

Corporate Profile

The New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of over 45,000 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 sponsor in meeting the pension promise to its members.

To fulfill this mission the Corporation conducts the following activities:

- Acts as fund trustee
- Develops the investment policy for each fund
- Implements the investment policy for each fund
- Adds value through active investment management
- Risk management
- Provide administrative services such as security custody, accounting, performance measurement, and technology

Located in Fredericton, New Brunswick the NBIMC is the largest institutional investment manager in Atlantic Canada with assets under management totaling \$7.05 billion at March 31, 2005.

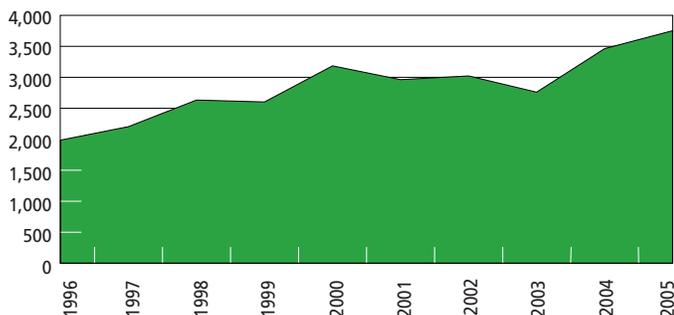
Corporate Vision

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

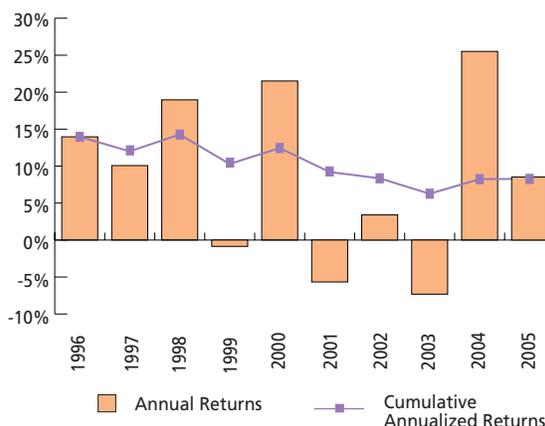
Financial Highlights - as of March 31, 2005

PUBLIC SERVICE

NET ASSETS - as of March 31, 2005
(\$ millions)



ANNUAL TOTAL FUND RETURNS - 1996-2005

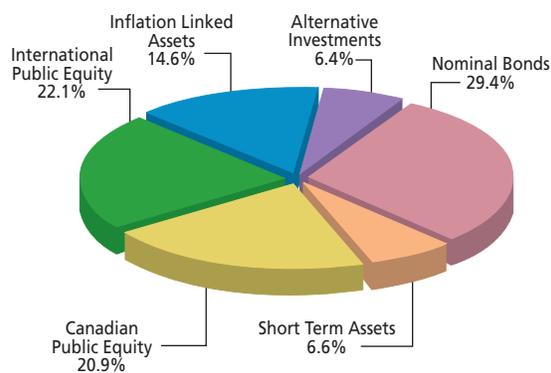


INVESTMENTS BY PORTFOLIO - as of March 31, 2005
(\$ millions)

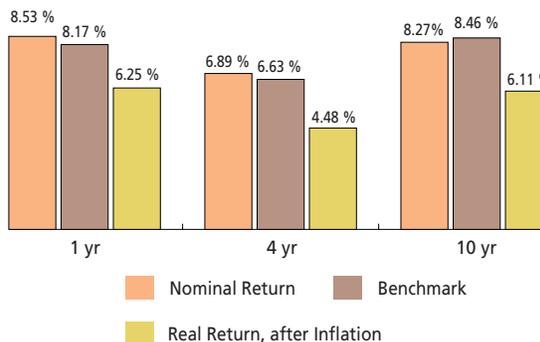
	2005	2004	2003
FIXED INCOME			
Nominal Bonds	\$ 1,101.1	\$ 915.1	\$ 847.0
Short Term Assets	247.5	128.9	104.4
	1,348.6	1,044.1	951.4
PUBLIC EQUITY			
Canadian	781.8	1,008.7	845.1
International	827.3	732.3	529.3
	1,609.1	1,741.0	1,374.4
INFLATION LINKED ASSETS			
Real Return Bonds	431.9	397.8	319.1
Real Estate and Infrastructure	96.6	76.3	54.6
Commodities	15.5	-	-
	544.0	474.2	373.6
ALTERNATIVE INVESTMENTS			
Absolute Return	206.2	155.7	28.0
Private Equity	34.6	41.5	26.0
	240.8	197.2	54.1
Total Investments	\$ 3,742.5	\$ 3,456.5	\$ 2,753.5

