



**NB Investment Management Corporation**

# **2007-2008 ANNUAL REPORT**

## BOARD OF DIRECTORS

**Gilles Lepage**  
Chairperson of the Board

**Michael W. Walton**  
Director

**Joel Attis**  
Vice-Chairperson of the Board

**Wiktor Askanas**  
Chairperson of Human Resources and  
Compensation Committee  
Director

**Don Moors, FCMC**  
Director

**Marc-Antoine Chiasson**  
Director

**Réjean Bossé**  
Director

**Sharon MacFarlane, CA**  
Chairperson of Audit Committee  
Director (ex officio)

**Richard C. Speight, Q.C.**  
Chairperson of Governance Committee  
Director

**Reno Thériault**  
Director

**Cathy Rignanesi**  
Director

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

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

## CORPORATE OFFICERS

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

**Jan Imeson, CA**  
Vice-President and Chief Financial Officer

**Norma Kennedy**  
Secretary of the Corporation

## 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 Private Markets

**Jan Imeson, CA**  
Vice-President and Chief Financial Officer

**Mark Holleran, CFA**  
Vice-President Equities

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### New Brunswick Investment Management Corporation

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E-mail: nbimc@nbimc.com

Website: <http://www.nbimc.com>

## *Corporate Profile*

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**T**he New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of over 46,000 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 \$8.70 billion at March 31, 2008.

## *Corporate Mission*

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***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

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**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

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**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.

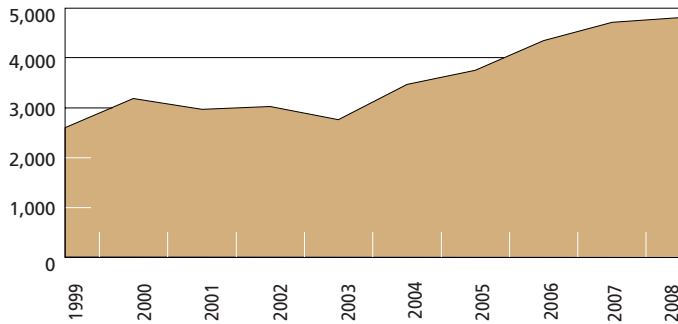
**INTEGRITY** – we ensure honesty in all corporate undertakings guided by a Code of Ethics and Business Conduct.

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

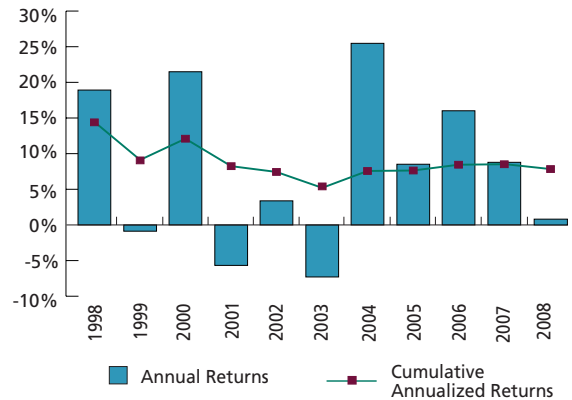
# Financial Highlights - as of March 31, 2008

## PUBLIC SERVICE

**NET ASSETS - as of March 31, 2008**  
(\$ millions)



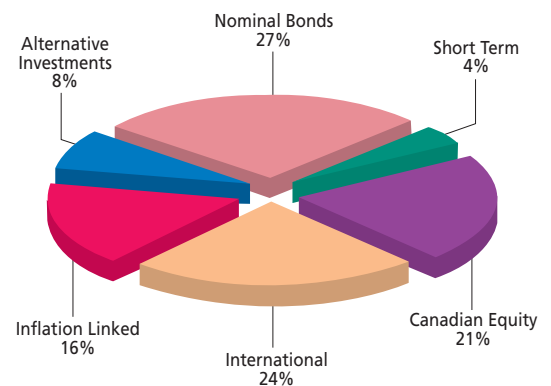
**ANNUAL TOTAL FUND RETURNS - 1998-2008**



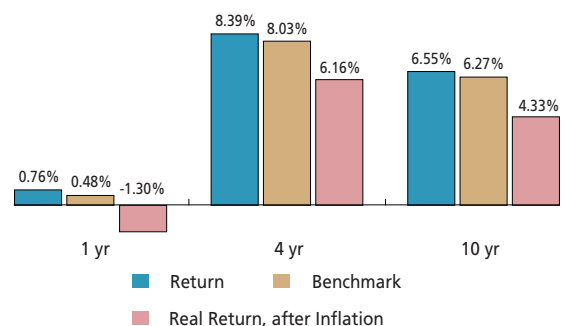
**INVESTMENTS BY PORTFOLIO - as of March 31, 2008**  
(\$ millions)

