NB Investment Management Corporation

2008-2009 ANNUAL REPORT

BOARD OF DIRECTORS

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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Website: http://www.nbimc.com

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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 49,000 members of the Public Service (PSSA), Teachers' (TPF), and Judges' (JPF) defined benefit pension plans. It was formed under the New Brunswick Investment Management Corporation Act by the Province of New Brunswick.

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 $7.03 billion at March 31, 2009.

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.*

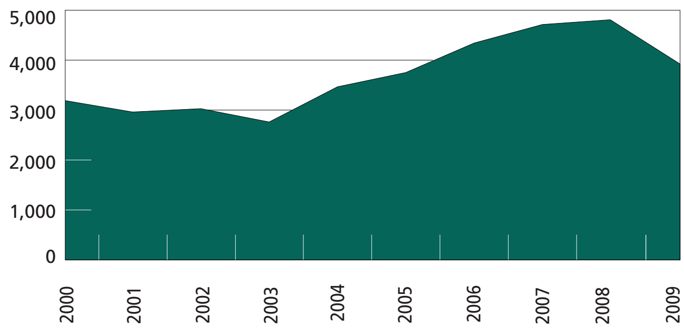
INTEGRITY *– we ensure honesty in all corporate undertakings guided by a Code of Ethics and Business Conduct.*

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

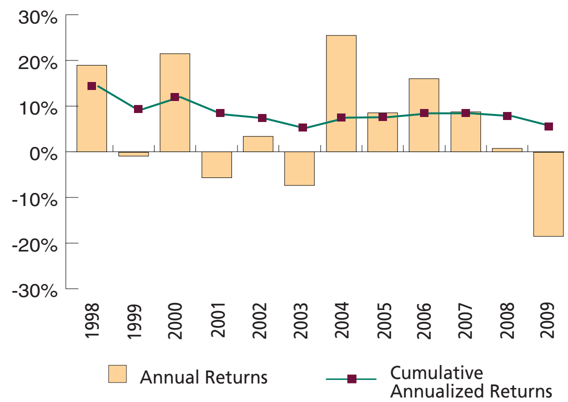
Financial Highlights - as of March 31, 2009

PUBLIC SERVICE

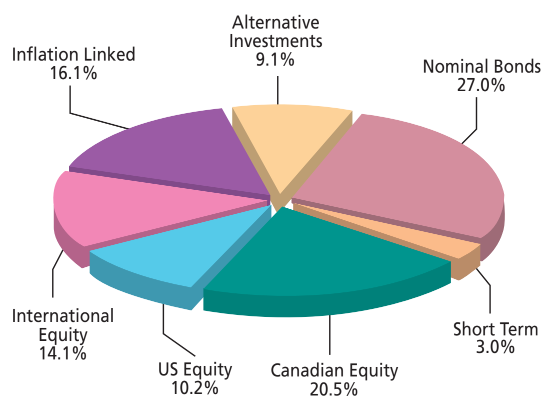
NET ASSETS - as of March 31, 2009
($ millions)



ANNUAL TOTAL FUND RETURNS - 1998-2009



ASSET MIX - as of March 31, 2009

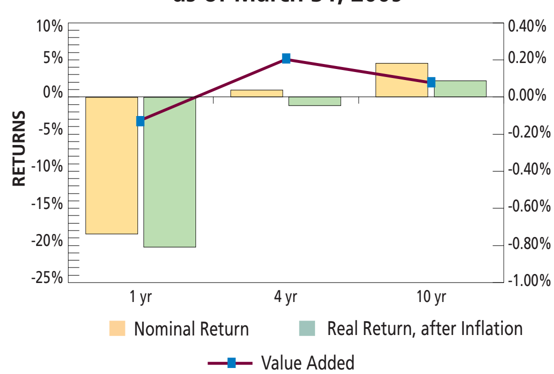


INVESTMENTS BY PORTFOLIO - as of March 31, 2009
($ millions)

	2009 $	2008 $	2007 $
FIXED INCOME			
Nominal Bonds	1,036.96	1,275.08	1,382.45
Short Term Assets	115.70	205.68	142.39
	1,152.66	1,480.76	1,524.84
PUBLIC EQUITY			
Canadian	786.15	980.25	972.72
US	391.63	-	-
International	541.04	1,116.34	1,028.67
	1,718.81	2,096.59	2,001.39
INFLATION LINKED ASSETS			
Real Return Bonds	350.54	424.78	542.10
Real Estate and Infrastructure	191.71	226.29	194.52
Commodities	74.77	98.29	93.51
	617.02	749.36	830.13
ALTERNATIVE INVESTMENTS			
Absolute Return	243.57	309.83	282.05
Private Equity	107.23	87.45	62.70
	350.80	397.27	344.75
Total Investments	3,839.29	4,723.98	4,701.11

