

Corporate Profile

The New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of over 42,500 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 net of organizational expenses
- Risk management
- Provides 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 \$8.09 billion at March 31, 2006.

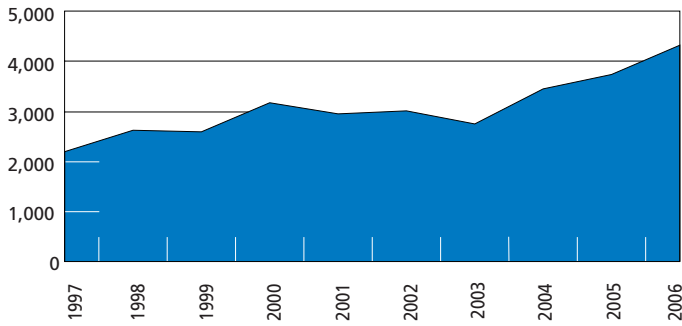
Corporate Vision

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

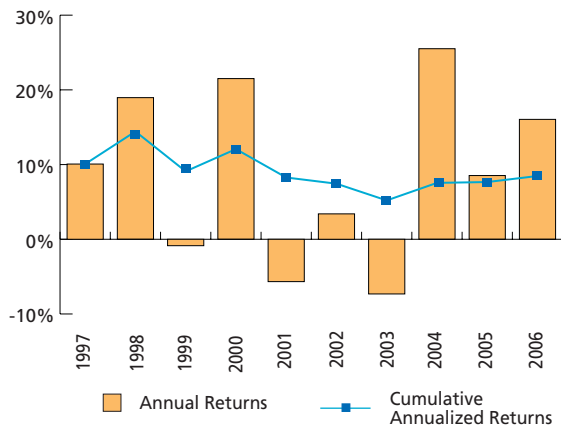
Financial Highlights - as of March 31, 2006

PUBLIC SERVICE

NET ASSETS - as of March 31, 2006
(\$ millions)



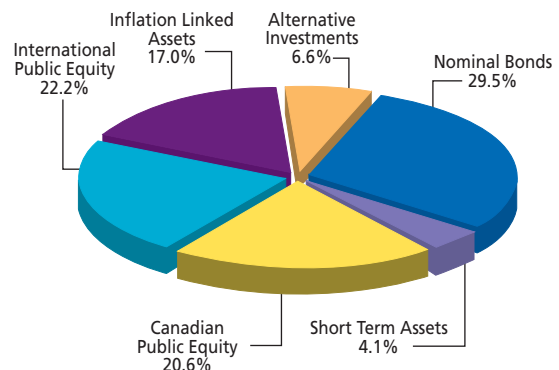
ANNUAL TOTAL FUND RETURNS - 1997-2006



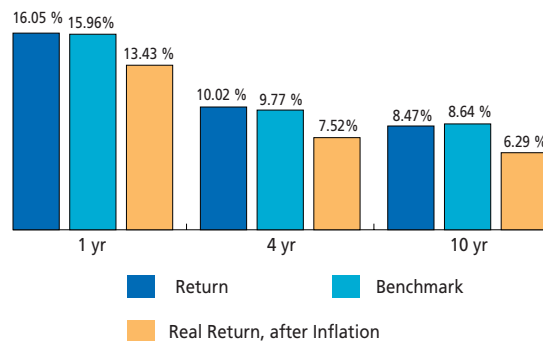
INVESTMENTS BY PORTFOLIO - as of March 31, 2006
(\$ millions)

	2006	2005	2004
FIXED INCOME			
Nominal Bonds	\$ 1,275.2	\$ 1,101.1	\$ 915.1
Short Term Assets	179.5	247.5	128.9
	1,454.7	1,348.6	1,044.1
PUBLIC EQUITY			
Canadian	892.2	781.8	1,008.7
International	960.3	827.3	732.3
	1,852.5	1,609.1	1,741.0
INFLATION LINKED ASSETS			
Real Return Bonds	497.6	431.9	397.8
Real Estate and Infrastructure	173.5	96.6	76.3
Commodities	67.1	15.5	-
	738.2	544.0	474.2
ALTERNATIVE INVESTMENTS			
Absolute Return	236.2	206.2	155.7
Private Equity	51.9	34.6	41.5
	288.1	240.8	197.2
Total Investments	\$ 4,333.4	\$ 3,742.5	\$ 3,456.5

