



New Brunswick Investment Management Corporation

ANNUAL REPORT 2015-2016

20 Years
of Service

1996 through 2016

\$10.6 billion of investment earnings

BOARD OF DIRECTORS

Michael W. Walton

Chair of the Board
Director

Wiktor Askanas

Vice-chair of the Board
Director

Donna Bovolaneas

Director

Gordon Gilman

Director (ex officio, non-voting)

Ronald B. Maloney

Director

Darren Murphy

Director (ex officio)

Cathy Rignanesi

Chair of Audit Committee
Director

John A. Sinclair

Director (ex officio)

Richard C. Speight, Q.C.

Chair of Governance Committee
Director

Reno Thériault

Chair of Human Resources &
Compensation Committee
Director

CORPORATE LEADERSHIP TEAM

John A. Sinclair

President and Chief Executive Officer

Jan Imeson, CPA, CA

Chief Financial Officer
Vice-President, Finance and
Administration

Dan Goguen, CPA, CA, FRM

Vice-President Private Markets

James Scott, CFA

Vice-President Fixed Income

Mark Holleran, CFA, FRM

Vice-President Equities

Jon Spinney, CFA

Acting Chief Investment Officer
Vice-President Quantitative
Investment and Applied Research

Inge Després

Corporate Secretary

Andrea MacDonald, CHRP,

IPMA-CP
Human Resources Manager

New Brunswick Investment Management Corporation

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MEMBERS OF



Pension Investment
Association of Canada

Association canadienne des
gestionnaires de caisses de retraite

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FISCAL 2016 HIGHLIGHTS

- Our annual nominal return for all assets under management was 1.50%. The real return (after considering inflation) was 0.26%.
 - The Judges' Pension Fund, for which NBIMC remains Trustee, had a nominal return of 1.98% and a real return of 0.73%.
 - Our overall Pension Fund client annual nominal return was 1.66% and a real return of 0.41%.
 - Annual returns remained strong versus other pension fund and diversified manager alternatives.
- Long-term annualized nominal total fund return since NBIMC's inception in 1996 was 7.20% with a real return of 5.24% per year.
 - Long-term annualized client returns remain in excess of their various targets.
- Our active nominal returns in excess of client benchmarks, net of all investment management costs, of 107.5 basis points represented approximately \$140.9 million of additional return over clients' investment policies.
- Overall Management Expense Ratio declined for the second consecutive year to 0.137% of total funds under management.
- Total assets under management closed the year at a new high of \$13.3 billion as of March 31, 2016.
 - \$192.1 million of gross investment earnings were realized by our clients from our investment activities.
- We continued to build our client base by adding two new clients during Fiscal 2016, as well as launching a new mandate for an existing client. These clients brought a further \$431.2 million to our assets under management.

CORPORATE PROFILE

The New Brunswick Investment Management Corporation (NBIMC) is the investment manager for certain public sector pension and other funds. We were formed in 1996 under the New Brunswick Investment Management Corporation Act by the Province of New Brunswick.

Our primary mission is to increase the long-term value of our clients' funds under management.

To fulfill this mission NBIMC conducts the following activities:

- Provides prudent, risk-controlled and cost effective investment management services for all funds under management.
- Acts as fund trustee for the Provincial Court Judges' defined benefit pension plan.
- Advises on and implements investment policies.
- Adds value by generating higher returns through active investment strategies net of investment management costs.
- Manages investment risks.
- 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 \$13.3 billion at March 31, 2016.

CORPORATE MISSION

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

Key goals:

- To advance NBIMC's governance, management and organizational effectiveness.
- To meet our clients' specific long-term investment objectives through prudent investment advice and well-executed risk managed investment strategies.
- To expand NBIMC's client-servicing and support operations.
- To maintain, develop and attract a highly skilled and experienced team of investment management professionals.
- To strengthen and expand client and other stakeholder communications and relationships.
- To support effective and efficient information technology, data management and client reporting solutions.

CORPORATE VISION

We are the public sector's provider of choice for investment management services.

NBIMC is recognized for applying “industry best practices” by our clients and peers.

The company is:

- Acknowledged as being able to develop investment strategies that exceed each clients' long-term risk and return objectives.
- A provider of consistent value added returns, net of expenses, for clients through a diverse range of investment strategies.
- Recognized by stakeholders as having strong governance practices and a long-term strategic vision.
- Driven by a long-serving 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 develop and implement appropriate investment strategies that are focused on client objectives and risk management guidelines.*

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 through clear roles and coordinated activity that is fully aligned with achieving our clients' 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 strong Code of Ethics and Business Conduct.*

INNOVATION – *We continue to provide a broad range of innovative, well-researched investment management strategies.*

MESSAGE FROM THE CHAIRPERSON

On behalf of the Board of Directors and management of the New Brunswick Investment Management Corporation (NBIMC), I am pleased to introduce our Fiscal 2015-16 Annual Report.

This Annual Report is especially unique as it marks the twentieth year of NBIMC continuing to successfully exceed our clients' long-term investment objectives, while at the same time effectively managing a number of financial market challenges and more recently the changes brought about through the Government of New Brunswick's pension reform activities.

The following Annual Report provides a detailed account of another year in which we have successfully met our primary and secondary performance targets for both the Judges' Pension Fund, for which the NBIMC Board of Directors is Trustee, and a growing number of public sector clients.

The NBIMC Board of Directors is also pleased to provide our annual report of achievement against our specific corporate performance objectives as outlined on page 12. These objectives are one of the main means in which we look to continue to hold ourselves accountable to our stakeholders. The applicable long-term targets and key performance indicators were reviewed at the beginning of the fiscal year in line with our 2015-20 Strategic Plan, and were subsequently reported to each of our stakeholder groups as well as being posted on our website (www.nbimc.com).

RISK MANAGEMENT

Risk management continues to be a primary focus of the Board. During the year we conducted an update of our Enterprise Risk Management Framework which has been put in place to integrate strong corporate oversight with a series of well-defined, independent risk management systems and processes. This update included the addition of a series of risk appetite guidelines for management's consideration when managing each of our business's risk elements.

PENSION REFORM DEVELOPMENTS

In last year's Annual Report we outlined that as part of the Government's process with respect to the conversion of the prior defined benefit pension plans to a target benefit model, the Minister of Finance had established a Governance Working Group. This group consisted of a number of related Stakeholders, including a representative from NBIMC, who were tasked with developing the best practices in pension plan governance that will serve the new pension plans in achieving their goal of prudently-managed and sustainable pensions.

In July of 2015, the Boards of Trustees for the Public Service Shared Risk Plan (PSSRP) and the N.B. Teachers' Pension Plan (NBTPP) created a Transitional Board through a Memorandum of Understanding to explore the creation of a jointly-owned entity to provide independent pension administration and investment services to each pension plan and possibly other similarly situated institutions. In a somewhat similar fashion the Government of New Brunswick also conducted a review of NBIMC in the context of their Strategic Program Review Secretariat.

NBIMC management, under the direction of our Board, have actively participated in both of these activities and at the time of writing this letter, these actions have led to two Bills which are before the New Brunswick Legislature that would see the creation of a new integrated pension services organization. If this legislation is ultimately given Royal Assent it will have the effect of transferring NBIMC from a Crown Corporation of the Province to a not-for-profit investment management corporation named Vestcor Investment Management Corporation which will be owned by the PSSRP and NBTPP through a corporate holding company, Vestcor Corp. This new structure is not expected to materially change our business model or service delivery capabilities.

APPRECIATION OF DEDICATED SERVICE

I am pleased to report that our Board of Directors will continue to have a good degree of continuity in helping us address the challenges ahead as three Directors whose terms expired during the fiscal year were reappointed to additional terms during the period. In addition, Ms. Donna Bovolaneas was appointed as a new Director, and we look forward to continuing to benefit from her financial industry experience.

On behalf of the Board I also wish to thank and congratulate our team of New Brunswick-based investment management professionals at NBIMC for their continued diligence and hard work in continuing to meet the goals of our clients. Their accomplishments have led to a number of other Public Sector Funds approaching NBIMC to explore potential strategic partnerships based on this success, and we look forward to continuing to expand our business in the best interest of all of our clients.

I trust this annual report provides a thorough accounting of NBIMC's activities in Fiscal 2015-16, however I encourage our numerous stakeholders to feel free to contact us through comments@nbimc.com with any questions or for any further information at their convenience.

Sincerely,



Michael W. Walton
Chairperson

June 6, 2016
Fredericton, New Brunswick

CEO LETTER TO STAKEHOLDERS

I am pleased to report that the Corporation's investment program continued to perform well in Fiscal 2015-16, particularly considering the many financial market challenges that occurred during the year. As we expected last year, continued slow global economic growth, global political instability, and very accommodative central bank policies have resulted in a low return world that has significantly impacted savers and investors. These conditions and a heightened degree of related uncertainty have led to a higher degree of financial market volatility and investment anxiety.

Even with these conditions we continued to exceed **both our primary investment objective of exceeding the long-term investment returns** required by the clients under our management, **and our secondary investment objective of producing value added returns** that exceed their investment policy benchmarks after covering all of our investment management expenses. We are also pleased to report that the pension fund portfolios under our management provided positive returns in a year where many diversified fund manager returns were negative.

Fiscal 2015-16 also provided an excellent example, as outlined further in this Annual Report, on how our strategy of successful active management performance in combination with low expenses can add significant additional gains to client Investment Policies in a low return investment environment.

FISCAL 2015-16

We are pleased to report that the long-term since inception gross investment return for the Provincial Court Judges' Pension Fund, for which NBIMC has Trustee responsibility, ended the year at 7.29% per annum. The specific F2015-16 return was 1.98% which exceeded the Judges' investment policy benchmark by 119.2 basis points (a basis point is 1/100ths of a percentage) net of all investment management costs. Most importantly the long-term Judges' annualized real rate of return since NBIMC's inception now stands at 5.34%. This real return remains well above the long-term real return requirement of 4.00% that the independent Actuary had believed to be necessary to fund the Judges' pension fund.

Our overall total funds' value added portfolio performance exceeded both the blended client investment policy benchmarks and our investment management costs by 107.5 basis points during the year. This performance provided our clients with additional returns of approximately \$159 million of investment earnings through active portfolio management activities versus their benchmarks, or approximately \$141 million in additional net earnings after covering the combined \$18 million of NBIMC's operating costs and the costs of third party service providers.

Net assets under management increased to a new all-time high of \$13.3 billion from \$13.0 billion in the prior year. This increase in assets resulted from \$192.1 million in net investment earnings, net client payouts of \$312.9 million and \$431.2 million of new client assets.

