



NB Investment Management Corp.
Société de gestion des placements NB

2009 – 2010 ANNUAL REPORT

DELIVERING LONG TERM
GROWTH THAT MEETS
CLIENT INVESTMENT CHALLENGES

BOARD OF DIRECTORS

Gilles Lepage

Chairperson of the Board

Joel Attis

Vice-chairperson of the Board

Elaine Albert

Director

Marc-Antoine Chiasson

Director

Gaston LeBlanc

Director

John Mallory

Director (ex officio, non-voting)

Ronald B. Maloney

Director

Darren Murphy

Director (ex officio)

Cathy Rignanesi

Chairperson of Audit Committee

Director

John A. Sinclair

Director (ex officio)

Richard C. Speight, Q.C.

Chairperson of Governance

Committee

Director

Reno Thériault

Director

Michael W. Walton

Chairperson of Human Resources &

Compensation Committee

Director

CORPORATE OFFICERS

John A. Sinclair

President and Chief Executive Officer

Chief Investment Officer

Jan Imeson, CA

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

Chief Financial Officer

Mark Holleran, CFA

Vice-President Equities

New Brunswick Investment Management Corporation

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CORPORATE PROFILE

The New Brunswick Investment Management Corporation (NBIMC) is the trustee and investment manager for the pension assets of over 49,000 members of the Public Service, Teachers', and Judges' 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 NBIMC 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 NBIMC 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 the NBIMC is the largest institutional investment manager in Atlantic Canada with assets under management of approximately \$8.3 billion at March 31, 2010.

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

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.

NBIMC’S INVESTMENT BELIEFS

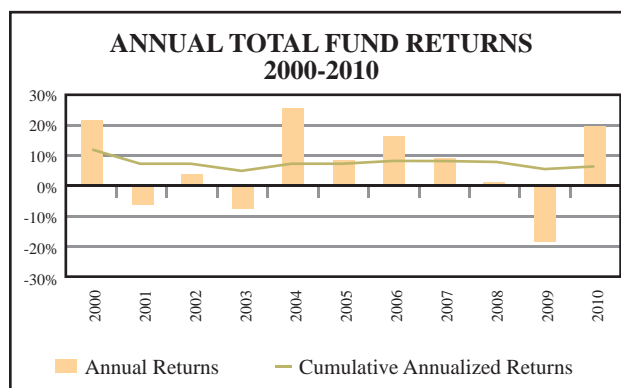
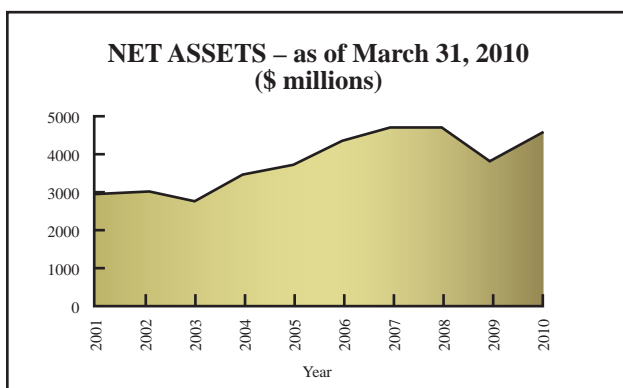
NBIMC operates under a few basic investment beliefs, upon which we continually reflect when setting investment strategy. These beliefs are:

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.

PUBLIC SERVICE

2009-2010

FINANCIAL HIGHLIGHTS – AS OF MARCH 31, 2010



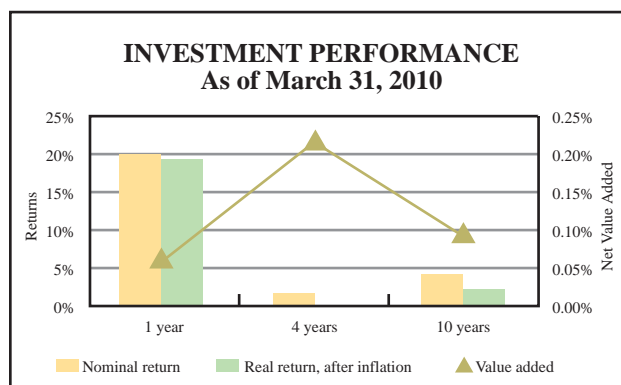
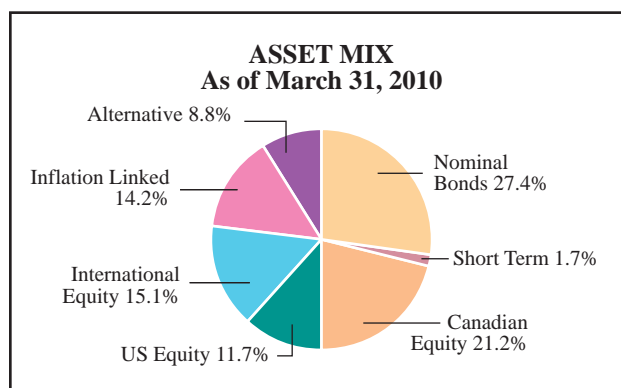
INVESTMENTS BY PORTFOLIO

As of March 31, 2010

(\$ millions)

	2010	2009	2008
	\$	\$	\$
FIXED INCOME			
Nominal Bonds	1,258.2	1,037.0	1,275.1
Short Term Assets	76.2	116.7	205.7
	1,334.4	1,153.6	1,480.8
PUBLIC EQUITY			
Canadian	970.9	786.1	980.3
US	537.7	391.6	369.5
International	690.7	541.0	746.8
	2,199.3	1,718.8	2,096.6
INFLATION LINKED ASSETS			
Real Return Bonds	416.7	350.5	424.8
Real Estate and Infrastructure	234.0	191.7	226.3
Commodities	0.0	74.8	98.3
	650.7	617.0	749.4
ALTERNATIVE INVESTMENTS			
Absolute Return	296.2	242.6	309.8
Private Equity	107.0	107.2	87.4
	403.2	349.8	397.3
Total Investments	4,587.6	3,839.3	4,724.0

