



NB Investment Management Corporation

2006-2007 ANNUAL REPORT

The prudent, innovative and cost efficient investment management of New Brunswick based public sector funds to ensure long-term growth that meets client investment challenges.

BOARD OF DIRECTORS

Gilles Lepage

Vice-Chairperson of the Board

Wiktor Askanas

Chairperson of Human Resources Committee

Don Moors, FCMC

Director

Ronald J. LeBlanc, Q.C.

Director

Réjean Bossé

Director

Sharon MacFarlane, CA

Chairperson of Audit Committee

Richard C. Speight, Q.C.

Chairperson of Governance Committee

John Mallory

Director (ex officio, non-voting)

Reno Thériault

Director

John A. Sinclair

Director (ex officio)

Michael W. Walton

Director

CORPORATE OFFICERS

John A. Sinclair

President and Chief Executive Officer
Chief Investment Officer

Dan Goguen, CA, FRM

Vice-President and Chief Financial Officer

CORPORATE LEADERSHIP TEAM

John A. Sinclair

President and Chief Executive Officer
Chief Investment Officer

James Scott, CFA

Vice-President Fixed Income

Dan Goguen, CA, FRM

Vice-President and Chief Financial Officer

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New Brunswick Investment Management Corporation

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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 net of organizational expenses.
- Manages risks associated with the investment of the pension assets.
- Provides administrative services such as security custody, accounting, performance measurement, and technology.

Located in Fredericton, New Brunswick, NBIMC is the largest institutional investment manager in Atlantic Canada with assets under management totaling \$8.72 billion at March 31, 2007.

Corporate Mission

The prudent, innovative and cost efficient investment management of New Brunswick based public sector funds to ensure long-term growth that meets client investment challenges.

Key Goals:

- To provide long-term asset growth for client investment funds through prudent asset allocation and risk management strategies.
- To attract, develop, and maintain a highly skilled and experienced team of professionals to support growth and diversity of investment options.
- To enhance information technology systems to support growth and diversity of investment options.
- To enhance governance, management and organizational effectiveness.
- To strengthen and expand stakeholder relations.
- To provide investment fund management services to a growing number of New Brunswick-based public sector investment funds.

Corporate Vision

The New Brunswick Investment Management Corporation (NBIMC) is the provider of choice for New Brunswick public sector investment funds.

NBIMC is recognized as a user of "best practices" by clients and peers. The company is:

- A provider of consistent value added for clients through a diverse range of multiple investment strategies.
- Ranked on long-term performance in the top quartile of comparable investment fund management companies.
- Recognized by stakeholders as having strong governance practices and a long-term strategic vision.
- Driven by a team of highly skilled investment management professionals working within a culture of innovation and risk management.
- Viewed as an employer of choice by both recent graduates and experienced investment management professionals.

NBIMC maintains strong relationships and ongoing communication with key stakeholders.

Corporate Values

PRUDENCE – we guide investment activity within appropriate policy guidelines focused on asset allocation and risk management in accordance with client objectives.

ACCOUNTABILITY – we act in the best interests of our clients and use the highest standard of financial accounting, compliance, auditing and performance measurement.

TEAMWORK – we develop and sustain a learning culture of engaged employees who share expertise, clear roles, coordinated activity and working together to achieve our goals.

TRANSPARENCY – we produce clear and frequent communications to all stakeholders on operations, strategies and results.

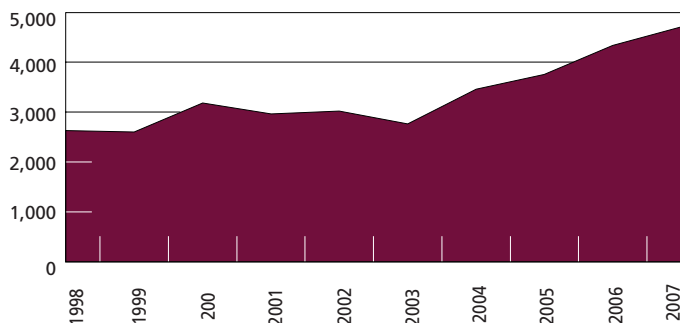
INTEGRITY – we ensure honesty in all corporate undertakings guided by a Code of Ethics and Business Conduct.