ASSET MIX - as of March 31, 2006



INVESTMENT PERFORMANCE as of March 31, 2006

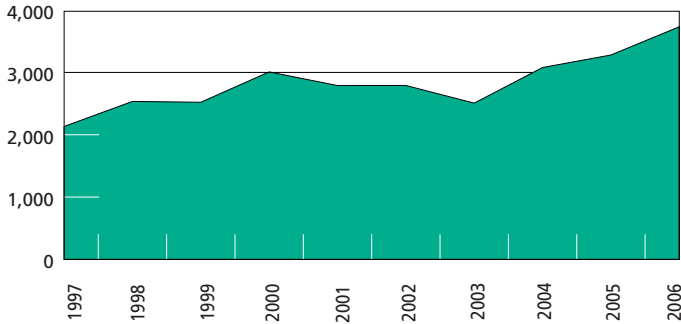


Note: Numbers above may not add up due to rounding.

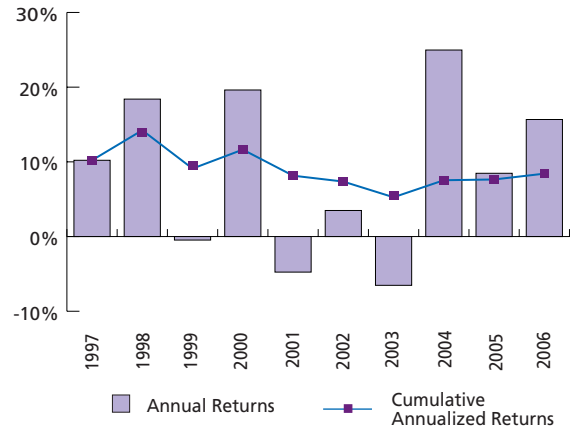
Financial Highlights - as of March 31, 2006

TEACHERS'

NET ASSETS - as of March 31, 2006
(\$ millions)



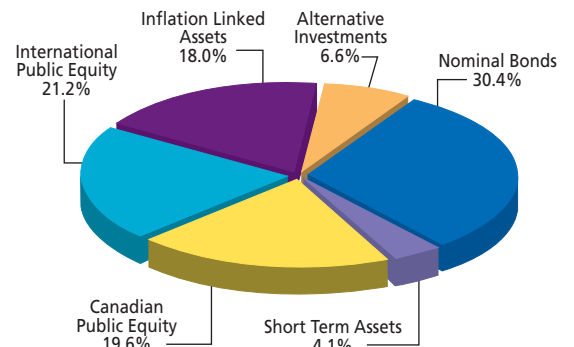
ANNUAL TOTAL FUND RETURNS - 1997-2006



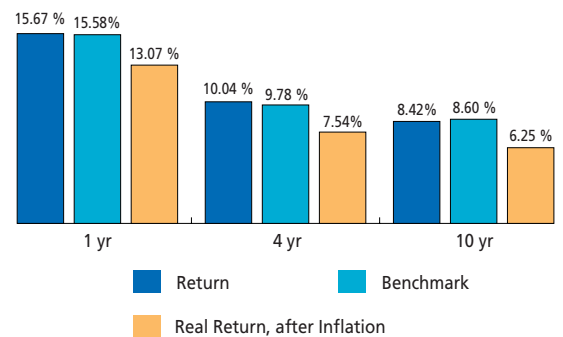
INVESTMENTS BY PORTFOLIO - as of March 31, 2006
(\$ millions)

	2006	2005	2004
FIXED INCOME			
Nominal Bonds	\$ 1,134.5	\$ 995.8	\$ 846.1
Short Term Assets	154.5	216.3	111.9
	1,289.0	1,212.0	958.0
PUBLIC EQUITY			
Canadian	730.4	651.1	868.0
International	791.6	691.1	623.4
	1,522.0	1,342.2	1,491.4
INFLATION LINKED ASSETS			
Real Return Bonds	465.4	410.5	385.2
Real Estate and Infrastructure	149.3	84.5	68.0
Commodities	57.7	13.5	-
	672.4	508.6	453.2
ALTERNATIVE INVESTMENTS			
Absolute Return	200.5	180.4	137.1
Private Equity	44.7	30.2	37.0
	245.2	210.6	174.0
Total Investments	\$ 3,728.6	\$ 3,273.4	\$ 3,076.7