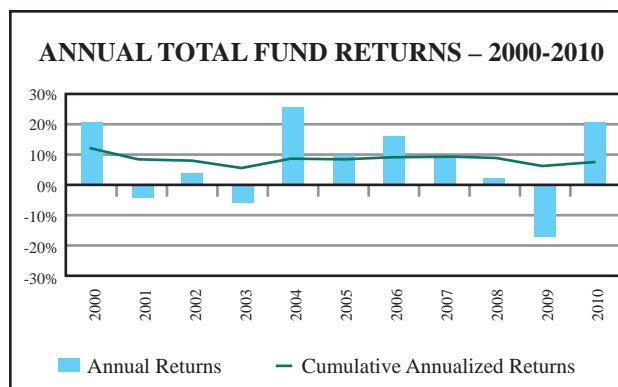
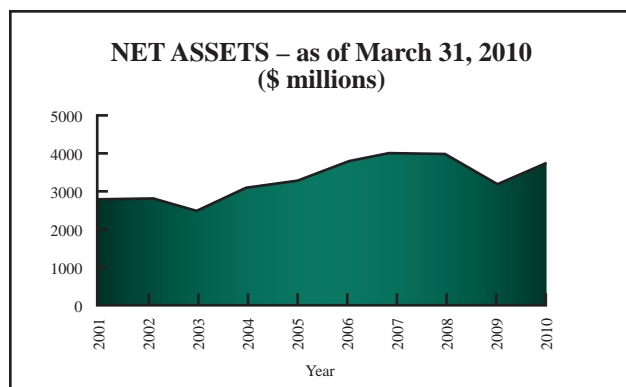
Amounts may not add due to rounding



TEACHERS'

2009-2010

FINANCIAL HIGHLIGHTS – AS OF MARCH 31, 2010

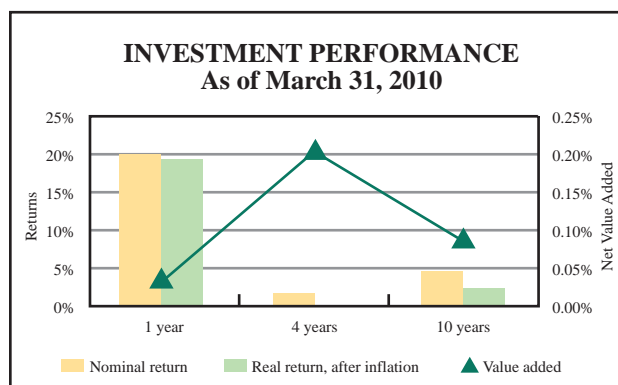
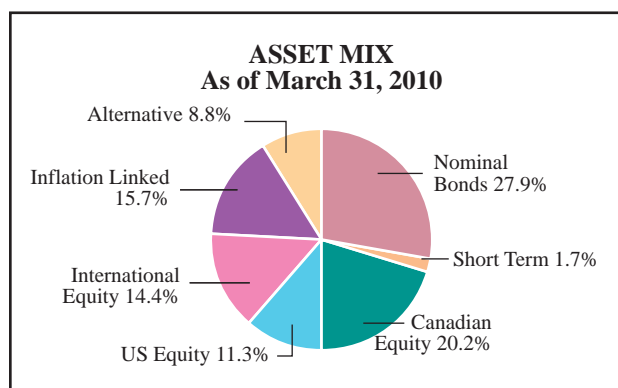


INVESTMENTS BY PORTFOLIO

As of March 31, 2010

(\$ millions)

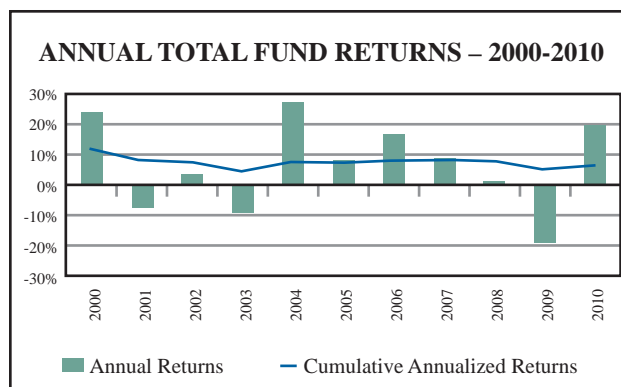
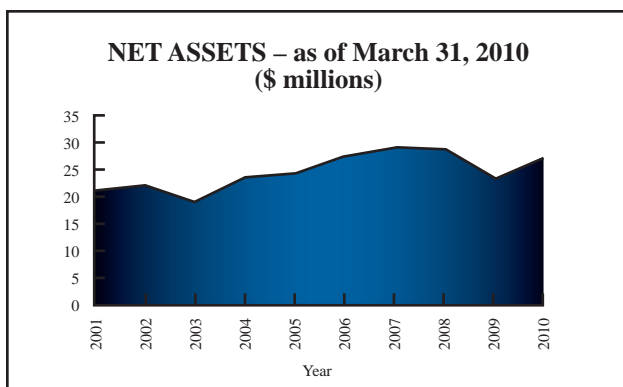
	2010 \$	2009 \$	2008 \$
FIXED INCOME			
Nominal Bonds	1,036.1	867.6	1,083.5
Short Term Assets	61.6	95.8	171.5
	1,097.7	963.4	1,255.0
PUBLIC EQUITY			
Canadian	747.7	613.8	778.4
US	419.1	308.3	293.6
International	535.4	424.7	604.1
	1,702.2	1,346.8	1,676.1
INFLATION LINKED ASSETS			
Real Return Bonds	355.5	303.7	374.1
Real Estate and Infrastructure	226.4	189.0	227.3
Commodities	0.0	61.4	82.0
	581.9	554.2	683.4
ALTERNATIVE INVESTMENTS			
Absolute Return	239.5	199.2	253.6
Private Equity	88.7	89.7	73.0
	328.2	289.0	326.6
Total Investments	3,710.0	3,153.4	3,941.1



Amounts may not add due to rounding

JUDGES' 2009-2010

FINANCIAL HIGHLIGHTS – AS OF MARCH 31, 2010

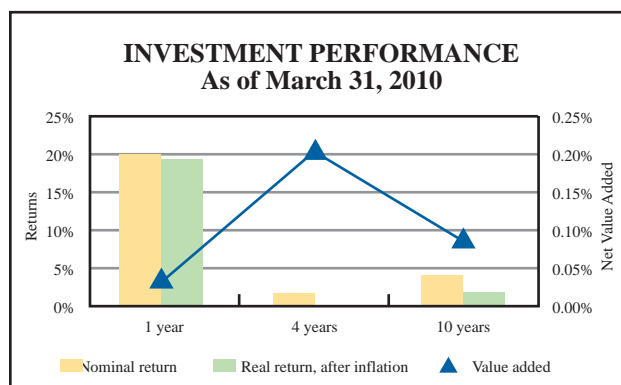
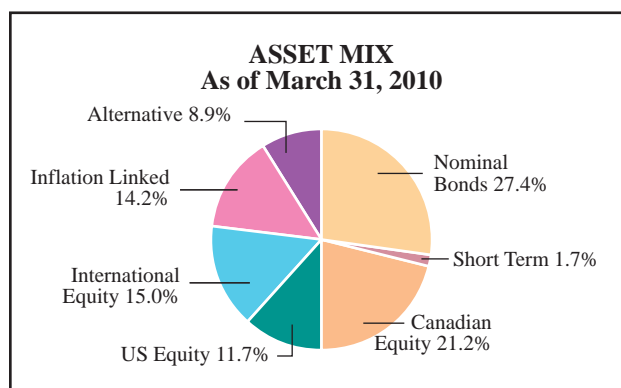