IMPORTANT ACCOMPLISHMENTS

NBIMC achieved a number of important accomplishments during the year:

- We successfully exceeded the Key Performance Indicators outlined in our corporate continuous performance objectives:
 - As noted earlier, our long-term investment performance significantly exceeded the targeted investment returns for our clients.
 - Management continued to add significant relative value added returns, after covering all expenses, for our clients through active investment management activities.
- Our Management Expense Ratio has continued to decline over the past two years.
- Longer-term pension client observed risk has been low compared to other peer pension plans.
- NBIMC has continued to support our legacy Target Benefit Pension Plan clients in understanding the inherent risks impacting their plans. We were also successful during the year in having the plans' Actuary and Superintendent of Pensions revisit performance assumptions of low volatility equity investment strategies.
- Successfully completed sizeable, cost efficient asset class transitions for the NBTPP, Judges' and NB Power client portfolios. Conducted a similarly successful process for two new client portfolios that were added during the year.
- Developed, in conjunction with our Board of Directors, a Risk Appetite component to our NBIMC Enterprise Risk Management Framework. We also updated our corporate Responsible Investment Guidelines.
- Assisted the PSSRP and NBTPP Trustee Boards, and the Government of New Brunswick, in evaluating and developing a best practice based Integrated Pension Services Organization.
- Completed our biennial Workplace Environment and Leadership Survey process which indicated that employee engagement and satisfaction remains strong.
- Updated our NBIMC Human Resources Strategic Plan which included the development of a strategy for the separation of the President & Chief Executive Officer and Chief Investment Officer roles effective April 1, 2016.

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

ADDITIONAL CLIENT RELATIONSHIPS

NBIMC was pleased to welcome both the Management Employees of N.B. School Districts Pension Plan and the Shared Risk Pension Plan for Academic Employees of the University of New Brunswick as new pension fund clients during the year. As noted in the earlier Chairperson's Letter we have been approached by a number of other public sector funds who are exploring how NBIMC's services can help them navigate this difficult investment environment while also significantly reducing their investment management costs. It is important to point out that these additional assets help all of NBIMC's clients by reducing their management expense ratio and also assisting them in being able to participate as a larger partner in private investment opportunities.

As noted in our NBIMC corporate vision, we continue to look forward to being the public sector's provider of choice for investment management services by providing assistance in any or all of the following service offerings:

- Investment Management (Equity / Fixed Income / Inflation Linked / Alternatives)
- Investment Strategy Advice
- Compliance and Performance Measurement Services
- Financial Reporting
- Risk Management
- Communications
- Trustee Administration Services

OUTLOOK

While economic growth continues to slowly move higher, a number of risks remain that will likely continue to create periods of higher volatility. These concerns are primarily focused around government and political actions such as the potential for further currency devaluation and interest rate decline strategies (in Japan / China / Europe), further impacts from any additional terrorism attacks, the upcoming UK – European Union referendum in late June, and the eventual implications from the results of the November U.S. election.

On the other hand consumer confidence has continued to remain strong and inflation has remained well under control. Housing markets have continued to be resilient and employment growth, particularly in the U.S., remains solid.

Our asset allocation view remains cautiously biased towards equities as we continue to expect a slow growth environment that should keep equities a more attractive asset class versus alternative asset classes. In addition, although our expectation remains that fixed income rates will move higher in the medium to long-term, there remains the potential for rates to maintain their relatively low levels for some time in the face of potentially market moving geopolitical events and widespread economic policy uncertainty.

We expect that markets will continue to be challenging in the year ahead. Volatility levels should continue to move to more normalized historic levels over time however as most asset price levels, irrespective of whether they are equity or debt, continue to trade at what are considered to be relatively fully valued levels.

We look forward to the challenge of continuing to meet our clients' needs and remain confident that we have the strategy, people and processes in place that can continue to help our stakeholders meet their long-term investment goals.



John A. Sinclair
President and Chief Executive Officer

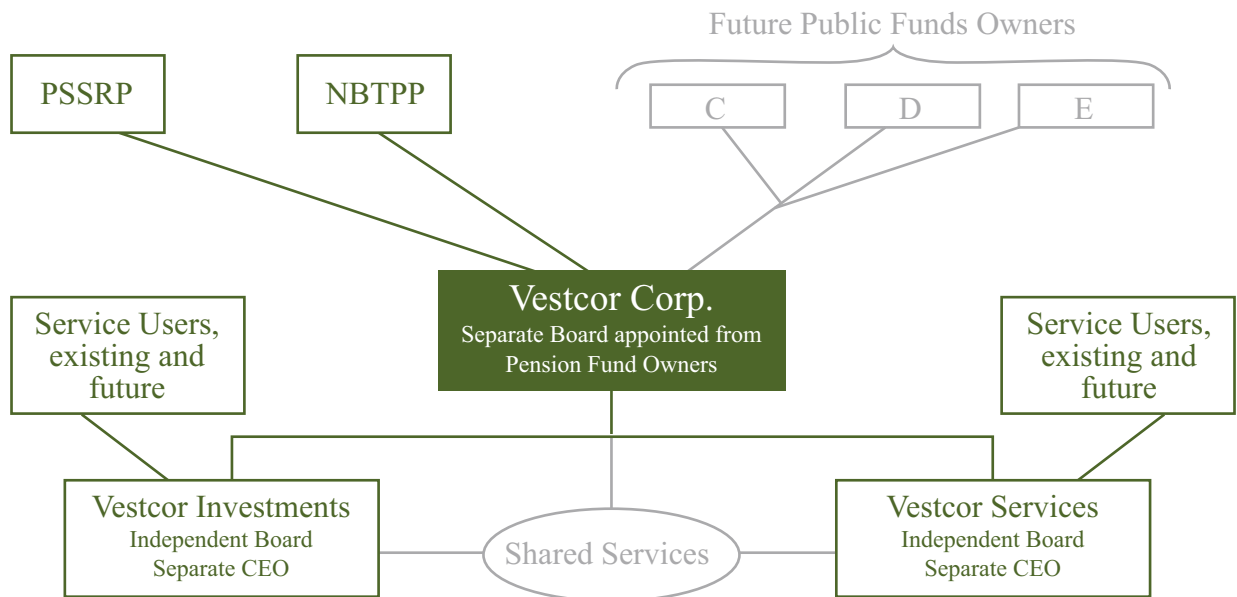
June 6, 2016
Fredericton, New Brunswick

INTEGRATED PENSION SERVICES ORGANIZATION – VESTCOR

One of the most significant events to occur during the year was the introduction of legislation to create an integrated pension services organization, the *Vestcor Act*. This legislation is the culmination of over two years of effort by the Boards of Trustees for the Public Service and Teachers’ pension plans, our NBIMC management and Board of Directors, and the staff at the Pension and Employee Benefits Division (PEBD) of the Department of Human Resources, all of whom were directed by Government to consider and develop appropriate pension plan governance in response to the Province’s recent pension reform process.

The Province of New Brunswick’s pension reform process of 2013 resulted in the conversion of those two defined benefit pension plans into target benefit plans, administered by a jointly trustee board of employer and employee appointees. This meant the responsibility for the plans moved from the Province, as Plan Sponsor, to the new joint Trustee Boards. In this process, each of the Boards signed renewable five-year service agreements with PEBD (a government department) and NBIMC (a provincially-owned crown corporation) to continue to provide their respective services to the plans.

The Boards, through a Governance Working Group process described in last year’s Annual Report, set out to address this incongruity by designing an integrated pension services organization that would be capable of delivering low cost, pension service excellence for public sector funds that would be independent of government. This concept included maintaining the cost recovery business model that both NBIMC and PEBD currently use within a not-for-profit corporate structure. The solution that was developed and is set out in the *Vestcor Act* is as follows:



The *Vestcor Act* will create a new holding company, Vestcor Corp. to be cooperatively governed by the PSSRP and NBTPP Boards of Trustees.

The pension and benefits administration activities provided by PEBD will be transferred from government into another newly created entity, Vestcor Pension Services Corporation (Vestcor Services), a subsidiary of Vestcor Corp. Vestcor Services will also continue to provide benefits administration services to the Department of Human Resources under a third party administration agreement.

NBIMC's operations will be continued under the *Vestcor Act* however it will be transferred from the Province to Vestcor Corp. NBIMC will also be renamed as Vestcor Investment Management Corporation (Vestcor Investments). NBIMC's role as Trustee of the Judges' pension fund will revert to the Minister of Finance representing the Plan Sponsor of that pension plan. It is expected that Vestcor Investments will continue to provide investment management expertise to the Judges' under an arm's length investment management agreement.

All three Vestcor entities will be not-for-profit entities and will follow the same cost recovery business model that they have always used.

It is anticipated that there will be some shared services among these new companies covering certain human resources, finance and information technology functions to further drive operational cost efficiencies that will provide economies of scale for all clients. The legislation also provides for the ability over time to consider an amalgamation of the two operating companies.

Vestcor Corp. will fulfill the typical shareholder oversight role for the operating companies – appointment of the operating companies' boards of directors, receipt of their annual reports and appointment of the independent auditors for the group of companies. To align with the financial reporting year ends of the pension plans, the Vestcor Group of companies will have a calendar year end in future.

This new structure is expected to become effective on October 1, 2016 and consequently much work remains to be done over the upcoming summer months to transition to the new structure. We look forward to reporting on these activities in our next Annual Report covering the period from March 31, 2016 to December 31, 2016.

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 funds under management. Key elements of the 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.

ASSETS UNDER MANAGEMENT

Assets under management (AUM) at March 31, 2016 were approximately \$13.3 billion consisting of the following funds:

Client	March 31, 2016		March 31, 2015	
Public Service Shared Risk Plan* Trust (PSSRP)	\$ 6,931.1	52.3%	\$ 6,944.9	53.5%
New Brunswick Teachers' Pension Plan Fund (NBTPP)	5,290.7	39.9%	5,370.7	41.4%
Provincial Court Judges' Pension Trust Account Fund (Judges)	43.2	0.3%	42.0	0.3%
New Brunswick Power Corporation (NBPC):				
Point Lepreau Decommissioning Fund	308.6	2.3%	267.0	2.1%
Point Lepreau Used Fuel Management Fund	223.8	1.7%	235.4	1.8%
Nuclear Fuel Waste Trust	140.7	1.0%	—	—
Management Employees of New Brunswick School Districts Pension Plan (NBSD)	6.4	0.1%	—	—
Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP)	291.6	2.2%	—	—
University of New Brunswick Endowment Fund (UNBE)	23.5	0.2%	21.6	0.2%
Total Discretionary Funds	13,259.6	100.0%	12,881.6	99.3%
Non-discretionary NBPC funds in transition	—	—	85.7	0.7%
Total AUM	\$ 13,259.6	100.0%	\$ 12,967.3	100.0%

* Subsequently renamed Public Service Pension Plan

As shown in the table above, NBIMC has added two new clients and one additional mandate for an existing client during the year. We worked closely with these clients to transition their investment funds into an appropriate mix of NBIMC pooled fund investments. We look forward to assisting them to meet their long-term investment goals and appreciate the confidence that they have placed in our team.