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

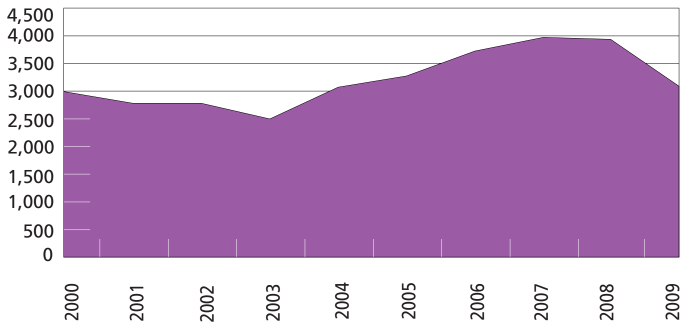
INVESTMENT PERFORMANCE
as of March 31, 2009



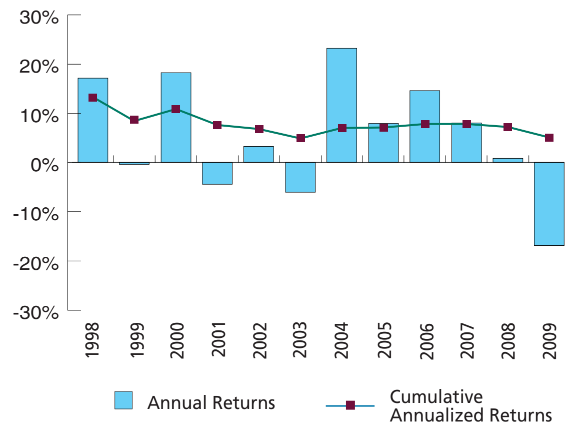
Financial Highlights - as of March 31, 2009

TEACHERS'

NET ASSETS - as of March 31, 2009
($ millions)



ANNUAL TOTAL FUND RETURNS - 1998-2009

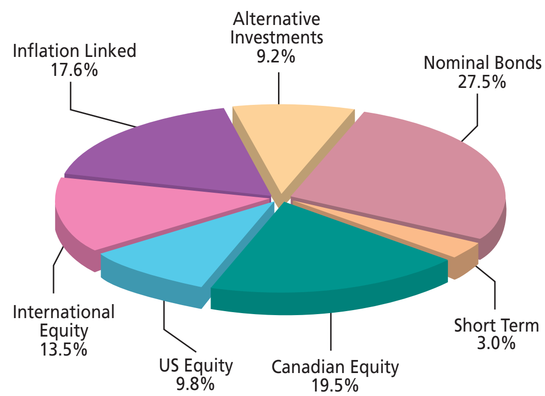


INVESTMENTS BY PORTFOLIO - as of March 31, 2009
($ millions)

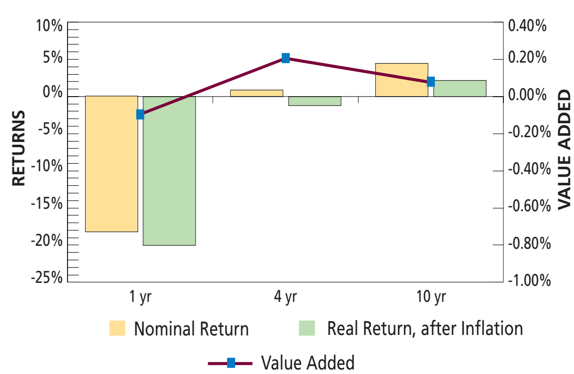
	2009 $	2008 $	2007 $
FIXED INCOME			
Nominal Bonds	867.64	1,083.47	1,209.63
Short Term Assets	94.77	171.52	120.30
	962.41	1,254.98	1,329.93
PUBLIC EQUITY			
Canadian	613.78	778.38	783.34
US	308.34	-	-
International	424.66	897.72	836.05
	1,346.78	1,676.10	1,619.40
INFLATION LINKED ASSETS			
Real Return Bonds	303.71	374.08	498.52
Real Estate and Infrastructure	189.05	227.33	164.61
Commodities	61.40	82.00	79.13
	554.16	683.42	742.25
ALTERNATIVE INVESTMENTS			
Absolute Return	200.29	253.61	233.51
Private Equity	89.74	72.96	53.06
	290.03	326.56	286.57
Total Investments	3,153.38	3,941.07	3,978.15