ASSET MIX - as of March 31, 2006



INVESTMENT PERFORMANCE as of March 31, 2006

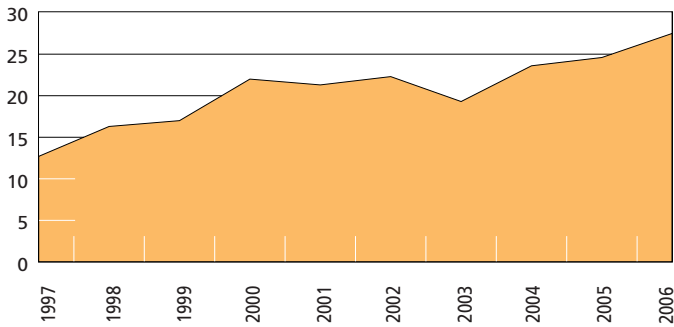


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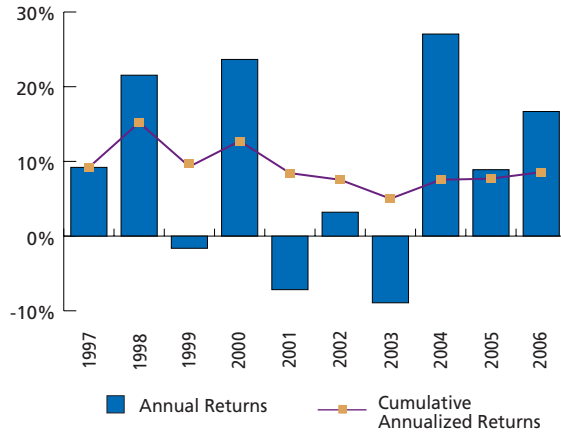
Financial Highlights - as of March 31, 2006

JUDGES'

NET ASSETS - as of March 31, 2006
(\$ millions)



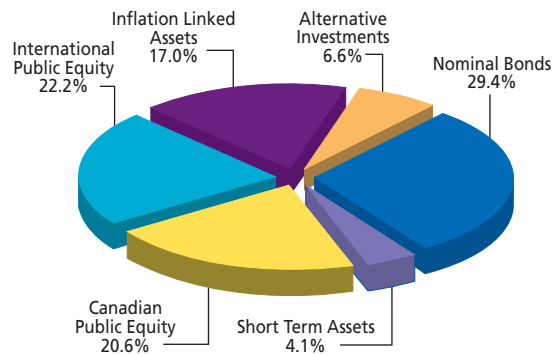
ANNUAL TOTAL FUND RETURNS - 1997-2006



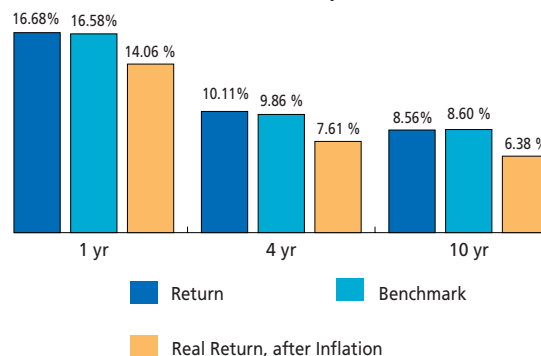
INVESTMENTS BY PORTFOLIO - as of March 31, 2006
(\$ millions)

	2006	2005	2004
FIXED INCOME			
Nominal Bonds	\$ 8.1	\$ 5.9	\$ 5.0
Short Term Assets	1.1	1.6	0.9
	9.2	7.5	5.8
PUBLIC EQUITY			
Canadian	5.7	5.7	7.6
International	6.1	6.0	5.4
	11.8	11.8	13.0
INFLATION LINKED ASSETS			
Real Return Bonds	3.2	3.0	2.8
Real Estate and Infrastructure	1.1	0.6	0.5
Commodities	0.4	0.1	-
	4.7	3.7	3.4
ALTERNATIVE INVESTMENTS			
Absolute Return	1.5	1.4	1.1
Private Equity	0.3	0.2	0.3
	1.8	1.6	1.4
Total Investments	\$ 27.5	\$ 24.6	\$ 23.6

ASSET MIX - as of March 31, 2006



INVESTMENT PERFORMANCE as of March 31, 2006



Note: Numbers above may not add up due to rounding.