INNOVATION – we encourage a diversity of innovative, well researched investment and management strategies.

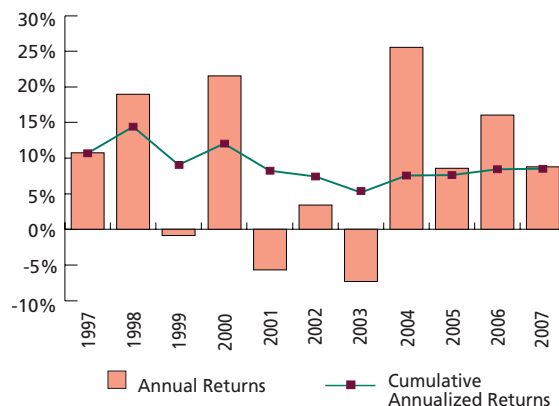
Financial Highlights - as of March 31, 2007

PUBLIC SERVICE

NET ASSETS - as of March 31, 2007
(\$ millions)



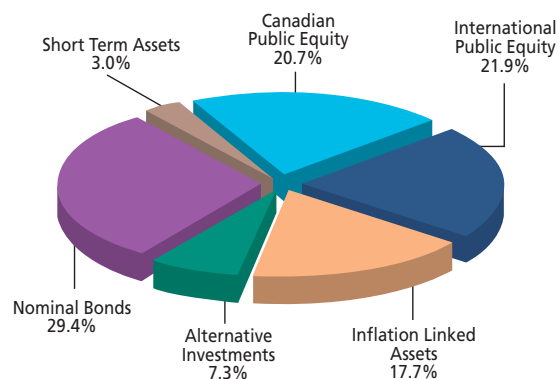
ANNUAL TOTAL FUND RETURNS - 1997-2007



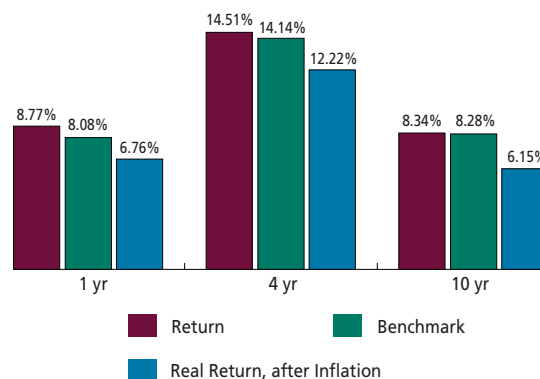
INVESTMENTS BY PORTFOLIO - as of March 31, 2007
(\$ millions)

| | 2007 | 2006 | 2005 |
|--------------------------------|-------------------|-------------------|-------------------|
| FIXED INCOME | | | |
| Nominal Bonds | \$ 1,382.5 | \$ 1,275.2 | \$ 1,101.1 |
| Short Term Assets | 142.4 | 179.5 | 247.5 |
| | 1,524.8 | 1,454.7 | 1,348.6 |
| PUBLIC EQUITY | | | |
| Canadian | 972.7 | 892.2 | 781.8 |
| International | 1,028.7 | 960.3 | 827.3 |
| | 2,001.4 | 1,852.4 | 1,609.1 |
| INFLATION LINKED ASSETS | | | |
| Real Return Bonds | 542.1 | 497.6 | 431.9 |
| Real Estate and Infrastructure | 194.5 | 173.5 | 96.6 |
| Commodities | 93.5 | 67.1 | 15.5 |
| | 830.1 | 738.2 | 544.0 |
| ALTERNATIVE INVESTMENTS | | | |
| Absolute Return | 282.1 | 236.2 | 206.2 |
| Private Equity | 62.7 | 51.9 | 34.6 |
| | 344.8 | 288.1 | 240.8 |
| Total Investments | \$ 4,701.1 | \$ 4,333.4 | \$ 3,742.5 |