	2008	2007	2006
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 1,275.1	\$ 1,382.5	\$ 1,275.2
Short Term Assets	205.7	142.4	179.5
	1,480.8	1,524.8	1,454.7
<b>PUBLIC EQUITY</b>			
Canadian	980.3	972.7	892.2
International	1,116.3	1,028.7	960.3
	2,096.6	2,001.4	1,852.4
<b>INFLATION LINKED ASSETS</b>			
Real Return Bonds	424.8	542.1	497.6
Real Estate and Infrastructure	226.3	194.5	173.5
Commodities	98.3	93.5	67.1
	749.4	830.1	738.2
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return	309.8	282.1	236.2
Private Equity	87.4	62.7	51.9
	397.3	344.8	288.1
<b>Total Investments</b>	<b>\$ 4,724.0</b>	<b>\$ 4,701.1</b>	<b>\$ 4,333.4</b>

**ASSET MIX - as of March 31, 2008**



**INVESTMENT PERFORMANCE as of March 31, 2008**

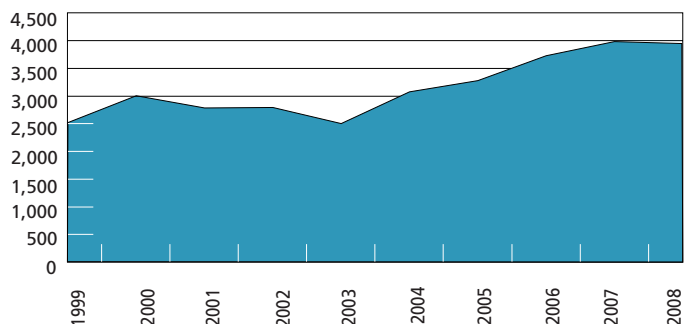


Note: Numbers above may not add up due to rounding.

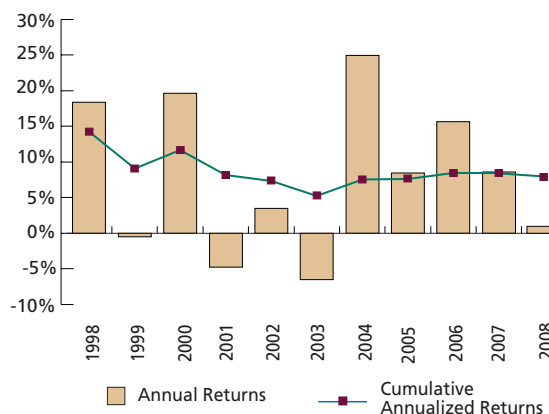
## Financial Highlights - as of March 31, 2008

### TEACHERS'

**NET ASSETS - as of March 31, 2008**  
(\$ millions)



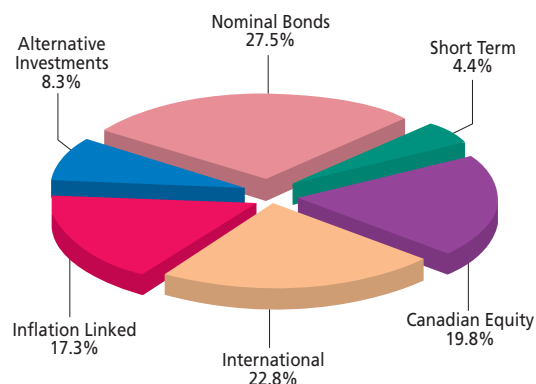
**ANNUAL TOTAL FUND RETURNS - 1998-2008**



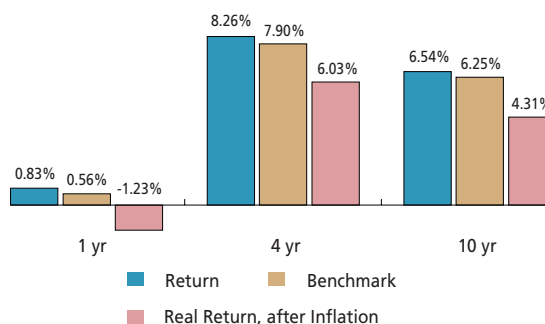
**INVESTMENTS BY PORTFOLIO - as of March 31, 2008**  
(\$ millions)

	2008	2007	2006
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 1,083.5	\$ 1,209.6	\$ 1,134.5
Short Term Assets	171.5	120.3	154.5
	1,255.0	1,329.9	1,289.0
<b>PUBLIC EQUITY</b>			
Canadian	778.4	783.3	730.4
International	897.7	836.1	791.6
	1,676.1	1,619.4	1,522.0
<b>INFLATION LINKED ASSETS</b>			
Real Return Bonds	374.1	498.5	465.4
Real Estate and Infrastructure	227.3	164.6	149.3
Commodities	82.0	79.1	57.7
	683.4	742.3	672.4
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return	253.6	233.5	200.5
Private Equity	73.0	53.1	44.7
	326.6	286.6	245.2
<b>Total Investments</b>	<b>\$ 3,941.1</b>	<b>\$ 3,978.2</b>	<b>\$ 3,728.6</b>