Numbers above may not add up due to rounding.

ASSET MIX - as of March 31, 2005



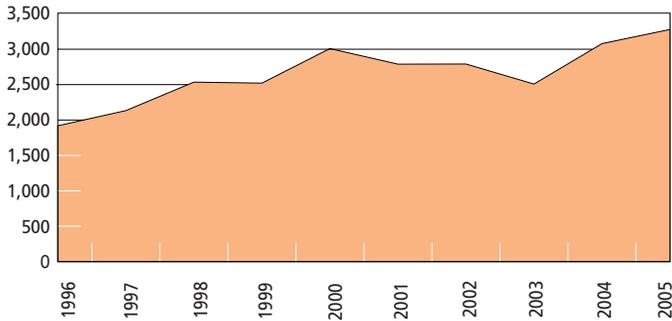
INVESTMENT PERFORMANCE as of March 31, 2005



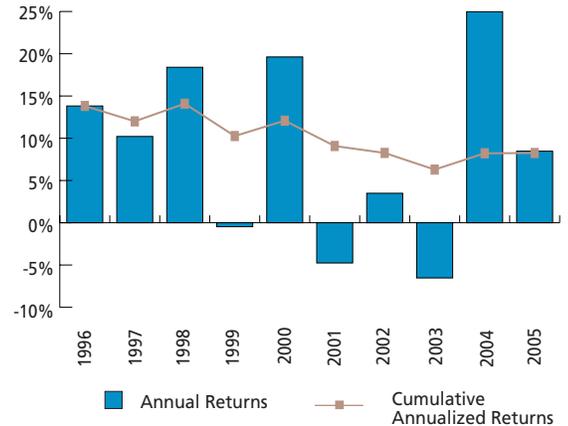
Financial Highlights - as of March 31, 2005

TEACHERS'

NET ASSETS - as of March 31, 2005
(\$ millions)



ANNUAL TOTAL FUND RETURNS - 1996-2005

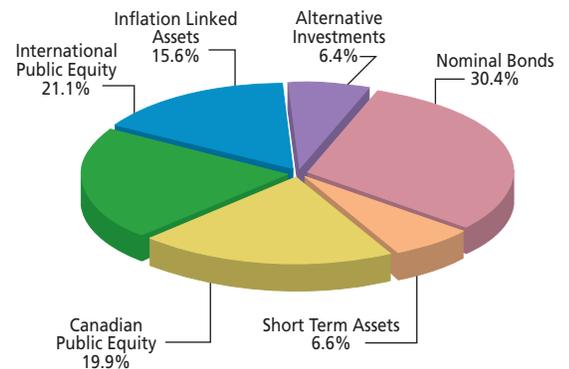


INVESTMENTS BY PORTFOLIO - as of March 31, 2005
(\$ millions)

