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November 28, 2011

Hon. Blaine Higgs  
Minister of Finance  
Department of Finance  
PO Box 6000  
Fredericton, NB E3B 5H1

Dear Minister:

The Board of Directors of NBIMC are pleased to provide the attached report which assesses the Corporation's compensation framework against the Financial Stability Forum Principles for Sound Compensation Practices (April 2, 2009) and the Financial Stability Board Principles for Sound Compensation Practices – Implementation Standards (September 25, 2009) (the "FSB Principles and Standards"), endorsed by the G-20 leaders.

As you are aware, the New Brunswick Investment Management Corporation ("NBIMC" or the "Corporation") is a crown corporation created to act as trustee for the pension plan assets of the Public Service Superannuation Act, the Teachers' Pension Act and the Provincial Court Judges' Pension Act, and to provide such investment counseling services as may be authorized or required under the *New Brunswick Investment Management Corporation Act* or at the direction of the Lieutenant-Governor in Council. Our mandate requires that we use sound business practices in managing the investments of these three pension funds to increase their long-term value.

The FSB Principles and Standards are intended to reduce incentives towards excessive risk-taking by financial institutions that may arise from the structure of compensation programs. Although these principles and practices do not apply directly to pension funds, the Federal Minister of Finance used such assessments in his oversight of the compensation practices of the federally-regulated CPP Investment Board and the Public Sector Pension Investment Board.

A key goal of our corporate mission is to advance governance, management and organizational effectiveness. Accordingly, our Board strives to apply best practice principles, such as the FSB Principles and Standards, in its governance processes.

Management determined that the Corporation's compensation policies and practices are consistent with the FSB Principles and Standards. The Audit Committee and the Human Resources and Compensation Committee ("HRCC") of the Board jointly requested Deloitte & Touche LLP, an independent professional services firm serving as NBIMC's Internal Auditor, to prepare a report to assist them in their oversight of the compensation program. The Internal

Auditor, who reports directly to the Audit Committee, presented this report confirming management's determination at its meeting of November 8, 2011.

The Board of Directors subsequently unanimously approved a motion requesting me to submit this report to you in your capacity as Plan Sponsor, to ensure that you have the most current and relevant information about our compensation practices.

We also intend to share this report with our pension plan stakeholders through publication on our website. We believe in an open and transparent communication process with the over 50,000 pension plan members to whom our organization is accountable. We explain our compensation framework, philosophy, calculations and related Board governance processes in the Compensation Disclosure & Analysis section of our Annual Report and disclose our compensation in the supplementary information to the Province of New Brunswick's Public Accounts. For further clarification, we have also posted a Compensation Backgrounder on our website.

The Board of Directors takes its responsibility to oversee the operations of NBIMC very seriously. We appreciate this opportunity to explain our compensation structure and governance. We trust that this report is informative and useful. Please let me know if you require any further information.

Yours respectfully,



Gilles Lepage  
Chair, Board of Directors  
New Brunswick Investment Management Corporation

cc: J. Garbutt – Deputy Minister of Finance  
J. Sinclair – President and CEO

## Financial Stability Forum (FSF) Principles for Sound Compensation Practices

### Principle NBIMC Policies and Practices

1. *The firm's board of directors must actively oversee the compensation system's design and operation*

- NBIMC's Board of Directors provides oversight of the organization's risk management policies, practices and systems
- NBIMC's Board of Directors periodically receives and reviews information on enterprise risk management including controls related to compensation practices
- NBIMC's Board of Directors is responsible for approving any changes to the compensation framework for NBIMC's management and employees and has established the Human Resources and Compensation Committee (HRCC) to assist the Board of Directors in the oversight of the compensation framework
- All members of the HRCC are independent of management

2. *The firm's board of directors must monitor and review the compensation system to ensure the system operates as intended*

- NBIMC's Board of Directors provides oversight of the organization's risk management policies, practices and systems
- NBIMC's Board of Directors periodically receives and reviews information on enterprise risk management including controls related to compensation practices
- NBIMC's Board of Directors is responsible for approving any changes to the compensation framework for NBIMC's management and employees and has established the HRCC to assist the Board of Directors in the oversight of the compensation framework
- All members of the HRCC are independent of management
- The HRCC meets periodically to discharge its responsibilities as per its Terms of Reference
- The HRCC periodically engages independent consultants to review, assess and provide recommendations on the current compensation system
- NBIMC participates in external party compensation and salary surveys
- All compensation design and payout decisions regarding NBIMC compensation (approval of benchmark targets, payment decisions) are made by the HRCC and documented in meeting minutes
- The HRCC provides reporting to the Board of Directors of its activities and oversight of the NBIMC compensation system

3. *Staff engaged in financial and risk control must be independent, have appropriate authority, and be compensated in a manner that is independent of the business areas they oversee and commensurate with their key role in the firm*

- Employees in the Finance and Compliance functions have an independent reporting line through the CFO to the CEO and are independent of all investment decisions
- Compensation of employees in the Finance and Compliance function is determined independently of Investment and Research areas' employees and based on independent external peer group salary surveys
- Employees in the Finance and Compliance function do not participate in the incentive compensation program
- All compensation decisions, including salary adjustments, are recommended for approval to the Board by NBIMC's HRCC