**ASSET MIX - as of March 31, 2008**



**INVESTMENT PERFORMANCE**  
as of March 31, 2008

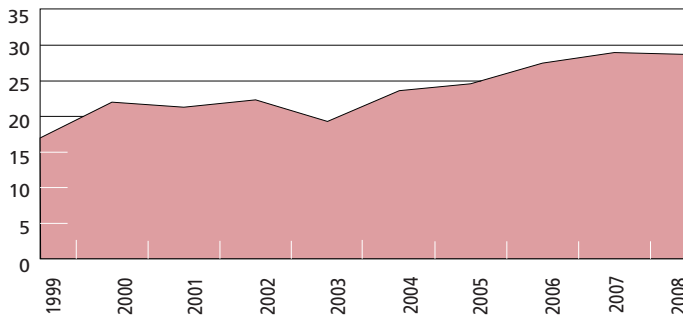


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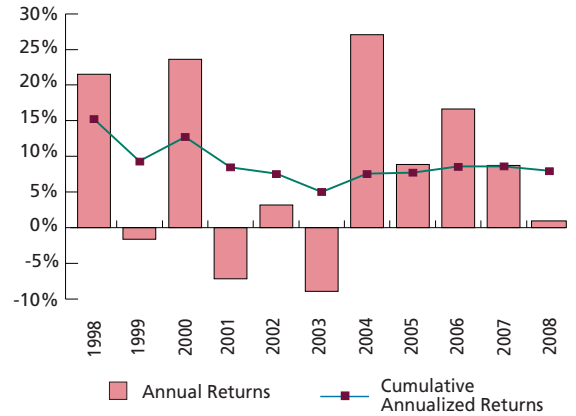
# Financial Highlights - as of March 31, 2008

## JUDGES'

**NET ASSETS - as of March 31, 2008**  
(\$ millions)



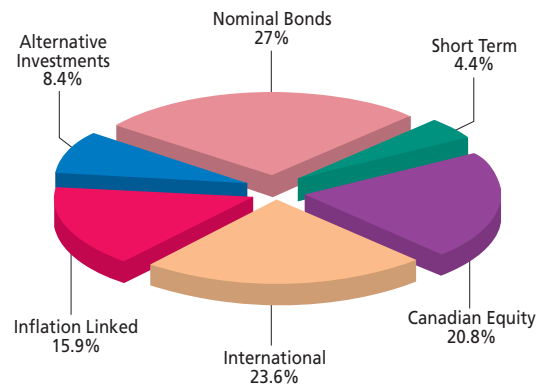
**ANNUAL TOTAL FUND RETURNS - 1998-2008**



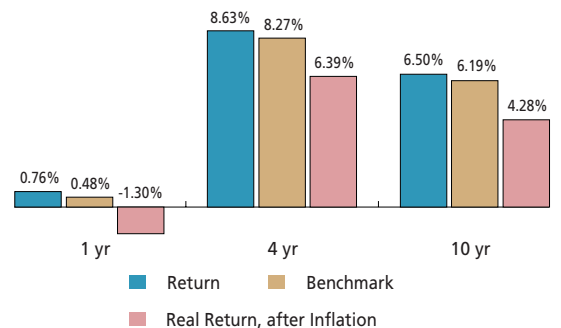
**INVESTMENTS BY PORTFOLIO - as of March 31, 2008**  
(\$ millions)

	2008	2007	2006
<b>FIXED INCOME</b>			
Nominal Bonds	\$ 7.7	\$ 8.5	\$ 8.1
Short Term Assets	1.2	0.9	1.1
	9.0	9.4	9.2
<b>PUBLIC EQUITY</b>			
Canadian	6.0	6.0	5.7
International	6.8	6.4	6.1
	12.7	12.4	11.8
<b>INFLATION LINKED ASSETS</b>			
Real Return Bonds	2.6	3.3	3.2
Real Estate and Infrastructure	1.4	1.2	1.1
Commodities	0.6	0.6	0.4
	4.5	5.1	4.7
<b>ALTERNATIVE INVESTMENTS</b>			
Absolute Return	1.9	1.7	1.5
Private Equity	0.5	0.4	0.3
	2.4	2.1	1.8
<b>Total Investments</b>	<b>\$ 28.7</b>	<b>\$ 29.0</b>	<b>\$ 27.5</b>

**ASSET MIX - as of March 31, 2008**



**INVESTMENT PERFORMANCE as of March 31, 2008**



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

## Board of Directors

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**Wiktor Askanas**  
Chairperson Human Resources  
& Compensation Committee



**Joel Attis**  
Vice-Chairperson of the Board



**Réjean Bossé**  
Director



**Marc-Antoine Chiasson**  
Director



**Gilles Lepage**  
Chairperson of the Board



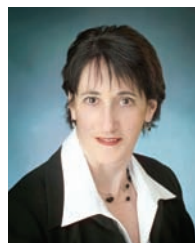
**Sharon MacFarlane, CA**  
Chairperson Audit Committee



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



**Don Moors, FCMC**  
Director



**Cathy Rignanesi**  
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*

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**O**n behalf of the Board of Directors and staff of NBIMC we are pleased to provide the following Fiscal 2007-2008 Annual Report. Our overall gross rate of return for the year ending March 31, 2008 was 0.79%, while our longer term annualized four-year return was 8.33%.

