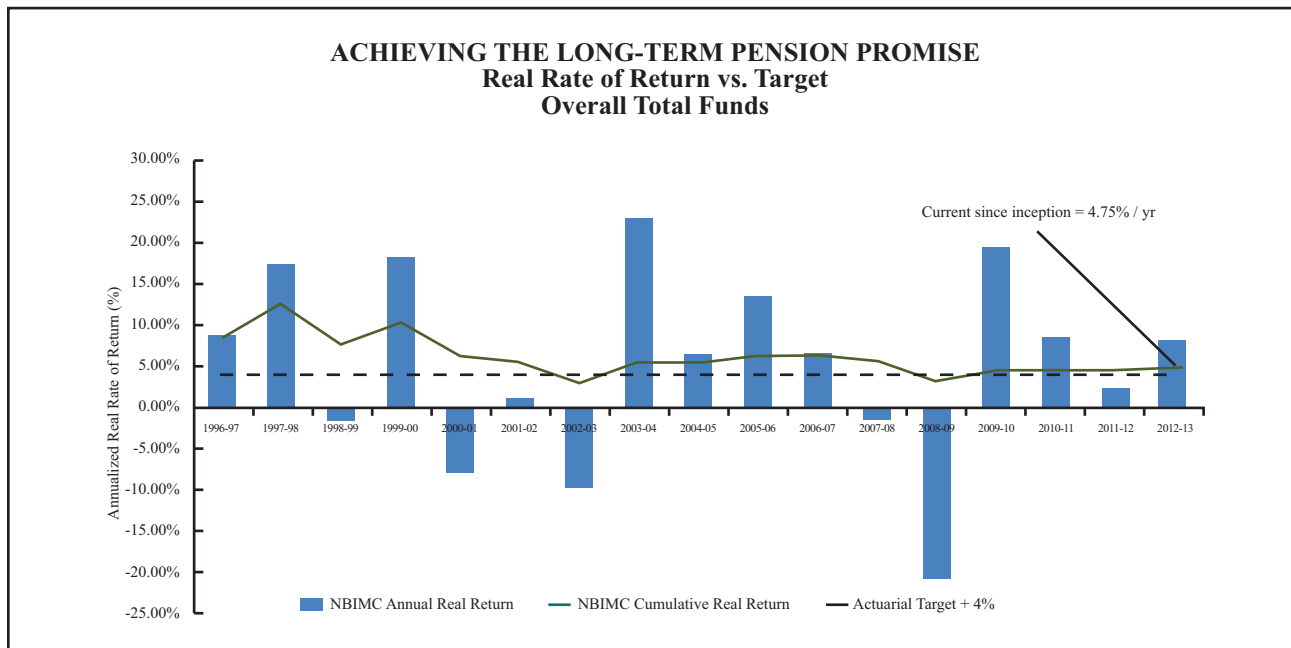
Canadian equity market returns while positive, underperformed international equity markets due to the impact of lower energy and material prices on the large proportion of related companies in the Canadian market index. Our private equity portfolios produced solid returns as well during the year, as managers reported brisk company realization and refinancing activity. We expect this performance trend to continue into the next fiscal year as the private markets' somewhat slower valuation process catches up to the more recent gains observed in the public equity markets.

Real estate and infrastructure returns were also strong during the year as they remained an attractive investment alternative to many investors in the current low interest rate environment. We were also pleased to add a number of new real estate and infrastructure assets to our direct investment program during the year, which we expect to provide the portfolio with solid long-term returns well into the future.

NBIMC's fixed income investments all produced positive returns in a very low interest rate environment. The performance of our new corporate bond portfolio was particularly encouraging as it outperformed each of the other fixed income asset classes during the year. While we expect fixed income returns to remain challenging in the year ahead we continue to recognize the risk mitigation and liability matching characteristics these investments provide as part of our overall strategic investment policy design.

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 4.75% which 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 investment management 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 81.3 basis points of gross value and 68.6 basis points of net value, or approximately \$66.9 million, after covering all investment management.