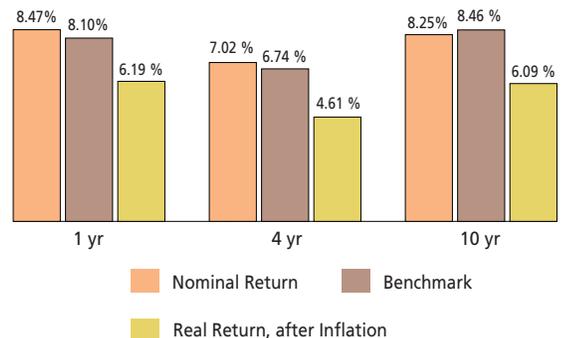
	2005	2004	2003
FIXED INCOME			
Nominal Bonds	\$ 995.8	\$ 846.1	\$ 796.3
Short Term Assets	216.3	111.9	94.4
	1,212.0	958.0	890.7
PUBLIC EQUITY			
Canadian	651.1	868.0	744.3
International	691.1	623.4	458.5
	1,342.2	1,491.4	1,202.7
INFLATION LINKED ASSETS			
Real Return Bonds	410.5	385.2	315.9
Real Estate and Infrastructure	84.5	68.0	49.7
Commodities	13.5	-	-
	508.6	453.2	365.6
ALTERNATIVE INVESTMENTS			
Absolute Return	180.4	137.1	24.0
Private Equity	30.2	37.0	23.7
	210.6	174.0	47.7
Total Investments	\$ 3,273.4	\$ 3,076.7	\$ 2,506.7

Numbers above may not add up due to rounding.

ASSET MIX - as of March 31, 2005



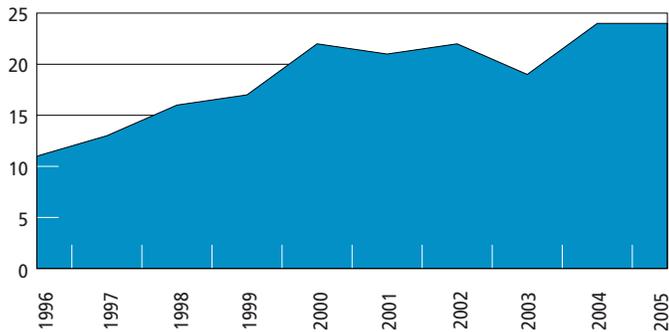
INVESTMENT PERFORMANCE as of March 31, 2005



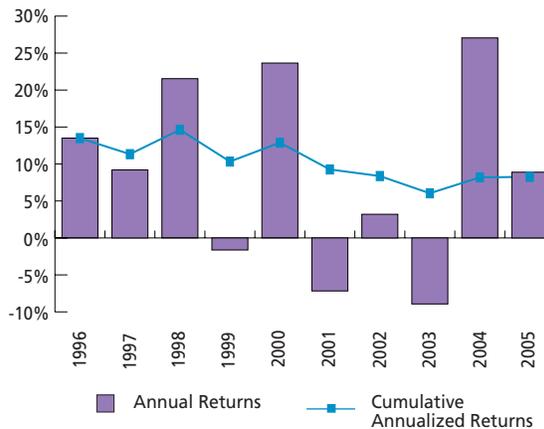
Financial Highlights - as of March 31, 2005

JUDGES'

NET ASSETS - as of March 31, 2005
(\$ millions)



ANNUAL TOTAL FUND RETURNS - 1996-2005

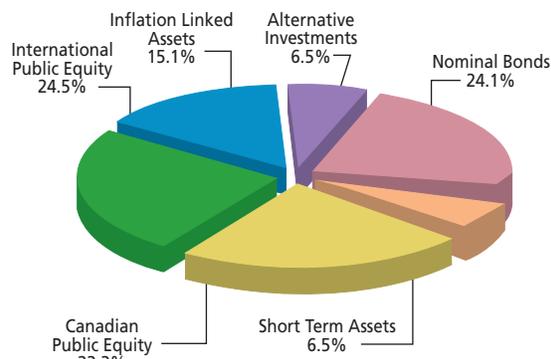


INVESTMENTS BY PORTFOLIO - as of March 31, 2005
(\$ millions)

