



**NB Investment Management Corporation**

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**2003-2004  
ANNUAL REPORT**

**DELIVERING RESULTS:**  
Helping to fulfill  
the pension promise

## BOARD OF DIRECTORS

**G. W. McMullen**  
Chairperson

**Gilles Lepage**  
Vice-Chairperson  
Chairperson Audit Committee

**William W. Tozer**  
Secretary to the Board

**Eileen Pike**  
Chairperson of  
Human Resources Committee

**Richard C. Speight**  
Chairperson of  
Governance Committee

**Dawson A. Murray**  
Director

**Rowland C. Frazee C. C.**  
Director

**Wiktor Askanas**  
Director

**Ronald J. LeBlanc**  
Director

**Sharon MacFarlane**  
Director (ex officio)

**John Mallory**  
Director (ex officio, non-voting)

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

## CORPORATE OFFICERS

**G. W. McMullen**  
Chairperson

**Gilles Lepage**  
Vice-Chairperson

**William W. Tozer**  
Secretary to the Board

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

**Daniel Goguen, CA**  
Vice-President and Chief Financial Officer

## CORPORATE LEADERSHIP TEAM

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

**Daniel Goguen, CA**  
Vice-President and Chief Financial Officer

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

**Michael Rodgers, CFA**  
Senior Portfolio Manager

**Catherine A. Dixon, CFA**  
Senior Portfolio Manager

### New Brunswick Investment Management Corporation

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## Contents

Corporate Profile	1
Financial Highlights	2
Chairman's Message	5
President's Message	7
Plan Governance	9
NBIMC's Investment Principles	10
Management Discussion and Analysis	11
Communications and Accountability	16
Employee Activity in our Community	16
Financial Statements	17
NB Investment Management Corporation	19
Public Service Superannuation Fund	28
Teachers' Pension Fund	29
Judges' Superannuation Fund	30

Information on the Unit Trust Funds and Detailed Holdings is available upon request in a supplement to the Annual Report.

## Corporate Profile

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**T**he New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of approximately 44,000 members of the Public Service, Teachers', and Judges' pension plans.

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

Located in Fredericton, New Brunswick the NBIMC is the largest institutional investment manager in Atlantic Canada, and the 25<sup>th</sup> largest nationally\*, with assets totaling \$6.56 billion under management at March 31, 2004.

## Corporate Vision

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**“To be recognized as a leading investment management team, built on a foundation of people, ethics and innovation, supporting the goals of our clients.”**

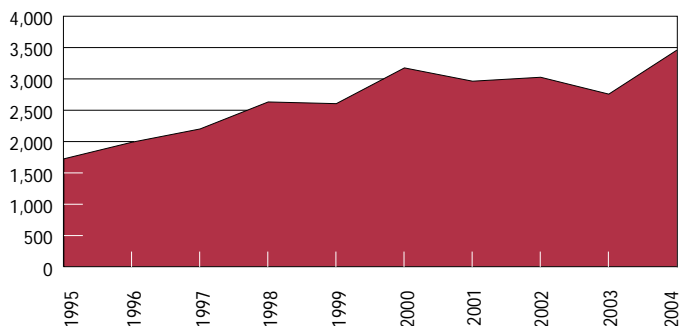
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\* *Benefits Canada, Rogers Media, Toronto, Ontario, April 2004*

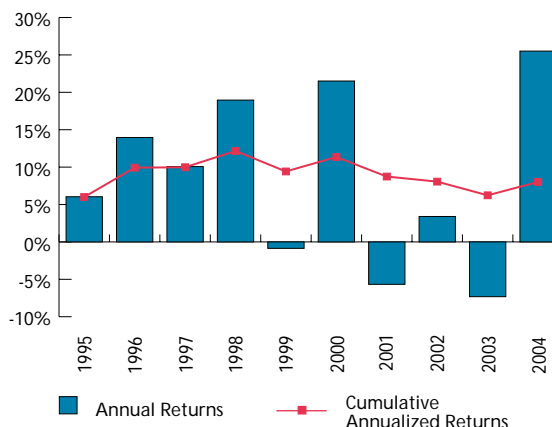
# Financial Highlights - as of March 31, 2004