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

ASSET MIX - as of March 31, 2009



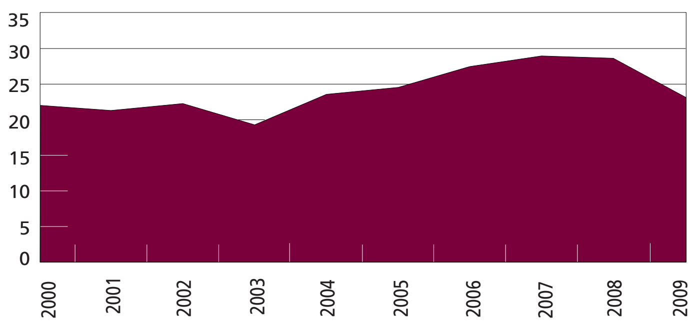
INVESTMENT PERFORMANCE as of March 31, 2009



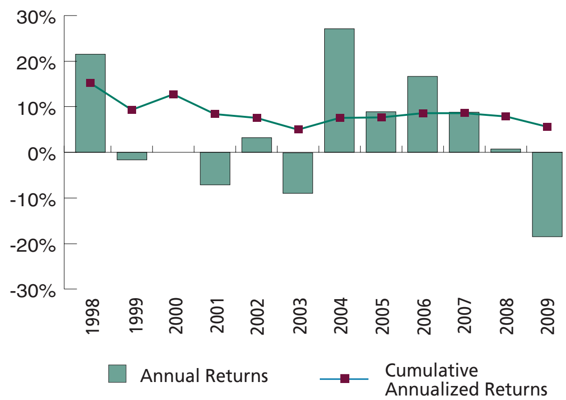
Financial Highlights - as of March 31, 2009

JUDGES'

NET ASSETS - as of March 31, 2009
($ millions)



ANNUAL TOTAL FUND RETURNS - 1998-2009

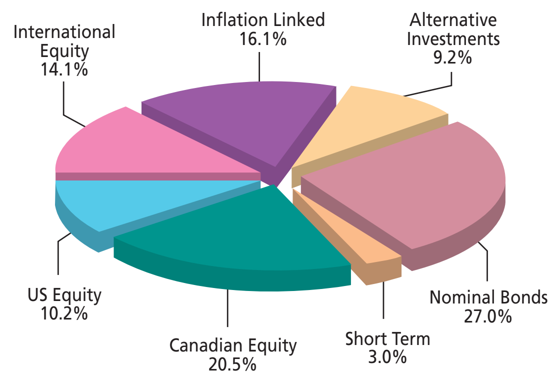


INVESTMENTS BY PORTFOLIO - as of March 31, 2009
($ millions)

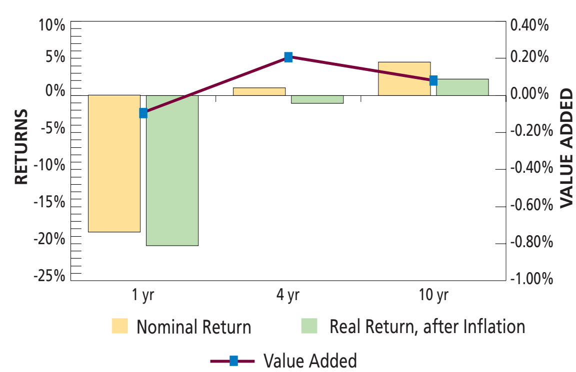
	2009 $	2008 $	2007 $
FIXED INCOME			
Nominal Bonds	6.31	7.74	8.54
Short Term Assets	0.70	1.25	0.88
	7.01	8.99	9.42
PUBLIC EQUITY			
Canadian	4.78	5.95	6.01
US	2.38	-	-
International	3.29	6.78	6.35
	10.45	12.73	12.36
INFLATION LINKED ASSETS			
Real Return Bonds	2.13	2.58	3.35
Real Estate and Infrastructure	1.17	1.37	1.20
Commodities	0.46	0.60	0.58
	3.76	4.55	5.13
ALTERNATIVE INVESTMENTS			
Absolute Return	1.48	1.88	1.74
Private Equity	0.67	0.53	0.39
	2.15	2.41	2.13
Total Investments	23.36	28.68	29.03

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

ASSET MIX - as of March 31, 2009



INVESTMENT PERFORMANCE
as of March 31, 2009



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.

Letter to Stakeholders

On behalf of the Board of Directors and staff of NBIMC we are pleased to provide the following Fiscal 2008-2009 Annual Report. Our overall gross rate of return for the year ending March 31, 2009 was -18.34%. Our longer term annualized four-year return was 0.90%, and the long-term annualized return since NBIMC's inception in 1996 is now 5.53%.

At this time in May of last year we had noted that while the world's Central Banks were having some success in stabilizing the volatility we witnessed during the later part of the 2007-2008 fiscal year, we had continued to expect a challenging financial market environment. There were very few people however who had expected the severity of the global financial markets crisis that developed over the following months. Very sharp declines in the global equity markets, especially in October and November, significantly impacted our returns.