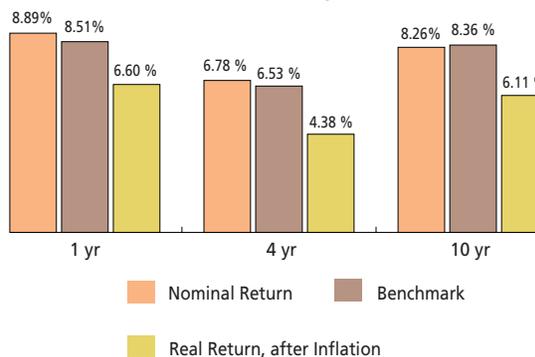
	2005	2004	2003
FIXED INCOME			
Nominal Bonds	\$ 5.9	\$ 5.0	\$ 4.9
Short Term Assets	1.6	0.9	0.7
	7.5	5.9	5.6
PUBLIC EQUITY			
Canadian	5.7	7.6	6.5
International	6.0	5.4	4.1
	11.7	13.0	10.6
INFLATION LINKED ASSETS			
Real Return Bonds	3.0	2.8	2.4
Real Estate and Infrastructure	0.6	0.5	0.4
Commodities	0.1	-	-
	3.7	3.3	2.8
ALTERNATIVE INVESTMENTS			
Absolute Return	1.4	1.1	0.2
Private Equity	0.2	0.3	0.2
	1.6	1.4	0.4
Total Investments	\$ 24.5	\$ 23.6	\$ 19.4

Numbers above may not add up due to rounding.

ASSET MIX - as of March 31, 2005



INVESTMENT PERFORMANCE as of March 31, 2005

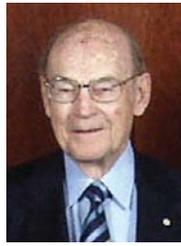


2004-2005

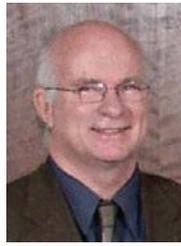
Board of Directors



Wiktor Askanas
Director
Member Audit Committee



Rowland C. Frazee, C.C.
Director



Ronald J. LeBlanc, Q.C.
Director
Member Audit Committee



Gilles Lepage
Chairperson Audit Committee
Member Human Resource &
Governance Committees



Sharon MacFarlane, CA
Director (ex officio)
Member Audit & Governance
Committees



John Mallory
Director (ex officio, non-voting)
Member Governance Committee



G. W. McMullen
Chairperson of the Board
Member Audit, Human
Resources & Governance
Committees



Dawson Murray
Director
Member Human Resources
& Governance Committees



Eileen Pike
Chairperson Human Resources
Committee
Member Governance Committee



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



Richard C. Speight
Chairperson Governance
Committee
Member Human Resource
Committee



William W. Tozer
Secretary of the Board
Member Human Resources
Committee

2004-2005

The NBIMC Team



Letter to Stakeholders

We are very pleased to report on another successful year. This success is especially heartening when one reflects on the investment climate challenges we had anticipated when we reported to you last year at this time, and also when considering the actual volatility we experienced in the financial markets throughout the fiscal year.

Net assets under management increased to \$7.045 billion from \$6.565 billion during the year. The increase in assets resulted from \$553 million in net investment earnings, \$123 million in special funding payments from the plans' sponsor, and net pension payouts of \$196 million. We were successfully able to add approximately \$20 million of the net investment earnings through active portfolio management activities.

The Corporation's results in the past two years have helped to reduce the negative effects experienced in the earlier part of the decade from a period of poor equity market returns. In the relatively short time since the turn of the millennium we have witnessed a full cycle of investment returns. The pension plans have a long time horizon and this has allowed NBIMC to remain disciplined and to benefit from the long-term risk premium available from a number of diversified asset classes.

By remaining true to our long-term investment approach we have been able to build a very respectable track record against our peer public sector pension plans and diversified pool pension fund managers. NBIMC continues to deliver both nominal and real (inflation adjusted) investment returns that meet long-run actuarial requirements.

We also continue to contribute additional value versus our various market benchmarks. This additional value not only covers the expenses of the Corporation but adds significantly to each plan's asset base. In the following report we are pleased to provide further detail on the Corporation's mandate, activities and results.