ASSET MIX - as of March 31, 2007



INVESTMENT PERFORMANCE as of March 31, 2007

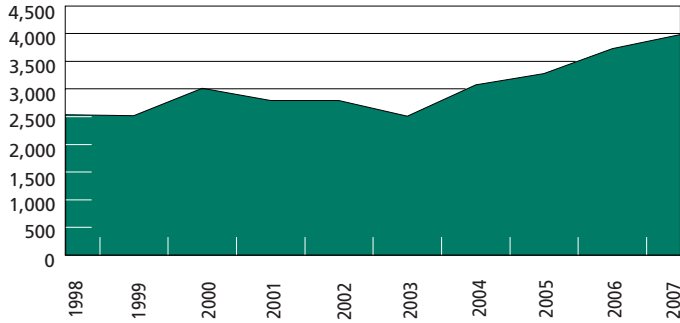


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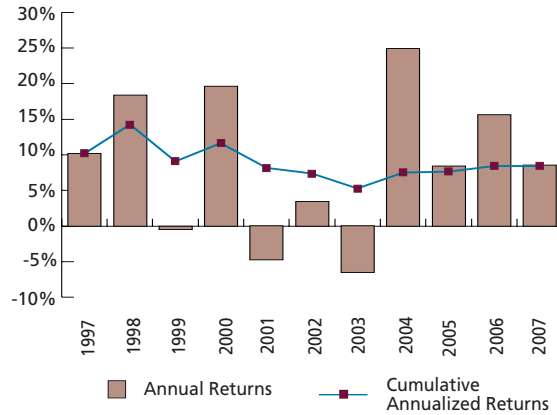
Financial Highlights - as of March 31, 2007

TEACHERS'

NET ASSETS - as of March 31, 2007
(\$ millions)



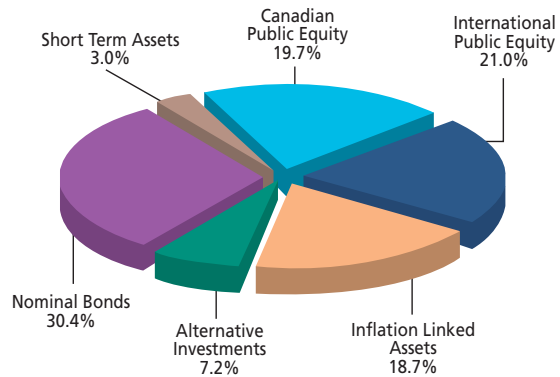
ANNUAL TOTAL FUND RETURNS - 1997-2007



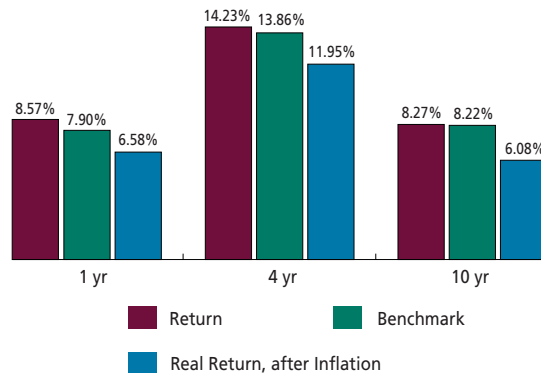
INVESTMENTS BY PORTFOLIO - as of March 31, 2007
(\$ millions)

| | 2007 | 2006 | 2005 |
|--------------------------------|-------------------|-------------------|-------------------|
| FIXED INCOME | | | |
| Nominal Bonds | \$ 1,209.6 | \$ 1,134.5 | \$ 995.8 |
| Short Term Assets | 120.3 | 154.5 | 216.3 |
| | 1,329.9 | 1,289.0 | 1,212.0 |
| PUBLIC EQUITY | | | |
| Canadian | 783.3 | 730.4 | 651.1 |
| International | 836.1 | 791.6 | 691.1 |
| | 1,619.4 | 1,522.0 | 1,342.2 |
| INFLATION LINKED ASSETS | | | |
| Real Return Bonds | 498.5 | 465.4 | 410.5 |
| Real Estate and Infrastructure | 164.6 | 149.3 | 84.5 |
| Commodities | 79.1 | 57.7 | 13.5 |
| | 742.3 | 672.4 | 508.6 |
| ALTERNATIVE INVESTMENTS | | | |
| Absolute Return | 233.5 | 200.5 | 180.4 |
| Private Equity | 53.1 | 44.7 | 30.2 |
| | 286.6 | 245.2 | 210.6 |
| Total Investments | \$ 3,978.2 | \$ 3,728.6 | \$ 3,273.4 |