The later half of the year was marked by two related crisis; first a financial markets crisis of confidence due particularly to the collapse of the investment bank Lehman Brothers Inc. in the United States, followed by a very quick and severe economic slowdown due to a subsequent contraction in consumer behaviour and the near elimination of the availability of financial capital. The turmoil brought about by this period resulted in investors strongly favouring federal government debt versus any other investment asset, which unfortunately all but eliminated the benefits of a diversified investment portfolio. Essentially all other assets were considered to be highly risky.

We are very pleased to point out that our investment teams continued to avoid 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 Back 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.

While the value of our assets have been reduced during the fiscal year, we feel that by avoiding the more significant problems noted earlier, our investment portfolios are well positioned to take advantage of future long-term growth as global markets stabilize and are supported by an eventual economic recovery.

Fiscal 2008-09

During the fiscal year 2008-09, net assets under management decreased to $7.029 billion from $8.698 billion in the prior year. This decrease in assets resulted from $1.602 billion (-18.34%) in net investment valuation declines, $144 million in special funding payments from the plans' sponsor and net pension payouts of $210 million. Active portfolio management activities added approximately $3.1 million to investment earnings versus benchmarks, but were offset by $11.4 million in operating costs. Our longer term four-year net active investment portfolio activities however remained positive by contributing approximately $75 million in additional investment earnings, after considering all operating costs, over the past four years.

While our returns were obviously disappointing, there is some consolation in that Canadian public sector plans generally survived this downturn better than many other types of pension plans and endowments. Additionally, NBIMC has performed well versus other Canadian pension plans. For example, we had previously reported that our 2008 calendar year return of -16.95% was better than the -18.4% median total return[1] for the standard reporting period of other large Canadian pension plans.

During the year the following two important themes emerged through our communication activities with stakeholders:

The Long-Term Perspective

It is important to remember that defined benefit pension plans are structured to obtain a significant portion of their ultimate pension payments from investment returns in the financial markets. Achieving these returns requires diversification into asset classes capable of delivering superior long-term performance. Financial markets by their very nature are cyclical, and unfortunately over the past year experienced one of their most severe downturns witnessed over the past century. Even well diversified portfolios performed poorly during the year as risk adverse investors fled to the security of federal government bonds.

As noted above, the investment program since inception has provided an annual return of 5.53%. These returns result in cumulative investment earnings of approximately $3.7 billion since NBIMC was created in 1996. The annualized real return (after adjusting for inflation) since inception is 3.38%. Although this return is lower than the long-term actuarial real return requirement of 4% it is not out of line with what one might expect after such a cyclical decline, and is actually better than the annualized return we realized at the end of the last financial market downturn during Fiscal 2002-03.

Annual Pension Payment Requirements

Pension plan members become naturally concerned about the safety of their future pension payments at times like this. It is important to point out that while the net assets under management have seen significant decline, the asset mix of each plan has been developed to ensure liquidity for pension benefit payments over the long-term.

As noted earlier, current and future pensioners can take comfort in knowing that we did not hold any of the third party asset backed commercial paper, U.S. sub-prime debt or hedge fund exposures that created significant concerns in the financial markets over the past year. Our investment portfolios have been structured primarily with publicly tradable investments in entities based in developed countries that have a higher quality credit exposure. Also, less than 5% of total assets are currently committed to less liquid private equity, real estate and infrastructure investments. The liquidity provided by this $7.029 billion portfolio, compared to a net cash flow obligation for example of $66 million last year, allows us to make the annual net pension payments for many years into the future while at the same time providing the portfolio with the potential of improving in value as market conditions improve.

[1] RBC Dexia Plans over $1B - Total Portfolio, for year ending December 31, 2008.

Auditor General Review

As we had expected in last year's annual report, the Auditor General (AG) has completed and reported on their "value-for-money" audit during the year. A copy of the report and our Board's response comments can be found at (http://www.gnb.ca/oag-bvg/2008v2/chap2e.pdf). The Board and management have begun a disciplined process of analyzing and acting upon a number of the recommendations of this report.

This report complements the governance related audit (http://www.gnb.ca/oag-bvg/2006v2/chap3e.pdf) that was conducted during fiscal 2006-07. In his most recent report the AG noted "Management at NBIMC appears to be very sincere in wanting to implement eight of our nine recommendations. We found NBIMC had implemented four of them and partially implemented another three by the time we carried out our first follow up action this year".[2]

We would like to thank the AG and his staff for their efforts and the advice received over their four year total engagement period with our organization.

Outlook

NBIMC has recently received updated actuarial information on the Public Service Superannuation Plan and is conducting the review of the plan's investment policy and related asset mix. We expect to have our review completed and reviewed by our Board by the mid-point of our fiscal year.