## PUBLIC SERVICE

**NET ASSETS - as of March 31, 2004**  
(\$ millions)



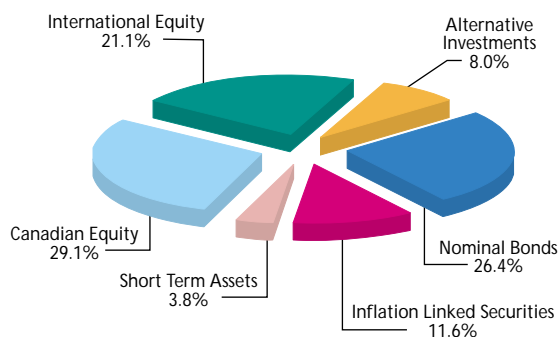
**ANNUAL TOTAL FUND RETURNS - 1995-2004**



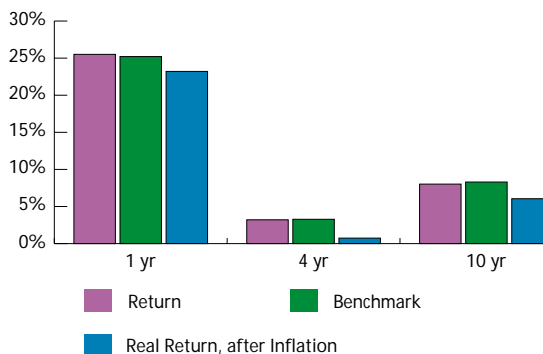
**INVESTMENTS BY PORTFOLIO - as of March 31, 2004**  
(\$ millions)

	2004	2003	2002
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 915.1	\$ 847.0	\$ 915.3
Inflation Linked Securities	397.8	319.1	349.7
Short Term Assets	128.9	104.4	150.3
	1,441.9	1,270.4	1,415.3
<b>PUBLIC EQUITY</b>			
Canadian	1,008.7	845.1	920.3
International	732.3	529.3	587.3
	1,741.0	1,374.4	1,507.6
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return Strategies	155.7	28.0	0.0
Real Estate	76.3	54.6	62.9
Private Equity	41.5	26.0	22.5
	273.6	108.7	85.4
	\$ 3,456.5	\$ 2,753.5	\$ 3,008.3

**ASSET MIX - as of March 31, 2004**



**INVESTMENT PERFORMANCE**  
as of March 31, 2004



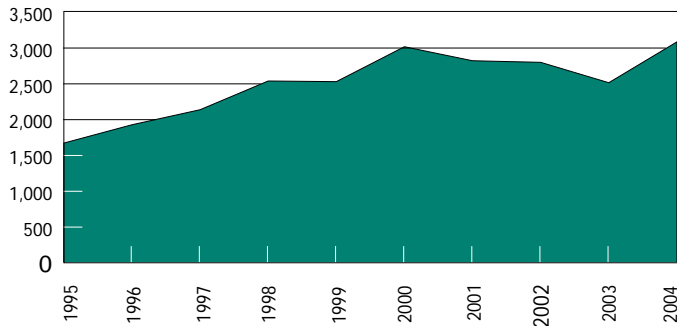
**INVESTMENT PERFORMANCE - as of March 31, 2004**  
(Annualized)

	1 yr	4 yr	10 yr
Return	25.51%	3.21%	8.02%
Benchmark	25.21%	3.28%	8.30%
Real return, after inflation	23.21%	0.74%	6.05%