ASSET MIX - as of March 31, 2007



INVESTMENT PERFORMANCE as of March 31, 2007

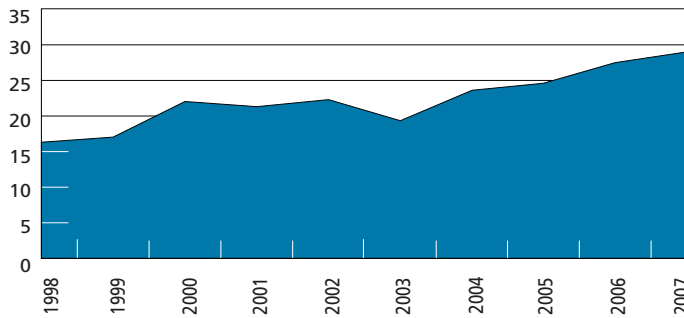


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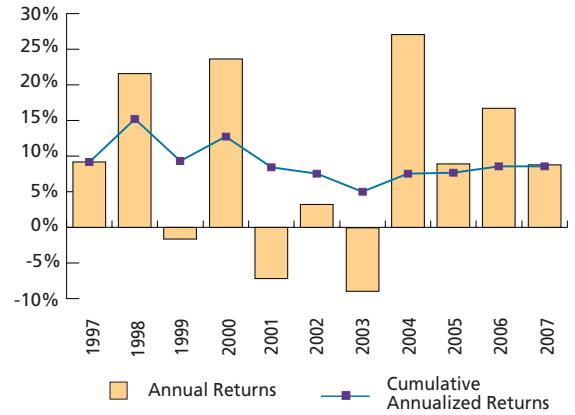
Financial Highlights - as of March 31, 2007

JUDGES'

NET ASSETS - as of March 31, 2007
(\$ millions)



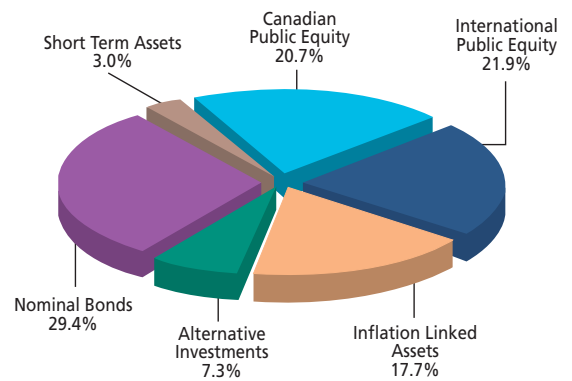
ANNUAL TOTAL FUND RETURNS - 1997-2007



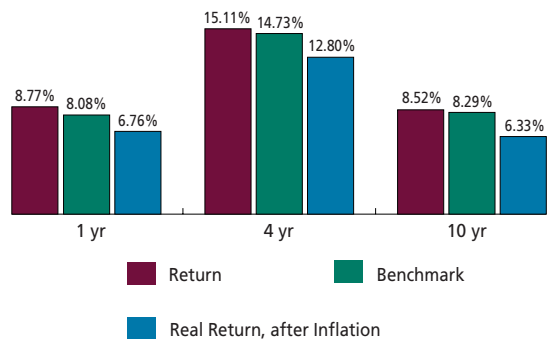
INVESTMENTS BY PORTFOLIO - as of March 31, 2007
(\$ millions)