NBIMC also conducted an asset liability study for each of the NBPC funds during the year to help ensure that the asset mix decisions in their investment policies were well diversified and able to take advantage of a number of investment strategies that are expected to provide similar return and lower risk characteristics.

TOTAL FUND 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 for the 2015-16 fiscal year for our organization.

The main investment performance objectives that NBIMC focuses on can be summarized as follows:

- (a) **Judges' pension fund** for which NBIMC serves as Trustee:
- (i) The **primary investment performance objective** is to achieve a long-term real return of at least 4.00% per annum for pension fund clients.
 - (ii) The **secondary investment performance objective** is to add value, above the various asset class benchmarks in the fund's investment policy, through active management strategies. This added value is expected to first cover the fund's investment management costs, including NBIMC's operating costs, and subsequently targets an additional 42 basis points (bps) (0.42%) per annum to the fund over the long-term. It is important to note that this target has been selected to represent a first quartile long-term achievement, net of costs, amongst similar investment managers.
- (b) **Other clients** for which NBIMC serves as Investment Manager:
- (i) The **primary investment performance objective** to achieve the long-term return and risk performance that meet each client's specific return and risk targets, and
 - (ii) The **secondary investment performance objective** is to exceed the investment performance benchmarks, over the long-term net of investment management costs, by the value added target(s) published in each client's respective Investment Policy Statement or other such directives / guidelines.

NBIMC has also developed a series of other key performance indicators, as **continuous performance objectives**, that correspond to our 2015-20 Strategic Plan.

The NBIMC Board monitors these indicators on a quarterly basis. They are reported below for the current 2015-16 fiscal year for **total funds under management** (i.e., pension and other clients):

Primary Investment Performance Objectives

Objective	Long-Term Targets	F2015-16 Actual	4 Year Annualized	Annualized Since Inception
Real Return (after inflation)	>= 4.00% per annum	0.26%	8.03%	5.24%
Nominal Return	>= 6.25% per annum	1.50%	9.44%	7.20%

Secondary Investment Performance Objective

Objective	Long-Term Targets	F2015-16 Actual	4 Year Annualized	Annualized Since Inception
Net Relative Return (after all investment management expenses)	>= 42 bps per annum	107.5 bps	68.1 bps	5.8 bps

Continuous Performance Efficiency Objectives

Objective	Target	F2015-16 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Regulatory 90% + 2.5%	97.5%	96.2%
Prime Broker #1	Regulatory 90% + 2.5%	95.9%	96.4%
Prime Broker #2	Regulatory 90% + 2.5%	94.7%	94.4%
Budget Efficiency (excluding performance incentives)			
	100%	99.4%	94.0%
Absenteeism (%)	<= 2%	1.13%	1.45%
Employee Turnover (#)	<= 3/yr	1/yr	1/yr
IT System Availability	99%	99.8%	99.8%

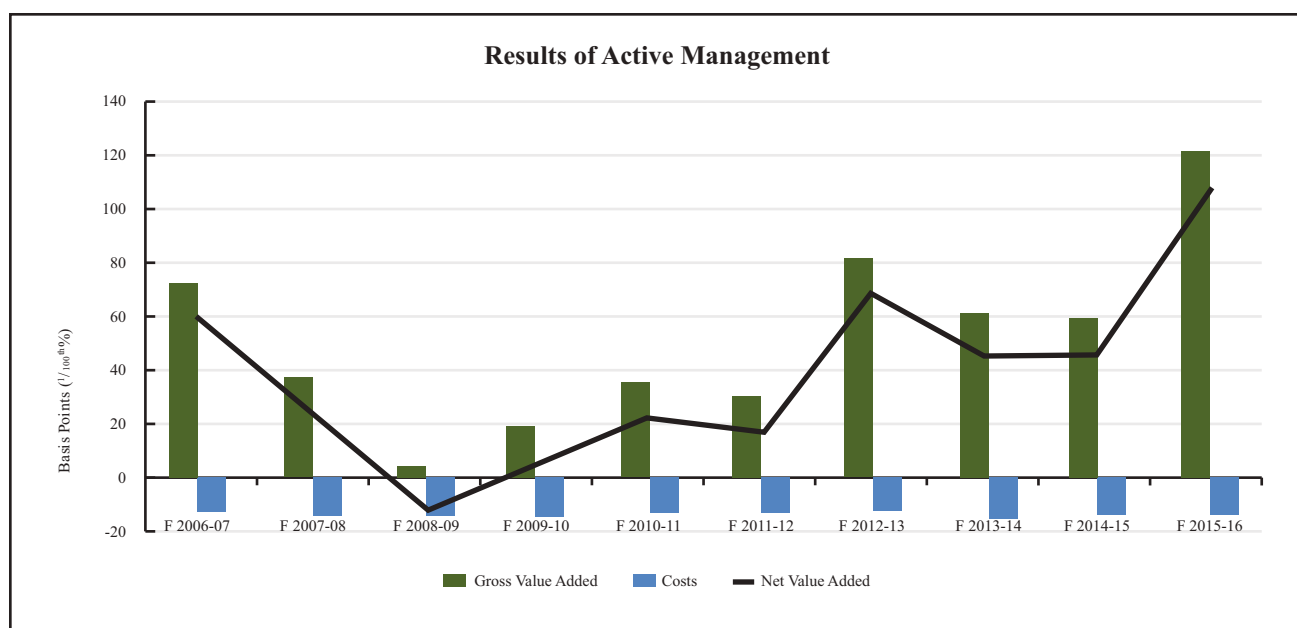
RELATIVE PERFORMANCE VERSUS BENCHMARKS

As noted above, 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.

Our overall active management activities for the year added 121.1 basis points of gross value and 107.5 basis points of net value, or approximately \$140.9 million, after covering all investment management costs.

Our longer-term four-year average annual value added return, net of costs, was approximately 68.1 basis points per annum or approximately \$313.1 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.

The following chart shows our ten-year history of our value added activities, including the period during the financial markets crisis where we temporarily removed most of the risk from the portfolio to help preserve assets.



PERFORMANCE BY ASSET CLASS

The following discussion is organized by major asset class supported by NBIMC on behalf of our clients. The discussion also provides a breakdown by asset class sub-portfolio. NBIMC has created a pooled unit trust fund structure in which clients can invest with customized weights to achieve their unique investment objectives. For a description of investment performance by unit trust fund, please refer to Unit Trust Fund Performance (page 44).

FIXED INCOME PORTFOLIOS

Objectives

NBIMC provides a number of Canadian fixed income focused portfolios that allow clients to access a broad mix of maturity term and credit quality exposures. These portfolios can be combined to represent standard industry benchmarks or used separately to provide more customized exposure to fit specific investment objectives or requirements.

Performance Summary (as at March 31, 2016)

Portfolio	AUM ¹ (\$ millions)	F2015-16 Return		Four-Year Annualized Return	
		Portfolio	Benchmark	Portfolio	Benchmark
Short Term Assets	\$ 986	0.92%	0.53%	1.26%	0.87%
Nominal Bonds	2,179	1.15%	0.81%	4.19%	3.92%
Corporate Bonds	2,217	0.86%	0.69%	4.42%	4.33%
Long-Term Bonds ²	67	-1.96%	-1.46%	n/a	n/a
Real Return Bonds	632	-1.90%	-2.23%	1.94%	1.80%

¹ Includes cross-fund ownership interests

² Special client restricted fund

Overview

Bond yields moved higher early in the year as slowly improving economic information had finally convinced many investors that the US Federal Reserve Board (FED) would look to begin moving interest rates higher in the fall of 2015. That trend reversed significantly after the FED passed on raising rates in September, primarily after a significant period of global financial market volatility and economic uncertainty that took place in August.

For the first time in nearly a decade, the FED did eventually raise rates in December 2015. Market reaction was generally muted as the FED had done a good job in the fall of 2015 preparing the market for the increase, and in setting up expectations of a potential path of up to four gradual rate increases through 2016.

Additional global market volatility in early 2016, and weaker subsequent economic reports, subsequently put any additional FED rate increases on hold and caused investors to reassess future FED actions. Most fixed income yields dropped accordingly as economic expectations continued to be uncertain and inflation rates remained below target levels.

Canadian and European bonds generally outperformed many other developed markets as their respective economies struggled to generate any significant growth. The Canadian market stabilized somewhat after a July 2015 interest rate cut and expectations that the Bank of Canada would hand off stimulus responsibility to an expected Federal Government infrastructure spending program. European Bond yields fell lower mainly on additional aggressive European Central bank actions in early 2016.

Canadian corporate and provincial credit experienced a relatively difficult year as spreads generally increased from an overall widening in global credit product, and additional domestic economic impacts from the energy market declines and budget worries. Credit-related bonds improved somewhat by year end as the European Central Bank indicated that they will include corporate bond purchases as part of an upcoming addition to their quantitative easing program.

Corporate liquidity remains a concern due to low secondary market trading volumes and dealer regulatory limitations. These limitations have led us to make sure we are going to be content to potentially hold credit securities to maturity and not rely on them to be a source of liquidity in times of market stress.

PUBLIC EQUITY PORTFOLIOS

Objectives

We provide two main types of geographically diverse public equity investment portfolios: standard market capitalization based portfolios, and low volatility equity portfolios. These portfolios are used to help clients gain exposure to the long-term economic growth in a number of global regions on both an active and passively managed basis.

NBIMC has focused significant resources in recent years in developing internally managed low volatility portfolios in the various geographic regions outlined below. We feel that these portfolios provide an effective public equity investment approach, particularly for our target benefit pension fund clients, in terms of providing similar long-term performance to traditional equity markets with significantly less risk.