# Financial Highlights - as of March 31, 2004

## TEACHERS'

**NET ASSETS - as of March 31, 2004**  
(\$ millions)



**INVESTMENTS BY PORTFOLIO - as of March 31, 2004**  
(\$ millions)

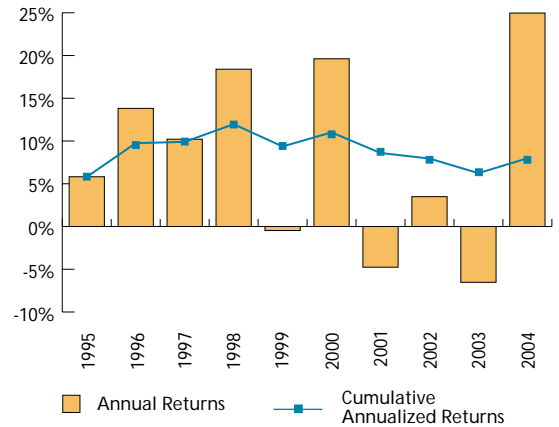
	2004	2003	2002
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 846.1	\$ 796.3	\$ 877.6
Inflation Linked Securities	385.2	315.9	352.6
Short Term Assets	111.9	94.4	138.4
	1,343.3	1,206.6	1,368.6
<b>PUBLIC EQUITY</b>			
Canadian	868.0	744.3	826.4
International	623.4	458.5	517.5
	1,491.4	1,202.7	1,343.9
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return Strategies	137.1	24.0	0.0
Real Estate	68.0	49.7	58.4
Private Equity	37.0	23.7	20.9
	242.1	97.4	79.2
	\$ 3,076.7	\$ 2,506.7	\$ 2,791.8

Numbers above may not add up due to rounding.

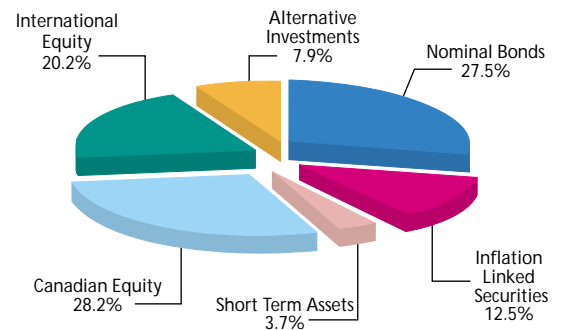
**INVESTMENT PERFORMANCE - as of March 31, 2004**  
(Annualized)

	1 yr	4 yr	10 yr
Return	24.97%	3.59%	7.98%
Benchmark	24.68%	3.64%	8.31%
Real return, after inflation	22.68%	1.11%	6.01%

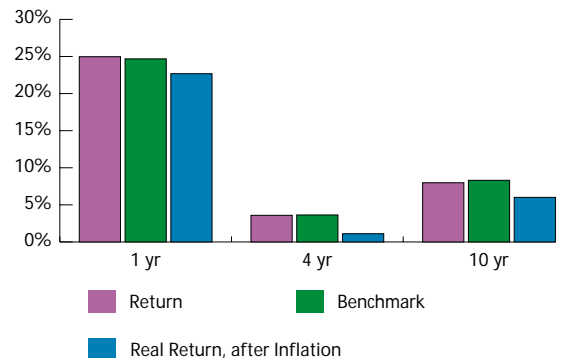
**ANNUAL TOTAL FUND RETURNS - 1995-2004**



**ASSET MIX - as of March 31, 2004**



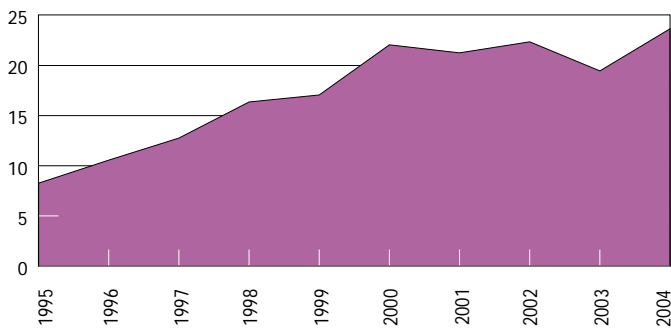
**INVESTMENT PERFORMANCE**  
as of March 31, 2004