| | 2007 | 2006 | 2005 |
|--------------------------------|----------------|----------------|----------------|
| FIXED INCOME | | | |
| Nominal Bonds | \$ 8.5 | \$ 8.1 | \$ 5.9 |
| Short Term Assets | 0.9 | 1.1 | 1.6 |
| | 9.4 | 9.2 | 7.5 |
| PUBLIC EQUITY | | | |
| Canadian | 6.0 | 5.7 | 5.7 |
| International | 6.4 | 6.1 | 6.0 |
| | 12.4 | 11.8 | 11.8 |
| INFLATION LINKED ASSETS | | | |
| Real Return Bonds | 3.3 | 3.2 | 3.0 |
| Real Estate and Infrastructure | 1.2 | 1.1 | 0.6 |
| Commodities | 0.6 | 0.4 | 0.1 |
| | 5.1 | 4.7 | 3.7 |
| ALTERNATIVE INVESTMENTS | | | |
| Absolute Return | 1.7 | 1.5 | 1.4 |
| Private Equity | 0.4 | 0.3 | 0.2 |
| | 2.1 | 1.8 | 1.6 |
| Total Investments | \$ 29.0 | \$ 27.5 | \$ 24.6 |

ASSET MIX - as of March 31, 2007



INVESTMENT PERFORMANCE as of March 31, 2007



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

Board of Directors



Wiktor Askanas
Chairperson Human Resources
Committee



Réjean Bossé
Director



Ronald J. LeBlanc, Q.C.
Director



Gilles Lepage
Vice-Chairperson of the Board



Sharon MacFarlane, CA
Chairperson Audit Committee



John Mallory
Director (ex officio, non-voting)



Don Moors, FCMC
Director



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



Richard C. Speight, Q.C.
Chairperson Governance
Committee



Reno Thériault
Director



Michael W. Walton
Director

Letter to Stakeholders

On behalf of the Board of Directors and staff of NBIMC we are pleased to provide the following Fiscal 2006-2007 Annual Report. The past year was one of significant activity and accomplishment as the Corporation entered its second decade of operations.

An item of particular note was the completion of a new Strategic Plan that will help guide the Corporation's business planning efforts over the next five years. An overview of NBIMC's mission, vision, and values resulting from this exercise is contained in the preceding pages. The Board of Directors and Management look forward to using this plan to help the Corporation continue its long term investment success and to capitalize on a number of exciting opportunities.

Fiscal 2006-07

During the fiscal year 2006-07, net assets under management increased from \$8.099 billion to \$8.718 billion. This increase in assets resulted from \$686 million in net investment earnings, \$132 million in special funding payments from the plans' sponsor, and net pension payouts of \$199 million. Management was also successfully able to add approximately \$50 million of the net investment earnings through active portfolio management activities.

NBIMC continues to deliver both nominal and real (inflation adjusted) investment returns that exceed long-run actuarial requirements. We also continue to contribute additional value added returns 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 achieved the following important accomplishments during the year:

- Exceeded both the nominal and real return actuarial targets,
- Completed a new Strategic Plan for 2007 through 2012,
- Exceeded the relative value target return for the portfolios through active investment management,
- Broadened our own in-house investment management activities to include approximately \$500 million of European public equity securities, and
- Conducted an asset-liability review of both the Public Service Superannuation Fund and Teachers' Pension Fund plans.

With respect to the governance of the Corporation we are pleased to note the completion of a governance related audit conducted by the Auditor General. A copy of the report and our Board's response comments can be found at <http://www.gnb.ca/oag-bvg/2006v2/chap3e.pdf>. We agree with the Auditor General that effective governance can have a very positive effect on performance. We also appreciate his review and the related comments that acknowledge our

competencies in this area and those that could provide improvements to our current processes. The Board has reviewed these comments and has commenced a disciplined process to analyze the recommendations outlined in the report.

Asset Mix Reviews

Last year's annual report noted that we had received a copy of the actuarial valuation of the Public Service Superannuation Fund (PSSF) and planned to complete a full review of the fund's asset mix during the upcoming fiscal year. We subsequently received a copy of the actuarial valuation of the Teachers' Pension Fund (TPF) and conducted a concurrent analysis specific to that fund's asset mix.

It is important to note that the strong investment results of recent years have significantly improved the funding positions of both plans. The improvement in the financial security of these plans, along with what might be considered to be the fairly mature nature of their liability profiles, played a large part in the decision-making criteria of these reviews.