The Corporation has made the following important accomplishments during the year:

- Exceeded both the nominal and real return actuarial targets;
- Completed a full asset mix review and target asset mix adjustment for the Teachers' Pension Plan upon receipt of the April 2003 actuarial valuation. Proportional adjustments were subsequently made to the two other plans under management;
- Continued to add relative value to the portfolios through active investment management.
- Concluded our asset diversification work which reduced the implied risk in the overall plan portfolios by approximately one third; and
- Completed a full review of Board policies and committee terms of reference.

We are also pleased to report that NBIMC has joined the Canadian Coalition for Good Governance (CCGG) after holding an observer seat for the last eighteen months. The mission of the Coalition is to represent Canadian institutional shareholders

through the promotion of best corporate governance practices and to align the interests of boards and management of investee companies with those of the shareholder. The CCGG represents the interests of 45 Canadian Institutional Investors with over \$810 billion in assets. Many public company governance practices have already changed significantly thanks to the work of the CCGG and we expect our association with the coalition to reap further benefits for our investments and ultimately for our plan members.

A number of business initiatives have been identified for the upcoming fiscal year. We plan to conduct a review of how we might further strengthen our governance processes along with creating a new Strategic Plan to help guide the Corporation through the next five years. An internal audit service provider will be engaged to help us continue our monitoring and controls capabilities, and we plan to finalize a research project that will develop a public equity portfolio that better matches the characteristics of pension plan liabilities versus the standard public market indices used today.

We would specifically like to recognize our Board for their efforts and support to the Corporation during the year. Service on the Board is a major responsibility and a significant commitment which is greatly appreciated. On behalf of the Board we wish to thank our team of investment

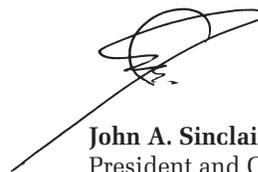
professionals at NBIMC for their diligence and hard work. The continued successes we outline in this report can be attributed to their ongoing commitment and dedication to the task at hand.

Finally as noted last year, we remain focused on the work ahead. At the time of writing this in early fiscal 2005-06 the financial markets remain extremely volatile. North American central banks are in the midst of an interest rate tightening cycle which has the potential to make positive returns in both the bond and stock markets difficult to attain in the short run. We remain confident however that we have the strategy, people, and processes in place to continue to meet the long-term goals of our stakeholders.

Sincerely,



G.W. McMullen
Chairperson



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

June 2005
Fredericton, New Brunswick

Plan Governance

NBIMC is a crown Corporation, which was established under the New Brunswick Investment Management Corporation Act of 1994. The Corporation is primarily 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. There are three established Committees of the Board that have been set-up to assist in fulfilling its responsibilities: an Audit Committee, a Human Resources Committee and a Governance Committee. Board and Committee attendance during the fiscal year was 87.5 %.

The full Board convened six times during the year. One of the meetings conducted a full review of the financial position of the Teachers' Pension Plan, and subsequently approved a revised asset mix for that fund and for the two others that are under our management. These changes are discussed in further detail in this annual report.

The Audit, Human Resources and Governance Committees met at regular intervals throughout the year. Highlights of committee work are:

- i. The Audit Committee reviewed recent developments in financial reporting, initiated a process to establish an internal audit function and participated in an educational session during the year to keep abreast of quickly evolving issues in the accounting and audit fields.
- ii. The Human Resources Committee reviewed a succession planning strategy and compensation benchmarking study designed to ensure that we remain competitive in our ability to attract and retain our investment management personnel.
- iii. The Governance Committee, which was formed in early 2004, conducted a full review of Board policies and processes as their first order of business during the year.

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 Beliefs

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

- i. NBIMC is a relatively low risk asset manager when compared to its peers.
- ii. Real Return Bonds, because of their long-term inflation-linked characteristics, are considered to be an excellent match for pension liabilities.
- iii. New asset classes and strategies are introduced incrementally in order to progressively gain experience and to minimize transition costs.
- iv. 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.
- v. NBIMC believes that market inefficiencies present opportunities to add value through active management.

Management Discussion and Analysis

Asset Mix

The Corporation received an actuarial valuation, as at April 2003, for the Teachers' Pension Fund (TPF) in early 2004. 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 Public Service Superannuation Fund and Judges' Superannuation Fund.