Performance Summary (as at March 31, 2016)

Portfolio	AUM ² (\$ millions)	F2015-16 Return		Four-Year Annualized Return		
		Portfolio	Benchmark	Portfolio	Benchmark	
Market Capitalized:						
Canadian Equity	\$ 1,234	-6.28%	-6.57%	5.91%	5.30%	
U.S. Equity	807	4.16%	4.09%	19.95%	19.93%	
International Equity	734	-5.80%	-6.32%	12.14%	11.37%	
Low Volatility:						
Canadian Equity	678	-0.86%	0.79%	n/a	n/a	
U.S. Equity	759	11.50%	10.66%	23.23%	23.00%	
International Equity	703	4.80%	5.83%	15.93%	16.29%	
Emerging Markets ¹ Equity	388	-5.47%	-8.80%	n/a	n/a	

¹Low Volatility Emerging Markets Equity portfolio currently being implemented

² Includes cross-fund ownership interests

Overview

The most recent fiscal year proved to be somewhat challenging for equity investors globally, with heightened volatility and overall low returns for market capitalized weighted indices. Our current client policy stance to not hedge foreign exchange risk once again benefited the U.S. Equity portfolio, increasing the realized return while also reducing the in-period volatility of the strategy.

In contrast, Low Volatility strategies continued to outperform market capitalization weighted indices by significant margins, while also continuing to add value via reduced realized risk. The first full fiscal year of the Low Volatility Emerging Markets Equity portfolio proved particularly successful, outperforming both its strategy benchmark as well as the broader market capitalization weighted index for that region.

In general, the combination of high (although not extreme) equity valuations in some markets, reduced corporate earnings and revenue growth as well as increasing economic policy uncertainty globally contributed to periods of increasing volatility and low returns for investors in most markets. While continued commodity price weakness, particularly in energy markets, contributed to ongoing challenges for the Canadian market.

For market capitalization weighted portfolios, active management in Canadian and International portfolios continued to add value, with each portfolio outperforming its benchmark during the fiscal year and over the most recent four year period. In contrast, our U.S. market capitalization equity portfolio continues to be passively managed with no expectation of significant outperformance, and successfully matched its benchmark over the same one and four-year time frames.

ALTERNATIVE INVESTMENT PORTFOLIOS

Objectives

NBIMC offers a number of non-traditional alternative investment strategies which help provide clients with additional diversification benefits and exposure to investments which may help reduce their overall portfolio risk from the more traditional public equity and fixed income markets.

Our Absolute Return Strategies are internally managed unlevered portfolios that consist of public equity securities designed to provide high single digit returns with a low correlation to public market returns.

The Private Equity portfolio provides investors with the opportunity to invest in more concentrated or control based equity positions in companies which are at various growth stages and located in a number of different geographic regions.

Real Estate and Infrastructure investments provide clients with the ability to invest capital in a diverse portfolio of long-term assets that provide an ongoing yield that typically adjusts with inflation over the time horizon of the investment.

Performance Summary (as at March 31, 2016)

Portfolio	AUM ¹ (\$ millions)	F2015-16 Return		Four-Year Annualized Return	
		Portfolio	Benchmark	Portfolio	Benchmark
Absolute Return Strategies	\$ 1,044	3.07%	0.53%	4.08%	0.87%
Private Equity	528	18.74%	-1.96%	18.34%	13.52%
Real Estate	764	5.03%	3.37%	12.19%	10.71%
Infrastructure	376	2.31%	5.44%	5.00%	5.53%

¹Includes cross-fund ownership interests

Overview

Our Absolute Return portfolio seeks to produce stable, positive returns in all market environments while resulting in little to no correlation with traditional investment strategies, thus providing attractive returns and enhanced diversification for the combined portfolio. To achieve this, we manage three separate internal strategies that follow event-driven, fundamental, and quantitative investment approaches, respectively. Meaningful allocations to three strategies combined with a well-developed risk management and capital allocation framework allow the strategy to achieve the goal of positive, low risk returns without taking on unintended risk exposures as can often be the case in multi-strategy absolute return portfolios.

Despite a challenging market environment, the portfolio produced positive returns during the fiscal year with each strategy making a positive contribution. With our proactive approach to risk management and capital allocation, this positive return was also matched with low risk and minimal correlation to traditional markets that we expect from our absolute return allocation. While all three strategies added value during the year, the Quantitative strategy in particular performed well, benefiting from a favorable environment for the higher quality, attractively priced securities to which the strategy is positively exposed.

The Private Equity portfolio is diversified among several factors including geographies, industry sectors and currencies. Investments are achieved through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. The past year saw strong returns in most parts of the underlying portfolio as global growth continues albeit at a moderate pace.

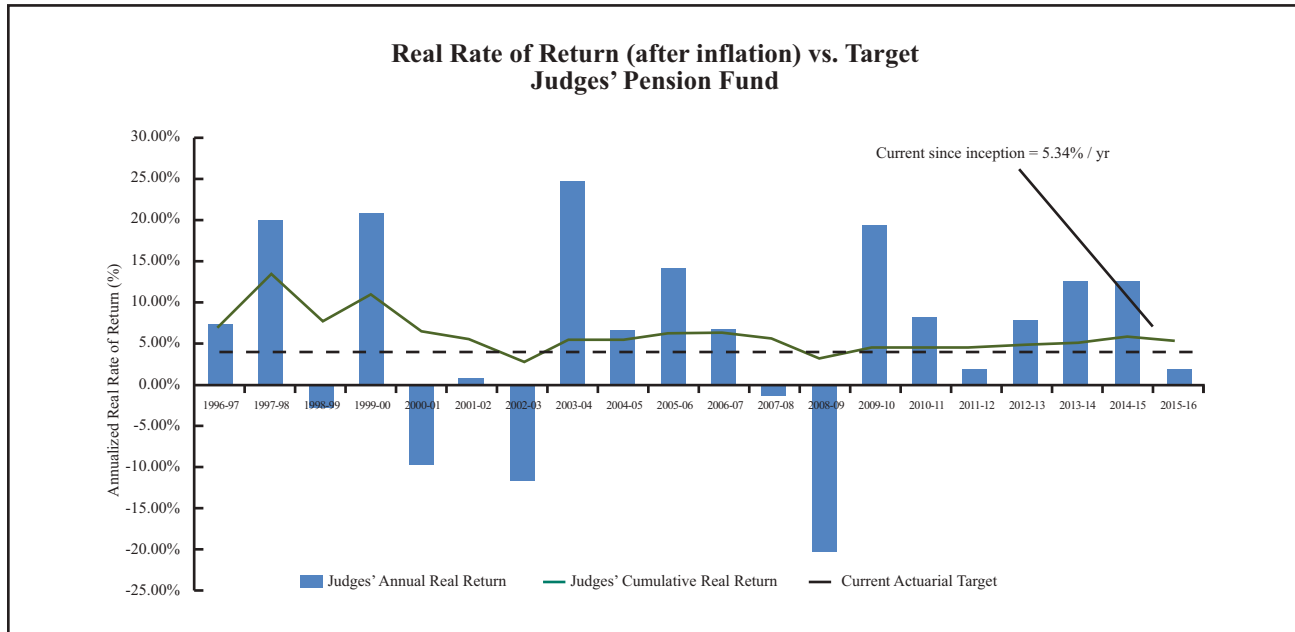
The Real Estate portfolio has two broad components: North American Real Estate Investment Trust (REIT) securities and private real estate in the form of limited partnership interests, both in Canada and in Europe, direct co-investments and direct holdings. Our real estate investments continued to benefit from low interest rates, solid fundamentals and strong investor demand.

The Infrastructure portfolio has two broad components: first, private infrastructure in the form of co-investments diversified by geography, currency and by asset type as well as a fund commitment to a limited partnership. Second, an internal public infrastructure portfolio which is expected to provide similar longer-term return and risk characteristics to private infrastructure investments. This latter component was developed and implemented in 2014-15 due to the high valuation environment and scarcity of good opportunities that continues to persist in the private infrastructure market. Fiscal 2015-16 was challenging for the public infrastructure portfolio due to weakening valuations on its public equity positions and weak returns from inflation-linked securities.

JUDGES' PENSION FUND INVESTMENT PERFORMANCE

Our two main objectives for the Judges' pension fund remained the long-term actuarial return requirement and to add value through active management strategies.

Our **first investment performance objective** is in regards to both the long-term nominal and real return of the Fund compared to the actuarial return assumption that had been determined necessary to fund this defined benefit pension plan appropriately. Although the nominal return of 1.98% and real return of 0.73% for the fiscal year were less than the Plan's nominal and real return actuarial hurdle of 6.25% and 4.00% respectively, they remained above the respective actuarial targets over the long term. The long-term annualized real return for the Judges' since NBIMC's inception is now 5.34% which significantly exceeds this actuarial requirement.



As stated above, **our second investment performance objective** is to add value, above our various asset class benchmarks, through active management strategies. Our active management activities for the Judges' added 132.9 basis points of gross value and 119.2 basis points of net value, or approximately \$0.5 million, after covering all investment management costs.

Our longer-term four-year annualized value added return net of costs for the Judges' was approximately 71.5 basis points per annum or approximately \$1.1 million in additional value over the four-year period.

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 return net of costs that contributes to asset growth. All else being equal, lower costs result in higher comparative net returns and help to maximize the available assets.

Investment management costs are influenced by many factors. Industry cost comparisons prove that it is generally 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 investment management costs to manage the approximately \$13.3 billion of assets under management for the year ended March 31 consist of the following:

(in millions of Canadian dollars)	2016	2015
NBIMC Operational Expenses	\$ 12.4	\$ 11.0
Third Party Service Providers		
Investment counsel fees	4.3	5.3
Securities custody fees	1.2	1.0
Total Investment Management Costs	\$ 17.9	\$ 17.3
Total Assets Under Management	\$ 13,259.6	\$ 12,967.4

NBIMC internally manages approximately 89%, up from 87% in 2015, of the assets under management (AUM) using our investment management professionals and technology systems that permit global trading activity from our location in Fredericton, New Brunswick. This accounts for the year over year reduction in investment counsel fees shown above. The costs incurred to manage investment strategies **internally**, measured over average AUM, were 0.117% or 11.7 bps for the year ended March 31, 2016 (2015 – 11.2 bps). NBIMC has outsourced approximately 11% of the AUM 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 AUM, was 27.9 bps for the year ended March 31, 2016 (2015 – 32.4 bps). **In total**, investment management costs were approximately 13.7 basis points of average AUM during the year, versus 14.0 last year and 14.9 per the original F2014-15 budget as submitted to the Minister of Finance.

The increase in the absolute amount of NBIMC operational expenses this year is primarily attributable to performance incentives earned on investment returns in excess of benchmarks. By using a variable performance compensation plan for our investment professionals, NBIMC is fully aligned with the performance objectives of our clients.