# Financial Highlights - as of March 31, 2004

## JUDGES'

**NET ASSETS - as of March 31, 2004**  
(\$ millions)



**INVESTMENTS BY PORTFOLIO - as of March 31, 2004**  
(\$ millions)

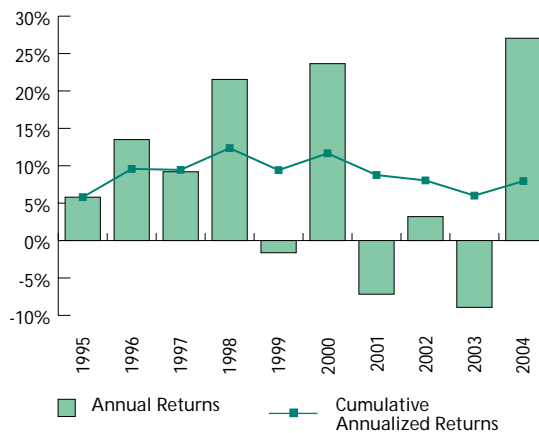
	2004	2003	2002
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 5.0	\$ 4.9	\$ 5.6
Inflation Linked Securities	2.8	2.4	2.7
Short Term Assets	0.9	0.7	1.1
	8.6	8.0	9.4
<b>PUBLIC EQUITY</b>			
Canadian	7.6	6.5	7.5
International	5.4	4.1	4.8
	13.0	10.6	12.3
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return Strategies	1.1	0.2	0.0
Real Estate	0.5	0.4	0.5
Private Equity	0.3	0.2	0.2
	1.9	0.8	0.6
	\$ 23.6	\$ 19.4	\$ 22.3

Numbers above may not add up due to rounding.

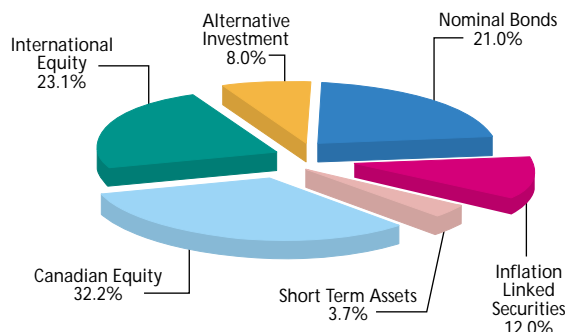
**INVESTMENT PERFORMANCE - as of March 31, 2004**  
(Annualized)

	1 yr	4 yr	10 yr
Return	27.05%	2.60%	7.96%
Benchmark	26.70%	2.69%	8.17%
Real return, after inflation	24.72%	0.14%	5.99%

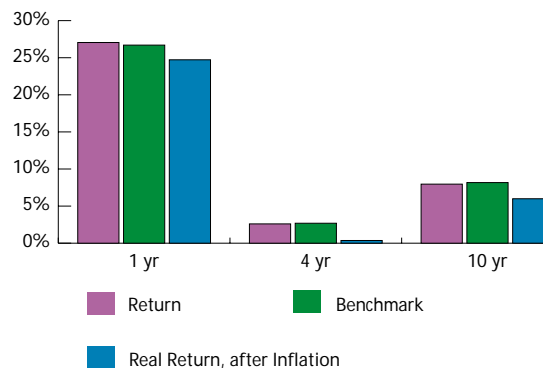
**ANNUAL TOTAL FUND RETURNS - 1995-2004**



**ASSET MIX - as of March 31, 2004**



**INVESTMENT PERFORMANCE**  
as of March 31, 2004



## Chairman's Message

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**W**hat a difference a year makes! Performance this past year was the best in the Corporation's history in terms of asset growth, while the previous year proved to be the worst. Volatility in the financial markets however will continue to create both challenges and opportunities in the years to come. Our senior management's consistent use of a diversified investment approach, while maintaining a focus on risk management, will ensure the Corporation's long term goals are attained.