INVESTMENTS BY PORTFOLIO

As of March 31, 2010
(\$ millions)

	2010 \$	2009 \$	2008 \$
FIXED INCOME			
Nominal Bonds	7.4	6.3	7.7
Short Term Assets	0.5	0.7	1.2
	7.9	7.0	9.0
PUBLIC EQUITY			
Canadian	5.8	4.8	6.0
US	3.2	2.4	2.2
International	4.1	3.3	4.5
	13.1	10.4	12.7
INFLATION LINKED ASSETS			
Real Return Bonds	2.5	2.1	2.6
Real Estate and Infrastructure	1.4	1.2	1.4
Commodities	0.0	0.5	0.6
	3.9	3.8	4.5
ALTERNATIVE INVESTMENTS			
Absolute Return	1.7	1.5	1.9
Private Equity	0.7	0.7	0.5
	2.4	2.1	2.4
Total Investments	27.3	23.4	28.7

Amounts may not add due to rounding



LETTER TO STAKEHOLDERS

On behalf of the Board of Directors and staff of NBIMC we are pleased to present the following Fiscal 2009-2010 Annual Report.

Our overall gross nominal rate of return for the year ending March 31, 2010 was 19.94% while our long-term annualized return since NBIMC's inception in 1996 is now 6.50%.

Most importantly our annualized real return (after adjusting for inflation) since inception is now 4.46%. We are very pleased to note that the long-term real return, which had been adversely affected last year by the financial markets crisis, once again exceeds the long-term 4% real return requirement set out by the pension funds' Actuary.

In our annual report to you last year we had noted that our investment portfolios were well positioned for future growth once global markets began to stabilize. During the year our investment portfolios did turn out to be well positioned to take advantage of the strong rebound in public equity markets as the global financial system stabilized and the world began a somewhat uneven economic recovery. We also feel that our relatively conservative investment style provides good protection against potential near term negative effects as this stabilization process continues.

Fiscal 2009-10

Fiscal 2009-10 was another tumultuous year. The strong improvement in the public equity market favoured companies with smaller market capitalization and those that were thought to be going out of business only months earlier. Markets remained volatile and somewhat uncertain, but improved considerably which resulted in the corporation posting the third highest return since inception.

During the fiscal year, net assets under management increased significantly to \$8.341 billion from \$7.029 billion in the prior year. This increase in assets resulted from \$1.384 billion in net investment earnings, \$150 million in special funding payments from the plans' sponsor, and net pension payouts of \$223 million. Management also successfully added approximately \$15 million of investment earnings through active portfolio management activities versus their benchmarks, which provided the funds with approximately \$4 million in additional net earnings after covering the \$11 million in operating costs for the organization.

Our returns for the year were very respectable versus peer public sector pension plans and we continue to have ample liquidity. The fiscal 2009-10 net cash flow obligation of \$85 million against a total portfolio asset value of \$8.341 billion illustrates our ability to make pension payments well into the future. The ability to make pension payments is also enhanced by having both our nominal bond portfolio and short-term debt securities focused primarily on government securities.

Important Accomplishments

NBIMC achieved a number of important accomplishments during the year:

- Our long-term investment performance once again exceeded the actuarial real return target requirement for the Pension Plans under our management.
- Management realized positive relative value added returns, after covering expenses, for the portfolios through active investment management activities.

- We concluded a full Asset Liability study, and made subsequent adjustments to the Investment Policy asset mix for the Public Service Superannuation Fund (PSSF) based on an actuarial review received in early 2009. Similar adjustments were subsequently made to the Teachers' Pension Fund (TPF) and Judges' Pension Fund (JPF).
- In coordination with our Internal Auditor, we completed a number of Internal Audit reviews including a fraud risk assessment review and a review of our quantitative risk management system.
- We continued to expand our private markets activity on both a local and global basis.
- The Board of Directors completed a detailed self assessment review and subsequently outlined a series of follow-up improvement objectives.
- The Board of Directors, with the help of the Human Resources and Compensation Committee and an independent industry expert consultant, completed a full compensation review for the organization.
- We developed and tested a pandemic contingency plan as part of our business continuity procedures.
- Management renewed its 5-year Information Technology Strategic Plan.
- We completed a set of companywide workplace environment and leadership surveys.
- The Board of Directors approved and subsequently submitted to the Minister of Finance a lower operating budget for the upcoming 2010-11 fiscal year in-line with our shareholder's fiscal restraint initiatives.
- At the request of the Auditor General, we provided a follow up report with respect to their 2006-07 Governance Audit recommendations.

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

Appreciation of Dedicated Service

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

A special recognition and thank you is warranted for the contribution of four Directors whose terms concluded during the fiscal year. Wiktor Askanas, Réjean Bossé, Sharon MacFarlane and Don Moors all played an important part in helping guide the company through the financial markets challenges of the past few years. We would like to make special mention of Wiktor Askanas, who joined our Board in June 2000, and filled the role of Chair of our Human Resources and Compensation Committee for many years and Sharon MacFarlane, who joined our Board in 1998, and was Chair of our Audit Committee for many years as well.

During the year we also welcomed three new Directors who joined our Board in July of 2009. Ms. Elaine Albert, Mr. Gaston LeBlanc, and Mr. Ronald Maloney are welcomed additions to the team and we look forward to their continued involvement. At the time of writing we have also welcomed Mr. Darren Murphy as a Director in his new ex-officio capacity as Vice President, Finance and Chief Financial Officer at New Brunswick Power Holding Corporation.

On behalf of the Board we also wish to thank our team of professionals at NBIMC for their diligence and hard work. Their persistence and capable focus on our long-term investment strategy, in the face of the financial markets crisis, has driven the continued successes we outline in this report.

Outlook

In May of last year we had divided the financial market downturn we had been experiencing into two related crises: first a financial markets crisis of confidence triggered by the collapse of a large U.S.-based investment bank, followed secondly by a quick severe economic slowdown due to a contraction of consumer consumption and the lack of financial capital.

At this time we have witnessed a significant improvement of financial markets performance primarily due to the unprecedented coordinated action of the world's governments and central banks to provide very cheap liquidity and significant economic stimulus. While economic conditions have also improved, unemployment and housing market troubles in the United States continue to negatively affect market sentiment. These concerns in combination with the sovereign debt issues affecting many regions have a number of people still concerned for the future.