## Principle NBIMC Policies and Practices

### 4. *Compensation must be adjusted for all types of risk*

- There is no increased reward for exceeding objectives beyond a specified maximum level in any year, but failure to achieve the objectives will always result in decreased incentive compensation
- Value added targets and risk allocated for each active investment strategy ensure a targeted required return on risk and are based on NBIMC's risk budgeting process
- Capital-at-Risk methodology used is subject to regular management reporting and oversight by NBIMC's Investment Risk Management Committee and was the subject of an independent internal audit
- Incentive compensation is based only on excess returns beyond Board approved benchmarks after accounting for operating and investment costs (total investment costs), thus adjusting for operational risk
- The individual component of the incentive includes assessment of an individual's contribution to the achievement of NBIMC's strategic objectives, including strategies addressing risk management, risk mitigation and effective internal controls
- NBIMC's policies prohibit the use of leverage; liquidity risks are mitigated with cash underlay in support of futures and derivative strategies
- All new investment opportunities are subject to review and approval by NBIMC's Investment Risk Management Committee which assesses expected risks and return, liquidity considerations, performance measurement implications, cash underlay requirements and risk measurement
- NBIMC's Incentive Plan is designed to reward performance over a longer term performance horizon – 25% of the Annual Incentive Plan (AIP) component is affected by the current year performance while the remaining 75% is based on four year annualized returns; 100% of the Long-Term Incentive Plan (LTIP) component is based on an annualized four year performance

### 5. *Compensation outcomes must be symmetric with risk outcomes*

- NBIMC's Incentive Plan is designed to reward performance over a longer term performance horizon – 25% of the Annual Incentive Plan (AIP) component is affected by the current year performance while the remaining 75% is based on four year annualized returns; 100% of the Long-Term Incentive Plan (LTIP) component is based on an annualized four year performance
- Current year negative financial performance impacts the measurement of the 25% current year portion of the AIP along with the measurement for the 75% portion of the four year annualized returns for the current and subsequent four years
- Current year negative financial performance impacts the LTIP measurement of the four year annualized performance for the current and subsequent four years
- Minimum financial criteria have been established in order for the AIP and LTIP to be paid to eligible employees; a maximum ceiling has also been established for AIP and LTIP payments to eligible employees
- Maximum payout has been established for AIP and LTIP payments to eligible employees meaning that there is no reward for achieving excessive risks in any particular area which encourages management to achieve a balanced investment approach with consistent returns in all areas
- Benchmark performance targets are recommended for approval annually to the Board by NBIMC's HRCC

### 6. *Compensation payout schedules must be sensitive to the time horizon of risks*

- NBIMC's 4-year time horizon of risk is consistent with time periods of performance and strategies in the organization's strategic plan

## Principle NBIMC Policies and Practices

- Current year negative financial performance impacts the measurement of the 25% current year portion of the AIP along with the measurement for the 75% portion of the four year annualized returns for the current and subsequent four years
- Current year negative financial performance impacts the LTIP measurement of the four year annualized performance for the current and subsequent four years
- The AIP vesting period is 6 to 12 months depending on commencement of employment; the 75% portion of the four year annualized is weighted and adjusted annually based on predefined measurements until 4 years of employment has been reached
- The LTIP vesting period is 4 years
- Employees must be employed on the date of the payout to be eligible for the AIP and LTIP payments

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### 7. *The mix of cash, equity and other forms of compensation must be consistent with risk alignment*

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- Total compensation mix at NBIMC is comprised of base salary and short-term and long-term incentives for eligible individuals
- This principle is not directly applicable to NBIMC as all forms of compensation are in the form of cash and consistent with the alignment of risk practices as noted in the NBIMC Policies and Practices identified in this document

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### 8. *Supervisory review of compensation practices must be rigorous and sustained, and deficiencies must be addressed promptly with supervisory action*

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- NBIMC's HRCC provides primary oversight of the compensation system and structure and recommends changes to the Board
- NBIMC's HRCC periodically engages independent consultants to review, assess and provide recommendations on the current compensation system
- Management completed self-assessment of compliance against the Financial Stability Forum – Principles for Sound Compensation Practices and Financial Stability Board – Principles for Sound Compensation Practices – Implementation Standards
- Independent internal audit of compensation policies and practices with a primary objective to assess alignment with the principles and standards issued by the Financial Stability Board

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### 9. *Firms must disclose clear, comprehensive and timely information about their compensation practices to facilitate constructive engagement by all stakeholders*

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- A section covering 'Compensation Discussion and Analysis' is included in the NBIMC annual report which provides an overview of the compensation program and compensation payments in the current fiscal year
  - The NBIMC external website includes a link to the following documents addressing compensation:
    - Compensation Philosophy Overview
    - Management Compensation Supplemental Backgrounder
    - The Terms of Reference for both the HRCC and the Board of Directors outlining their respective roles and responsibilities
  - Province of New Brunswick's Office of the Comptroller publishes an annual report 'Unaudited Supplementary Employee Lists' which highlights all provincial employees, including NBIMC's employees, whose total compensation (employee salaries and retirement allowance/severance payments), exceeded \$60,000 during the calendar year
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