The past year was very challenging due to the uncertainty and volatility in the global financial markets. Challenging return years are to be expected from time to time, and we are pleased to point out that our overall investment return for the fiscal year ranked very well versus peer public service and pooled balance fund managers.

More importantly our long-term annualized return remains strong. As discussed in prior reports, our investment program is designed with a long-term focus to match the long-term characteristics of the underlying pension plan liabilities. We are pleased to point out that our overall four-year annualized blended return of 8.33% continued to exceed the actuarial return requirements for each of the funds under management.

### **Fiscal 2007-08**

During the fiscal year 2007-08, net assets under management decreased slightly to \$8.699 billion from \$8.718 billion in the prior year. This decrease in assets resulted from \$49 million in net investment earnings, \$138 million in special funding payments from the plans' sponsor, and net pension payouts of \$206 million. Management successfully added approximately \$19 million of the net investment earnings through active portfolio management activities. The decline in the total value of assets under management in a year of positive returns illustrates the mature nature of the pensions under our management.

The fiscal year presented many challenges to the investment management industry. We are very pleased to point out that our investment teams avoided a number of the significant credit related issues that affected many investors. First of all, NBIMC had no direct exposure to the sub-prime mortgage debt crisis in the U.S., and had no exposure to Canadian non-bank Asset Backed Commercial Paper. Although we had no direct exposure to these types of securities, their issues impacted the credit markets in general. This effect was largely mitigated however in our portfolio due to our fixed income investment focus on Canadian-based government securities.

We are also very pleased with the performance of our internally based market neutral investment strategies. These strategies were originally put in place to replicate public equity market exposure without being correlated to the returns of this market. The internalization of these strategies are not only cost effective, but also provide us with full control and transparency of our positions versus the option of using external hedge fund alternatives. The returns on these strategies during the year continued to validate our approach, and contributed to our positive overall return, in the face of the public equity market declines.

NBIMC continues to deliver both nominal and real (inflation adjusted) investment returns that exceed long-term 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 NBIMC but also adds significantly to each plan's asset base.

Further detail on NBIMC's mandate, activities and results are contained in later sections of this

report. In summary NBIMC achieved the following important accomplishments during the year:

- Continued to exceed the nominal and real return actuarial targets on a long-term basis,
- Realized positive relative value added returns, after covering expenses, for the portfolios through active investment management,
- Implemented Asset Mix changes resulting from the completion of an April 2007 Asset Liability study of both the Public Service Superannuation Fund (PSSF) and Teachers' Pension Fund (TPF).
- Completed an enterprise wide Risk Management Framework and enhanced our risk management measurement systems.
- Restructured our foreign asset benchmarks and currency hedging activity to enable us to make more strategic investment and asset mix decisions.
- Transitioned our European and Japanese public equity assets into MSCI EAFE<sup>1</sup> developed markets based exposure. The majority of these assets are managed in-house.
- Expanded our private markets activity and appointed a Vice President to lead the effort.
- Completed an upgrade to our website ([www.nbimc.com](http://www.nbimc.com)) which includes significantly more information with respect to our activities and governance processes.

Last year we reported on 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>).

During the year the Board and management completed a disciplined process of analyzing and acting upon a number of the recommendations of this report. Part of these actions can be viewed in the updated disclosure of our governance process on our website ([www.nbimc.com](http://www.nbimc.com)) and also through an expanded governance and compensation section found later in this annual report. The Auditor General has remained engaged in a review of our organization, and we expect a further "value-for-money" type audit report to be released by their office in late 2008.

### Appreciation of Dedicated Service

We would like to recognize our Board for their efforts and support to NBIMC 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. Ronald J. LeBlanc whose term concluded near the end of the fiscal year. Ron joined the Board in 2000, and his guidance and oversight has played a large part in the investment success and growth of NBIMC during his term of service. We also welcomed three new Directors: Mr. Joel Attis who joined the Board in August of 2007 and Mr. Marc-Antoine Chiasson

<sup>1</sup>MSCI EAFE - Is an independent third party index maintained by Morgan Stanley Capital, and is based on market capitalization weights. The acronym EAFE stands for Europe, Australasia, and Far East.

and Ms. Catherine Rignanesi who joined our Board effective March 27, 2008. They are welcomed additions to the team and we look forward to their continued involvement.

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

Financial market volatility has eased somewhat at the time of writing this letter, thanks to the concerted efforts of a number of world's central banks. These actions have at a minimum stabilized the global financial system, so that investors can revert to analyzing economic and corporate developments rather than be concerned about potential counterparty exposure and collapse. The economic environment however remains challenging, with the consumer impact of the U.S. housing crisis still unfolding. We will continue to invest prudently through a well diversified mix of financial assets, while at the same time continuing to develop innovative solutions and approaches to meet our goals.

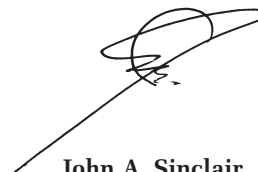
Due to the mature nature of the pension plans under our management, investment returns will

need to continue to play a large part in helping to pay the pensions of the future. We remain committed to the task of trying to realize long-term investment returns that exceed actuarial requirements in a risk controlled fashion. We also remain confident that our strategy, people, and processes can continue to meet the long-term goals of our stakeholders and look forward to the opportunities and challenges ahead.