The NBIMC Board subsequently approved a new asset mix for each of the three plans under our management in April of 2007. Details of these changes can be obtained from the Investment Policy Document contained on our web site at <http://www.nbimc.com/InvestmentPolicyFiles.html>. These changes will also be communicated to stakeholders through the numerous communication forums we will take part in over the upcoming year.

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 continues to be a major responsibility and a significant commitment which is greatly appreciated.

A special recognition and thank you is warranted for the contribution of Mr. G.W. (Wylie) McMullen whose term as Chairman of the Corporation ended during the year. Wylie joined the team during a period of turmoil in the global capital markets, yet his guidance and oversight has played a large part in the investment success and growth of the Corporation during his four year term of service.

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.

Outlook

The global capital markets continued their strong growth trajectory over the past year mixed with intermittent periods of volatility. This volatility was no more evident than on February 27th of this year when we saw global public equity markets act adversely to a drop of over 9% in China's equity market.

Fixed income yields remain considerably below the actuarial funding requirements for each pension plan while equity market valuations

continue to remain high. While this has helped significantly grow the value of our assets under management in recent years it continues to make it difficult to find undervalued opportunities in which to invest.

It is important to remember that capital markets are cyclical in nature and that periods of negative performance must be expected and planned for. Changes brought about in the global public equity markets through both merger and private equity activity present other challenges. Nowhere has this been more relevant than in Canada where the constituents of our headline public equity index have undergone significant change and turnover. Canadian public investment opportunities in well capitalized global companies are quickly shrinking, causing us to look seriously at other markets and strategies for future investment.

While these changes provide challenges in the short-term we feel that the experience and development activity we have conducted over the past few

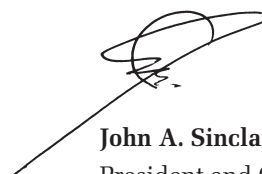
years, in both international public and private equity, should allow us to exploit good investment opportunities in the future.

As in the past we remain confident that we have the strategy, people, and processes in place to continue to meet the long-term goals of our stakeholders and look forward to the challenge.

Sincerely,



Gilles Lepage
Vice Chairperson



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

May, 2007

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 currently 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 which acts solely in a fiduciary capacity as Trustee for the funds under management. Board members do not represent any specific stakeholder interest. The Board ensures that all of 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 assist in fulfilling its responsibilities: an Audit Committee, a Human Resources Committee and a Governance Committee. The full Board convened eight times during the year while each of the Committees met at regular intervals. Combined Board and Committee attendance during the fiscal year was 86%.

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:

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

Asset Mix

In past annual reports we have discussed initiatives to reduce our public equity exposure with strategies that we expect will provide us with similar long-term returns but also provide significantly different risk profiles. During the year we continued this diversification activity by incrementally increasing our exposure to real return types of assets such as private real estate and commodities. We have also continued to marginally increase our Absolute Return Strategy exposure. All of these increases 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 due to 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. This benchmark change turned out to be a very good decision as it allowed us to avoid the significant price decline in income trust type securities that occurred on October 31, 2006 when the Federal Government announced changes to their taxation regime. While this change was made for portfolio benchmarking purposes, and is therefore not part of our relative value-added return measures, we estimate that it saved the portfolio approximately \$50 million. Subsequent to the completion of our research analysis on income trusts, and also due to the

decline in the composition of the companies making up the Equity Only Index, we reverted back to the S&P TSX Composite Index benchmark by the end of January 2007.

Actuarial valuations are undertaken by the plan sponsor and typically follow three year cycles. As noted earlier, the Corporation had recently received an actuarial valuation for the PSSA Plan as at April 2005 and the TPF Plan as at April 2006. During the year we conducted an asset liability analysis for each fund and upon Board approval we have subsequently been making a prudent series of adjustments to their asset mixes. These analyses are used to determine the best investment mix of financial assets that will exceed the long-term real return (i.e. after inflation) required by the Plans' actuary with the least amount of risk.