Board of Directors



Wiktor Askanas
Director



Réjean Bossé
Director



Ronald J. LeBlanc, Q.C.
Director



Gilles Lepage
Vice-Chairperson of the Board
Chairperson of Audit Committee



Sharon MacFarlane, CA
Director (ex officio)



John Mallory
Director (ex officio, non-voting)



G. W. McMullen
Chairperson of the Board



Don Moors, FCMC
Director



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



Richard C. Speight, Q.C.
Chairperson Governance
Committee
Interim Chairperson Human
Resource Committee



Reno Thériault
Director



Michael W. Walton
Director

Letter to Stakeholders

We are very pleased to report on another successful year for NBIMC, and to also mark the 10th anniversary of the Corporation.

The Decade Past (1996 to 2006)

Over the past decade NBIMC has grown from a relatively small group of 13 employees managing \$3.9 billion across four asset classes into an experienced institutional pension fund manager with 36 employees, who are managing over eight billion dollars (\$8.1B) across fourteen different asset classes. Investment returns over the decade have been a very respectable 8.45% per annum in nominal return terms, and 6.27% per annum in real (inflation adjusted) return terms. Both of these annual return measures are well ahead of the annual actuarial returns required by each of the plans under management.

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 has added approximately \$4.7 billion in investment returns since inception, which has included periods of good overall market conditions as well as periods that were significantly more challenging.

Over our first ten years we have been able to provide very respectable investment returns by operating within our legislative mandate. This performance, in combination with the support of the plan sponsor, has helped to significantly improve the funding status of the pension funds under management.

Results versus Objectives

Upon the conclusion of our first decade of operations we thought it would be helpful to report and reflect against how the Corporation has succeeded against the objectives outlined in the New Brunswick Investment Management Corporation Act that created NBIMC. They are as follows:

Section 4: The objects and purposes of the Corporation are

- a) to act as trustee for the funds referred to in subsection 14(1),*
- b) to provide investment counseling services and other services in respect of the funds referred to in section 15,*
- c) to promote the development of the financial services industry and capital markets in the Province, and*
- d) to carry out such other activities or duties as may be authorized or required by this Act or the Lieutenant-Governor in Council may direct.*

We are pleased to report that significant progress has been made against each of these four objectives. Over the past ten years we have used this forum to report on our progress mainly against objective "a","b", and "d". This year we would also like to outline in more detail our progress versus objective "c".

The existence of the Corporation in its own right has helped to significantly develop the pension fund management industry in the province. As mentioned above, we have 36 people

working here in New Brunswick, managing over eighty percent of our \$8.1 billion in assets under management. We are now the largest fund manager east of Montreal in terms of assets under management. A significant portion of our operating expenses get reinvested here in the Province versus in the more typical central Canadian or foreign money management centres.

NBIMC has also developed both a private equity and private debt portfolio which invest in locally based investment opportunities. While this activity is first and foremost driven by our fiduciary duty as a trustee for the funds under management, we have been able to invest in a number of provincially based opportunities that provide attractive risk and return characteristics. An example of this activity was an investment made in the Medavie–Blue Cross organization during the fiscal year.

Another significant achievement has been our partnership with the Student Investment Fund at the University of New Brunswick. This initiative has played a large part in helping the university develop a program of excellence in regards to training investment management professionals, while also helping us to develop a locally based talent pool of potential employees.

Finally, NBIMC has a long standing external equity investment mandate with Louisbourg Investments. As well, our legal counsel, external audit, and internal audit services have been developed and provided by local firms.