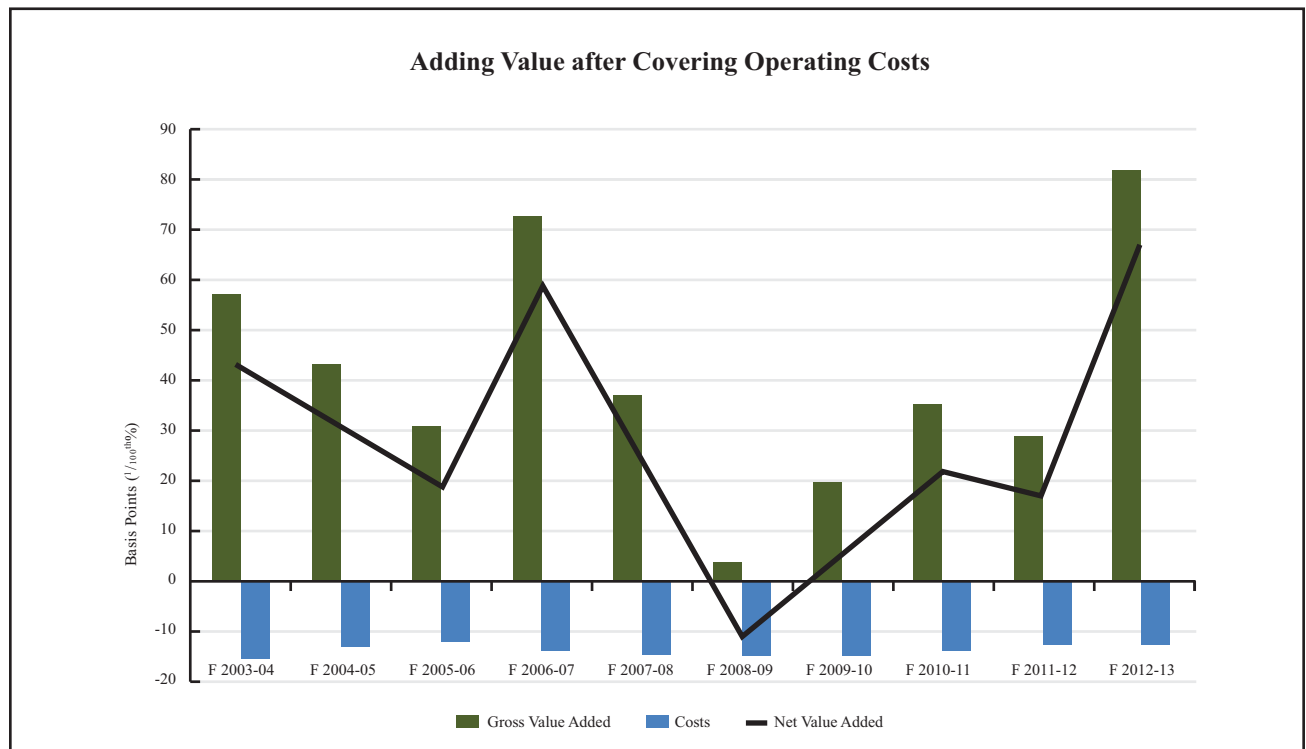
Our longer-term four year average annual value added return, net of costs, was approximately 31.3 basis points per annum or approximately \$105.3 million in additional value over the four year period. The four-year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer term measure.

We are very pleased that we were able to achieve additional investment value added in excess of both investment policy benchmarks and our long-term target during the fiscal year. As discussed in prior Annual Reports, NBIMC's main 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 other securities they were selling in the process. During this period of uncertainty we purposely reduced our active investment risk which was reflected in our active performance. Our gross value added during that period remained positive although lower than our targeted levels.

Since the financial markets crisis we have found that markets have continued to slowly normalize, although with short interim periods of volatility. These conditions have allowed us to increase our active investment risk, which has also subsequently led to improved performance in more recent years.

Our expectation continues to be that we should be able to deploy active risk levels closer to longer-term target levels as the global economy and financial markets continue to normalize. That being said we will remain vigilant through our risk management processes on making sure that we do not take on an excessive amount of risk if market conditions reverse.

The following chart illustrates both the relative value added and success rate from NBIMC's active management activities over the past ten 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, when completed.

Performance Objectives

The Board of Directors, in an effort to improve the transparency and communication of our investment management activities, developed a series of specific goals and objectives during the 2012-13 fiscal year in order to provide a summary of the overall performance of our organization.

As noted in the prior section, the two main investment performance objectives that NBIMC focuses on can be summarized as follows:

The **primary investment performance objective**, as outlined above by the plan actuary, is to achieve a long term real return of at least 4% per annum.

Our **second investment performance objective** is to add value, above the various asset class benchmarks in each funds respective investment policy, through active management strategies. This added value 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 over the long term. It is important to note that this target has been selected to represent a first quartile type achievement amongst similar investment managers.

The Corporation has also developed a series of other key performance indicators, as **continuous performance objectives**, that correspond to our 2011-2016 Strategic Plan. These indicators have been developed based on discussions and consultations with stakeholders such as the Governor of the pension plans trusted by NBIMC, the Province's Board of Management, staff of Management Board and the Office of Human Resources, various plan member advisory groups, and direct plan member feedback.

These indicators are being monitored on a quarterly basis by the NBIMC Board and are reported below for the current 2012-13 fiscal period.

Primary Investment Performance Objectives

Objective	Long-Term Targets	F2012-13 Actual	4 Year Annualized	Annualized Since Inception
Real Return (after inflation)	>= 4.00% per annum	7.83%	9.23%	4.75%
Nominal Return	>= 6.60% per annum	9.08%	10.98%	6.79%

Secondary Investment Performance Objective

Objective	Long-Term Targets	F2012-13 Actual	4 Year Annualized	Annualized Since Inception
Net Relative Return (after all investment management expenses)	>= 42 bps per annum	68.6 bps	31.3 bps	(3.7) bps

Continuous Performance Efficiency Objectives

Objective	Targets	F2012-13 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Industry avg + 2.5%	93.5%	90.9%
Prime Broker #1	Industry avg + 2.5%	95.2%	89.0%
Prime Broker #2	Industry avg + 2.5%	94.9%	88.3%
Industry Average		88.8%	87.1%
Budget Efficiency (excluding performance incentives)			
	100%	86.9%	90.1%
Absenteeism (%)	<= 2%	1.3%	1.5%
Employee Turnover (#)	<= 3/yr	2	2.25/year
IT System Availability	99%	99.9%	99.9%

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 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 & Compensation Committee focuses on risks relating to our employees and work environment. This includes 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:

- Private Markets;
- Pension Contributions, Benefits and Expenses;
- Information Technology Penetration Testing; and
- Portfolio Management System Review.