We are currently in the process of reviewing recently received updated actuarial reports for both the TPF and PSSF, and will be conducting a full asset-liability analysis for each pension fund during the upcoming fiscal year. This analysis will be used to ensure we continue to prudently meet each Plan's long-term actuarial return goals in a risk controlled fashion.

As we have noted in the past, 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 confident that our strategy, people and processes can continue to meet the long-term goals of our stakeholders and continue to look forward to the opportunities and challenges ahead.

Sincerely,



Gilles Lepage
Chairperson



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

*May, 2010
Fredericton, New Brunswick*

PLAN AND CORPORATE GOVERNANCE

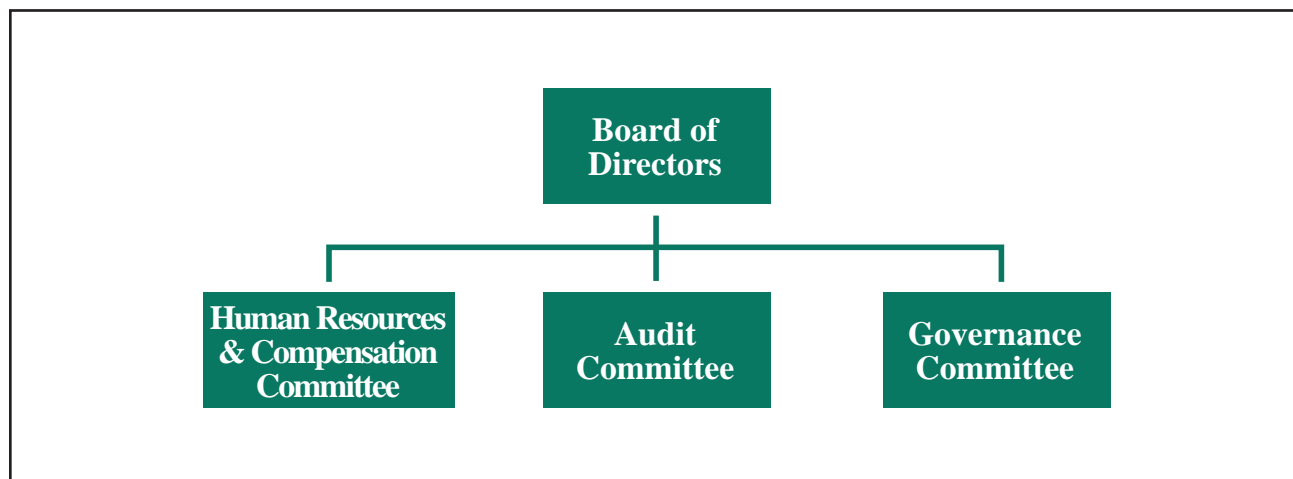
NBIMC is a Crown corporation, which was established under the *New Brunswick Investment Management Corporation Act* (the “Act”) of 1994. NBIMC is primarily responsible for providing investment-counseling services and to act as trustee for the three pension funds currently under management.

The Province of New Brunswick is the sole sponsor for the funds under management and is responsible for pension plan design, which includes the levels of contribution and benefits, and benefit administration.

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.

The Board is responsible for the stewardship and strategic direction of NBIMC and its investments. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President, and oversight of the business planning process, financial position and results, risk management, internal controls and information systems, human resources, communications and stakeholder relations. To ensure its on-going effectiveness, the Board performs a biennial self-assessment against these responsibilities.

The Board is assisted in its endeavors by the efforts of three Committees: 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 Audit Committee oversees the financial affairs, including the selection of accounting policies to be followed in the preparation of financial statements, the systems of internal controls and management information, financial risks, and the relationships with the external and internal auditors.

The Human Resources and Compensation Committee annually conducts a performance appraisal for the President. They also oversee changes to the Compensation Philosophy, compensation and benefits, incentive plans and organizational structure as well as monitor management’s compliance with employment, regulatory and legislative matters.

The Governance Committee annually reviews the terms of reference for the Board and each committee, all Board policies and the Nomination Guidelines for new directors to ensure that they continue to meet evolving corporate governance best practices. They also oversee the Director Orientation and Education programs and the Code of Ethics and Business Conduct. The biennial Board self-assessment process is facilitated by the Governance Committee.

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.

Board Attendance

Appointed Director ¹	Board ²	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Gilles Lepage	7/8	0/4	2/4	5/7
Elaine Albert ³	4/6	2/3	n.a.	n.a.
Wiktor Askanas ⁴	1/1	n.a.	n.a.	2/2
Joel Attis	7/8	n.a.	4/4	7/7
Réjean Bossé ⁴	2/3	4/4	n.a.	n.a.
Marc-Antoine Chiasson	6/8	3/4	n.a.	n.a.
Gaston LeBlanc ³	3/5	2/3	n.a.	n.a.
Ronald Maloney ³	5/5	n.a.	n.a.	2/2
Don Moors ⁴	3/3	1/1	n.a.	n.a.
Cathy Rignanesi	6/8	4/4	2/2	n.a.
Richard Speight	6/8	n.a.	4/4	n.a.
Reno Thériault	8/8	n.a.	n.a.	7/7
Michael Walton	6/8	n.a.	3/3	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 Holding Corporation.

² 7 regular meetings and 1 special meeting

³ Appointed to the Board on July 1, 2009

⁴ Term expired

The Board welcomed three new appointees in fiscal 2009-10 and accordingly, conducted an in-depth director orientation meeting in accordance with its Director Orientation and Education Policy. The Director Orientation Program assists new directors in understanding the mandate and stakeholders of NBIMC. A significant focus of the initial new director orientation is to explain the roles and responsibilities of the Board and the Board committees. It also outlines NBIMC's organizational structure, introduces the senior leadership team, and provides a primer on the pension and investment industries.

On-going director education includes exposure to relevant news and articles of interest as well as a program of educational meetings. Four education meetings were held in fiscal 2009-10. These meetings addressed the topics of asset liability modeling and research activities supporting the asset mix decision, private equity investing, internal risk monitoring processes, International Financial Reporting Standards and the external audit process.

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & 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 pension 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-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 received an actuarial valuation for the Public Service Superannuation Plan as at April 2008. During this past fiscal year we conducted an asset liability analysis for the Public Service Superannuation Fund (the "PSSF") based on the updated liability characteristics and funding position of the plan. The Board subsequently approved two adjustments to the PSSF asset mix to provide further downside risk protection particularly in periods of financial markets crisis.