At the time of writing this letter, the global financial markets have somewhat stabilized. Many governments and central banks are providing a significant amount of stimulus and support and there are early signs of economic improvements. While these actions are encouraging we expect continued volatility as these programs take effect and are adjusted and refined into the future.

We will continue to closely adhere to our investment policies and procedures and remain confident that our strategy, people, and processes can 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, 2009
Fredericton, New Brunswick

[2] Report of the Auditor General - 2008, Chapter 8 - Follow up on Prior Year's Recommendations, page 258.

Plan and Corporate Governance

NBIMC is a crown corporation, which was established under the *New Brunswick Investment Corporation Act* (the "Act") of 1994. NBIMC is primarily responsible for providing investment-counseling services and to act as a 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 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 and benefits administration.

Information about our corporate governance practices is available on our website at 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. In Fiscal 2008-09, the Board of Directors continued to hone its governance capabilities by commencing a process of biennial review of Board and Committee effectiveness, facilitated by an external corporate governance consultant.

Board Attendance

Appointed Directors[1]	Board[2]	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Gilles Lepage	10/12	4/5	4/4	6/7
Wiktor Askanas	9/12	n.a.	4/4	7/7
Joel Attis	12/12	n.a.	3/4	7/7
Réjean Bossé	10/12	5/5	n.a.	n.a.
Marc Antoine Chiasson[3]	6/12	1/2	n.a.	n.a.
Don Moors	12/12	5/5	n.a.	n.a.
Cathy Rignanesi[4]	10/12	2/2	n.a.	n.a.
Richard Speight	11/12	n.a.	4/4	n.a.
Reno Thériault	12/12	n.a.	n.a.	7/7
Michael Walton	12/12	n.a.	n.a.	7/7

1 *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.*

2 *5 regular meetings and 7 special meetings*

3 &4 *Appointed to the Board on March 27, 2008 and appointed to Audit Committee August 26, 2008.*

The Board also held an education meeting in August 2008 in accordance with its Director Orientation and Education Policy. The education meeting addressed the pension fund objectives including actuarial requirements, the process for determination of asset mix recommendations and specific asset class details, use and risk of derivative instruments, risk budgeting and relative value added concepts, quantitative risk management, and the process for selection and monitoring of external portfolio managers.

Management Discussion and Analysis (MD&A)

Management's discussion and analysis (MD&A) is provided to enable the reader to interpret the material trends, the results and the financial condition of the pension funds. 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.

As well, this MD&A may contain forward-looking statements reflecting management's objectives, outlook and expectations which involve risks and uncertainties. Forward-looking statements are usually preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". 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-run returns that will exceed the actuarial return requirement for the plan, with the least amount of risk.

NBIMC has recently received an actuarial valuation for the Public Service Superannuation Plan as at April 2008. We have begun our asset liability analysis for this pension fund (PSSF) and expect to have this work completed and reviewed by our Board by the mid-point of our fiscal year. Upon completion of this analysis we will subsequently review whether any similar changes should be made to either the Teachers' Pension Fund (TPF) or Judges' Superannuation Fund (JSF).

We also expect to receive an updated actuarial valuation for the TPF during Fiscal 2009-10 upon which we will conduct a full asset liability analysis for that fund with the updated information.

In last year's annual report we described the restructuring of 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. Along with the change in the benchmarks, we had 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. Foreign currency hedging is used to mitigate the short-term impact of the currency fluctuations in our foreign investments. It was also noted last year that this simplification and overlay type of hedging approach would allow the Board and Management to take a more active approach with respect to foreign currency management if warranted.

Having completed this restructuring, management conducted a study during the year to determine whether a more optimal foreign exchange hedging ratio was appropriate versus our historical fully hedged approach. This research led to a recommendation that was subsequently approved by the Board in August, to reduce our hedge ratio to 50% of the applicable foreign currency exposure.

With respect to our actively managed investment activities, we continued to add to the development of our own internally based active Canadian public equity investment activity during the fiscal year. This strategy continues to leverage the capabilities of our existing team of investment professionals in NBIMC by providing additional active investment management activities.

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 earlier. Although our overall return of -18.34% for Fiscal 2008-09 year was well below our nominal and real return hurdles, we have continued to be close to these targets over the more important long-term. There have been two periods over the past thirteen years of NBIMC's existence that our annualized cumulative return was below the required actuarial target. Both of these periods were after significant valuation declines in global equity markets.

While absolute returns for the year were disappointing, they compare favorable to the returns for a number of peer managers. We would attribute this mainly to the fact that we have a lower weighting in public equity securities than many peers, that our fixed income exposure has less credit risk than those of most other managers, and through our relatively higher weighting in cash and our absolute return investments.