Governance of the Corporation is the primary responsibility of the Board. The dedication of the Board Members both at the Board and Committee levels continues to ensure high standards of governance.

I would like to thank Board Members for their efforts in support of the Corporation, as well as the guidance they have offered to me personally.

On behalf of the Board, I wish to commend all of the Corporation's employees for their enthusiasm and commitment. A special mention is warranted for John Sinclair, who has exemplified excellence in his role as Acting President. The present organization provides the Board with confidence for the future.



**G. W. McMullen**  
Chairman

## Board of Directors

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- Standing (Left to Right): **Ronald J. LeBlanc** *(Member Audit Committee)*  
**Wiktor Askanas** *(Member Audit Committee)*  
**Rowland C. Frazee, C.C.**  
**Sharon MacFarlane** *(Member Audit & Governance Committees)*  
**John Mallory** *(Member Governance Committee)*
- Seated (Left to Right): **John A. Sinclair** *(Acting President & CEO)*  
**William W. Tozer** *(Member Human Resources Committee)*  
**Eileen Pike** *(Chairperson of Human Resources Committee & Member Governance Committee)*  
**G. W. McMullen,** *(Chairperson of the Board, Member Audit, Human Resources & Governance Committees)*  
**Richard C. Speight** *(Chairperson of Governance Committee & Member Human Resources Committee)*  
**Dawson A. Murray** *(Member Human Resources & Governance Committees)*
- Absent: **Gilles Lepage** *(Vice-Chairperson of the Board, Chairperson of Audit Committee, Member of Human Resources & Governance Committees)*





## President's Message

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Our long-term investment approach was validated over the past fiscal year as most of the world's financial markets rebounded strongly on the back of solid economic growth. The growth of assets under management was the strongest in the history of the Corporation, after a year where poor global equity market returns resulted in the most disappointing performance on record. Financial market volatility unfortunately was again evident throughout the year and continues to present future challenges.

Net assets under management increased from \$5.28 billion to \$6.56 billion during the year. The increase in assets resulted from \$1.32 billion in net investment earnings, \$116.5 million in special funding payments from plan sponsors, and net pension payouts of \$153.5 million.

NBIMC continues to deliver nominal investment returns that meet long-run actuarial requirements and compare very favourably to our peers. We also continue to add significant value versus our various market benchmarks. In the following report we provide further detail on the Corporation's mandate and activities.

I would like to specifically point out a number of accomplishments that the Corporation made during the year:

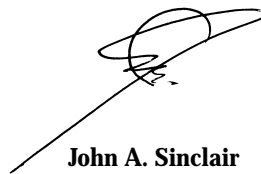
- Completed a full asset mix review and set of recommendations for the Public Service Superannuation plan upon receipt of the April 2002 actuarial valuation.
- Achieved our relative value added return targets for the fiscal year.
- Further diversified our investment activities into absolute return strategies, private equity, infrastructure and real estate.
- Successfully completed the first year of our corporate wide cascaded business planning process.
- Participated in our second round of private equity financing, alongside an initial investment by two well-known U.S.-based venture capital investors, in a New Brunswick based company. To our knowledge this was the first venture capital investment by a significant U.S.-based fund in Atlantic Canada.

The achievements to date would not have been possible without the help of our Board of Directors, our senior management team, and the dedication of our employees. I would like to thank them all for their continued support during my term as Acting President.

It is also important to point out that we remain very focused on the work ahead of us. As mentioned earlier, financial markets remain extremely volatile and future market return expectations remain challenging. One would expect that equity returns may pull back after a year of significant gains, while fixed income returns have remained near historic lows. Geo-political events in both the developed and the emerging world remains volatile. That being said we remain confident that our well diversified investment management approach and focus on risk management will continue to aid the Corporation in meeting the long-term goals of our stakeholders.