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 (after inflation) in excess of 4%. Actuarial assumptions use an expected inflation rate of 3% which results in a total expected nominal return (net of expenses) of 7.12%.

Through our asset mix work over the past two years, we have significantly reduced the expected risk to the funding ratios of the portfolios. We estimate that the risk of the plans has been reduced by more than one third from early asset mix compositions.

Five main adjustments were made during the past year to each fund's target asset mix:

- i. a net reduction in public equity assets,
- ii. a further geographic diversification in public equity assets,
- iii. an increase to fixed income assets,
- iv. an increase in absolute return strategies, and
- v. an increase in real return type investments by adding to our real estate exposure and introducing an allocation to commodity assets.

As part of our ongoing diversification initiatives we continue to look for assets with strong

real return type characteristics. As mentioned in our earlier Investment Beliefs section, real return type assets have characteristics that fit well with pension liabilities. To date we have invested in real return bonds, real estate, and infrastructure as real return type assets. We have recently included commodity assets in our asset mix not only because of their relation to inflation but because of their diversification benefits. Commodities have had essentially no correlation to either equity or bond returns in the past, while at the same time providing similar risk and return characteristics as equities. In keeping with our investment beliefs we will slowly and prudently deploy our commodity investments over the upcoming fiscal year. Absolute return strategies, as we discussed in last year's annual report, are expected to provide a consistent equity-like return over the long-term that is not related to movements in the actual public equity markets.

Our current asset mix for the TPF produces an expected nominal return of approximately 7.8% (a real return of 4.8%) with an equal amount of expected risk (as measured by standard deviation). This is a relatively low risk approach to slowly improve the funding ratio of the plans under management, while at the same time protecting the assets from any significant adverse market events.

It is important to emphasize that while it is pleasing to see NBIMC returns being higher than a number of our peer funds or other alternative investment managers from year to year, the most important return characteristic is a consistent real return over the long-run of more than 4% per annum.

Actuarial valuations are undertaken by the plan sponsor and typically follow three year cycles. We expect that the next actuarial valuation we will receive will be for the Public Service Superannuation Fund (PSSF) in 2006.

Investment Performance

NBIMC focuses on two main objectives in terms of investment performance: nominal and real return of the funds and adding value through active management strategies.

The first is in regards to the nominal and real return of the funds versus the actuarial return requirement that has been determined necessary to appropriately fund each pension plan. This return is a function of the asset development process which was discussed in the previous section. NBIMC is pleased to report that we exceeded both our nominal and real return hurdles during the year, despite decelerating global economic growth, concerns in regards to higher levels of inflation, and central bank tightening actions. The most significant contributor to the funds' nominal performance during the year was the strong performance in both the Canadian and European equity markets followed closely by real return bonds. Our real estate assets produced high single digit returns followed by U.S. public equity, nominal bonds, absolute return strategies, and the short term assets.

It is also important to note that we have begun to realize some significant returns from our external private equity portfolio. Our first commitments to the asset class were in early 2001, and the managers have now begun the early stage process of realizing on a number of their initial investments.

The investment policy of NBIMC fully hedging our currency exposure to foreign assets paid off well again in the last year as the Canadian dollar appreciated against the U.S. dollar, euro, pound sterling, and Yen. The specific performance of each NBIMC asset portfolio and its respective benchmark is outlined in the following table.

The primary performance objective, as outlined by the plan actuary, is to achieve a long

Fiscal 2004-05 Rates of Return (Portfolio and Benchmarks)

	Portfolio Return	Benchmark Return
Fixed Income		
Nominal Bonds	5.28 %	5.01 %
Short Term Assets	2.46	2.22
Public Equity		
Canadian	14.65 %	13.93 %
United States	6.80	6.51
Europe	15.47	14.89
Japan	2.13	0.51
Inflation Linked Assets		
Real Return Bonds	11.33 %	10.68 %
Real Estate / Infrastructure	10.25	9.25
Commodities ⁽¹⁾	22.68	22.56
Alternative Investments		
Absolute Return	3.78 %	2.22 %
Private Equity ⁽²⁾	6.75	10.83
Total Portfolio	8.51 %	8.14 %

(1) From inception date of December 14, 2004.