Our foreign exposure hedging activity also detracted value during the fiscal year. The value of the Canadian dollar fell versus the currencies of most other larger countries as part of an investor flight to safety during the financial crisis. It is important to note that our hedging activity has added considerable value over the past few years as the value of the Canadian dollar increased significantly over a longer period. The decision to reduce our hedging exposure by 50% prior to the crisis was timely and helped to mitigate further hedging losses.

The most significant contributor to our nominal performance during the year was the nominal bond portfolio, and our short term fixed income assets which were both highly weighted to government securities. Unfortunately the financial markets crisis caused all other asset classes to fall significantly in value due to investor risk aversion.

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

Fiscal 2008-09 Rates of Return
(Canadian $)

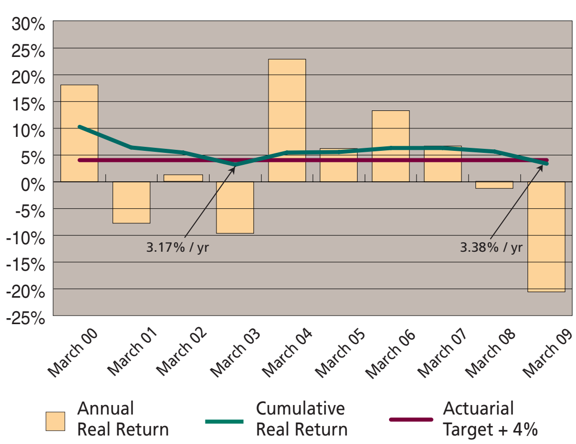
	Portfolio Return	Benchmark Return
Fixed Income		
Nominal Bonds	5.25%	6.39%
Short Term Assets	2.75	2.40
Public Equity		
Canadian	(31.79)%	(32.43)%
United States	(24.43)	(24.10)
MSCI EAFE[1]	(34.13)	(34.39)
Inflation Linked Assets		
Real Return Bonds	(1.30)%	(0.79)%
Real Estate / Infrastructure	(38.32)	(38.90)
Commodities	(45.78)	(46.67)
Alternative Investments		
Absolute Return	(0.04)%	2.40%
Private Equity	(3.65)	(28.42)
Investments Portfolio	(15.92)%	(15.96)%
Foreign Exposure Hedge Overlay	(2.42)%	
Total Portfolio	(18.34)%	

[1] MSCI EAFE - Is an independant 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.

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.

The following chart illustrates the annual real return achieved by NBIMC since our inception. It shows that the portfolio decline for the 2008-09 fiscal year brought the cumulative return since the inception of the corporation to 3.38%, or 0.62% per annum below the 4% target. Financial markets are cyclical however and we actually had a lower cumulative return after the last significant equity markets downturn in Fiscal 2002-03.

Achieving the Long-Term Pension Promise
Real Rate of Return vs. Target
Overall Total Funds



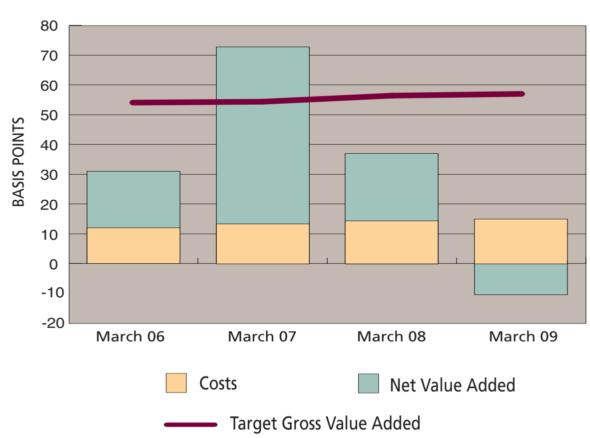
The second investment performance objective for NBIMC is to add value, above our various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all of NBIMC's operating costs, and subsequently add up to an additional target of 42 basis points per annum to each fund.

Our net active management activities were slightly negative for the year after having provided seven consecutive positive years of value added contribution. While investment performance was slightly better than benchmark on a gross basis after accounting for the organization's operating costs these activities subtracted 10.6 basis points of portfolio return. It is important to point out that it was an extremely difficult year for active management. The year began with a fairly strong recovery in equity markets and commodity prices reached record highs creating concerns with respect to increasing inflation rates. It ended however at the opposite extreme with concerns around deflation and severe economic recession.

Our longer-term four year average annual value added return was approximately 22.7 basis points per annum or 54% of target. The four-year term remains the most significant term used to measure manager performance and is selected to represent a more consistent longer term measure.

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

Adding Value after Covering Operating Costs



NBIMC also prepares and presents more detailed Schedules of Composite Performance Results for each of the pension funds under management. These audited schedules are prepared in compliance with the Global Investment Performance Standards (GIPS®) and are available on our website (www.nbimc.com) when completed.