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. This Framework identifies three main categories of risk: strategic risk, investment risk and operational risk. The Framework highlights seventeen 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>Enterprise Risk Management Council (“ERMC”)</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 and CEO of areas of emerging risk.</p> <p>In fulfilling this mandate, the ERMC reviews:</p> <ul style="list-style-type: none"> • the weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies; • asset mix stress testing and back-testing results; • a quarterly Pension Fund liquidity analysis; • monthly counterparty exposure reports; • quarterly securities lending compliance reports; • results from the annual fraud risk assessment; and • recommendations from independent audit reviews.
<p>Investment Risk Management Committee (“IRMC”)</p>	<p>In accordance with its Terms of Reference, the IRMC is responsible for the following:</p> <ul style="list-style-type: none"> • monitors investment risk measures; • considers risks associated with new investment strategies and products; and • 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.
<p>Trade Management Oversight Committee (“TMOC”)</p>	<p>In accordance with its Terms of Reference, the TMOC is responsible for the following:</p> <ul style="list-style-type: none"> • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; and • manages exposure to broker counterparty risk.
<p>Information Technology Risk Management Committee (“ITRMC”)</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"> • assists in the development of IT strategy and future direction; • approves new application risk assessments; and • monitors adherence to IT policies and processes.
<p>Business Continuity Plan Team (“BCP”)</p>	<p>In accordance with its Terms of Reference, the BCP is responsible for the following:</p> <ul style="list-style-type: none"> • develops and implements the Business Continuity Plan including disaster recovery; • discusses possible disaster scenarios; and • uses passive and active tests to practice response protocols.
<p>Occupational Health & Safety Committee</p>	<p>In accordance with its Terms of Reference, the Occupational Health & Safety Committee is responsible for the following:</p> <ul style="list-style-type: none"> • considers physical environment risks.

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, 2013 consist of the following:

	2013	2012
NBIMC Operational Expenses	\$ 8.9	\$ 8.3
Third Party Service Providers		
Investment counsel fees	2.8	3.3
Securities custody - internally managed	0.6	0.6
- externally managed	0.1	0.1
	\$ 12.4	\$ 12.3
Total Assets Under Management	\$ 10,095.7	\$ 9,414.8

NBIMC manages approximately 87% 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 0.114% or 11.4 basis points (bps) for the year ended March 31, 2013 (2012 - 11.6 bps). NBIMC has outsourced approximately 13% 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 20.6 bps for the year ended March 31, 2013 (2012 - 22.8 bps). In total, investment management costs were approximately 12.7 basis points of average assets under management during the year, versus 13.3 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 2011 survey compared our costs against the average investment management costs for 89 participants in the Canadian universe of defined benefit peer pension funds, responsible for an aggregate of \$947 billion assets under management. Through this benchmarking survey, we believe that our costs are approximately 14 basis points lower than our peers. This cost differential means that in the year ended March 31, 2013 the Pension Funds were able to retain over \$13.7 million due to our low cost advantage. This cost advantage has been a cornerstone of our service delivery since our inception seventeen years ago. We will be participating in the 2012 CEM survey when available.

In addition to investment management costs, the Pension Funds incur administrative expenses paid to the Plan Sponsor for costs associated with the Independent Actuary's 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 of the Canadian Institute of Chartered Accountants deferred 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 accommodated the timing of changes to IFRS that 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 other impacts to the financial reporting of the Pension Funds upon conversion to IFRS.

Public Sector Accounting Standards

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 continues to monitor these projects.

Compensation Program

Exhibit A

Base Salary

Eligibility	All Staff
Objectives	Reward level of responsibility, expertise, competency and relevant experience

Variable Compensation Program

	Annual Incentive (targets 15% -55% of base salary)		Long-Term Incentive (targets 15% -75% of base salary)
	Short-term	Long-term	Deferred
Eligibility	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.
Objectives	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.
Time horizon	1 year	4 year (prorated)	4 year
Type of program	Cash	Cash	Cash
Performance metric(s)	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.
Range:			
Threshold	Full investment management cost recovery	Full investment management cost recovery	Full investment management cost recovery
Target	42 bps after costs	42 bps after costs	42 bps after costs
Maximum	84 bps after costs	84 bps after costs	75 bps after costs

Indirect Compensation

	Membership in the Public Service Superannuation Plan and retirement allowance*	Employee benefits and post-retirement benefits	Perquisites
Eligibility	Full-time staff with a minimum of five years employment.	Full-time staff.	Full-time staff.
Objectives	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

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 and CEO, based upon the recommendations made by the Human Resources & 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 five directors, four 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.

Key responsibilities include:

- Participation in an annual performance appraisal process for the President & CEO, including establishment of measureable 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; and
- 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 compensation surveys conducted by various compensation consultants to ensure that compensation trends are monitored regularly and trends are identified and reported to the HRCC.

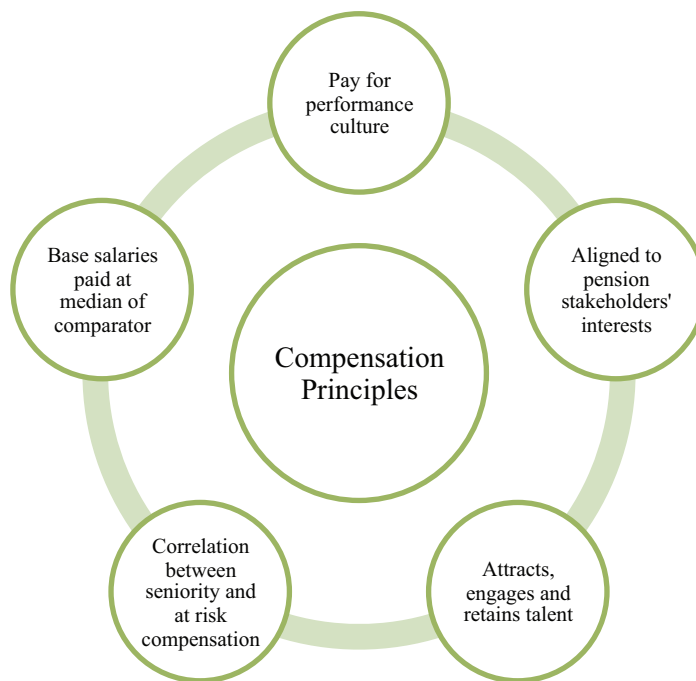
Corporate Compensation Philosophy

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:



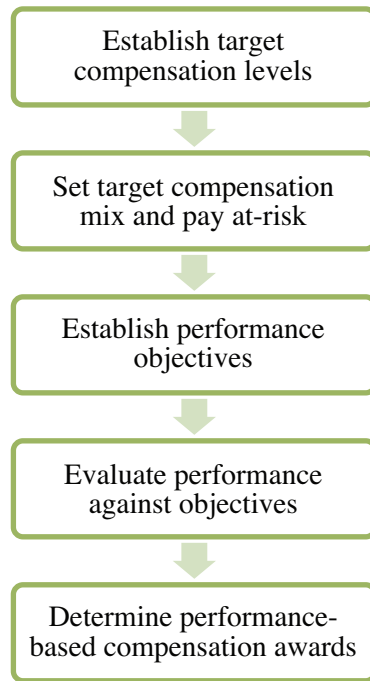
Compensation Risk Management

In 2011, 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 financial 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/uploads/CompAssessment.pdf>.

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 its 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. An Independent Compensation Advisor is periodically asked to conduct a Total Compensation Review. Compensation information from public disclosures 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 approves an annual business plan designed to support achievement of the Corporation's 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 plan 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 weighting to be applied to each 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 23. 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 and sick leave 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. The Board of Directors has decided to discontinue this benefit effective April 30, 2013. Payment of accrued benefits is expected to be made in the current fiscal year in an amount of approximately \$842,000 (dollars).

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. Net value added investment returns represent the gross investment return in excess of the investment policy benchmark returns, after deducting all investment management costs. In the prior year, total fund net value added investment returns for AIP purposes excluded private market investments made within the most recent five year period to best represent the long-term nature of the asset class. This adjustment was discontinued in Fiscal 2012-13 in order to provide better alignment with recent valuation changes in accounting standards and to reflect the more mature nature of NBIMC's private equity portfolio. 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 incentive component determined by comparing achievement of annual business plan targets established annually as part of the corporate strategic planning process. 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 investment performance in excess of Board-approved investment policy benchmark returns measured over a retroactive period of four consecutive fiscal years.

Impact of Performance Results for Fiscal 2012-13

NBIMC's investment program had a very successful year in Fiscal 2012-13 as measured by a number of annual and longer term four year investment performance metrics:

- NBIMC's total fund **real return** (after adjusting for inflation) was 7.83% during Fiscal 2012-13. This return, along with the annualized 9.23% four-year, and 4.75% since NBIMC inception real returns continue to remain well in excess of the long-term 4% per annum real return requirement that has been set out by the pension funds' independent Actuary.
- The total fund **nominal return** in Fiscal 2012-13 was 9.08% which represented \$843.2 million in gross earnings from the overall investment program during the year. The longer term four year annualized return to the end of the period was 10.98%, which represented a cumulative \$3.5 billion of investment earnings.
- **Relative returns (net of all expenses)** were 0.68% higher than the overall Investment Policy benchmarks during the year. These excess investment returns resulted in an additional \$66.9 million of active investment earnings during the year, and have resulted in a total of \$105.3 million of additional returns over a four year period.

Compensation, excluding Directors' remuneration (see page 33), for the fiscal year consists of:

<i>(in thousands of Canadian dollars)</i>	F2013	F2012
Salaries and benefits	\$ 4,574.4	\$ 4,767.0
Performance incentives:		
AIP – net investment relative performance	\$ 564.8	\$ 246.8
AIP – individual performance	345.3	298.8
Total AIP	910.1	545.6
LTIP	818.7	360.4
Total performance incentives	\$ 1,728.8	\$ 906.0

Base Salaries and Benefits

For the year ended March 31, 2013, and after consideration of the continuing low inflation environment, the Board approved a 2% overall base salary increase. The Board also approved the addition of two new full-time positions during the year: a Manager of Operations to assist in the oversight of fiduciary and investment accounting processes and a Programmer Analyst to assist in the development and maintenance of critical business systems. Despite these additions, NBIMC lost two investment professionals during the year to other investment management organizations which more than offset the effects of the new positions and the base salary increase during the year.