Finally I would like to acknowledge the contribution of our past President and Chief Executive Officer Ernie MacKinnon who retired during the year. Ernie was the founding President of the Corporation at its inception in 1996. He provided the direction and vision required to move the pension portfolios from an investment policy that consisted entirely of fixed income investments, to the more diversified business that it is today. Ernie's success in building the country's twenty-fifth largest investment manager, here in New Brunswick, is an accomplishment that all staff at NBIMC acknowledge and are proud to have had the opportunity to share with him.

Sincerely,



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

## Plan Governance

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**N**BIMC is a Crown Corporation, which was established in 1996 under the *New Brunswick Investment Management Corporation Act*. The Corporation is mainly responsible for providing investment counseling services, and to act as trustee for the three pension funds under management.

The selection process and duties of the NBIMC Board of Directors is outlined in the Act. Governance of the organization is the primary consideration of the Board. The Board ensures that all of the Corporation's transactions are conducted on a purely commercial basis and that decisions and actions are based on sound business practices. The day-to-day management of the Corporation is delegated to the Chief Executive Officer, while investment related matters are delegated to the Chief Investment Officer.

The Province of New Brunswick is the sole sponsor for the funds under management and is responsible for pension plan design, which includes contribution and benefit levels.

## NBIMC's Investment Principles

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The Corporation operates under a few basic investment principles, which we constantly reflect on when setting investment strategy.

These principles are:

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

## Management Discussion and Analysis

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### Asset Mix

The Corporation received an actuarial valuation, as at April 2002, for the Public Service Superannuation Fund in early 2003. Actuarial reviews of this type are typically conducted every three years by the plan sponsor.

Upon receipt we conducted a thorough asset liability study and upon Board approval subsequently made a series of adjustments to the asset mix of the fund. Appropriate adjustments were also made to the Teachers' and Judges' Pension Funds.

It is important to point out that these studies attempt to determine the best risk adjusted asset mix for the fund that will provide a long-run real return in excess of four percent.

Three main adjustments were made during the year to the fund's asset mix:

- i) a net reduction in fixed income assets,
- ii) an increase in absolute return strategies,  
and
- iii) an increase in real estate investments.

The main move to the absolute return strategies will provide an enhanced or equity like return to the fund over the long-term. The increased real estate allocation will be phased in over time through a well-diversified strategy in

terms of both property type and geography. Both of these shifts were made with the expectation of achieving long-run returns that would be greater than those received from fixed income assets, but with risk characteristics similar to fixed income assets.

In early 2004 the Corporation received an actuarial valuation, as at April 2003, for the Teachers' Pension Fund. A similar asset liability study will be conducted for this fund and we expect it to be completed in mid-2004.

### Investment Performance

NBIMC focuses on two main objectives in terms of investment performance. The first is in regards to the nominal return of the fund versus the actuarial return requirement that has been determined necessary to appropriately fund each pension plan. This return is a function of the asset mix development process, discussed in the previous section.

The second objective is for the Corporation to add value, above its various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to primarily cover all of the Corporation's operating costs, and subsequently add an additional 42 basis points per annum to each fund.

The most significant contributor to the funds' nominal performance during the year was the strong rebound in the global equity markets, and the benefits of our foreign currency hedging policy. Strong global economic growth and improved corporate profits combined to take most of the world's equity markets higher. For example the Toronto Stock Exchange composite index increased by 37.7% over the year, while the U.S.-based S&P 500 closed up 35.1% in U.S. dollar terms. As well, the Japanese Nikkei market returned 48.0% after over a decade of negative returns.

The Canadian dollar also had a strong year versus the US dollar, appreciating by approximately 11%. An appreciation in the Canadian dollar would typically reduce the value of foreign investments. However, these effects were negated due to our investment policy of fully hedging this exposure.