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. Through this benchmarking activity, we conservatively believe that our costs are approximately 25 bps lower than our peers and 35 bps lower than private sector asset managers. This cost differential means that in the year ended March 31, 2016 our clients were able to approximately retain over \$32.8 million due to our lower cost advantage. This cost advantage has been a cornerstone of our service delivery since our inception twenty years ago.

In addition to investment management costs, the NBIMC Pooled Funds incur transaction costs associated with trading of securities in each portfolio. These costs include broker commissions and borrowing fees which are dependent upon the volume of trading activity undertaken. As well, management fees and other fees paid to General Partners and advisors are incurred on initial investment and over the holding period of private market investments. All such transaction costs have been deducted in reporting the investment performance of each pooled fund.

RISK MANAGEMENT

NBIMC and the funds that we manage face a number of risks in attempting to fulfill their mandates. A critical part of NBIMC's investment management activities is our disciplined risk management focus. Risk management is a key element in helping provide stability to both pension plan contributions and benefits, and making sure that our investment management activities do not bring undue risk to our clients' 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. The Board is specifically responsible for the oversight of investment risk. The Board is also responsible for oversight of fiduciary and business strategy risks.

Within the Board structure, the Audit Committee focuses specifically on oversight of financial risks and risks relating to the systems of internal controls and financial reporting as well as fraud risk. The Human Resources and Compensation Committee focuses on risks relating to 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 Security of Mobile Devices, Investment Compliance Processes, and Physical Security as well as ongoing mentoring of NBIMC staff and review of testing of NBIMC's IT controls. These reviews did not uncover any significant weaknesses but have been helpful in ensuring that changes in our processes are designed and implemented with clients' best interests and internal controls in mind and ensuring our security measures remain resilient.

Risk Management – Management Activities

NBIMC has developed a Summary Enterprise Risk Management Framework that can be found on our website at http://nbimc.com/en/about_nbimc/enterprise_risk_management_framework. This Summary Framework identifies three main categories of risk: strategic risk, investment risk and operational risk. The Summary 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. This framework was augmented during the year with specific internal risk appetite considerations that our Board of Directors has established for the Corporation.

NBIMC uses the following six internal Management Committees to monitor and address 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:

Enterprise Risk Management Council (ERMC)	<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 presenting 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"> • 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 client liquidity analysis; • monthly counterparty exposure reports; • quarterly securities lending compliance reports; • results from management’s annual fraud risk assessment; and • recommendations from independent audit reviews.
Investment Risk Management Committee (IRMC)	<p>In accordance with its Terms of Reference, the IRMC:</p> <ul style="list-style-type: none"> • monitors investment risk measures; • considers risks associated with new investment strategies and products; • 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 and our clients.
Trade Management Oversight Committee (TMOC)	<p>In accordance with its Terms of Reference, the TMOC:</p> <ul style="list-style-type: none"> • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; • manages exposure to broker counterparty risk.
Information Technology Risk Management Committee (ITRMC)	<p>In accordance with its Terms of Reference, the ITRMC:</p> <ul style="list-style-type: none"> • assists in the development of IT strategy and future direction; • approves new application risk assessments; • monitors adherence to IT policies and processes.
Business Continuity Plan Team (BCP)	<p>In accordance with its Terms of Reference, the BCP:</p> <ul style="list-style-type: none"> • develops and implements the Business Continuity Plan including disaster recovery; • discusses possible disaster scenarios; • uses passive and active tests to practice response protocols.
Occupational Health & Safety Committee	<p>In accordance with its Terms of Reference, the Occupational Health & Safety Committee considers physical environment risks.</p>

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 Target Maximum	Full NBIMC cost recovery 42 bps after costs 84 bps after costs	Full NBIMC cost recovery 42 bps after costs 84 bps after costs	Full NBIMC cost recovery 42 bps after costs 75 bps after costs

Indirect Compensation

	Membership in the Public Service Shared Risk Plan	Employee benefits and access to post-retirement benefits	Perquisites
Eligibility	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.
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.

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 on recommendations made by the Human Resources and Compensation Committee (HRCC).

HRCC Mandate

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

The Committee is composed of three directors and the Chairperson who acts on the Committee in an *ex officio* capacity. The Committee meets at a minimum of three times each year. 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 and 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 of the year-end incentive compensation pool for eligible employees and recommendation to the Board for approval.

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 components and 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.

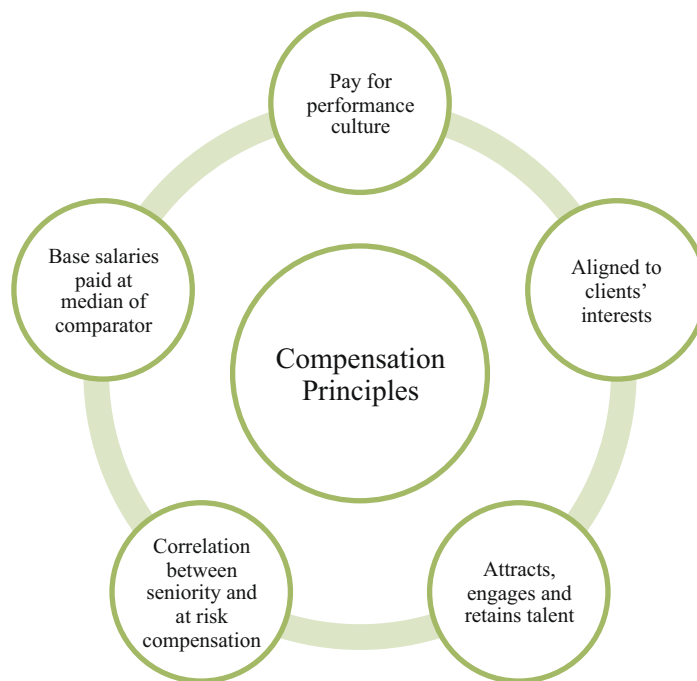
CORPORATE COMPENSATION PHILOSOPHY

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 clients.

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:



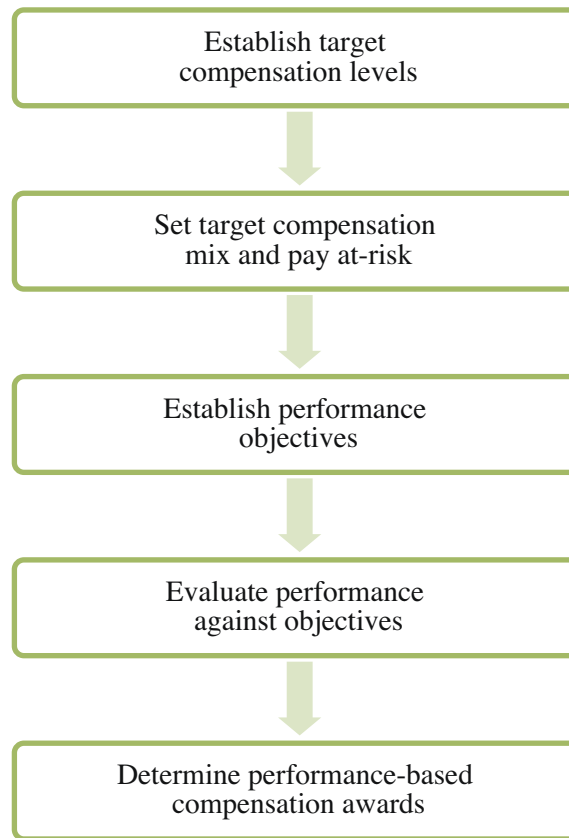
COMPENSATION RISK MANAGEMENT

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 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 clients' 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 (see page 12). Real returns (i.e., after inflation), 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.

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 22. 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 funds 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.

Effective January 1, 2014, all full-time employees participate in the Public Service Shared Risk Plan (PSSRP). The PSSRP provides a pension upon retirement equal to 1.4% of pensionable earnings up to the YMPE (Yearly Maximum Pensionable Earnings) for each year or part thereof plus 2% of pensionable earnings in excess of YMPE. The Plan is subject to an early retirement reduction factor if retirement is prior to age 65. Indexing is contingent on PSSRP performance as outlined in the PSSRP Funding Policy.

Prior to January 1, 2014, all full-time employees were members of the *Public Service Superannuation Act* (PSSA) pension plan. Prior to conversion to the PSSRP, the PSSA provided for a pension upon retirement equal to 1.3% of the annual average of the best five consecutive years of earnings up to the annual average YMPE for the year of retirement and the two preceding years plus 2% of the excess of the annual average of the best five consecutive years of earnings over the annual average YMPE for the year of retirement and two preceding years, multiplied by the years of pensionable service. Base pre-indexed benefits earned under the PSSA up to January 1, 2014 have been provincially guaranteed.

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. 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 five teams primarily focused on asset class: Fixed Income, Quantitative Investments, Equities, Traders or Private Markets. The President and CEO, the Chief Financial Officer and Applied 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 and investment management costs measured over a retroactive period of four consecutive fiscal years.

IMPACT OF PERFORMANCE RESULTS FOR FISCAL 2015-16

NBIMC's investment program had another successful year in Fiscal 2015-16 as measured by a number of annual and longer term four year investment performance metrics:

- NBIMC's total investment return for assets under management was 1.50% during Fiscal 2015-16, which exceeded their overall investment policy benchmarks.
- The total fund **real return** (after adjusting for inflation) for the Judges' pension fund, of which NBIMC is the Trustee was 0.73% during Fiscal 2015-16. Although this return for the specific year did not exceed the 4.00% per annum long-term real return requirement that has been set by NBIMC's Board of Directors for this Pension Fund, the more relevant longer-term 8.32% annualized four-year, and 5.34% annualized since inception real returns were well in excess of this target. More importantly, these long-term real returns, by exceeding their specific requirement, have resulted in a positive impact to the Plan's long-term funding status.
- The total fund **nominal return** in Fiscal 2015-16 was 1.50% and represents approximately \$0.2 billion 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 9.44%, which represents approximately \$4.3 billion of cumulative investment earnings.

- **Relative returns** were higher than the combined weighted average client Investment Policy benchmarks during the year, adding 107.5 basis points of value added after deducting all investment management costs. These excess net investment returns resulted in approximately \$140.9 million of additional active investment earnings provided to our clients during the year, and have resulted in over \$313.1 million of additional returns throughout this four-year period.

Compensation, excluding Directors' remuneration (see page 33), for the year ended March 31 consists of:

(in thousands of Canadian dollars)	2016	2015
Salaries and benefits	\$ 5,834.6	\$ 5,574.2
Performance incentives:		
AIP – net investment relative performance	\$ 661.5	\$ 421.0
AIP – individual performance	863.3	824.5
Total AIP	1,524.8	1,245.5
LTIP	1,887.1	1,279.0
Total performance incentives	\$ 3,411.9	\$ 2,524.5

Base Salaries and Benefits

For the year ended March 31, 2016, and after consideration of the continuing competitive talent retention environment, the Board approved a 3.0% overall base salary increase.