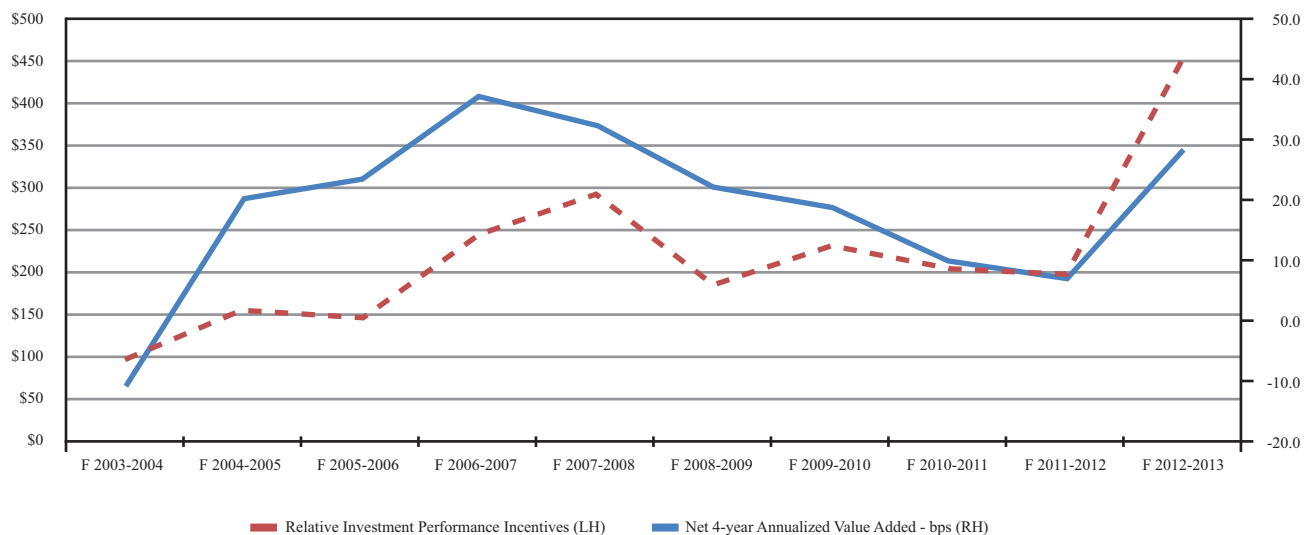
Compensation of key management personnel is discussed in note 8 to the Pension Fund financial statements (see page 80). Specific compensation information for the organization is published annually on a calendar year basis by the Office of the Comptroller for the Province of New Brunswick in the Public Accounts.

Compensation Linked to Investment Performance

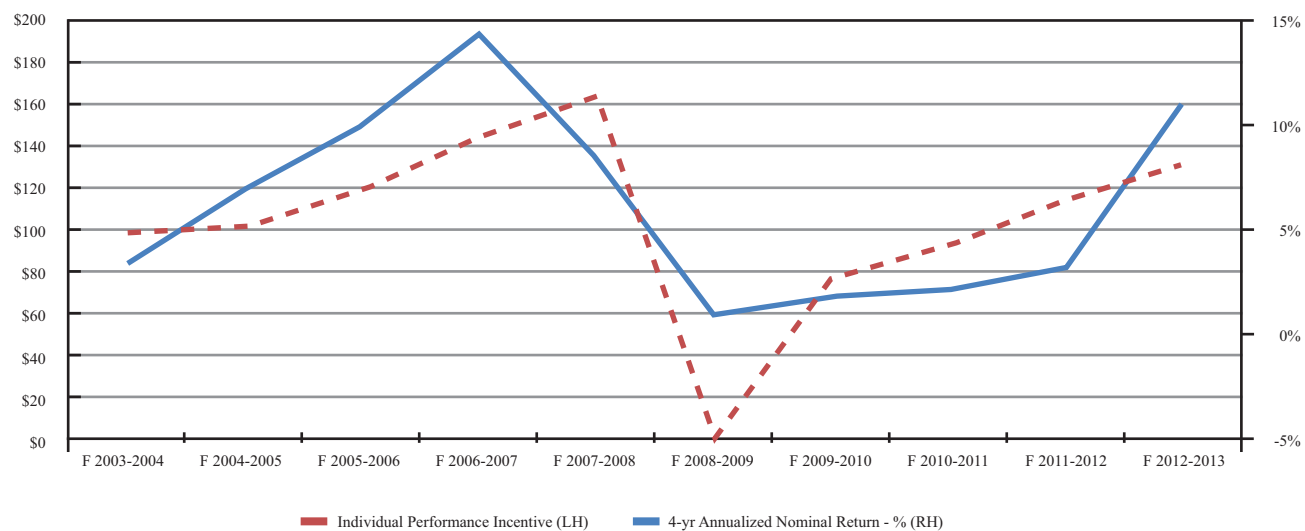
The objective of performance-based compensation is to encourage alignment of employee interests with those of pension plan stakeholders, including an appropriate balance between maximizing long-term returns and minimizing risks. Our investment performance with respect to incentive compensation can be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

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 (dollars). 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 Net Relative Investment Returns versus Benchmarks:



(ii) Long-Term Nominal Total Fund Returns:



Annual Incentive Plan Overview

The AIP component of \$910.1 consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was \$564.8. One quarter of this component is based on the one year net value added result and the remainder is based on the four year annualized net value added. The one year net value added result was 68.6 bps, and the four year annualized net value added result was 31.3 bps. A basis point is 1/100th of one percent.

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

	One Year	
	Net Value Added (bps)	Percentage of Target (%)
2009-10	5.2	12.5
2010-11	21.7	51.7
2011-12	16.8	39.9
2012-13	68.6	163.2
Annualized Four Year	31.3	67.7

The **AIP related to business plan achievements** is \$345.3 for the year ended March 31, 2013. This component is based on an achievement factor of 1.45 times overall target approved by the Board of Directors, compared to an achievement factor of 1.25 for the year ended March 31, 2012.

The individual component of the AIP is based on business plan accomplishments. The annual business plan includes both key performance indicators and specific action plans and initiatives focused on the five key goals in the Corporate Mission (see page 1). A specific weighting for each key goal is determined by the Board at the beginning of each year. The weighting reflects the Board's direction to management for prioritization of its efforts to implement the business plan.