Sincerely,



**Gilles Lepage**  
Chairperson



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

*May, 2008*  
*Fredericton, New Brunswick*

## *Plan Governance*

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**N**BIMC is a crown corporation, which was established under the New Brunswick Investment Management Corporation Act of 1994. NBIMC 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 NBIMC'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: the Audit Committee, the Human Resources and Compensation Committee and the Governance Committee. Day-to-day management of NBIMC 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.

Information about our corporate governance practices is available on our website at [www.nbimc.com](http://www.nbimc.com). This includes: our governing statutes, by-laws, Board composition, Board and Committee Terms of Reference, Nomination Guidelines, Director Orientation and Education Policy and Code of Ethics and Business Conduct.

NBIMC has set a goal for itself to adopt best practices in corporate governance, giving due consideration to its status as a provincial crown corporation. The Board of Directors has successfully completed a number of governance initiatives in fiscal 2007-08 in furtherance of this goal:

- Approved and adopted new or revised Terms of References for each of the Board, the Audit Committee, the Governance Committee and the Human Resources and Compensation Committee, reflecting emerging governance practices in the private sector;
- Recognizing that under the New Brunswick Investment Management Act the final decision for appointment of directors rests with the Lieutenant-Governor in Council, the Board created Nomination Guidelines by which its Governance Committee can take a proactive role in proposing the specific skills and experience for considering candidates for director nomination. The Board subsequently completed these guidelines and forwarded them to the Minister for consideration;
- Developed a Director Orientation and Education Policy to provide new directors with a common level of understanding about director responsibilities, NBIMC and its business,

strategies and challenges, as well as our industry and current economic environment. In addition, this policy also requires an on-going, regularly scheduled educational process to ensure that all directors stay well-informed about these matters.

- Established a process for a review of accomplishments and evaluation of effectiveness of the Board and its Committees.

## Board Attendance

Appointed Directors <sup>1</sup>	Board <sup>2</sup>	Audit Committee	Governance Committee	Human Resource & Compensation Committee
Gilles Lepage <sup>3</sup>	8/9	2/4	5/6	3/6
Wiktor Askanas	8/9	n.a.	4/6	4/6
Joel Attis <sup>4</sup>	3/4	n.a.	n.a.	1/2
Réjean Bossé	9/9	4/4	n.a.	n.a.
Ronald LeBlanc	8/9	4/4	n.a.	n.a.
Don Moors	9/9	4/4	n.a.	n.a.
Richard Speight	9/9	n.a.	6/6	n.a.
Reno Thériault	9/9	n.a.	n.a.	4/6
Michael Walton	9/9	n.a.	n.a.	4/6

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

<sup>2</sup> 6 regular meetings and 3 special meetings

<sup>3</sup> Member of the Audit Committee prior to appointment as Chairman of the Board on September 1, 2007.

<sup>4</sup> Appointed to the Board on August 29, 2007

The Board also held two education meetings during Fiscal 2007-08 in accordance with its Director Orientation and Education Policy. The first education meeting addressed the topic of enterprise risk management. It included information and presentations from each of management and the internal auditors. The session concluded with the Board approval of an Enterprise Risk Management Framework for NBIMC which is available on our website. The second education meeting dealt with the legal environment in which NBIMC operates and included information and presentations from our external legal counsel.

The directors' remuneration is established in NBIMC's By-Laws and includes an annual retainer for the Chairperson and a per diem allowance for each meeting attended plus one day preparation. The cost of the Board function for the year ended March 31, 2008 was \$80,380 plus travel and accommodation reimbursements of \$22,625, which represents 0.8% of the total cost of operations. Directors who are *ex-officio* are not paid.

## ***NBIMC's Investment Beliefs***

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**T**he 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 (MD&A)*

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**M**anagement's discussion and analysis (MD&A) is provided to enable the reader to interpret the material trends, the results and the financial conditions of the pension funds. As well, this MD&A may contain forward-looking statements reflecting management's objectives, outlook and expectations which involve risks and uncertainties. Key elements of the funds' annual financial statements are explained and this MD&A should be read in conjunction with these annual financial statements and related notes.

We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements.

### **Asset Mix**

The development of the asset mix for each plan is highly dependant on the actuarial liability profile of the underlying pension plan. The respective asset mix is designed to provide annualized long-term returns that will exceed the actuarial return requirement for each plan, with the least amount of risk.

As noted in last year's report, NBIMC had recently received an actuarial valuation for the Public Service Superannuation Fund (PSSF) Plan as at April 2005 and the Teachers' Pension Fund (TPF) Plan as at April 2006. During this past fiscal year we conducted an asset liability analysis for each fund and upon Board approval we subsequently made a prudent series of adjustments to each Plan's asset mix. Based on 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 Fund (JPF) Plan policy asset mix was adjusted to replicate that of the PSSF plan as per the practice adopted last year.

It is also important to point out that our Internal Auditor completed a review project on our investment policy development and related processes during the year. The results of this work confirmed that our processes are consistent with best practices, while also providing some input on further enhancements.