Fiscal 2005-06

During fiscal 2005-06, net assets under management increased to \$8.089 billion from \$7.045. This increase in assets resulted from \$1.11 billion

in net investment earnings, \$127 million in special funding payments from the plans' sponsors, and net pension payouts of \$183 million. Management was also successfully able to add approximately \$14.2 million of the net investment earnings through active portfolio management activities.

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.

In summary, the Corporation has made the following important accomplishments during the year:

- Exceeded both the nominal and real return actuarial targets,
- Completed an asset mix review and target asset mix adjustment for the Judges' Pension Plan upon receipt of the April 2004 actuarial valuation,
- Continued to add relative value to the portfolios through active investment management,
- Broadened our own internal investment management activities,
- Initiated an internal audit relationship with an independent service provider, and
- Finalized our recent asset diversification work, which improves the implied risk in the overall plan portfolios.

Appreciation of Dedicated Service

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

A special recognition and thank you is warranted for the contribution of Mr. Rowland Frazee, Mr. Dawson Murray, Ms. Eileen Pike and Mr. William Tozer, whose term on our Board ended during the year. Mr. Frazee and Mr. Murray were both founding members of our Board and helped establish a solid foundation of governance and oversight that has served the Corporation well. Ms. Pike and Mr. Tozer both joined the Board in the year 2000 and have provided dedicated service to both the Board and its Human Resources Committee during their tenure.

We welcome the appointment of four new Board members in early 2006. Mr. Reno Thériault, Mr. Don Moors, Mr. Réjean Bossé, and Mr. Michael Walton joined our Board effective March 2nd and we look forward to their input and contribution.

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

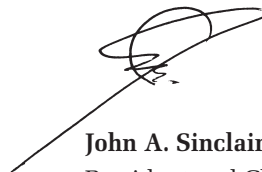
Finally, as noted last year, we remain focused on the work ahead. At the time of writing last year's annual report in early fiscal 2005-06 the

financial markets remained extremely volatile and we identified a number of concerns for the year ahead. While the markets did remain volatile, absolute investment performance was much better than expected. All of our asset classes provided positive returns and each of the public equity markets we invested in provided double digit gains. Valuations across most asset classes remain at historically high levels, and we remain cautious about what the near term may bring. Like last year however we remain confident 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

May, 2006
Fredericton, New Brunswick

Plan Governance

NBIMC is a crown Corporation, which was established under the New Brunswick Investment Management Corporation Act. 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 are 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 81.4%.

The full Board convened eight times during the year. One of the meetings included a review of the financial position of the Judges' Pension Plan, and subsequently approved a revised asset mix for that fund. 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.

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

During this year, the Corporation received an actuarial valuation, as at April 2004, for the Judges' Pension Fund (JPF). Upon receipt, we conducted an asset liability analysis and with Board approval subsequently made a series of adjustments to the asset mix of the fund. Due to the improved funding position of the JPF the public equity asset mix component was reduced in favour of more fixed income exposure. The end result has the policy asset mix of the JPF replicating that of the Public Service Superannuation Fund.

It is important to point out that the study attempted to determine the best risk adjusted asset mix for the fund that will provide a long-run real return (after inflation) in excess of 4.25% per annum for the JPF. Actuarial assumptions use an expected inflation rate of 3.5% which results in a total expected nominal return (net of expenses) of approximately 7.9%.

In past reports, and in our earlier Investment Beliefs section, we have discussed our interest in real return types of assets. During the year we continued to diversify the portfolio by increasing our exposure to these types of assets with incremental increases in real estate and commodity exposure that were systematically deployed into the portfolios over the past year. We also marginally increased our Absolute Return Strategy exposure during the year. All of these increases were funded by reducing our cash asset class targets, and are in line with our goals of attaining the necessary actuarial return requirements, while at the same time reducing the expected risk to the funding ratios of each of the portfolios.

In late 2005 NBIMC changed the benchmark for our public Canadian Equity exposure from the S&P TSX Composite Index to the S&P TSX Equity Only Index. This change came about as a result of the planned introduction of income trust securities into the Composite Index on December 16, 2005. At that time we determined that we were uncomfortable with the fit of income trust exposure in our asset mix and wanted to ensure that we managed purely equity type securities. Our concerns with these securities have been primarily around index sector concentration issues and a lack of industry understanding of their risk and return characteristics. Our Research Team is currently investigating how income trust securities might fit within our overall asset mix design.