The first change resulted in the gradual elimination of the foreign currency hedge overlay of our international investment exposure during the later portion of the fiscal year. While our foreign currency hedging program has added significant value over the past few years, the Canadian dollar has suffered from a flight to quality move to the currencies of the larger developed market countries such as the United States and Japan in times of crisis. We recognize that by not hedging the somewhat limited amount of our foreign exposure in our portfolios, we may suffer in the short-term from the continued appreciation of the Canadian dollar but are willing to trade that off for the protection we gain in times of crisis. Examples of this type of crisis protection were validated by the interim market crisis that occurred in Dubai and Greece during the fiscal year.

The second asset mix change that was made during the year was the elimination of the previous 2% allocation to commodity assets in our inflation linked assets portfolio. Our original investment in commodities was made in 2004 to help hedge the inflation indexed exposure in the pension plan liabilities and provide additional diversification benefits. Our decision to remove this exposure was based on two reasons. First, the updated liability profile suggested a lower allocation to inflation indexed assets was required. Secondly, commodities became very correlated to public equity assets, particularly during the financial market crisis, and therefore have failed to provide the diversification benefit originally anticipated. The 2% commodity allocation was reallocated equally to our nominal bond and private equity asset classes as determined through our asset liability analysis.

As has been mentioned in an earlier section, we have recently received an updated actuarial valuation for both the Teachers' Pension Plan and the Public Service Superannuation Plan as at April 2009. We have begun our asset liability analysis process to begin to determine if any additional asset mix changes are warranted in light of the revised liability profiles and refresh our view with respect to long-term financial markets conditions.

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. Our overall nominal return of 19.94% and real return of 19.47% for the fiscal year was above both our nominal and real return actuarial hurdles.

The majority of the performance during the year came about through the strong returns realized in the public equity markets and our allocation to public real estate securities. Our fixed income and real return bond portfolios also contributed solid returns during the year, and the foreign currency exposure hedging activity provided a strong contribution by offsetting the Canadian dollar's rebound during the earlier half of the year.

Our short term assets and absolute return portfolio returns were lower than in prior years, primarily due to the low level of short-term interest rates that was experienced during the year as central banks maintained their very low interest rate policies.

The private equity and real estate portfolios reported weaker returns, primarily due to the lag in the valuation reassessment process that has taken place since the financial markets crisis and a weakening in the foreign currency values in which these investments were made. While these returns were negative, there were no significant asset impairment issues in these portfolios, and we expect that their values will normalize in conjunction with economic growth.

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

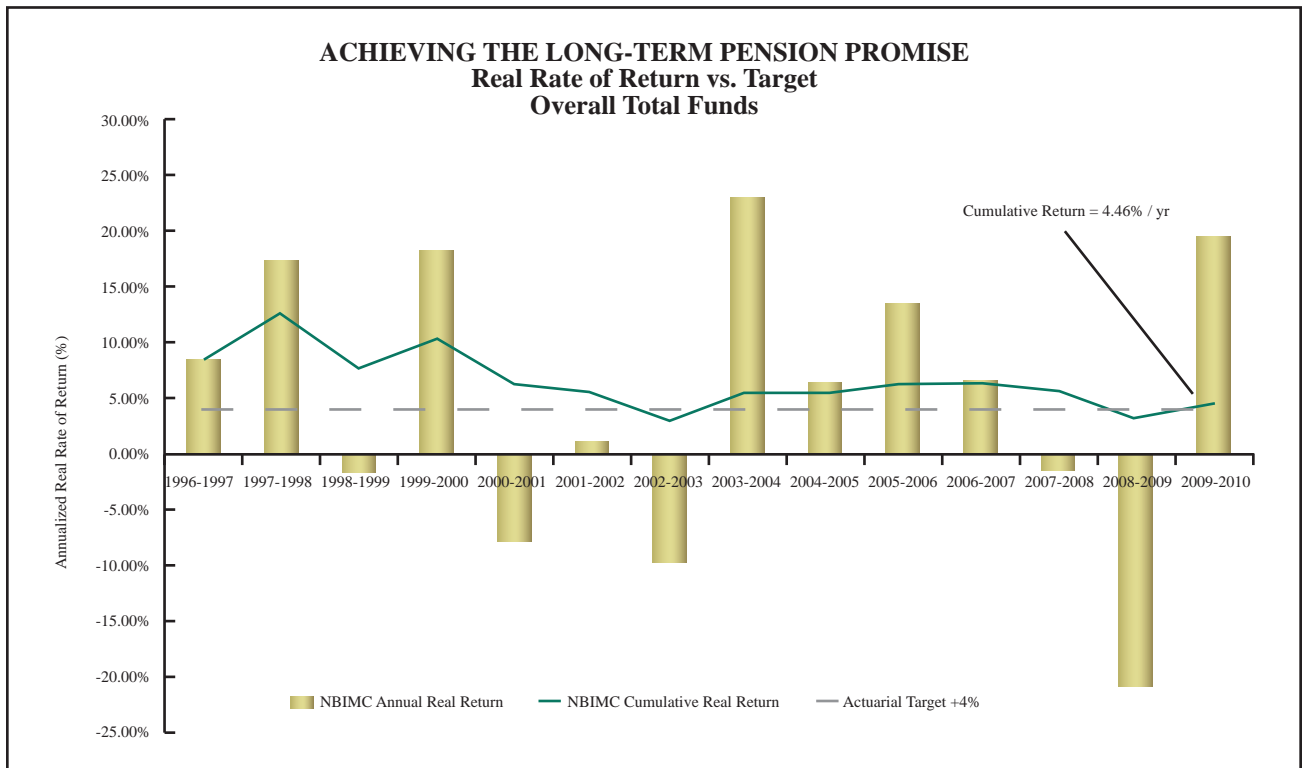
Fiscal 2009-10 Rates of Return, calculated in Canadian dollars

	Portfolio Return	Benchmark Return
Fixed Income		
Nominal Bonds	4.12 %	1.67 %
Short Term Assets	1.38	0.33
Public Equity		
Canadian	42.65	42.15
United States	20.43	20.70
MSCI EAFE	24.19	24.52
Inflation Linked Assets		
Real Return Bonds	12.07	10.47
Real Estate/Infrastructure	44.27	51.31
Commodities	7.43	6.03
Alternative Investments		
Absolute Return	1.71	0.33
Private Equity	(16.44)	23.04
Investment Portfolio	18.05	17.85*
Foreign Exposure Hedging Overlay	1.89	
Total Portfolio	19.94 %	

* Board approved benchmark returns are equal to the benchmarks in the Schedule of Composite Performance calculated in accordance with Global Investment Performance Standards® and net of an adjustment for private market investments made within the most recent 4 year period.