At year end we restructured the foreign benchmarks in our Investment Policies to move from the local currency basis of the home country of investment, to a Canadian dollar basis. Our past practice was better suited for the earlier formative years of NBIMC when the strategy of gaining market exposure was mainly derivative based. More recently we have begun to hold the majority of our exposure in physical security form, which has led management to have to undertake significant foreign exchange hedging activities to eliminate the currency risk implicit in the local benchmarks.

Along with the change in the benchmarks, we have simplified our currency hedging activity to focus on the main four currencies to which we are exposed (U.S. dollar, U.K. pound sterling, Euro, and Japanese Yen.) and separated the hedging in an overall portfolio overlay structure. This simplification and overlay approach will also now allow the Board and Management to take a more active approach with respect to foreign currency management if warranted.

The final Investment Policy change that occurred during the year was the combination of our European public equity exposure, and Japanese public equity exposure into a MSCI EAFE developed markets based exposure. By moving to the EAFE index we have essentially distributed a portion of the Japanese exposure to the other developed Asian markets of Australia, New Zealand, Hong Kong, and Singapore.

With respect to our actively managed investment activities, we finalized the research and

development of our own internally based active Canadian public equity strategy during the fiscal year. This strategy leverages the capabilities of our existing team of investment professionals and will result in NBIMC repatriating assets that have been managed externally in the past. The portfolio was activated in late April 2008.

## 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 a prior section. Although our overall return of 0.79% for the fiscal year was below our nominal and real return hurdles during this past year, we have continued to exceed these targets over the more important long-term.

Returns for the year were also good in comparison to a number of peer managers. We would attribute this mainly to the fact that we have a lower weighting in public equity securities and a higher weighting to inflation linked and alternative assets. Both of these asset classes did well during the year. The most significant contributor to our nominal performance during the year was the nominal bond portfolio, followed by Canadian public equities, commodities, real return bonds, our market neutral strategies, and private equity. These gains however were largely offset by significant weakness in international public equity markets and the public securities portion of our real estate portfolio. The one positive point with

respect to our international public market's exposure was that the implied currency hedging in our local currency benchmarks mitigated more significant losses that many of our peers experienced due to the strengthening of the Canadian dollar during the period.

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

**Fiscal 2007-08 Rates of Return**  
(Portfolio and Benchmark)

	Portfolio Return	Benchmark Return
<b>Fixed Income</b>		
Nominal Bonds	6.98%	6.99%
Short Term Assets	4.65	4.62
<b>Public Equity</b>		
Canadian	4.29%	4.00%
United States	(7.18)	(6.94)
Europe	(12.36)	(12.07)
Japan	(23.50)	(25.85)
<b>Inflation Linked Assets</b>		
Real Return Bonds	5.89%	6.38%
Real Estate / Infrastructure	(12.20)	(13.59)
Commodities	33.06	38.62
<b>Alternative Investments</b>		
Absolute Return	8.07%	4.62%
Private Equity	30.92	(8.23)
<b>Total Portfolio</b>	<b>0.79%</b>	<b>0.52%</b>

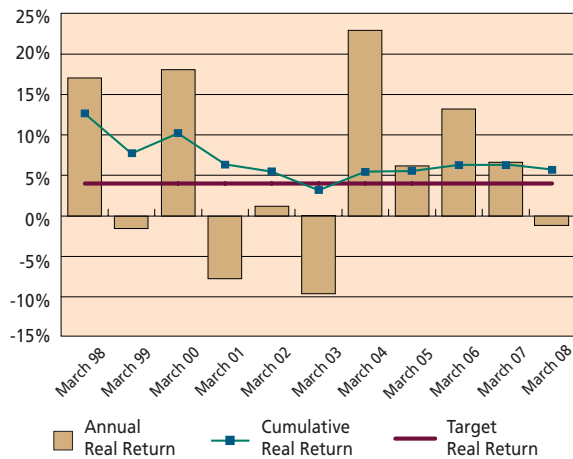
The primary performance objective, as outlined by the plan actuary, is to achieve a long term real return (i.e. return after inflation) objective of at least 4%. This is the most significant hurdle that we measure our performance against and is the primary factor in the security of the pension plan benefits.

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 1.68% per annum above the 4% hurdle required by the actuary. This additional return equates to approximately \$1.0 billion of cumulative additional real return above that assumed by the Plans' funding assumptions over the twelve year period.

### Achieving the Long-Term Pension Promise



The second investment performance objective for NBIMC 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 NBIMC's operating costs, and subsequently add an additional target of 42 basis points per annum to each fund.