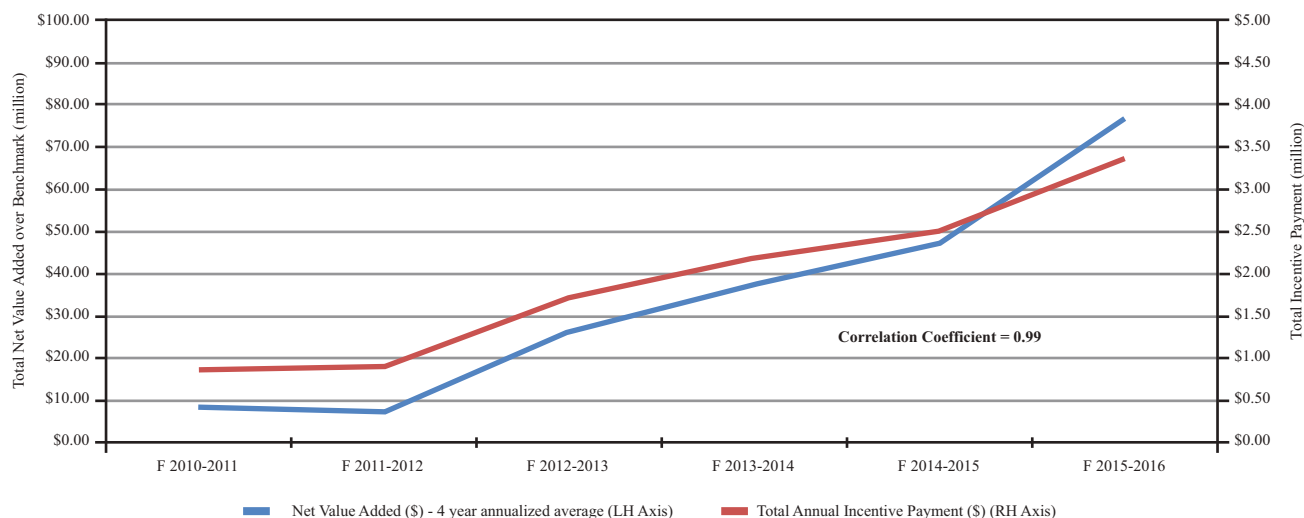
During the year, the Board also approved the creation of two new full-time positions, an Accounting Clerk position in the Fund Accounting Team and an Investment Analyst for the Equity Team, in recognition of the increased workload associated with new clients and the continued insourcing of our investment activity.

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 clients, including an appropriate balance between maximizing long-term returns and minimizing risks. Investment performance with respect to incentive compensation can be summarized into 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 chart compares the total incentive compensation payments awarded over time to the four year annualized net investment returns in excess of policy benchmarks. 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.



ANNUAL INCENTIVE PLAN (AIP) OVERVIEW

The AIP component of \$1,524.8 (thousand) consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was \$661.5. 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 107.5 basis points (bps), and the four-year annualized net value added result was 68.1 bps.

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:

	Net Value Added (bps)	Percentage of AIP Target (%)
2012-13	68.6	163.2
2013-14	45.3	108.1
2014-15	45.6	108.6
2015-16	107.5	255.8
Annualized Four-Year	68.1	162.1

The AIP related to business plan achievements is \$863.3 (thousand) for the year ended March 31, 2016. This component is based on an achievement factor of 1.71 times overall target approved by the Board of Directors, compared to an achievement factor of 1.67 for the year ended March 31, 2015.

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 six key goals in the Corporate Mission. 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 long-term investment returns required by each pension and non-pension client in a risk-controlled fashion was NBIMC's primary investment performance objective for Fiscal 2015-16 and accounts for the largest weighting proportion. The overall total fund return for all clients combined was 1.50% in Fiscal 2015-16, an annualized 9.44% on a four-year basis, and most importantly 7.20% per annum since NBIMC's inception in 1996.

Key Goals	F2015 Weighting	Achievement
To advance governance, management and organizational effectiveness.	20%	Above expectations
To meet our clients' long-term objectives through prudent investment advice and well-executed risk management strategies.	40%	Above expectations
To expand NBIMC's client servicing and support operations.	15%	At target
To maintain, develop and attract a highly skilled and experienced team of investment management professionals.	10%	Above expectations
To strengthen and expand client and other stakeholder communications and relationships.	10%	Above expectations
To support effective and efficient information technology, data management and client reporting solutions.	5%	Above expectations

In establishing the achievement factor, the Board considered the achievement of key performance indicators associated with each of the six key goals as well as the following accomplishments:

Key Goals	Fiscal 2015-16 Business Plan Accomplishments
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To advance governance, management and organizational effectiveness.	<ul style="list-style-type: none"> Continued to support the operations of the PSSRP and NBTPP Boards of Trustees, and assist in the development and coordination of their proposal to Government for an independent, integrated pension services organization. Facilitated meetings and activities of a Transitional Board (appointed by the PSSRP and NBTPP) for the integrated pension services organization including coordination of efforts with pension administration staff, government officials, external legal counsel, communications consultant, branding consultant, and independent governance consultant culminating in review and presentation of a private bill to create the new organizational structure as a not-for-profit business aligned to deliver clients' best interests. Participated in the Government's Strategic Program Review including assistance with business valuation research requested by a government-appointed independent business valuation consultant. Coordination of related investment management and pension administration working groups with respect to Human Resources, Information Technology and Finance functions. In anticipation of continuance separate from public sector, prepared insurance strategy for Directors' & Officers' and Errors & Omissions coverage. Completed orientation and onboarding of new NBIMC director. Prepared a Request for Information for securities custody services to ensure optimization and cost efficiency of external service providers. Facilitated a Board of Directors workshop to develop and finalize an internal Risk Appetite Statement that clarifies Board expectations covering NBIMC's risk categories according to our Enterprise Risk Management Framework. Met or exceeded all 2015-20 Strategic Plan key performance indicators.
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To meet our clients' long-term objectives through prudent investment advice and well-executed risk management strategies.

- Exceeded the long-term actuarial real return requirement of 4.00% for the Judges' pension fund on both a four year annualized basis and since inception of NBIMC as Trustee.
- Strong calendar 2015 and long-term nominal investment returns for all pension fund clients versus funding targets and other peer organization performance.
- According to an independent custodian survey, delivered the lowest four year portfolio risk measure of defined benefit pension plan peer organizations while achieving median investment returns.
- Total fund annual and four-year investment returns significantly in excess of benchmarks.
- Successful in having low volatility public equity portfolio assumptions approved for asset / liability modelling purposes by the New Brunswick Superintendent of Pensions, enabling clients to take advantage of these prudent investment strategies in their asset mix decisions.
- Prepared a full asset-liability review for NB Power Corporation's nuclear decommissioning funds, presented resulting recommendations and implemented efficient transition to the new asset mix.
- Facilitated risk management presentations with the independent actuary for each of the PSSRP and NBTPP Boards of Trustees.
- Completed a search for and contract negotiations with an external investment manager for a new global bond fund to address such exposure requirement of a new pension fund client.
- Launched our new public infrastructure investment portfolio to respond to ongoing client appetite for exposure to this asset class.
- Expanded private real estate investments into European markets and initiated similar strategy for U.S.-based investment opportunities.
- Expanded private infrastructure investments by identifying an international investment vehicle with significant immediate and well-diversified asset exposure.
- Reviewed and updated our Responsible Investment Guidelines, available on NBIMC website.

To expand NBIMC's client servicing and support operations.

- Added two new clients to quarterly reporting cycle.
 - Reconfigured NBIMC Annual Report to focus on overall portfolio performance for the Judges' Pension Fund and enhanced Investment Team reporting.
 - Hosted inaugural NBIMC client trustee event with presentation of 2014-15 Annual Report and opportunity for further questions and discussion.
 - Customizable client reporting framework developed and all client reporting timelines met.
 - Preliminary discussions with several other new client opportunities are ongoing.
-

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

- Opportunities for improvement in physical office environment identified in the biennial Workplace Environment Survey conducted in early 2014 were completed during the year.
- An Ad Hoc Committee engaged an external consultant to conduct an independent Compensation Review and present findings to the Human Resources and Compensation Committee of the Board of Directors.
- Updated Human Resources Strategic Plan, including recommendation to appoint an Acting Chief Investment Officer in 2016-17.
- Facilitated an Advisory Committee with University of New Brunswick Centre for Financial Studies staff and NBIMC investment staff to ensure that the Student Investment Fund program continues to be strategically important.
- Initiated operational transition project for Vestcor Pension Services Corporation human resources to ensure all full-time employees are effectively transferred to the new integrated pension services organization with substantially the same compensation and benefits.
- Conducted 2016 Workplace Environment Survey and organized a cross-functional team to determine appropriate recommendations and action plans.
- Conducted 2016 Leadership Surveys to provide employee feedback to NBIMC's leadership positions.
- Achieved all key performance indicators.

To strengthen and expand client and other stakeholder communications and relationships.

- Finalized investment management agreements with two new clients during the year, resulting in additional new assets under management of approximately \$287 million (the University of New Brunswick Academic Employees Shared Risk Plan, and the Pension Plan for the Management of NB School Districts).
- Ongoing communications activities with stakeholder groups participating in the integrated pension services organization activities.
- Continued presentation of Annual Report interactions with stakeholders including Superintendent of Pensions and Auditor General.
- Developed and distributed inaugural client satisfaction survey to all clients with results expected in early 2016-17.
- Exceeded all key performance indicators.

To support effective and efficient information technology, data management and client reporting solutions.

- Updated IT Strategic Plan presented to Audit Committee
- Evaluated potential benefits of several ancillary systems for specific private market investments.
- Transitioned quantitative portfolio optimization system to new service provider.
- Upgraded network back-up systems with significant capacity expansion.
- Began planning for transition of IT network infrastructure required to support pension administration business as part of implementation of integrated pension services organization.
- Exceeded all key performance indicators.

LONG-TERM INCENTIVE PLAN (LTIP) OVERVIEW

The LTIP component is \$1.9 million for the year ended March 31, 2016. This component is based on the four-year annualized net value added. The four-year annualized net value added result was 68.1 bps.

The impact of the four-year LTIP results differ from the four-year AIP results because the LTIP has a maximum target level of 75 bps after costs versus a maximum of 84 bps after costs under the STIP.