Fixed income returns also appreciated significantly as interest rates neared historically low levels. By year-end Canadian bond yields had dropped significantly as the Bank of Canada continued to cut short-term interest rates in an effort to aid a struggling Canadian economy. Inflation-linked bonds had another good year due to increased inflation concerns brought about through strong economic growth and stimulative

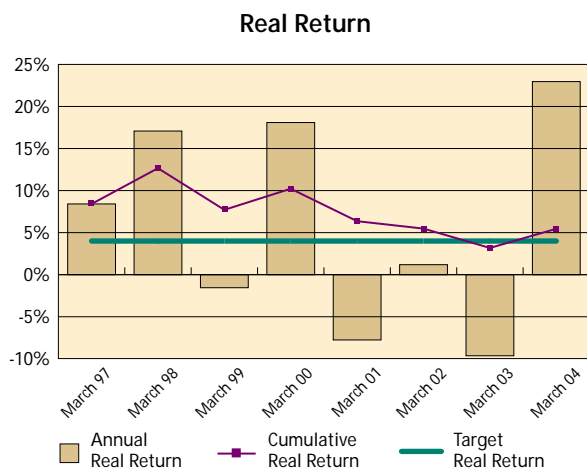
interest rate policy from most of the world's central banks. The prices of these securities also benefited from the strong demand created by a number of pension funds who increased their exposure to this asset class during the year. Our nominal bond benchmark appreciated by 10.1% during the year, while our inflation-linked bond portfolio increased by 15.3%.

Our Alternative Investments results were mixed during the year. The real estate portfolio added significant value over the year by returning 57.0%, while the Private Equity portfolios were basically unchanged due to the early stage of most of the investments in the portfolio.

On the whole, our well-diversified strategy continues to perform very well across a number of measures. One of the primary investment objectives of the Corporation is to provide a real nominal return (i.e. return after inflation) in excess of the actuarial requirement of 4% per annum. This is the most significant hurdle that we measure our specific performance against, as it is the primary factor that results in the security of the pension benefits.

The following chart illustrates both our annual and our cumulative real return for the past eight fiscal years.

### Achieving the Long-Term Pension Promise



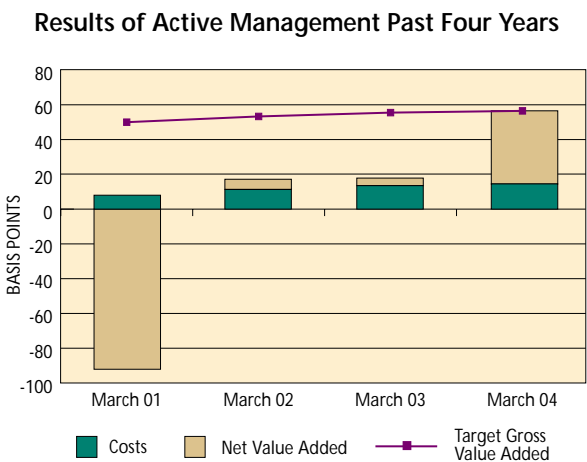
The NBIMC had a successful year in terms of the performance of our actively managed strategies. While the Corporation has been able to add value above its operational costs over the past three years, we were also able to achieve our target of 42 basis points per annum during the past fiscal year. This success can be attributed to two key factors: our well diversified asset mix and investment policies, and our broad based ability to make good active management decisions.

All of our active strategies added value during the year except for the U.S. quantitative portion of our Absolute Return Strategies, and our Atlantic Opportunities private equity investing activity. Our quantitative U.S. strategy was a new investment initiative and faced challenges in the earlier third of the year. This performance was however consistent with many similar peer funds of that

type. The Atlantic Opportunities portfolio recorded a valuation reduction in one of our investee companies that was behind on the execution of its business plan. Nine other active management strategies more than made up for these losses and lead to the Corporation exceeding its value added target as mentioned earlier.