Actuarial valuations are undertaken by the plan sponsor and typically follow three year cycles. We received an actuarial valuation for the Public Service Superannuation Fund (PSSF) in early 2006, and plan to have completed a full review of fund's asset mix later in the year. As has been past practice we may also make adjustments to either the Teachers' Pension Plan (TPF) or the Judges' (JPF) based on the outcome of this analysis.

Investment Performance

NBIMC focuses on two main objectives in terms of investment performance: i) actuarial return requirements of the funds and ii) adding value through active management strategies.

The first objective is in regards to both 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 mix development process which was discussed in the previous section. NBIMC is pleased to report that we not only exceeded both our nominal and real return hurdles during this past year, but have also exceeded these hurdles over the more important longer-term.

Returns for the year were outstanding. While this has been the second consecutive year in which each of our asset classes provided positive returns, we certainly do not expect this to be a long term trend. The most significant contributor to the funds' nominal performance during the year was the strong performance in public equity markets. Japan, Europe and Canadian equity markets all posted strong double digit returns. Real estate and infrastructure also produced excellent returns as our initial investments made in this asset class over the past few years have started to both distribute good interim cash flows and also grow in value. Fixed income investments provided a solid contribution, while commodities and absolute strategies contributed marginally. The earlier investments in our external private equity portfolio have also begun to realize good returns.

NBIMC's investment policy of fully hedging our currency exposure to foreign assets paid off well again this year as the Canadian dollar appreciated against the U.S. dollar, euro, pound sterling, and yen. We estimate that currency hedging was responsible for approximately \$174 million in investment gains, or 2.3%, of our total nominal return during the year.

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

Fiscal 2005-06 Rates of Return
(Portfolio and Benchmarks)

	Portfolio Return	Benchmark Return ²
Fixed Income		
Nominal Bonds	5.09 %	4.93 %
Short Term Assets	3.01	2.84
Public Equity		
Canadian	29.01 %	28.70 %
United States	13.82	14.48
Europe	30.77	30.56
Japan	50.57	47.48
Inflation Linked Assets		
Real Return Bonds	11.78 %	11.77 %
Real Estate / Infrastructure	40.01	32.39
Commodities	1.98	1.49
Alternative Investments		
Absolute Return	1.99 %	2.84 %
Private Equity ¹	9.60	21.03
Total Portfolio	15.87 %	15.78 %

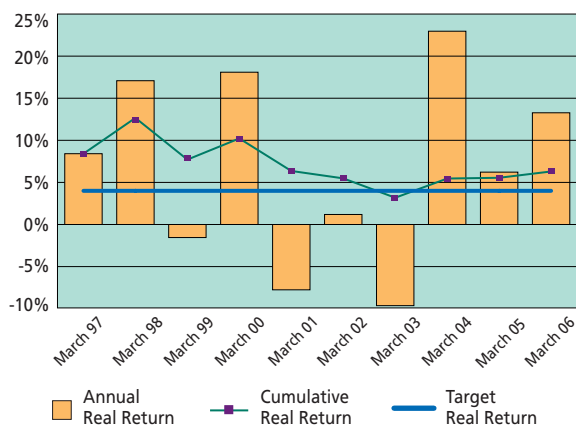
1) The NBIMC private equity portfolio is in its early stages. Portfolio returns are expected to converge to public Market Benchmark Returns over the next three to five years.

2) Benchmarks can be found at <http://www.nbimc.com/Files/2005/Abridged.IP.pdf>

The primary performance objective, as outlined by the plan actuary, is to achieve a long 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 2.30% per annum higher than the 4% hurdle required by the actuary.

Achieving the Long-Term Pension Promise



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 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 fifth consecutive year. These activities added 18.8 basis points of value, or approximately \$14.2 million.