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:

	Net Value Added (bps)	Percentage of LTIP Target (%)
2012-13	68.6	180.6
2013-14	45.3	110.3
2014-15	45.6	111.0
2015-16	107.5	298.4
Annualized Four-Year	68.1	179.0

Directors' Remuneration

Directors' remuneration is established in NBIMC's By-Laws and includes an annual retainer for the Chairperson, and for other directors 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 an automobile expense reimbursement based on the number of kilometers traveled.

The cost of the Board function (in thousands of dollars), including per diems, director orientation and Board education, for the year ended March 31, 2016 was \$101.9 (March 31, 2015 – \$94.4) plus travel and accommodation reimbursements of \$12.8 (March 31, 2015 – \$15.6).

GOVERNANCE

CORPORATE GOVERNANCE

The selection process and duties of the NBIMC Board of Directors are outlined in the NBIMC Act. Governance is the primary consideration of the Board to oversee NBIMC's activities as investment manager for the funds under management. The Board also has a fiduciary role as Trustee for the Judges' Pension Fund. 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. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President, and oversight of the business planning process, financial position and results, risk management, internal controls and information systems, human resources, communications and stakeholder relations. To ensure its on-going effectiveness, the Board performs a biennial self-assessment against these responsibilities.



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

Additional information about our corporate governance practices is available on our website at www.nbimc.com. 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 2015-16:

Appointed Director ¹	Board	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Michael Walton	7/7	4/4	4/4	3/3
Wiktor Askanas	7/7	4/4	4/4	3/3
Donna Bovolaneas ²	5/5	1/2	1/2	n/a
Ronald Maloney	7/7	n/a	n/a	3/3
Cathy Rignanesi	7/7	4/4	4/4	n/a
Richard Speight	6/7	n/a	3/4	n/a
Reno Thériault	7/7	n/a	4/4	3/3

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

² Appointed to the Board on August 12, 2015 and to the Audit and Governance Committees on September 28, 2015.

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. Ms. Donna Bovolaneas was appointed to the NBIMC Board on August 12, 2015 and management provided a Director Orientation on September 10, 2015.

On-going director education includes exposure to relevant news and articles of interest as well as a program of educational sessions. Structured education sessions during the Fiscal 2015-16 year included: attendance at a full day Board Education Session that included a review of the COSO Enterprise Risk Management guidance material for developing a Risk Appetite Statement, review of the Risk Appetite Framework Guidance issued by the Office of the Superintendent of Financial Institutions (OSFI), and a presentation on NBIMC's risk budgeting framework culminating in the development of a risk appetite statement for NBIMC's internal use; a special presentation covering the business and operations of the Pension and Employee Benefits Division of the Department of Human Resources in conjunction with the ongoing planning efforts for an integrated pension services organization; a presentation covering NBIMC's external and internal Securities Lending Program; and a structured study of each chapter of Deloitte's Key Governance Issues for 2015.

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:

- Approval of the Fiscal 2015-16 Annual Business Plan and weightings for Incentive Plan purposes;
- Approval of an Investment Policy Statement for two newly-created pooled funds: NBIMC Public Infrastructure Fund and NBIMC Asset Mix Strategy Fund to continue to provide our clients with innovative, low risk solutions to the current low yield investment environment;
- Following her appointment to the NBIMC Board of Directors on August 12, 2015, appointment of Donna Bovolaneas to the Audit Committee and Governance Committee;
- Review of the results of an Asset/Liability study conducted following the receipt of the most recent actuarial valuation for the Judges' pension plan and approval of the recommended asset mix decision and revised Investment Policy Statement;
- Creation of an Ad-Hoc Nominating Committee to address upcoming Board term expirations;
- Approval of the Fiscal 2016-17 annual budget;
- Review by an Ad Hoc Compensation Committee of the results of an independent compensation review;
- Approval of an amendment to the previously-approved Fiscal 2015-16 Annual Budget to reflect a decision to split the roles of Chief Executive Officer and Chief Investment Officer as a result of increasing responsibilities associated with adding new clients and the pending integrated pension services organization initiative;
- Creation of an Ad Hoc Committee to assist management with the search for a Chief Investment Officer;
- Approval of an Investment Policy Statement for creation of a new pooled fund, the NBIMC Global Fixed Income Fund, in response to a client's request for this asset class and following a detailed search for an external investment manager familiar with such mandates;
- Approval of a change of name for the NBIMC Canadian Long-Term Bond Fund to NBP Canadian Long-Term Bond Fund to reflect that NB Power Corporation is the sole unitholder of this unit trust fund;
- Following notice of a legal action against the Province for its public service pension reform actions that also named NBIMC, approval to proceed with a joint defense with the Province as a result of an Indemnity Agreement provided by the Province to NBIMC when they directed the transfer of trustee responsibilities to the PSSRP Board of Trustees; and
- Approval to proceed with a Client Satisfaction Survey to solicit feedback to enable NBIMC to deliver excellent service to our clients.

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, information systems used to produce accurate, appropriate and timely management and financial information, strategies to identify and mitigate financial risks, and its relationships with the external and internal auditors.

Management is responsible for the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, 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 2015-16 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to Fiscal 2015-16:

- In conjunction with the Board's work on developing a corporate Risk Appetite Statement, developed and approved a Tax Governance and Risk Management Policy;
 - Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards for the year ended December 31, 2015 for the PSSRP Trust Composite, the NBTTP Fund Composite and the Pension Plan for Management Employees of N.B. School Districts Composite 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, 2016 for the Judges' pension fund Composite, the Environmental Reclamation Fund Composite and the Low Volatility Global Equity Composite and recommended their approval by the Board;
 - Received an analysis by management of the impacts of early adopting IFRS 9 *Financial Instruments* for the Fiscal 2016 financial reporting by the NBIMC Pooled Funds and approved the decision to early adopt this accounting standard;
 - Reviewed the annual audited financial statements for the Judges' pension fund, the NBIMC Unit Trust Funds and NBIMC for the year ended March 31, 2016 and recommended their approval by the Board;
 - Received the draft Annual Report material for the year ended March 31, 2016 and approved the financial content and earnings press release;
 - Reviewed the quarterly unaudited financial statements for internal use for the Judges' Pension Fund, 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;
 - Received a regular status report of the Integrated Pension Services Organization from the President and CEO, and CFO;
 - Reviewed a quarterly memorandum from the CFO outlining financial reporting decisions and changes required to respond to pension reform, the addition of new clients and the integrated pension services organization initiative and monitored the changes necessitated by these events on processes and resources;
 - Received the audited financial statements for the year ended March 31, 2015 for a wholly-owned subsidiary of the NBIMC Canadian Real Estate Fund;
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- Approved the External Auditor’s engagement, audit plan, timing, staffing and fees for the year ended March 31, 2016 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 for Audit and Non-Audit Services;
- Reviewed the External Auditor’s Audit Findings Report for the year ended March 31, 2016 and obtained confirmation of the External Auditor’s independence;
- Approved the Internal Auditor’s annual plan and budget for the upcoming year ending March 31, 2017;
- Received the Internal Audit recommendations and management’s responses for three internal audits: the Mobile Device Security Review, an Investment Compliance Review and Physical Security Review;
- Approved the ongoing involvement of the Internal Auditor to mentor and review the testing program conducted by the IT Controls Analyst;
- Approved the Internal Audit planning for a review of Personal & Institutional Trading;
- Reviewed the September 2015 Follow-Up Report from the Internal Auditor concerning management’s responses to previous internal audit recommendations;
- Each quarter met in camera with each of the External Auditor, the Internal Auditor and management;
- Monitored management’s key performance indicators related to timely resolution of all external and internal audit recommendations;
- Completed an annual review of the Enterprise Risk Management Framework;
- Reviewed a quarterly risk coverage chart highlighting independent reviews of risk areas in order to ensure appropriate focus on key risks;
- Reviewed the 2015 Internal Control Report prepared by management outlining NBIMC’s major processes, risks and key controls;
- Reviewed a quarterly risk matrix showing trends in key risk areas;
- Reviewed management’s findings from their annual fraud risk assessment;
- Received an update to the Five-Year IT Strategic Plan and status report;
- Completed a review of the Valuation Policies for investment securities;
- Received quarterly reporting of legal and regulatory compliance;
- Received a quarterly status report of class action litigation in which NBIMC has participated as a claimant;
- Reviewed and approved the insurance coverage of significant business risks and uncertainties;
- Received quarterly status reports on the application for directors’ and officers’ insurance in anticipation of the continuation of NBIMC as an independent, non-crown corporation pending the successful creation of an integrated pension services corporation;
- Completed an annual review of the Committee’s terms of reference, accomplishments for the year ended March 31, 2016 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, D. Bovolaneas, 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 2015-16 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to Fiscal 2015-16:

- Established Board Goals for F2015-16;
- Reviewed the proposed high level objectives and related target weights for the F2015-16 Corporate Business Plan and recommended approval by the Board;
- Reviewed the Committee's accomplishments for F2014-15 and set objectives and initiatives for F2015-16;
- Reviewed the Director Orientation and Education policy;
- Recommended to the Board the creation of an Ad hoc Director Nomination Committee to lead the 2016 nomination process;
- Received a quarterly update on the Integrated Pension Services Organization initiative and new client mandates;
- Reviewed quarterly compliance with the Code of Ethics and Business Conduct;
- Reviewed the Board Effectiveness Assessment Process;
- Received a quarterly status report of progress made in addressing the Board Governance Improvement initiatives;
- Deferred the formal biennial self-assessment of the effectiveness of the Board, Chair and Committees until post implementation of the Integrated Pension Services Organization initiative;
- Adopted a less formal Board and Committee meeting self-assessment process in lieu of the formal biennial Board self-assessment process;
- Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities: fiduciary, legal and regulatory compliance;
- Conducted the annual review of By-laws, Governance policies, Board practices and Board independence and recommended revision to the Travel Policy;
- Conducted an annual review of the Governance Committee's mandate and effectiveness;
- Reviewed the Communications Strategy including public policy;
- Recommended the appointment of a new director to the Governance Committee and the Audit Committee;
- Received periodic updates from the Ad hoc Director Nomination Committee;
- Reviewed the annual confirmation of the Code of Ethics and Business Conduct at March 31, 2016 for employees and directors;
- Reviewed the Governance Committee's accomplishments for F2015-16 and discussed objectives for the upcoming fiscal year;
- Reviewed the Board's accomplishments for F2015-16 and discussed objectives for the upcoming fiscal year;
- Reviewed Director compensation and a summary of expense claims for each Director and the President and CEO for the year ended March 31, 2016; and

- Reviewed the draft Corporate Governance disclosure for the F2015-16 Annual Report and recommended its approval by the Board.