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.

We are very pleased to point out that our long-term annualized real return since NBIMC's inception is now 4.46%. As pointed out in the chart below, the long-term real return which was adversely affected last year by the financial markets crisis is once again greater than the long-term 4% real return requirement set out by the pension funds' Actuary.



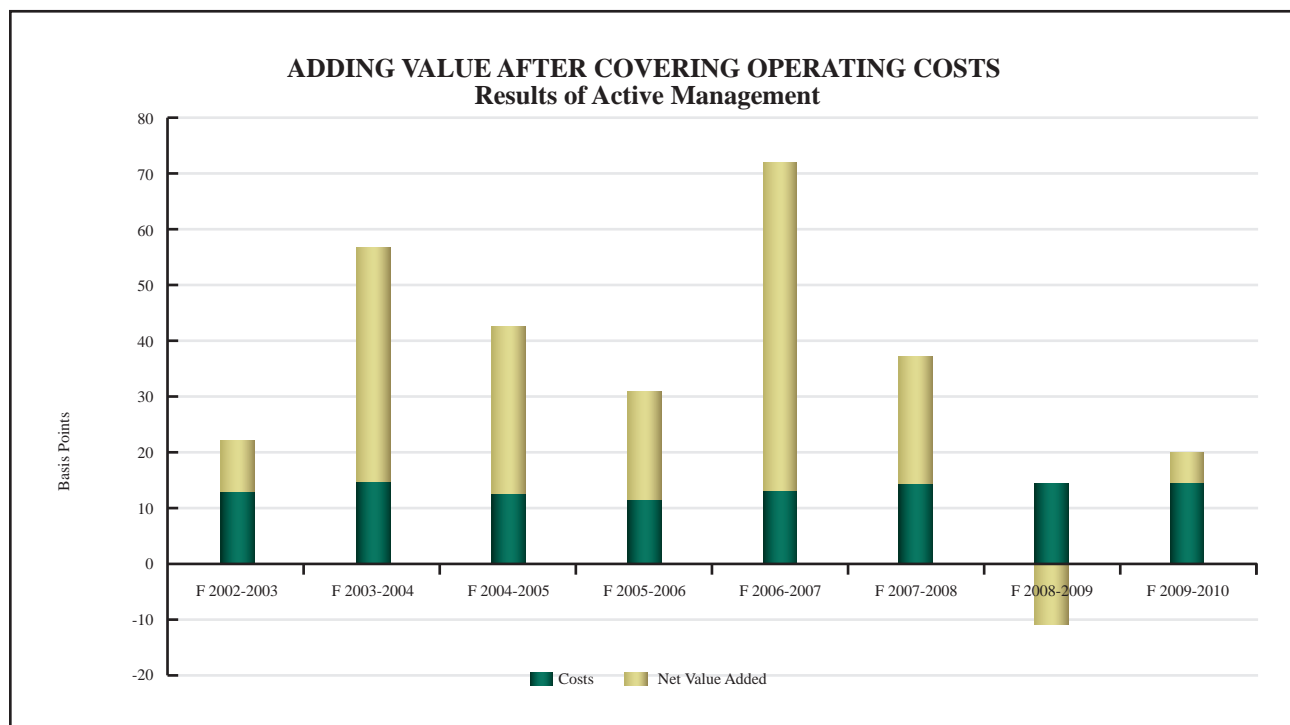
Our **second investment performance objective** is to add value, above our various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all of NBIMC's operating costs, and subsequently targeted an additional 42 basis points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

Our active management activities returned to adding value during a very difficult period over the past few years. These activities added 20.1 basis points of gross value and 5.2 basis points of net value, or approximately \$4.0 million, after covering all of the organization's operating costs.

Our longer-term four year average annual value added return, net of costs, was approximately 17.6 basis points per annum or approximately \$65.1 million in additional value over the four year period. The four-year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer term measure.

It is important to note that it has been very difficult to add value over the prior two years. NBIMC's primary active investment activity is to differentiate between the securities in specific companies that we find attractive, versus those that we do not. This differentiation activity became very challenging during the financial markets crisis of fiscal 2008-09, as many investors headed to the perceived safety and liquidity of government securities and unfortunately did not necessarily care what securities they were selling in the process. This breakdown in fundamental decision making continued in a different path during the past fiscal 2009-10 period as many investors, looked to invest in companies with small market capitalization and those that were thought to be going out of business only months earlier. Our expectation is that we should be able to return to a period of more consistent active management activity as the global economy and financial markets continue to normalize.

The following chart illustrates both the relative value added and success rate from NBIMC’s active management activities over the past eight years. It is broken down in terms of operating costs and excess (or net) value added performance.



NBIMC also prepares and presents 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

NBIMC and the Pension Funds face a number of risks in attempting to fulfill their mandates. 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 gains or losses that could be realized by those activities.

Although management has the primary responsibility for managing risk, under its terms of reference, the Board of Directors is responsible for understanding those risks and the systems that management has put in place to mitigate and manage those risks. In this context, the Board has communicated guidelines to management’s investment discretion in the Statements of Investment Policy for each Pension Fund found on the NBIMC website.

Within the Board structure, the Audit Committee focuses specifically on understanding and oversight of financial risks and risks relating to the systems of internal controls and financial reporting as well as fraud risk. The Human Resources and Compensation Committee focuses on risks relating to the leadership of the President, the ability to attract and retain qualified and motivated staff, leadership development and succession plans, and the overall prudence and sound business practices in Human Resource matters. The Governance Committee focuses on the leadership and effectiveness of the Board and the reputation and public image of the Corporation.

NBIMC has developed 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.

The Audit Committee has engaged an internal audit service provider (a firm external to NBIMC) to conduct reviews and provide advice on the effectiveness of NBIMC’s internal controls and processes. Internal audit reviews conducted in the current fiscal year have covered the following areas:

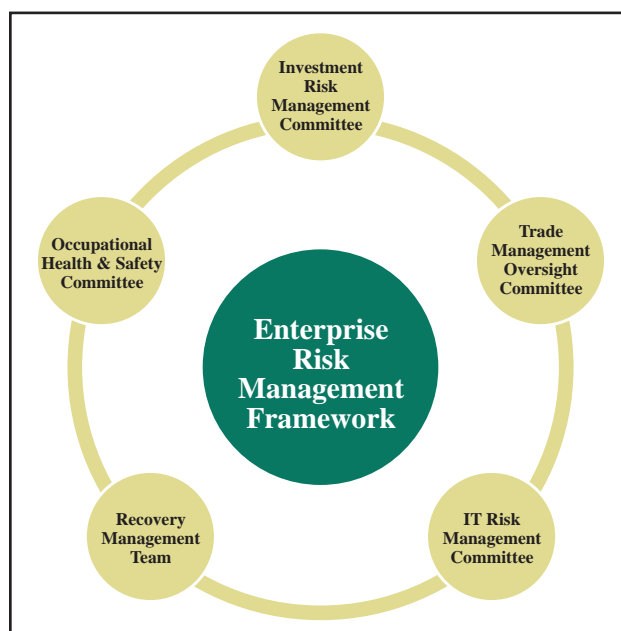
- internal capital at risk monitoring processes;
- business continuity planning and disaster recovery preparedness;
- expense payments and reimbursements; and
- fraud risk assessment.