Risk Management

The events of the past year highlighted the importance of risk management in the pension investment process. We have provided a summary of our financial instrument risk management processes in Note 5 to the audited financial statements for the pension funds, including an in-depth analysis of market risk, foreign currency risk, interest rate risk, credit risk, pricing risk and liquidity risk.

Our disciplined risk management focus 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. These processes have been formalized 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 Board's Audit Committee has engaged an internal audit service provider (a firm external to NBIMC) to conduct reviews and provide advice on internal controls and processes within the Corporation. The reviews conducted since the inception of this relationship have covered the following areas:

- compliance processes;
- information technology strategy and controls;
- investment policy development and process,
- trading practices;
- payroll, benefits and incentive processes;
- cash management operations, and
- NBIMC code of ethics.

A number of our risk management systems and processes were tested this year. In early May of 2008 NBIMC evoked 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 accounting staff to an interim operation centre within eight hours and provide operations on an uninterrupted basis for two full business days.

Later in the year when the financial markets crisis unfolded our risk management framework was further successfully tested in terms of our ability to provide ample liquidity to service ongoing cash flow requirements and in helping the corporation avoid holding any of the overly complex or highly structured securities that became severely impaired. Our risk systems also helped to guide our investment management teams in significantly reducing our active investment risk as the financial crisis developed and fundamental investment research became more difficult.

While it was very difficult to foresee the depth of the financial crisis that developed throughout the year, we are very pleased that our investment strategy and risk management focus has helped to insure that our portfolios were not as affected as many other investors. Our investment assets are now positioned to recover in value as the economy and financial markets improve.

Operating Costs

NBIMC's operating costs are recovered from each pension plan under management on a pro-rata basis as per typical commercial investment management arrangements. They are therefore 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 and help to maximize the assets that are available to pay pension benefits.

Our 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. NBIMC's active management performance is measured on a net basis after all of NBIMC'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 0.146% (14.6 basis points) versus 0.144% last year. Absolute operating expenses of approximately $11.5 million were about $1.1 million lower than the year prior.

This approximate 9% overall reduction in expenses was proactively managed throughout the year in considering the effects of the financial market crisis. The decrease can be primarily attributed to a decrease in total employee compensation, a reduction in external management fees due to asset value declines, and a reduction in securities custody expenses.

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. In the past we have compared our expenses favourably to various external pension plan sponsor surveys. Last year we also noted that SEI Investments[2] 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. This year we are pleased to also note the Auditor General in his recent value-for-money audit of our organization stated "Based on this analysis, it appears that the total cost of administering New Brunswick's two largest pension plans, including the cost of investment management services provided by NBIMC, is at the low end of the scale".[3]

[2] "2005 Pension Plan Sponsor Fee Survey", SEI Investments Canada

[3] Report of the Auditor General - 2008, Chapter 2 - New Brunswick Investment Management Corporation, Investment Performance and Cost Analysis, Section 2.190, Page 55

IFRS Conversion

The Accounting Standards Board of the Canadian Institute of Chartered Accountants (CICA) has announced that Canadian Generally Accepted Accounting Policies (GAAP) for publicly accountable enterprises will be replaced with International Financial Reporting Standards (IFRS) for years beginning on or after January 1, 2011. The recent requirement to adopt new accounting policies under section 3855 *Financial Instruments – Recognition and Measurement* and section 3862 *Financial Instruments – Disclosures* for financial reporting in accordance with GAAP is a step toward aligning existing Canadian GAAP with IFRS. The CICA separately announced that it is still deliberating its future reporting requirements for certain pension plans.

Also, on April 17, 2009, the Public Sector Accounting Board (PSAB) released an Invitation to Comment, Financial Reporting by Government Organizations, to seek input concerning the appropriate source of accounting standards for certain types of government organizations.

NBIMC, as a provincial crown corporation, will need to consider any decisions made by the PSAB as a result of comments received, when adopting accounting standards. In addition, each of the pension funds for which NBIMC is a trustee is a component of a public sector pension plan.

In Fiscal 2008-09, we began a project to consider accounting differences and decisions required for possible conversion to IFRS. Discussions with our government stakeholders have commenced. Monitoring of the work of the CICA and PSAB is also part of this project, and will continue in Fiscal 2009-10. Conversion to IFRS, if required, would be effective for the year ended March 31, 2012.

Compensation Discussion and Analysis

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 five directors, four of whom are independent and one who is an ex officio director. The Committee meets at a minimum quarterly. External human resources consultants may be used to assist the Committee with fulfilling its mandate.

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 the organization's structure, appointment of officers, amendments to job descriptions, adjustments to competitive salary ranges and succession plans for key employees.

Corporate Compensation Philosophy

NBIMC believes that the 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.