Achievement of the 4% long-term real return (after adjusting for inflation) required by the Independent Actuary of the pension plans in a risk-controlled fashion is NBIMC's primary investment performance objective and accounts for the largest weighting proportion. As noted above, the overall total fund real return was 7.83% in Fiscal 2012-13, an annualized 9.23% on a four-year basis, and most importantly 4.75% per annum since NBIMC's inception in 1996.

Key Goals	F2013 Weighting	Achievement
To advance governance, management and organizational effectiveness.	20%	Above expectations
To exceed client long-term investment objectives through prudent asset allocation and risk management strategies.	50%	Above expectations
To maintain, develop, and attract a highly-skilled and experienced team of investment management professionals.	10%	Above expectations
To strengthen and expand stakeholder communications and relationships.	5%	Above expectations
To support effective and efficient information technology solutions.	15%	Above expectations

In establishing the achievement factor, the Board considered the achievement of key performance indicators associated with each of the five key goals (see pages 32-33) as well as the following accomplishments:

Key Goals	Fiscal 2012-13 Accomplishments
-----------	--------------------------------

To advance governance, management and organizational effectiveness.

- Assisted the Minister of Finance by addressing recommendations arising from his structural review of NBIMC’s investment performance and cost efficiency. This included:
 - o Publicly posted upcoming director vacancies, coordinated an ad-hoc NBIMC Director Nominating Committee, evaluated expressions of interest received against a Board skills matrix and recommended appropriate candidates to the Minister;
 - o Coordinated a competitive Compensation Review for all positions with recommendations approved in February 2013 that balance competitiveness and cost efficiency;
 - o Developed our new client capabilities to provide a platform for other public sector pools of capital to access our cost effective investment management services;
- Hosted an internally developed Board education and development program including a one day session as well as a series of one hour seminars throughout the year covering risk management strategies, operational structure, investment performance reporting and incentive plan design topics;
- Assisted the Board with a focused review of the Enterprise Risk Management Framework, including determination of inherent risk in each risk category, mapping of risk mitigation activities and development of residual risk rating consensus;
- Enabled further Board governance improvement initiatives arising from prior year’s Board self-assessment process;
- Implemented annual internal control reporting to Audit Committee;
- 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;
- Completed triennial review of all Board policies.

To exceed client long-term investment objectives through prudent asset allocation and risk management strategies.

- Successfully generated long-term investment returns in excess of those required by the Independent Actuary of the pension plans in a risk-controlled fashion;
- Completed two new asset liability studies upon receipt of the April 1, 2011 actuarial valuations, resulting in recommendations for asset mix changes to the applicable Investment Policies;
- Implemented a new Canadian low volatility equity strategy designed to respond to the current low investment return environment, as well as adjusted asset class weights resulting from the asset mix decisions noted above;
- Continued to produce strong nominal investment returns in a volatile market environment:
 - o Long-term since inception annualized real returns continue to exceed actuarial target;
 - o Long-term risk adjusted returns continue to exceed median peer pooled fund survey data;
- Developed and implemented a new stress testing protocol aligned with best practices adopted by the Office of the Superintendent of Financial Institutions for federally-regulated pension plans;
- Continued to monitor opportunities for applying Liability Driven Investment principles while expanding private equity, direct private real estate and infrastructure opportunities.

To maintain, develop, and attract a highly-skilled and experienced team of investment management professionals.

- Completed an update of the Human Resources Strategic Plan, including organization structure changes and an updated Succession Plan;
- Supported ongoing employee professional development initiatives.

Key Goals	Fiscal 2012-13 Accomplishments
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To strengthen and expand stakeholder communications and relationships.

	<ul style="list-style-type: none"> • Continued to develop opportunities for increased stakeholder and shareholder interactions in accordance with Strategic Communications Plan; • Active speaker and participant in a number of local and national investment industry conferences; • Active member and Board participant in a number of local and national investment industry organizations.
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To support effective and efficient information technology solutions.

	<ul style="list-style-type: none"> • Executed on five year Information Technology Strategic Plan including: <ul style="list-style-type: none"> o Assessment of portfolio management system requirements and alternatives; o Implementation of full Windows Server 2008 environment; o Upgrade of all network firewall equipment, including post-implementation security penetration testing; o Upgrade of internet website infrastructure.
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Long-Term Incentive Plan Overview

The LTIP component is \$818.7 for the year ended March 31, 2013. One quarter of this component is based on the one year net value added result and the remainder is based on the four year annualized net value added. The one year net value added result was 68.6 basis points (bps), and the four year annualized net value added result was 37.8 bps

Four year LTIP results differ from the four year AIP results primarily due to the LTIP's inclusion of the sale of one New Brunswick-based investment to a strategic global purchaser during Fiscal 2011-12 which resulted in a significant realized gain in that year as well as the ensuing 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 (%)
2009-10	6.2	14.8
2010-11	32.5	77.4
2011-12	41.2	98.0
2012-13	68.6	163.2
Annualized Four Year	37.8	90.0

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 kilometers traveled.

The cost of the Board function, including per diems, director orientation and Board education, for the year ended March 31, 2013 was \$132.9 (2012 - \$124.9) plus travel and accommodation reimbursements of \$13.8 (2012 - \$14.6).

Governance

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 & 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. 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 2012-13:

Appointed Director ¹	Board	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Gilles Lepage	7/8	4/4	4/4	2/3
Elaine Albert ²	4/4	1/1	n.a.	n.a.
Wiktor Askanas ³	4/4	2/2	n.a.	1/1
Joel Attis	7/8	n.a.	4/4	3/3
Earl Brewer ²	5/8	n.a.	n.a.	3/3
Marc-Antoine Chiasson ²	6/8	3/4	n.a.	n.a.
Gaston LeBlanc ²	3/4	1/1	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

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

² term expired in the fiscal year

³ appointed September 5, 2012

Gilles Lepage retired from the Board after serving as a director since the inception of the Corporation and as Board Chair since 2006. He was replaced as Chairperson by the appointment of Michael Walton, a Director who has served the Board since 2006.