These reviews did not uncover any significant weaknesses; however, they have been helpful in fine-tuning our processes to increase efficiency and effectiveness.

Management also uses a number of internal committees to focus on risk management, including the Investment Risk Management Committee (IRMC), Trade Management Oversight Committee (TMOC), Information Technology Risk Management Committee (ITRMC) and the Recovery Management Team (RMT), as well as an Occupational Health & Safety Committee. These staff committees are comprised of a cross-functional membership, including management and non-management positions, providing a rich opportunity for sharing perspectives and insights.

The IRMC monitors investment risk measures, considers risks associated with new investment strategies and products and proposes procedures to measure and monitor investment risk, subject to the approval of the Chief Investment Officer and within the parameters established by the Board.

TMOC is responsible for monitoring our trading policies and practices, including broker selection, to ensure we receive the best trade execution possible with well managed counterparty risk.



ITRMC provides guidance to the Information Technology Department about IT risks, issues and future direction. This committee also includes one volunteer senior IT executive external to NBIMC who shares alternative IT environment experiences.

The RMT is responsible for developing and implementing the Business Continuity Plan including disaster recovery. RMT meets semi-annually to discuss possible disaster scenarios and may use passive and active tests to practice response protocols. This year, a particular focus was on departmental contingency planning in anticipation of a potential flu pandemic.

Finally, the Occupational Health & Safety Committee is responsible for considering physical environment risks to the continued health and safety of our staff.

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 average assets under management. In our case this would represent approximately 0.149% (14.9 basis points) versus 0.146% last year. Absolute operating expenses of approximately \$11.3 million were about \$0.1 million lower than last year and represent the second consecutive decline in year over year expenses.

Variable expenses, such as external management fees and securities custody expenses which reflect levels of average assets under management, account for approximately \$0.5 million of lower costs. This savings was substantially offset however by variable compensation costs resulting from improved investment performance (see “*Compensation Discussion & Analysis*” following).

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. We also participated in a survey of defined benefit pension plans conducted by CEM Benchmarking Inc. for the calendar year 2008 which compared our costs against the average costs for 86 participants in the Canadian universe of peer pension funds. Through these benchmarking exercises, we believe that our costs are approximately 16 basis points lower than our peers. We are in the process of compiling the necessary data for benchmarking the 2009 calendar year.

We were also pleased to again note that 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”.¹

IFRS Conversion

As reported last year, the Accounting Standards Board (AcSB) of the Canadian Institute of Chartered Accountants (CICA) had 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 CICA also announced that it was deliberating the future reporting requirements for pension plans. In addition, the Public Sector Accounting Board (PSAB) was considering the appropriate source of accounting standards for certain types of government organizations.

Recently, the CICA has approved new accounting standards for pension plans that will form Part IV of the CICA Handbook. The CICA has also released an exposure draft that proposes to expand the scope of those standards to include pension funds and other entities whose sole purpose is to hold and invest assets received from one or more pension plans, but does not itself have a pension obligation. These Accounting Standards for Pension Plans refer to many of the presentation, recognition, measurement and disclosure standards for financial assets and liabilities contained in IFRS with certain exceptions relating to pension obligations and consolidation of controlled entities. The AcSB expects to issue a decision concerning the proposed scope expansion in June 2010.

For their fiscal year commencing April 1, 2011, the Pension Funds will adopt Part IV Accounting Standards for Pension Plans if the proposed scope expansion is approved because this will align with the accounting to be followed by the Pension Plans to which the Pension Funds belong. Alternatively, if the scope expansion is not approved, the Pension Funds will adopt IFRS.

The most significant difference between the Accounting Standards for Pension Plans and IFRS is the requirement under IFRS to consolidate controlled entities. Management believes that consolidation is inappropriate for entities whose business purpose is investment management. In February 2010, the International Accounting Standards Board (IASB) tentatively decided that an investment company should measure its investment in entities that it controls at fair value through profit or loss. The IASB has also tentatively decided the definition of an investment company. Management believes that the Pension Funds would meet this definition. If the IASB’s tentative decisions are approved, there would be no significant difference between the Accounting Standards for Pension Plans and IFRS for purposes of reporting the financial position or performance of the Pension Funds.

¹ Report of the Auditor General – 2008, Chapter 2 - New Brunswick Investment Management Corporation, Investment Performance and Cost Analysis, Section 2.190, Page 55.

The PSAB has issued several exposure drafts to clarify its expectations for accounting standards to be followed by government entities, including guidance for organizations that are currently following GAAP and will adopt public sector accounting standards for the first time commencing April 1, 2011. NBIMC, as a provincial Crown corporation, is classified as an “other government organization” and accordingly is considering a choice between adopting IFRS and adopting public sector accounting standards for its fiscal year commencing April 1, 2011. To date, management has identified four major differences between IFRS and public sector accounting standards as they relate to NBIMC:

- (i) Under IFRS, all contributions received would be recorded as revenue when received. Under public sector accounting standards, contributions received as reimbursement for capital assets would continue to be deferred and recognized as revenue at rates corresponding to the amortization rates of the acquired capital assets.
- (ii) Under IFRS, financial statements do not present budget information. Under public sector accounting standards, annual budgets are shown in the statement of operations and note disclosure is included to explain the variances between the budget and actual results.
- (iii) Under IFRS, a current Exposure Draft, *Defined Benefits Plans*, is proposing changes to the recognition and presentation of future employee benefits such that all changes in defined benefit obligations are recognized when incurred. Under public sector accounting, defined benefit obligations are recorded as liabilities and attributed to the period of employee service.
- (iv) For both IFRS and public sector accounting standards, there are possible differences in the calculation of employee benefits compared to the current standard followed.

Management is still in the process of completing its analysis of differences between IFRS and public sector accounting standards.