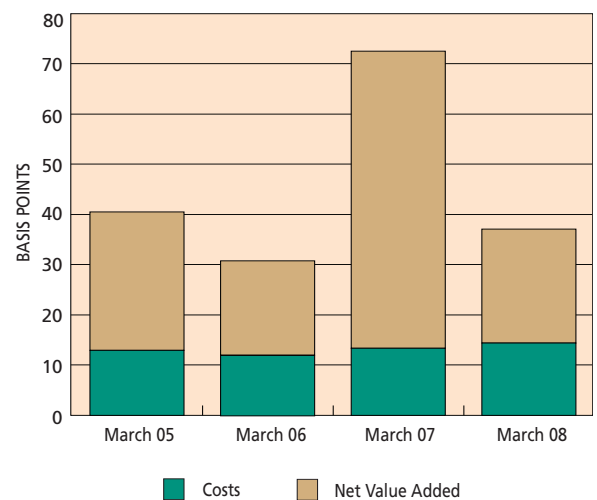
Our active management activities continued to add value for a seventh consecutive year. These activities added 22.7 basis points of value (54% of target), or approximately \$19.8 million, after covering all of the organization's operating costs. This year's results slightly reduced our longer-term four year average annual value added return to approximately 33 basis point per annum (79% 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 added relative value to the portfolios, especially considering the volatility experienced during the year. Significant inter-day swings in asset pricing and investor sentiment made holding any large investment positions a risky proposition and created difficulties in keeping asset mix weights balanced to Investment Policy levels. Management made a conscientious effort to keep risk in line with our target levels and did not have any direct exposure to the U.S. sub prime debt or the well publicized Canadian non-bank asset backed commercial paper problems

The following chart illustrates the gross relative value added from NBIMC'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



## Risk Management

In past annual reports we have reported on our disciplined focus on potential risk and how it is a critical part of NBIMC's investment management activities. Risk management 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.

NBIMC has developed a number of risk management processes that are continually reviewed by management. During the year we formalized these components into an Enterprise Risk Management Framework that can be found on our website at <http://www.nbimc.com/Investments/EnterpriseRisk.aspx>. The Board evaluates management's assessment of each of the risks identified in the Framework on a quarterly basis.

Our risk processes 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 compliance 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 NBIMC'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 management 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 Investment Policy Process and our Trading Practices during the year and subsequently reported their findings to our Audit Committee. They also followed up on management's actions with respect to recommendations relating to information technology strategy and controls and compliance processes and procedures that were reviewed and reported on last year. 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 NBIMC.

As part of the follow-up to last year's information technology strategy audit, management completed an intensive review of our information technology infrastructure and benchmarked it against industry best practices. This project was completed with the help of an external consultant and is the first stage in a more detailed evaluation and technology planning project that will be undertaken in the year ahead.

Human resource risk is also an ongoing consideration of both management and the Human Resources and Compensation Committee of our Board. Projects that were completed during the year included the execution of our bi-annual Workplace Environment and Team Leaders surveys which are completed on a firm wide basis. Information gathered from these surveys help to both measure the success of various human

resource initiatives that are underway and to identify potential areas for improvement. Management also developed a Human Resources Plan during the year in order to provide a link to the objectives within the Strategic Plan that had been completed in the previous year.

A final point with respect to risk management is to note that in early May 2008 NBIMC invoked its Business Continuity Plan with respect to the flooding situation in the downtown Fredericton area. Through the execution of this plan we were able to relocate designated trading room and administrative staff to an interim operation centre within eight hours and provide operations on an uninterrupted basis for two full business days. While one creates these plans with the hope that they will never need to be used, its successful execution provides an additional level of comfort should we experience a similar type of event again.

## Operating Costs

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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 NBIMC 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 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 0.144% (14.4 basis points) versus 0.134% last year. Absolute operating expenses of approximately \$12.6 million were about \$1.3 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 an increase in salary expenses, due to the addition of three new positions and increases based on the external compensation review conducted in the prior year, and greater securities custody expenses created from increased internal management efforts.

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 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<sup>1</sup> 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.

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1. "2005 Pension Plan Sponsor Fee Survey", SEI Investments Canada

## Compensation

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### Human Resources and Compensation Committee Mandate

The Human Resources and Compensation Committee (HRCC) assists the Board in fulfilling its obligations relating to the compensation of management and directors, leadership succession, and human resource policies and practices.

The Committee is composed of four directors and the Board Chair who serves on the Committee as an *ex officio* member. The Committee meets quarterly. External human resources consultants may be used to assist the Committee with fulfilling its mandate.

Committee members for the year ended March 31, 2008 were: Wiktor Askanas (Chairperson), Reno Thériault, Michael Walton, Joel Attis and Gilles Lepage (*ex-officio*).

The HRCC's key responsibilities include:

- Oversight of an annual performance appraisal process for the President & CEO, including establishment of goals and objectives, and recommendations for compensation arrangements including incentive awards;
- Participation in effective Human Resource governance processes including development of NBIMC's Compensation Philosophy and revisions to employee benefit programs;
- Recommendation of changes to organization structure, appointment of officers, amendments to job descriptions, adjustments to competitive salary ranges and succession plans for key employees.

### HRCC's Key Activities in Fiscal 2008

During the year ended March 31, 2008, the Committee completed the following key activities, among other matters:

- Revised the Committee's terms of reference and recommended approval by the Board of Directors;
- Approved the public posting of the Compensation Philosophy on NBIMC's website;
- Reviewed the annual performance appraisal of the CEO;
- Reviewed the succession plan for the senior leadership positions;
- Initiated development of a long-term human resources strategic plan to support the overall corporate strategic plan
- Approved the discretionary incentive pool for the year ended March 31, 2007;
- Oversaw the development of the weighting of the discretionary incentive pool to the strategic goals and annual business plan objectives for the year ended March 31, 2008.

