



Management Compensation

Supplemental Overview - August, 2011

Governance

The New Brunswick Investment Management Corporation (NBIMC) is an independent crown corporation that provides fiduciary based investment management services to various pension funds of the Province of New Brunswick. It is governed by a Board of Directors who are legislated to manage the affairs of the Corporation on a commercial basis. All decisions and actions are based on sound business practice.

With respect to compensation matters, the Board of Directors is supported by their Human Resources and Compensation Committee (HRCC). The Board of Directors has established the Human Resources and Compensation Committee (HRCC) to assist in fulfilling its obligations relating to the management compensation, leadership succession, human resources policies and practices to attain NBIMC's strategic goals, and to perform other human resources related duties set out by the Board from time to time.

The HRCC is comprised of Directors with experience in compensation related issues. They are assisted from time to time by compensation consulting experts and through third party investment industry based compensation surveys.

The Board of Directors, with the assistance of the HRCC, has developed a Compensation Philosophy and compensation program which supports NBIMC's Strategic Plan, desired organizational culture, and positioning within the competitive marketplace.

Compensation Principles

NBIMC's Compensation Program is designed to attract and retain a team of high quality, New Brunswick based, investment professionals. The team is focused on delivering our clients' pension promises by aligning employees' interests with those of pensioners and other stakeholders. The compensation program also recognizes the skills and experience required to successfully manage more than \$9 billion in pension assets directly, in global financial markets.

NBIMC operates on the general principle that compensation should consist of a **base component** and a **performance based incentive component**.

A pay-for-performance incentive program for senior management and investment related positions is typical for the investment industry. The percentage of compensation that is performance based is proportional to the level of employee seniority.

Performance is generally measured over longer periods of time. This longer-term focus is consistent with NBIMC's mandate to achieve the actuarially-determined required rates of return for each pension fund while minimizing risk.

Base Salaries

The base salaries will be paid at the median of respective comparator groups. Senior management and investment positions are compared to similar public sector investment managers while also taking into account their total assets under management, investment strategies and internal equity. Finance and administration positions are compared against similar public sector investment managers and Atlantic Canada based organizations of similar size and complexity.

Performance Incentive Program

The performance incentive program contains two main components: an Annual Incentive Plan based on performance over a combination of both the past year and a longer term four-year average, and a Long-Term Incentive Plan designed to reward performance over the longer term.

The incentive program contains two main components:

1) Annual Incentive Plan:

The Annual Incentive Plan has two components based on quantitative and qualitative criteria as follows:

- a. Each Investment Team participates in a team award based on their annualized value added achievements. The performance criteria include a combination of net team and total fund investment rates of returns in excess of specific defined market-based benchmarks. Investment costs are deducted from total fund performance to determine the net excess rate of return. The majority (75%) of excess returns are measured over a longer-term rolling four-year period, while the remaining (25%) are measured for the most recently completed fiscal year.
- b. Individuals eligible for an individual award based on Qualitative Individual Performance measures that include the achievement of annual business plan objectives. These objectives are set by the Board of Directors at the beginning of each fiscal year giving regard to NBIMC's five year strategic plan. A large component of this performance is tied to the corporation's long-term risk adjusted absolute investment returns.

2) Long-Term Incentive Plan:

- a. Eligible employees who have been employed at NBIMC for four years or longer, are eligible for an additional incentive based on long term criteria. These criteria include only the net total fund investment rates of returns, after deducting investment costs, in excess of specific defined market-based benchmarks. The excess returns are measured over only the longer-term rolling four-year period.

Results for Fiscal 2010-11

The overall nominal fund return was 10.42% in Fiscal 2010-11. Additional net relative investment value, consisting of investment returns in excess of benchmarks and all investment costs, was \$18.9 million for the current fiscal year. Over the past four years, the Corporation has been able to add approximately \$33.6 million of net relative investment value.

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. Accordingly, the base salary component of total compensation for the current fiscal year increased by 0.4% over base salary for the previous fiscal year.

The performance-based incentive component of total compensation is \$865,854 for the year ended March 31, 2011, compared to \$906,052 for the year ended March 31, 2010, a decrease of 4.4%.

Annual Incentive Plan

- The quantitative award pool is \$334,000.
- The qualitative individual award reflects the accomplishment of weighted annual business plan objectives. The Board considered these business plan objectives and determined that they had been 96% achieved, resulting in an individual award pool of \$242,000.

Long-Term Incentive Plan

Based on the quantitative total funds' four year annualized net value added the award pool was \$289,000.

It is important to note that all of these award components are included in the overall corporate operating costs that are covered as part of the relative return performance calculation outlined in our Annual Report.

Message from Board Chairperson Gilles Lepage

Chair of the Board of Directors, NBIMC: Mr. Lepage is also a Member of the Corporation's Audit, Human Resources and Compensation, and Governance Committees

“Attracting and retaining quality, New Brunswick based investment professionals, is key to the ongoing success of the New Brunswick Investment Management Corporation. Following industry best practices, with regard to remuneration and compensation, will ensure this is the case.”

“The NBIMC compensation program also ensures a strong alignment of interest with our pension fund clients through the provision of cost effective investment management services.”

Reference Links:

NBIMC Compensation Philosophy Overview

<http://www.nbimc.com/Governance/Compensation.aspx>

Human Resources and Compensation Committee Terms of Reference

<http://www.nbimc.com/Governance/HumanResources.aspx>

Fiscal 2010-11 Annual Report

<http://www.nbimc.com/Content/2011/AR1011.pdf>