Compensation Program

Exhibit A

Base Salary

Eligibility	All Staff
Objectives	Reward level of responsibility, expertise, competency and relevant experience

Variable Compensation Program

(targets 15% -45% of base salary, depending on position seniority)

	Annual Incentive		Long-Term Incentive
	Short-term	Long-term	
Eligibility	All investment and research staff including the Chief Financial Officer provided a minimum of six months employment.	All investment and research staff including the Chief Financial Officer provided a minimum of six months employment.	All investment and research staff including the Chief Financial Officer provided a minimum of four years employment.
Objectives	Align eligible employee compensation to investment performance with an incentive to achieve sustained asset growth.	Align eligible employee compensation to investment performance with an incentive to achieve sustained asset growth.	Align eligible employee compensation to investment performance with an incentive to achieve sustained asset growth.
	Strengthen team cooperation.	Strengthen team cooperation.	Strengthen team cooperation.
	Reward individual performance.		
Time horizon	1 year	4 year (prorated)	4 year
Type of program	Cash	Cash	Cash
Performance metric(s)	Total fund return in excess of benchmark, net of expenses.	Total fund return in excess of benchmark, net of expenses.	Total fund return in excess of benchmark, net of expenses.
	Investment team(s) active return in excess of benchmark.	Investment team(s) active return in excess of benchmark.	
	Individual performance versus Board approved pre-determined Annual Business Plan Objectives.		
Range: Threshold Target Maximum	Full NBIMC cost recovery 42 bps after costs 84 bps after costs	Full NBIMC cost recovery 42 bps after costs 84 bps after costs	Full NBIMC cost recovery 42 bps after costs 75 bps after costs

Indirect Compensation

	Pension plan and retirement allowance	Employee benefits and post-retirement benefits	Perquisites
Eligibility	Full-time staff with a minimum of five years employment.	Full-time staff with a minimum of three months employment.	Full-time staff with a minimum of three months employment.
Objectives	Encourage long-term retention by rewarding continued service and contributing to post-retirement income.	Provide staff and their families with assistance and security so that they can focus on their professional responsibilities and achieving the corporate mission.	Offers a limited number of benefits to complement total compensation. For fiscal 2009-10, this includes parking and a health spending account allowance.

COMPENSATION DISCUSSION & ANALYSIS

Human Resources and Compensation Committee Mandate

The Human Resources and Compensation Committee (HRCC) assists the Board in fulfilling its obligations relating to the establishment of policies for compensation of directors and employees, leadership succession planning, and setting of 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 measurable 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 inclusive of 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.
- Review and recommendation to the Board for approval of the year-end incentive compensation pool for all eligible employees.

Corporate Compensation Philosophy

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

- Provide competitive, performance-based compensation 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 Program

The Compensation Program is outlined in Exhibit A opposite. The program takes the form of salary and benefits, an annual investment and individual performance based incentive plan, and a long-term investment-based incentive plan.

The compensation program 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.

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.

Annual incentive plan

Full-time Investment and Research employees and the Chief Financial Officer are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months. The AIP is calculated as a percentage of salary, weighted to reflect the role and impact each eligible employee has on achievement of corporate business plan objectives. Each AIP 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 an individual component determined by comparing team and individual annual business plan achievements to targets established in the five year corporate strategic plan. The overall individual amount is then allocated by management based on team and individual contributions to the business plan achievements.

The AIP 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 individual component. The weighting of the investment performance component is a function of an individual's influence on the investment results. The one year investment results have a relatively lower weighting relative to four year results to reinforce the importance of consistency over a longer period.

Long-term incentive plan

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

Impact of Performance Results for Fiscal 2009-10

Our overall nominal fund returns rebounded strongly in Fiscal 2009-10, which helped to significantly offset a large portion of the declines realized last year due to the financial markets crisis. Management was also able to create additional relative investment value versus benchmarks during the year after covering all of our organizational expenses. The corporation has been able to add approximately \$65.1 million of net additional investment value versus benchmarks over the past four year compensation review period.

The Board, on the back of a proactive firm-wide salary freeze in Fiscal 2009-10 and in recognizing the continuing challenge faced by the pension funds to fully recover from the 2008 financial market crisis, approved only a limited merit based increase in salary compensation for Fiscal 2010-11.

Improvements in relative investment returns in combination with a number of successes achieved versus our Fiscal 2009-10 Business Plan resulted in a positive impact on the amount of AIP and LTIP variable compensation.

For the investment result component of the AIP, 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 AIP also reflects performance results, as reported in the MD&A section, for three asset class teams: Fixed Income, Equities and Private Markets.

For the individual component of the AIP, the HRCC considered the overall achievements against the annual business plan objectives and the Board approved an individual award pool of \$201,000 (dollars).

The AIP total fund net value added result for Fiscal 2009-10 was 5.2 basis points (bps). A basis point is 1/100th of one percent. Consequently, the Board of Directors determined that the AIP performance incentive payable on the one year result was \$66,000.

A four year cumulative net value added result is used in calculating both the long-term component of the AIP as well as the LTIP. The four year cumulative net value added was 17.6 bps or \$639,000, representing approximately 41.9% of the net value added performance target of 42 bps. This result includes the positive net value added results for Fiscal 2006-07, 2007-08 and 2009-10 and the negative value added result from Fiscal 2008-09. The Fiscal 2008-09 negative performance will carry forward for the next two 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:

Years	One Year	
	Net Value Added (bps)	Percentage of Target (%)
2006-07	58.9	140.2
2007-08	22.6	53.8
2008-09	(10.6)	(25.1)
2009-10	5.2	12.5

The impact of these calculations on total variable performance incentives resulted in a total AIP of \$551,000 and LTIP of \$355,000, in aggregate up 58.6% from the amounts for the year ended March 31, 2009 however 68.8% of the pre-financial market crisis variable compensation level.

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 an annual retainer for the Chairperson and a per diem allowance for meeting attendance and preparation time. 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, 2010 was \$101,550 plus travel and accommodation reimbursements of \$20,603, which cumulatively represent 1.1% of the total cost of operations.

EMPLOYEE ACTIVITY IN OUR COMMUNITIES

NBIMC Management and staff continued to be very active with a number of important causes in our local communities. These efforts can vary from volunteering time or professional expertise to the donation of personal financial resources.

During the year, staff continued to exceed their target contribution level for the annual corporate United Way campaign, while at the same time provided an average of over 90 hours per volunteer to 35 non-profit organizations. Four other charitable causes were also supported through other internal corporate fund-raising initiatives.

Of particular note, NBIMC recognized Ms. Terry Wilkins as our “Volunteer of the Year” for the significant contribution that she has made in supporting the New Brunswick Special Olympics.

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 or delegates
- NBTA / AEFNB Pension Committee
- NB Teachers Federation
- PSSA and TPA Echo Newsletters
- <http://www.nbimc.com>