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

R. Speight (Chair), W. Askanas, D. Bovolaneas, C. Rignanese, R. Thériault, M. Walton (ex officio)

Report of the Human Resources & Compensation Committee

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

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

Fiscal 2015-16 Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to Fiscal 2015-16:

- Reviewed the Committee's Terms of Reference Business and recommended changes to the Board for approval;
- Set the Committee's objectives for F2015-16 and reviewed subsequent achievements;
- Reviewed the individual business plan success weightings of the NBIMC F2015-16 Annual Business Plan and recommended their approval by the Board;
- Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities including the President's leadership, NBIMC's performance integrity, and NBIMC's ability to attract and retain qualified personnel;
- Reviewed the Succession Plans for the President and CEO and senior management positions and recommended approval by the Board;
- Reviewed a status report concerning the February 2014 initiatives suggested by a Work Environment Focus Group to address changes in office space configuration, meeting efficiency and a total compensation review by an independent consultant;
- Reviewed and approved the recommendations from the Ad hoc Compensation Review Committee of the total compensation review, including comparisons to various compensation surveys, conducted by an independent consultant;
- Reviewed changes to organizational structure including the proposed separation of the CEO and CIO roles, addition of a new Accounting Clerk position and Investment Analyst position and recommended approval by the Board;
- Recommended creation of an Ad hoc CIO Search Committee;
- Received and forwarded to the Board for approval a recommendation by Ad hoc CIO Search Committee to create an Acting CIO position to be filled internally pending further clarification of senior position requirements arising from the Integrated Pension Services Organization initiative;
- Received results from the December 2015 Workplace Environment Survey;
- Reviewed the Human Resources Strategic Plan and recommended its approval by the Board;
- Received quarterly certification from management as to regulatory compliance with various legislative requirements;

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| | <ul style="list-style-type: none">• Reviewed a comparison of NBIMC Value Added Targets against peer comparables;• Reviewed F2015-16 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 and recommended to the Board the overall Incentive Compensation Pool for F2015-16; and• Reviewed the Compensation Discussion and Analysis section of the F2015-16 Annual Report and recommended its approval by the Board. |
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This report has been approved by the members of the Human Resources & Compensation Committee.

R. Thériault (Chair), W. Askanas, R. Maloney, M. Walton (ex officio)

RESPONSIBLE INVESTING GUIDELINES

The responsible investment actions of investment managers have increasingly become a focus of investors, governments, regulators, and various third party interest groups in recent years.

While our fiduciary responsibilities and relatively restrained organizational footprint limit our ability to provide exclusionary screens or divestment options, NBIMC has been a very active long-term member / partner in a number of organizations that support best practice environmental, social, and governance-related investment actions. For example, NBIMC has been an active long serving member in organizations such as the Pension Investment Association of Canada (<https://www.piacweb.org>) and the Canadian Coalition for Good Governance (<http://www.cgg.ca>).

Our involvement with these groups helps to develop and promote best practise guidelines in this area which benefits both investors and society in general. Additional detail can be found in our Responsible Investment Guidelines at <http://nbimc.com/uploads/ResponsibleIG.pdf>.

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 (PIAC)
- Canadian Coalition for Good Governance (CCGG)
- S&P/TSX Canada Index Committee
- Canadian Investment Performance Council
- Canadian Bond Investors' Association
- CFA Society Atlantic Canada
- University of New Brunswick Investment Committee
- Université de Moncton – Comité de placements
- Fredericton Community Foundation Investment Committee
- Beaverbrook Art Gallery Investment Committee

EMPLOYEE ACTIVITY IN OUR COMMUNITY

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 49 hours per volunteer to over 40 non-profit organizations. Over 65% of employees were involved in volunteer efforts in some capacity. Three additional charitable causes were also supported through other internal corporate fund-raising initiatives.

Of particular note, NBIMC recognized seven individuals: Mr. M. Hunter, Mr. M. MacPherson, Ms. M. Nowicki, Mr. T. McBride, Mr. S. Bishop, Mr. A. Lynch and Mr. J. Spinney as our “Volunteers of the Year” for the significant contributions that they have made to our community. We were also pleased to recognize our corporate teams this year: “Bowl for Kids Sake” team (Big Brothers and Big Sisters) and the “CIBC Run for the Cure” Team.

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

COMMUNICATIONS AND ACCOUNTABILITY

NBIMC reports to the Legislature of the Province of New Brunswick through the Crown Corporations Committee of the Legislature.

As the trustee of the Provincial Court Judges' Pension Fund, 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 periodic budget presentations and quarterly performance reports.

As the investment manager for certain other public sector funds, NBIMC reports those funds' investment performance regularly to their governing bodies.

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

- PSSRP Board of Trustees;
- NBTPP Board of Trustees;
- Annual press release of 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 2015-16:

- there were no disclosures received or acted upon;
- no investigations were therefore commenced due to disclosure receipt;
- no claims had been referred from the Ombudsman under section 23; and
- no investigations were therefore commenced due to a referred claim.

UNIT TRUST FUND PERFORMANCE

The specific performance of each NBIMC unit trust fund and its respective benchmark return for the period indicated to March 31, 2016 is outlined in the table below.

Unit Trust Fund	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
NBIMC Nominal Bond Fund	1.14	6.01	4.20	4.18	5.30	5.39	5.80
Benchmark	0.81	5.84	3.94	3.92	5.08	5.07	5.65
NBIMC Corporate Bond Fund	0.86	4.60	3.79	4.42			4.70
Benchmark	0.69	4.38	3.67	4.33			4.40
NBP Canadian Long-Term Bond Fund	(1.96)	8.10					7.73
Benchmark	(1.46)	8.62					8.46
NBIMC New Brunswick Fixed Income Opportunity Fund	2.84	6.32	4.56	4.65	5.60	5.84	6.77
Benchmark	0.81	5.84	3.94	3.92	5.08	5.07	5.65
NBIMC Money Market Fund	0.92	1.10	1.18	1.26	1.27	2.04	2.88
Benchmark	0.53	0.73	0.82	0.87	0.88	1.66	2.56
NBIMC Student Investment Fund	(3.09)	2.99	4.77	4.89	3.59	5.21	6.91
Benchmark	(2.31)	3.54	4.98	5.06	3.86	4.89	6.74
NBIMC Canadian Equity Index Fund	(6.33)	0.89	5.78	6.13	2.82	4.76	6.23
Benchmark	(6.57)	(0.05)	5.03	5.30	2.10	4.22	5.83
NBIMC Low Volatility Canadian Equity Fund	(0.86)	8.55	11.60				11.65
Benchmark	0.79	6.68	9.69				8.90
NBIMC External Canadian Equity Fund	(4.93)	1.93	7.29	7.14	3.92	5.50	10.26
Benchmark	(6.57)	(0.05)	5.03	5.30	2.10	4.22	8.96
NBIMC Canadian Equity Active Long Strategy Fund	(8.56)	(0.97)	4.55	4.96	1.53		2.13
Benchmark	(6.57)	(0.05)	5.03	5.30	2.10		2.57
NBIMC External International Equity Fund	(4.59)	5.70	14.45	14.61	10.54		4.83
Benchmark	(6.32)	3.20	10.79	11.37	8.29		3.22
NBIMC EAFE Equity Index Fund	(6.22)						6.85
Benchmark	(6.32)						6.76
NBIMC EAFE Equity Index Fund – Class N	(6.07)	3.44	10.95	11.54	8.49		3.56
Benchmark	(6.32)	3.20	10.79	11.37	8.29		3.22
NBIMC Low Volatility International Equity Fund	4.81						16.94
Benchmark	5.83						18.03
NBIMC Low Volatility International Equity Fund – Class N	4.67	12.04	15.01	15.89			16.15
Benchmark	5.83	12.52	17.36	16.29			16.93

Unit Trust Fund	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
NBIMC Low Volatility Emerging Markets Equity Fund	(5.47)						(3.99)
Benchmark	(8.80)						(5.24)
NBIMC U.S. Equity Index Fund	4.16	16.04	21.26	19.86	18.20		11.11
Benchmark	4.09	16.04	21.32	19.93	18.21		11.21
NBIMC Low Volatility U.S. Equity Fund	11.50	21.82	23.41	23.23			22.82
Benchmark	10.66	22.07	25.49	23.00			23.64
NBIMC Inflation Linked Securities Fund	(1.90)	5.89	1.80	1.94	4.64	5.01	7.65
Benchmark	(2.23)	5.79	1.70	1.80	4.57	4.89	7.47
NBIMC Canadian Real Estate Fund	9.94	9.93	7.36	8.52	9.59	11.52	11.72
Benchmark	5.44	5.48	3.47	5.06	5.50	5.62	5.72
NBIMC Canadian Real Estate Investment Trust Fund	(1.99)	5.14					7.22
Benchmark	(2.24)	4.92					7.01
NBIMC Non-Canadian Private Real Estate Fund							(0.09) ²
Benchmark							3.33
NBIMC International Real Estate Fund	7.27	23.70	20.04	19.04	18.55		11.46
Benchmark	7.04	22.75	19.19	19.15	18.19		11.31
NBIMC Public Infrastructure Fund							(2.17) ²
Benchmark							4.94
NBIMC Infrastructure Fund	6.74	6.85	5.80	6.12	7.57		7.40
Benchmark	5.44	5.48	5.32	5.53	5.74		5.66
NBIMC North American Market Neutral Fund	2.30	(0.56)	1.69	1.41	(0.01)	1.38	2.00
Benchmark	0.53	0.73	0.82	0.87	0.88	1.66	1.87
NBIMC Quantitative Strategies Fund	3.26	5.53	5.94	5.70	5.23		4.02
Benchmark	0.53	0.73	0.82	0.87	0.88		0.99
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	3.63	0.69	3.29	11.07	23.90	18.57	9.73
Benchmark	5.44	5.48	5.32	5.53	5.73	6.41	7.06
NBIMC Private Equity Fund	19.68	19.15	21.79	18.76	17.53		9.39
Benchmark	(2.43)	7.56	14.32	14.27	11.91		6.65

¹ On April 1, 2008, NBIMC implemented Canadian dollar benchmarks for international exposures. Prior to that date, the benchmarks for international exposures were reflected in the local currencies. To ensure comparative information is presented for performance and benchmarks, the Since Inception column above reflects the returns from the later of the first day of trading in the Fund or, if an international Fund, April 1, 2008.

² These funds were implemented during the current fiscal year.