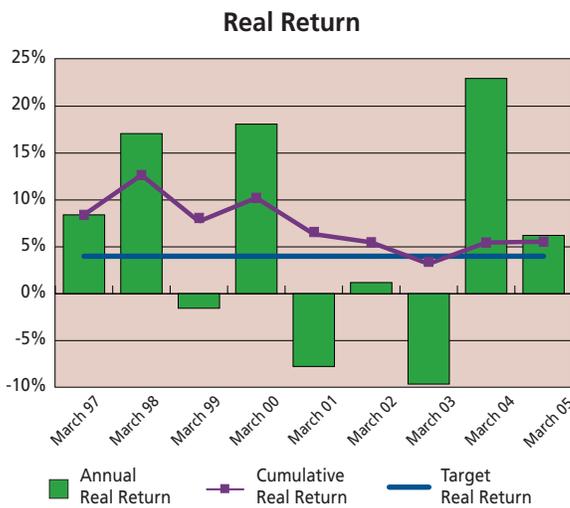
(2) The NBIMC portfolio is in its early stages and is considered to be valued conservatively. Portfolio returns are expected to converge to public Market Benchmark Returns over the next three to five years.

run real return (i.e. return after inflation) objective of more than 4%. This is the most significant hurdle that we measure our performance against and is the primary factor that results in the security of the pension plan benefits.

The following chart illustrates the annual real return achieved by NBIMC since the inception of the Corporation. More importantly the chart also illustrates that the cumulative real return since inception is 1.55 % per annum above the 4% hurdle required by the actuary.

The second investment performance objective for the Corporation is to add value, above its various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all of the

Achieving the Long-Term Pension Promise



Corporation’s operating costs, and subsequently add an additional target of 42 basis points per annum to each fund.

Our active management activities continued to add value for a fourth consecutive year. These activities added 30 basis points of value, or approximately \$20.4 million, after covering all of the organization’s operating costs.

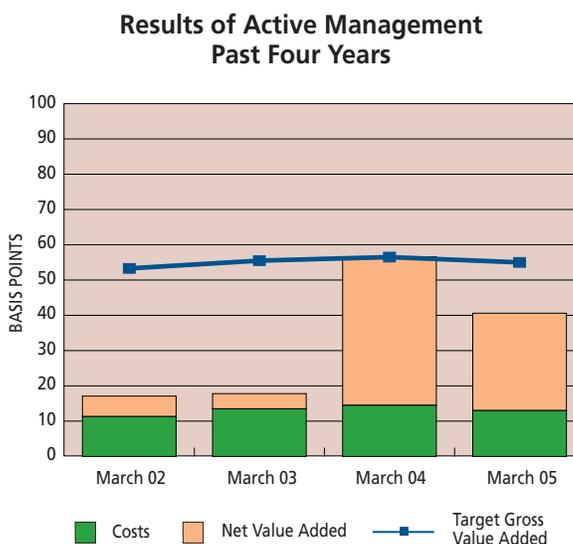
The early half of the fiscal year was an extremely difficult period in which to add relative performance to the fund assets. Volatility was the key culprit as equity markets experienced large inter-day increases and decreases but essentially ended the first half of the year in a relatively flat position. This volatility made it very difficult from a portfolio management perspective to keep our asset mix in line with the investment policy mix and to also keep our foreign assets hedged. This therefore detracted value from our active management activities.

The Corporation was able to add value through fifteen active strategies during the year with the exception of the U.S. quantitative portion

of our internal Absolute Return Strategies, our Atlantic Opportunities private equity investing activity, and an external U.S. public equity mandate. The performance of the U.S. quantitative strategy was consistent with a number of peer funds using a similar type of strategy, and was more than made up for by the performance of our North American market neutral investment activity. The U.S. external public equity mandate was terminated during the year as management felt that the active investment risk used by the strategy would be better directed to other active investment strategies. The actual assets have reverted to an internal management team at NBIMC.