The following chart illustrates the gross relative value added from the Corporation's active management activities. It is broken down in terms of operation costs and excess (or net) value added performance.

### Adding Value after Covering Operating Costs



### Risk Management

Risk management continues to be an important focus at NBIMC and is monitored through a Risk Management Process Policy that covers eight

aspects of risk. In terms of our investment objectives we focus on two main risk objectives: the nominal return risk to the fund and the relative or active return risk.

The nominal return risk is primarily managed through the asset mix determination process, whereby the Asset Liability study process is used to determine the lowest risk mix of assets that will meet the long-term funding objectives of each pension fund. Subsequently the Corporation conducts a weekly risk update on the overall funding position of each plan, which is essentially a tool to help provide management with an indication of any unanticipated undue risk.

Relative risk from the Corporation's value added investment activities is also reviewed weekly. This risk is also reviewed from two perspectives: first, does the Corporation have more risk than necessary, and secondly, does the Corporation have enough risk in order to meet its value added goals? This process has played a significant role in the Corporation's ability to achieve more consistent value added results over the past few years.

During the year our Board retained KPMG's Risk and Advisory practice to review risk management and control at the Corporation. We are very pleased to report that NBIMC had a positive review. KPMG found no material weaknesses in

the Corporation's capabilities and noted some areas for enhancement that we expect will make our related processes even stronger.

### Operating Costs

Operating costs encompass all of the costs incurred by the Corporation to act as trustee for each pension fund, to manage the applicable assets, and to deploy our active management strategies.

From its inception a primary goal of the Corporation has been to internalize as much of the fund management operation as possible in order to minimize costs. External managers are used for more specialized mandates where it is prudent for us to do so.

Typical investment industry practice is for managers to state their annual operating costs as a percentage of assets under management. In our case this would represent 0.15% or 15 basis points.

It has been our past practice to benchmark our operating costs versus an average of the members of the Pension Investment Association of Canada (PIAC). Unfortunately PIAC discontinued collecting this data a few years ago. However, KPA Advisory Services Ltd., a well known Canadian pension consulting and performance measurement



firm, have recently published\* cost statistics from their extensive investment manager database. This data indicates that the average pure passively managed portfolio, where no additional value-added over benchmarks is expected, costs an average of 9 basis points annually. The average annual total operating costs for the typical pension fund in their database is 37 basis points per annum. Based on these results, we are therefore pleased to report that NBIMC's operating costs are low compared to the average fund operating cost,

and are actually very close to the average costs for a pure passive strategy. Maintaining this low cost structure helps to maximize the assets that are available to pay pension benefits.

It is also important to again point out that the Corporation has been able to deliver value added from active management above our operating costs over the past three years, and all of our active management performance targets are above and beyond the requirement of the Corporation covering all operating expenses.

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\* "An Anatomy of Pension Fund Behaviour (1993-2002): What Can We Learn?", The Ambachtsheer Letter #262, KPA Advisory Services Ltd., Toronto, Ontario, December 2003.

## Communications and Accountability

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**A**s a Crown Corporation, we are accountable to the Legislature of the Province of New Brunswick through the Minister of Finance. We report annually to the Minister via this report and we also typically appear annually at the Crown Corporations Committee meetings.

We report to other stakeholder groups through this annual report, our website ([www.nbimc.com](http://www.nbimc.com)), and through presentations to pension committees of the funds under management.

## Employee Activity in our Communities

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**N**ot only does the Corporation provide benefits to the local economy by managing the majority of our financial assets here in New Brunswick, but our employees are also aware of their responsibility in providing their own personal support to their community where possible.

During the year NBIMC's employees continued to be active contributors of both time and resources to charitable causes in our community. For example the Corporation's employees again exceeded their budgeted contribution level for the annual United Way campaign, and they also provided their time and energy by volunteering to over twenty not-for-profit organizations during the year.