Due to the updated liability characteristics of both plans the nominal bond and real return bond exposure was reduced somewhat in favour of more real estate and international public equity exposure. The Judges' Pension Plan policy asset mix was adjusted to replicate that of the PSSA plan as per the practice adopted last year.

Investment Performance

The two main objectives, in terms of investment performance, that NBIMC focuses on are the actuarial return requirements of the funds and 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 continued to exceed these targets over the more important long-term.

Returns for the year were good. The most significant contributor to the funds' nominal performance during the year was the strong performance of the public equity markets. Canadian and European equity markets both posted strong double-digit returns, along with positive contributions from both the U.S. and Japanese markets. Real estate and infrastructure also produced excellent returns as our investments in this asset class continue to distribute good cash flows and have also continued to grow in value. Our commodity portfolio, the only negative asset class return for the year, offset some of the gains in our inflation-linked asset class segment. Fixed income investments provided a solid contribution although as noted earlier, resulted in returns less than those required by the Plans' actuary. Finally we received a strong contribution from our absolute return strategies. As we have discussed in the past we expect these strategies to provide long-term equity-like returns, but they should not necessarily move in a correlated direction with these markets.

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 term 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 in the security of the pension plan benefits.

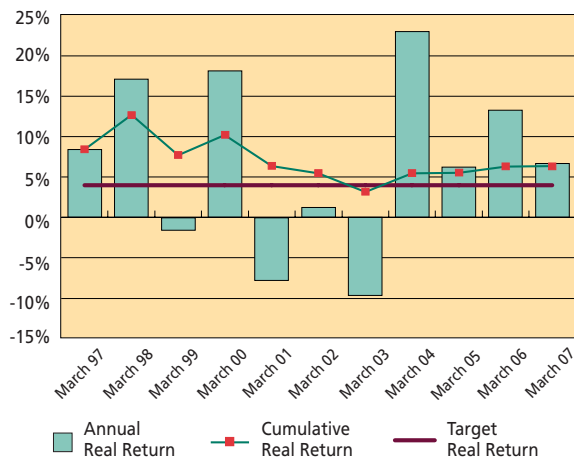
Fiscal 2006-07 Rates of Return

| | Portfolio Return | Benchmark Return |
|--------------------------------|------------------|------------------|
| Fixed Income | | |
| Nominal Bonds | 5.69% | 5.33% |
| Short Term Assets | 4.27 | 4.19 |
| Public Equity | | |
| Canadian | 13.83% | 14.05% |
| United States | 9.95 | 10.70 |
| Europe | 13.96 | 13.16 |
| Japan | 5.71 | 2.30 |
| Inflation Linked Assets | | |
| Real Return Bonds | 0.10% | 0.04% |
| Real Estate / Infrastructure | 26.97 | 19.13 |
| Commodities | (9.13) | (9.41) |
| Alternative Investments | | |
| Absolute Return | 8.01% | 4.19% |
| Private Equity | 13.38 | 12.94 |
| Total Portfolio | 8.68% | 8.00% |

The following chart illustrates the annual real return achieved by NBIMC since our inception. More importantly the chart also illustrates that the cumulative real return since inception is 2.33% per annum above the 4% hurdle required by the actuary. This additional return equates to approximately \$1.5 billion of cumulative additional real return above that assumed by the Plans' funding assumptions over the eleven year period.

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.

Achieving the Long-Term Pension Promise



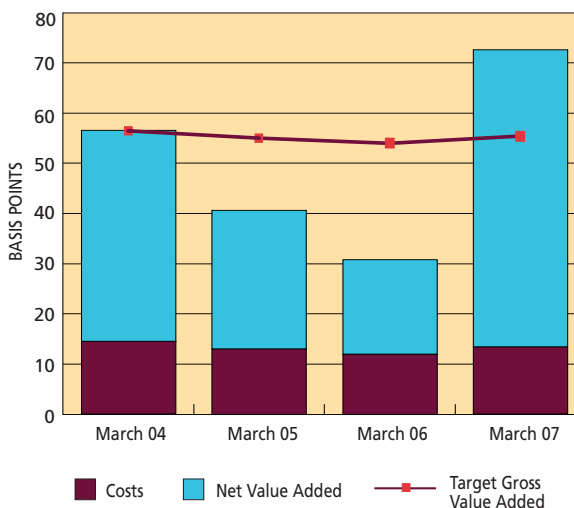
Our active management activities continued to add value for a sixth consecutive year. These activities added 57.9 basis points of value (138% of target), or approximately \$48.9 million, after covering all of the organization’s operating costs. This year’s success has also helped move our longer-term four year average annual value added return to approximately 38 basis point per annum (90% of target). The four-year term is the most significant term used to measure manager performance and is selected to represent a more consistent longer term measure.