Compensation Programs

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 by the HRCC with the help of an external consultant to align with the above Compensation Philosophy.

Total compensation levels are periodically benchmarked using independent compensation consultants and against external peer institutional pension fund or other relevant compensation surveys.

Salary and benefits

Base salary is determined as a range of pay for each job position, after giving recognition to specific job responsibilities. In general, positions that have direct impact on investment returns, such as senior management and portfolio managers, have a greater proportion of their total compensation linked to investment returns and a lesser proportion that is base salary. Positions that do not directly impact investment returns, such as finance and administration staff, have a larger proportion of total compensation that is base salary.

NBIMC provides full-time employees with benefits that include vacation entitlement, life and disability insurance, health and dental benefits, and an employee assistance plan. In addition, a defined benefit pension plan and a retirement allowance are provided after minimum vesting periods, outlined as follows:

(a) Defined benefit pension plan

All full-time 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%. The plan requires a five year vesting period.

(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 without cause.

Short-term incentive plans

Every full-time employee with a minimum of six months employment is eligible for either the short-term incentive plan (STIP) for Investment and Research staff or the STIP for Finance and Administration staff. Each 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 STIP for Investment and Research staff reflects investment performance based on a combination of total fund and asset class performance covering both one year and four year results 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. Investment and Research staff receive a relatively lower weighting of one year investment results relative to four year results to reinforce the importance of consistency over a longer period.

The STIP for Finance and Administration staff is also designed to align employee interests with corporate objectives. Accordingly, a relatively small proportion of this STIP 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 (LTIP) 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.

Impact of Performance Results for Fiscal 2008/09

In December of 2008, recognizing the financial market crisis facing the Funds, the Board of Directors approved a salary freeze for the Fiscal 2009-10 operating budget. The effect of the crisis on both our nominal and relative investment returns for Fiscal 2008-09 also had a direct and dramatic impact on the amount of STIP and LTIP variable compensation.

First the Board of Directors weighed the specific individual, team and corporate achievements of business plan initiatives against the significantly negative nominal investment returns and decided to suspend the discretionary component of the STIP for all employees in Fiscal 2008-09.

For the investment result component of the STIP, total fund and asset class value added investment returns on both a one year and four year cumulative basis are compared against an annual target set by the Board. Net value added returns represent the gross investment return in excess of the benchmark, after adjusting for annual operating costs. The STIP also reflects performance results, as reported in the MD&A section, for three asset class teams: Fixed Income, Equities and Private Markets.

The STIP total fund net value added result for Fiscal 2008-09 was negative 10.6 basis points (bps). A basis point is 1/100th of one percent. Consequently, the Board of Directors determined that there was no STIP performance incentive payable on the portion based on this one year result.

A four year cumulative net value added result is used in calculating both the long-term component of the STIP as well as the LTIP. The four year cumulative net value added was 22.7 bps, representing approximately 54.0% of the net value added performance target of 42 bps. The previous three fiscal years had positive net value added results which help to offset the Fiscal 2008-09 performance. The negative performance in Fiscal 2008-09 will carry forward for the following three years. A summary table of the one year value added results used to determine the four year cumulative net value added result is as follows:

	One Year	
	Net Value Added (bps)	Percentage of Target (%)
2005-06	19.9	47.4
2006-07	58.9	140.2
2007-08	22.6	53.8
2008-09	(10.6)	(25.1)

The impact of these calculations on total variable performance incentives resulted in a total STIP of $193,000 and LTIP of $399,000, down 55.2% from the amounts for the year ended March 31, 2008.

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.

Directors' Remuneration

Directors' remuneration is established in NBIMC's By-Laws and includes a per diem allowance for each meeting attended plus one day preparation. The Chairperson receives an annual retainer. Directors who are ex-officio are not paid. Directors who travel to attend meetings receive a reimbursement for reasonable accommodation costs, and other out of pocket expenses as well as a car expense reimbursement based on the number of kilometers traveled.

The cost of the Board function for the year ended March 31, 2009 was $104,050 plus travel and accommodation reimbursements of $21,485, which cumulatively represent 1.1% of the total cost of operations.

Employee Activity in our Communities

Management and staff continue to feel that it is important to be engaged in our own communities by being active contributors of both time and resources to charitable causes. These activities are as varied as participating in local school events to volunteering professional expertise on the investment committees of local foundations and endowments.

Our employees have again exceeded their target contribution level for the annual United Way campaign this past year, and have also provided an average of 85 hours per volunteer to over thirty organizations. Six other charitable causes were also supported through other internal fund-raising initiatives.

Of particular note NBIMC recognized Ms. Andrea Macdonald as our "volunteer of the year" for her long serving commitment to a number of organizations in her home town of Gagetown.

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