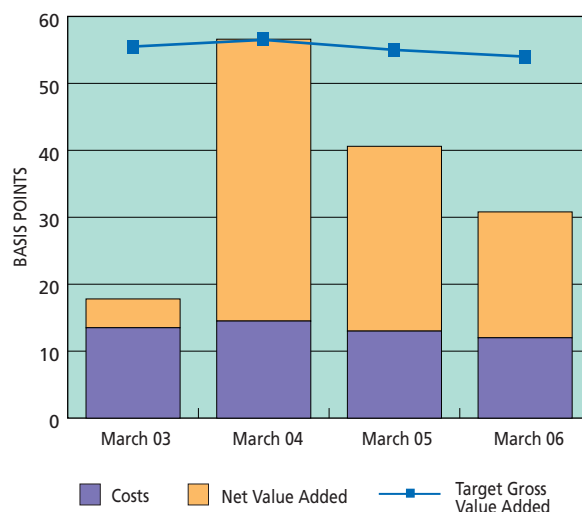
We are pleased to have added value over our operating costs, as the past year was an extremely difficult period in which to add relative performance to the fund assets. Much like the periods observed over the prior year, volatility was the key issue as almost all asset classes experienced large inter-day movements from time-to-time. Particular security or company specific investment choices were difficult as the volatility kept the market on

edge, and companies with any perceived performance problems were dealt with harshly by the financial markets. Our experiences were not isolated to NBIMC, as a number of active external managers also struggled to add value against public security benchmarks.

This volatility made it very difficult from a portfolio management perspective to keep our asset mix in line with the investment policy mix. It also made it difficult to keep our foreign assets hedged and therefore not detract value from our active management activities.

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 operating costs and excess (or net) value added performance.

Adding Value after Covering Operating Costs



Risk Management

As discussed regularly, risk management remains a very important focus. A disciplined approach to managing 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.

It is important to reiterate that the Corporation has developed a number of risk management processes that are continually reviewed by senior management, which are 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 procedures 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 met on three occasions during the year.

- vii) A business resumption and continuity plan.

Last year we reported that we had been working diligently to reduce the implied risk in the overall plan portfolios by approximately one third through our asset mix diversification strategy. This year we were able to review and validate our internal risk management measurement system by comparing the implied (or expected) risk metrics developed by our models, with the actual observed results that we have created over the past thirty months. While we recognize that this is a relatively short time period, our analysis indicated that our risk metrics compared favourably with our experience to date.

During the year, NBIMC's Board Audit Committee retained the services of an external advisor to perform an internal audit function within the Corporation. This advisor works under the direction of the Committee and will help to review and provide advice on internal controls within the Corporation. As a first order of business, the advisor conducted a full review of NBIMC's Compliance Process and Procedures and reported their findings to the Committee in early 2006. Further audit projects are scheduled for the upcoming fiscal year.

Operating Costs

Operating costs are an important element (to be deducted) in the determination of the final net returns for assets under management. When comparing performance between funds it is important to ensure one is comparing net fund returns, not gross returns. Lower costs result in higher comparative returns.

Operating costs include all of the expenses 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 lower return expectations across most asset classes. It is also important to note that NBIMC's 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 0.120% (12.0 basis points) versus 0.13% last year. Absolute operating expenses of approximately \$9.0

million were slightly higher versus the year prior, but within our budget for the year. Year over year increases can essentially be attributed to variable expenses which are a function of the amount of assets under management. The improvement in the reported expense ratio can be 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. First, we continue to compare favourably from internally conducted comparisons of information that becomes publicly available from the annual reports put forward by our public sector peer funds. We also compare favourably to external pension plan sponsor surveys. *SEI Investments*¹ have published research indicating that the median annual manager operating costs, from a survey of Defined Benefit Pension plans with assets greater than \$1B, was 35.1 bp.

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. "2005 Pension Plan Sponsor Fee Survey", SEI Investments Canada, (<http://www.seic.ca/institutions/documents/FeeStudy2005.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 fiscal year NBIMC's employees continued to be active contributors of both time and resources to charitable causes in our community. The Corporation's employees again exceeded their budgeted contribution level for the annual United Way campaign, and almost two thirds of our employees provided an average of over 100 hours each in volunteer efforts for nineteen non-profit organizations during the year.

In particular, the Corporation recognized Mr. Jason VanderToorn and Ms. Terry Wilkins for their respective volunteer contributions with the Fredericton YMCA and Capital Region Special Olympics organizations.

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.