In addition, Elaine Albert and Gaston LeBlanc's terms as director expired on June 30, 2012, while Earl Brewer, and Marc-Antoine Chiasson's terms as Director ended at fiscal year end.

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. Mr. Wiktor Askanas returned to our Board as a Director through an appointment in Fiscal 2012-13, and effective May 1, 2013 Patricia LeBlanc-Bird was appointed as a new Director.

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: an overview of NBIMC's investment management capabilities, a comprehensive review of inherent risks facing the Corporation, a presentation on NBIMC's investment portfolio structure, and a presentation on the CFA Institute's Global Investment Performance Standards. In addition, the Board received two special presentations from the Independent Actuary. The first presentation related to the process followed for the Actuarial Valuation Report on the Teachers' Pension Plan as at April 1, 2011 and the second related to the new proposed shared risk pension plan model that is being promoted by the Province's Pension Task Force.

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*) included:

- Review of the asset liability analyses for each of the Public Service Superannuation Plan and the Teachers' Pension Plan as at April 1, 2011;
- Approval of the decision to reduce the portfolio weight for government bonds in favour of corporate bonds and to add a low volatility Canadian equity investment strategy 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 2012-13 Annual Business Plan;
- Approval of the Fiscal 2013-14 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 2012-13 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to Fiscal 2012-13:

- 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, 2013 and recommended their approval by the Board;
- Reviewed the unaudited financial statements for the Unit Trust Funds for the year ended March 31, 2013 and recommended their approval by the Board;
- Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards for the year ended March 31, 2013 and recommended their approval by the Board;
- Received the draft Annual Report material for the year ended March 31, 2013 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;
- Received the audited financial statements for the year ended March 31, 2012 for a wholly-owned subsidiary of the NBIMC Canadian Real Estate Fund;
- 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;

- Approved the External Auditor’s engagement, audit plan, timing, staffing and fees for the year ended March 31, 2013 and pre-approved all 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, 2013 and obtained confirmation of the External Auditor’s independence;
- Reviewed the Audit Committee Pre-Approval Policy for Audit and Non-Audit Services;
- Approved the Internal Auditor’s annual plan and budget for the upcoming year ending March 31, 2014;
- Received the Internal Audit recommendations and management’s responses for four internal audits: Private Markets Review, Pension Contributions, Benefits and Expenses Review, network Penetration Testing, and Portfolio Management System Review;
- Reviewed a Follow-Up Report from the Internal Auditor concerning management’s responses to previous recommendations;
- Each quarter met *in-camera* with each of the External Auditor, the Internal Auditor and management;
- Monitored key performance indicators for management related to timely resolution of all external and internal audit recommendations;
- Following a comprehensive Board-level review of inherent risks facing the Corporation, assisted in the determination of residual risks after consideration of key internal controls;
- 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 reporting of their annual fraud risk assessment;
- Reviewed a report from management related to entity-level key controls;
- Received the Five Year IT Strategic Plan and status;
- Completed a review of the Valuation Policies for investment securities;
- Received quarterly status reports of an internal review of the portfolio management system;
- Reviewed and recommended approval by the Board of changes to the Investment Authority limits;
- Received quarterly reporting of legal and regulatory compliance;
- Received a quarterly status report of class action litigation in which NBIMC has participated;
- 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 oversight of management and internal audit, committee composition, meetings and supporting committee effectiveness;
- Completed an annual review of the Committee’s terms of reference, accomplishments for the year ended March 31, 2013 and set objectives for the upcoming fiscal year.

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

C. Rignanesi (Chair), W. Askanas, P. LeBlanc-Bird, D. Murphy, M. Walton (*ex-officio*).

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 2012-13 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in Fiscal 2012-13:

- Established Board Goals for Fiscal 2012-13;
- Recommended the appointment of a new director to the Audit Committee and the Human Resources & Compensation Committee;
- Reviewed the Director Orientation and Education program and Fiscal 2012-13 Board education plan;
- Reviewed quarterly compliance with the Code of Ethics and Business Conduct;
- Received a quarterly status report of progress made in addressing the Board Governance Improvement Objectives arising out of the 2011 Board and Committee self-assessment process;
- Conducted the annual review of upcoming director term expirations and Skills Gap Assessment for new candidate consideration. Communicated these findings to the Minister of Finance;
- Created an ad hoc committee to conduct a director appointment process including public posting of director vacancies, evaluation of expressions of interest received and making recommendations for consideration by the Minister;
- Reviewed recommendations from an external review of NBIMC's performance as reported to the Minister of Finance in connection with government's structural review process, approved an action plan to address these items and received quarterly status reports of progress made;
- Conducted an annual review of the Governance Committee's mandate and effectiveness;
- Completed the annual review of all governing documents and Committee Terms of Reference and established the meeting schedules for 2013;
- Reviewed the status of the Strategic Communications Plan;
- Monitored publicly available information concerning efforts by the Public Sector Pension Task Force to introduce a shared risk pension model in New Brunswick;
- Reviewed the annual confirmation of the Code of Ethics and Business Conduct at March 31, 2013 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, 2013; and
- Reviewed the draft Plan and Corporate Governance disclosure for the Fiscal 2012-13 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 (*ex-officio*), C. Rignanesi, M. Walton (*ex-officio*)

Report of the Human Resources & Compensation Committee

The Human Resources & 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.