We are pleased to have exceeded our value added targets over the past year. Most of our activities exceeded their benchmark with the main exception being our public Canadian equity portfolio. The merger and acquisition activity in the Canadian market made it difficult to be rewarded for actively selected stocks based on their fundamentals during the year. We were also impacted on a relative basis from the Federal Government’s changes to the taxation of income trusts in

October 2006. While we noted earlier that we had prudently avoided owning income trusts in our portfolio, we did hold a number of Canadian stocks which had been expected to convert to a trust and were therefore adversely affected.

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

A disciplined focus on potential risk is a critical part of NBIMC’s investment management activities. It is a key element in ensuring stability in both pension plan contributions and benefits, and making sure that our active investment management activities do not bring undue risk to the Plans’ assets. All investment decisions are

made in a risk context that not only focuses on the expected returns of our activities but also on the potential loss that could be realized by those activities.

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

- i) A Board risk management process, conducted with the support of our internal audit services firm, annually reviews eleven risk categories. These categories include:
 - investment risk,
 - human resources risk
 - technology risk
 - legal, regulatory and policy compliance risk
 - governance risk
 - reputation risk
 - communications risk
 - business strategy risk
 - business environment
 - fiduciary risk
 - operational risk
- ii) A weekly risk measurement of the overall pension plans' funding ratio. This 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. Investment Policy compliance is reported to the Board on a quarterly basis.
- 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.

Our internal audit service provider (a firm external to NBIMC) conducted a full review of NBIMC's information technology strategy and controls and reported their findings to the Audit Committee in late 2006. The internal audit provider works under the direction of the Board's Audit Committee and helps to review and provide advice on internal controls and processes within the Corporation.

Human resources risk was also considered during the year by the Human Resources Committee of our Board. With the help of an external compensation consultant, the Committee reviewed and updated the Corporation's compensation philosophy and conducted a full review of each employee position against this philosophy to ensure we can continue to attract and retain high caliber investment management professionals.

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.

These expenses 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 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 0.134% (13.4 basis points) versus 0.12% last year. Absolute operating expenses of approximately

\$11.3 million were about \$2 million higher than the year prior, but within the fixed elements of our budget for the current year. The increase can essentially be attributed to variable expenses which are a function of the amount of assets under management and performance incentives for both internally and externally managed assets.

As we have discussed in the past, there are a number of ways that we attempt to benchmark the amount of our expenses versus peer fund managers. First of all we continue to compare favourably from internally conducted comparisons of information that become publicly available from the Annual Reports of our public sector peer funds. We also compare favourably to external pension plan sponsor surveys. SEI Investments¹ 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 35.1 bp.

Based on these comparisons, we are again pleased to 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

Employee Activity in our Communities

Management and staff continue to feel that it is important to be engaged in our local communities by being active contributors of both time and resources to charitable causes.

Employees continued to exceed their target contribution level for the annual United Way campaign, and almost two thirds of our employees provided an average of over 70 hours each in volunteer efforts for twenty five non-profit organizations during the year. Seven other charitable causes were also supported through other internal fund-raising initiatives.

Of particular note, the Corporation recognized Mr. Thomas Keating as our "volunteer of the year" for his long serving commitment to the Big Brothers Big Sisters organization.

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 Annual Report and also to a number of stakeholder groups at least annually through the following means:

- Crown Corporations Committee of the Legislature
- PSSA Consultation Committee
- NBTA / AEFNB Pension Committee
- NB Teachers Federation
- PSSA, TPF, and JSP Echo Newsletters
- <http://www.nbimc.com>