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

Adding Value after Covering Operating Costs



Note: Target gross value added declines in 03-04 due to lower costs

Risk Management

Risk management remains a very important focus at NBIMC. A disciplined approach to risk is critical to ensure that both pension plan contributions and benefits are stable and secure, and that we are able to meet our active investment management objectives. We have worked diligently in reducing the implied risk in the overall plan portfolios by approximately one third, over the past two years, through our asset mix diversification strategy.

The Corporation has developed a number of risk management processes that are continually reviewed by senior management and which can be summarized as follows:

- i. A Board risk management process policy that requires management to report to the Board annually on eight elements of risk. These elements include: investments, human resources, technology, legal, regulatory compliance, policy compliance, governance, reputation, communications, and business strategy.
- ii. A weekly risk measurement of the overall pension plans' funding ratio. This item is reported to the Board on a quarterly basis.
- iii. A weekly risk measurement of the Corporation's active management activities.
- iv. A weekly Compliance Report on activities related to both investment policies and internal procedures.
- v. A management led Investment Risk Management Committee which reviews and considers for recommendation all proposed changes to internal operating procedures. This could include proce-

dures that affect investment valuation, risk measurement, or proposed new investment activities and instruments. This Committee met on three occasions during the year.

- vi. An Information Technology Risk Management Committee that provides guidance to the Corporation on all technology related matters. This Committee also met on three occasions during the year.

NBIMC is currently in the final stages of selecting an external advisor to perform an internal audit function within the Corporation. This advisor will work under the direction of the Board's Audit Committee and will help to review and provide advice on internal controls within the Corporation.

Finally, it is important to note that our research focus has also been on building an asset mix that better reflects the actual liabilities of each of the pension funds under management. The goal from this work, commonly referred to as fund surplus optimization, should lead to lower volatility around the funding ratios of each plan by combining the expected risk of not only the assets under management but also each plan's liability profile. The expected results of this work is that each fund under our management will have a more specific asset mix that is more representative of its liability profile. This mix will potentially move us further away from the traditional "60% equity 40% debt" mix that most pension plans expose themselves to. While this may potentially lead to NBIMC posting significantly different investment results than other peer fund managers, the risk to both the plan sponsors and plan members will be significantly reduced by having more stable plan funded ratios.

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. Cost minimization is an extremely important focus as it directly impacts each fund's net investment return, and is especially relevant in the current environment of single digit return expectations across most asset classes. It is also important to note that active management performance is measured on a net basis after all of the Corporation's operating costs are accounted for.

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 approximately 0.13% (13 basis points) versus 0.14% last year. Absolute operating expenses of approximately \$8.8 million were slightly lower versus the year prior, with the improvement in the reported expense ratio attributed to the increase in assets under management.

There are a number of ways that we attempt to benchmark the amount of our expenses versus peer fund managers. According to a database from KPA Advisory Services Ltd¹, a well known Canadian pension consulting and performance measurement firm, the average pure passively managed portfolio costs an average of 9 basis points annually. The average annual total operating costs for the typical pension fund in their database was 37 basis points per annum. More recently, SEI Investments² have published research indicating that the median annual manager operating costs, from a survey of Defined Benefit Pension plans with assets greater than \$1 billion, was 41.5 basis points.

Based on these comparisons, we are pleased to once again report that NBIMC's operating costs are very low compared to the average fund operating cost. Maintaining this low cost structure helps to maximize the assets that are available to pay pension benefits.

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

2. "2004 Pension Plan Sponsor Fee Survey", SEI Investments Canada, (http://www.seic.ca/institutions/documents/Generic_2004.pdf).

Employee Activity in our Communities

Not 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. The Corporation's employees not only again exceeded their budgeted contribution level for the annual United Way campaign, but almost two thirds of our employees provided their time and energy by volunteering to over twenty non-profit organizations during the year.

Communications and Accountability

As 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, newsletters, our website (www.nbimc.com), and through presentations to pension committees of the funds under management.