Fiscal 2012-13 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in Fiscal 2012-13:

- Reviewed the Committee's Terms of Reference Business;
- Set the Committee's objectives for Fiscal 2012-13 and reviewed subsequent achievements;
- Reviewed recommendations from an external review of NBIMC's performance as reported to the Minister of Finance in connection with government's structural review process and approved an action plan to address the compensation-related items;
- Recommended to the Board a full Corporate Compensation Review Project and appointed an ad hoc committee to conduct this review;
- Reviewed the individual business plan weightings of the NBIMC Fiscal 2012-13 Annual Business Plan and recommended their approval by the Board;
- Reviewed the Succession Plans for the President and CEO and senior management positions and recommended approval by the Board;
- Reviewed the Annual Compensation Report, including comparisons to various compensation surveys conducted by independent consultants;
- Reviewed the organizational structure and recommended its approval by the Board;
- Reviewed the Human Resources Strategic Plan and recommended its approval by the Board;
- Reviewed the Travel Expense Policy and recommended approval by the Board;
- Reviewed the ad hoc committee's Analysis & Recommendations for the Fiscal 2012-13 Corporate Compensation Review Project and recommended to the Board for approval a Summary of Resolutions relating to salary band scales and performance incentive components;
- Received quarterly certification from management as to regulatory compliance with various legislative requirements;
- Recommended approval by the Board of the compensation range for a new Investment Analyst position;
- Reviewed Fiscal 2012-13 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 overall Incentive Compensation Pool for Fiscal 2012-13; and
- Reviewed the Compensation Discussion and Analysis section of the Fiscal 2012-13 Annual Report and recommended its approval by the Board.

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

R. Thériault (Chair), W. Askanas, J. Attis, R. Maloney, M. Walton (*ex-officio*)

Employee Activity in our Communities

NBIMC management and staff continued to be very active with a number of important causes in both our local and the larger national community. These efforts can vary from volunteering time, sharing professional expertise, or the donation of personal financial resources.

Local Charitable Causes

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 35 non-profit organizations. Three additional charitable causes were also supported through other internal corporate fund-raising initiatives.

Of particular note, NBIMC recognized five individuals: Ms. H. Giles, Ms. A. MacDonald, Ms. E. Quigley, 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 our corporate team this year: “Bowl for Kids Sake” team (Big Brothers and Big Sisters).

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

Investment Industry Relationships

NBIMC’s investment professionals are recognized nationally as a constructive resource with respect to investment industry related Board or Executive Committee participation. The following list outlines a number of relationships in which NBIMC management has actively participated in this type of capacity during the fiscal year:

- Pension Investment Association of Canada
- Canadian Coalition of Good Governance
- S&P/TSX Canada Index Committee
- CFA Society Atlantic Canada
- University of New Brunswick Investments Committee
- Université de Moncton – Comité de placements
- Fredericton Community Foundation Investment Committee

Communications and Accountability

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 and TPA 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

As required under **Section 18 – Report about disclosures** of the Public Interest Disclosure Act, we hereby report that for Fiscal 2012-13:

- 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.

Detailed Unit Trust Fund Performance Information

The specific performance of each NBIMC unit trust fund, its respective benchmark and value added for the year ended March 31, 2013 is outlined in the table below.

Unit Trust Fund	Nominal Rate of Return %	Benchmark Return %	Gross Value Added %
Fixed income:			
NBIMC Nominal Bond Fund	4.12	3.86	0.26
NBIMC Corporate Bond Fund	6.29	6.32	(0.03)
NBIMC New Brunswick Fixed Income Opportunity Fund	4.89	3.86	1.03
NBIMC Money Market Fund	1.47	1.02	0.45
NBIMC Student Investment Fund	5.23	5.37	(0.14)
Total Fixed Income	4.11	4.14	(0.03)
Equities:			
NBIMC Canadian Equity Index Fund	7.19	6.11	1.08
NBIMC External Canadian Equity Fund	6.69	6.11	0.58
NBIMC Low Volatility Canadian Equity Fund	2.94	(0.05)	2.99
NBIMC S&P/TSX Completion Index Fund	3.93	4.39	(0.46)
NBIMC Canadian Equity Active Long Strategy Fund	6.20	6.11	0.09
NBIMC External International Equity Fund	15.08	13.12	1.96
NBIMC EAFE Equity Index Fund	13.34	13.12	0.22
NBIMC Low Volatility International Equity Fund	18.60	13.12	5.48
NBIMC U.S. Equity Index Fund	15.79	15.84	(0.05)
NBIMC Low Volatility U.S. Equity Fund	22.67	15.84	6.83
Total Equities	12.10	11.01	1.09
Inflation Linked Assets:			
NBIMC Inflation Linked Securities Fund	2.35	2.09	0.26
NBIMC Canadian Real Estate Fund	12.07	10.00	2.07
NBIMC International Real Estate Fund	16.11	19.04	(2.93)
NBIMC Infrastructure Fund	7.06	6.13	0.93
Total Inflation Linked Assets	7.19	7.03	0.16
Alternative Investments:			
NBIMC North American Market Neutral Fund	0.59	1.02	(0.43)
NBIMC Quantitative Strategies Fund	4.97	1.02	3.95
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	38.09	6.13	31.96
NBIMC Private Equity Fund	10.11	14.14	(4.03)
Total Alternative Investments	7.35	6.97	0.38
Total Fund Return	9.08	8.27	0.81