### Corporate Compensation Philosophy

NBIMC believes that achievement of its mission will be facilitated by having meaningful alignment between employee interests and corporate interests. Accordingly, NBIMC has developed a Compensation Philosophy to address the following objectives:

- Provide competitive, performance-based opportunities based upon market practices;

- Attract and retain high-quality people;
- Reinforce the strategy, culture and investment policies of NBIMC;
- Promote awareness and attainment of individual, team and corporate strategic objectives;
- Enhance NBIMC's reputation as an employer of choice; and
- Treat employees fairly.

The compensation plan takes the form of salary and benefits, short-term investment-based incentives, annual individual and team discretionary awards, and a long-term incentive plan. The plan has been developed with the help of an external consultant to align with the above Compensation Philosophy.

## Executive Compensation

### Salary and benefits

Base salary is determined as a range of pay for each job position. Position raises are established after giving recognition to specific job responsibilities and are periodically benchmarked using external consultants and against external peer institutional pension fund surveys.

The HRCC further assists management to achieve NBIMC's strategic goal of attracting, developing and maintaining a highly skilled and experienced team of professionals to support the growth and diversity of investment options by benchmarking pay ranges regularly and examining the design and results of incentive plans annually to ensure compensation levels and practices are in line with peer firms in the investment industry.

NBIMC's employee benefits plan includes a defined benefit pension plan and retirement allowance outlined as follows:

#### **(a) Defined benefit pension plan**

All employees participate in the Public Service Superannuation Plan (PSSP). The PSSP provides for a pension upon retirement equal to 2% of the average annual salary for the five consecutive years of highest salary multiplied by the number of years of pensionable service. The plan is integrated with the Canada Pension Plan at age 65 and is indexed for inflation to a maximum of 5%.

#### **(b) Retirement allowance**

Each full-time employee with five or more years of continuous employment is entitled to a retirement allowance equal to five working days of pay for each full year of continuous employment up to a maximum of one hundred and twenty five working days, calculated on the level of salary at time of retirement or termination.

### Short-term incentive plans

NBIMC has two separate short-term incentive plans (STIP), one for Investment and Research staff, the other for Finance and Administration staff. Every full-time employee with a minimum of six months employment is eligible for this incentive. The STIP is calculated as a percentage of salary, weighted to reflect the role and impact the position has on achievement of corporate business plan objectives. Each STIP includes components based on investment results, team results and individual results. Investment performance is

measured on results in excess of Board-approved benchmarks. The HRCC also approves a discretionary component determined by comparing team and individual annual business plan achievements to targets established in the five year corporate strategic plan. The overall discretionary amount is then allocated by management based on team and individual contribution to the business plan achievements.

The annual incentive plan for Investment and Research staff reflects investment performance based on a combination of total fund and asset class performance covering both a one year and four year result as well as the discretionary component. The weighting of the investment performance component is a function of an individual's influence on the investment results. In addition, Investment and Research staff receive a relatively lower weighting of annual investment results relative to longer-term results to reinforce the importance of consistency over a longer period.

The annual incentive for the Finance and Administration staff is also designed to align the interests of staff with corporate objectives.

Accordingly, a relatively small proportion of the annual incentive for this staff is based on investment performance while a relatively large proportion recognizes individual and team contribution to achievement of annual business plan objectives.

### **Long-term incentive plans**

NBIMC also has a long-term incentive plan for Investment and Research staff plus the Chief Financial Officer. It is designed to reinforce the alignment of employee interests with long-term corporate strategy and assist in attracting and retaining key personnel. The LTIP provides eligible employees, who have at least four years of employment with NBIMC, with a performance oriented incentive that reinforces the long-term investment performance objective. The LTIP is based on performance in excess of Board-approved benchmarks measured over a retroactive period of four consecutive fiscal years.

Specific compensation information for the organization is published annually by the Office of the Comptroller for the Province of New Brunswick in the Public Accounts.

## *Employee Activity in our Communities*

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**N**BIMC staff continue to be engaged in contributing to important causes in our local communities. These efforts are made up by a combination of personal time and resources, and are conducted through a number of charitable causes.

Staff continued to exceed their target contribution level for the annual corporate United Way campaign, while nineteen of our employees provided an average of over 75 hours each in volunteer efforts for thirty six non-profit organizations during the year. Six other charitable causes were also supported through other internal fund-raising initiatives.

Of particular note, NBIMC recognized four specific individuals as our "volunteer of the year". Mr. Steve Bishop, Ms. Diane Patterson, Mr. James Scott, and Ms. Terry Wilkins were each recognized for the significant time commitments they made during the year.

## *Communications and Accountability*

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**A**s a Crown Corporation, we are accountable to the Legislature of the Province of New Brunswick through the Minister of Finance. We report annually to the Minister via this 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>