VESTCOR

ANNUAL REPORT

2018

Our Mission:
To provide innovative, cost effective, and prudent investment and benefit administration services that address the needs of public sector funds.

BOARD OF DIRECTORS

CORPORATE OFFICERS

JOHN A. SINCLAIR
President and Chief Executive Officer

JAN IMESON, CPA, CA
Chief Financial Officer

INGE DESPRÉS
Corporate Secretary

JONATHAN SPINNEY, CFA
Chief Investment Officer

BRENT HENRY, CPA, CA
Chief Compliance Officer

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WHO **WE ARE**

Vestcor Inc. is an integrated investment management, pension and benefit administration organization offering services to public sector entities. We provide tailored services to many risk-controlled target benefit pension plans and other pools of investment capital.

Located in Fredericton, New Brunswick we are the largest investment manager in Atlantic Canada providing global investment management services to 9 different client groups representing approximately $16.9 billion in assets under management. We also provide administration services to 11 pension plans and 4 employee benefit plans.

2018 **HIGHLIGHTS**

VESTCOR INVESTMENT DIVISION:

- Client portfolios for which we provide investment advice continued to exceed their overall long-term investment risk and return targets.
    - Their long-term investment risk and return performance remained strong versus other pension fund and diversified investment manager alternatives.
- We continued to outperform client policy benchmarks for assets under discretionary management net of all investment management costs, by 1.03%. This represented approximately $171.6 million of additional return over client investment policy benchmarks.
- Our annual Management Expense Ratio (MER) remained low at 0.12% of total funds under management. This was the fifth consecutive year that our clients have benefitted from a steady or declining MER.
- Assets under discretionary management increased to $16.9 billion at year end.

VESTCOR ADMINISTRATION DIVISION:

- Exceeded each of the teams' Key Performance Targets.
- Commenced a major project to modernize our plan administration technology capabilities.
- Coordinated a number of education opportunities, communication activities, research material and strategic education sessions for our client Trustees.
- Expenses remained low versus other public sector peers.

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MESSAGE FROM THE **CHAIRPERSON**

On behalf of the Board of Directors (the Board) and the management team of Vestcor Inc. (Vestcor), I am pleased to introduce our 2018 Annual Report. This Annual Report provides an accounting of the operating activities that took place during the year from both our investment management, and our pension and benefits administration business teams.

The Vestcor Board was very engaged with our management team during the year in providing direction and oversight related to our Vestcor mission "To provide innovative, cost effective, and prudent investment and benefit administration services that address the needs of public sector funds".

An early achievement we concluded in 2018 was the completion of our corporate legal integration activities by combining Vestcor Investment Management Corporation (VIMC) and Vestcor Pension Services Corporation (VPSC) into one Vestcor entity. This combination has led to a more effective internal organizational structure and governance process, and a much more coordinated service delivery connection with our different client groups and our shareholder, Vestcor Corp.

Transparency, independence and accountability continue to be an important focus of our Board. This Annual Report is organized to provide detailed insight into how Vestcor's investment programs and administration activities continued to meet both our business objectives and those of our clients.

A CHALLENGING 2018

We are very pleased to outline throughout this report that Vestcor has continued to exceed our clients' objectives during the challenging financial markets and business conditions we experienced in 2018. Our independent, not-for-profit business model continues to deliver excellent value for our expanding client base and is more aligned with our clients' objectives than the traditional "for profit" model for investment management.

It is very gratifying that our long-term investment policy development activities have led to our investment clients being able to preserve and grow their capital base in 2018 by realizing positive investment returns in the generally negative financial market environment.

We were also very proud to have been able to continue to exceed our client administration service delivery targets in an environment where client member service volumes saw material increases.

STRATEGIC DIRECTION

One of the initial orders of business for our Board, post the enactment of the founding *Vestcor Act* legislation, was to work with our management team to develop a Strategic Plan for the organization. That Plan was very focused on efficiently integrating our two legacy operating companies (VIMC & VPSC) into one corporate Vestcor entity.

In consideration of the significant progress made to date on this integration, our Board is planning to re-visit this Strategic Plan in mid-2019. This process will involve a detailed review of our integration progress, in combination with feedback from our shareholders and clients.

A major focus during the year was the recognition of the significant risk and service limitations of our legacy pension and benefit administration infrastructure. Our Board and shareholder approved a plan to transition to a new more modernized system and significant progress has been made on its' implementation, which will be completed in 2019.

This year also sees the implementation of strategic changes to our employee compensation program. The Board, with the assistance and advice of an expert industry human resource consulting firm, has implemented an incentive-based compensation component for all Vestcor employees. This program is based on our success on both corporate and team specific performance achievements against pre-determined key performance indicators. This change provides further alignment with the performance of our clients and ensures we continue to be able to attract and retain talent while competitively keeping pace with other similar service providers in our industry.

VESTCOR BOARD ACTIVITIES

Our Board of Directors and its Governance, Audit, and Human Resources and Compensation Committees continued to be very active during the year as outlined in their respective sections later in this report. This included a full post Vestcor integration review and update of our various governance documents and Terms of Reference material.

Director activities also included the participation in a Board self-assessment process and a subsequent governance improvement objective setting exercise which included a Committee Chairperson change as an opportunity for regular renewal. This self-assessment exercise will be undertaken on a biennial basis and the Board will be working on addressing the identified improvement areas over the next year with the help of our management team.

In another effort to continue to improve our corporate governance capabilities, Vestcor became a corporate member of the Institute of Corporate Directors (ICD) in 2018. We look forward to utilizing the training and resource material provided by the ICD in the future.

The Vestcor Board welcomed Ms. Tanya Chapman as a new Director in 2018. Her appointment was approved by the Vestcor Corp. shareholder Board upon the recommendation of an Ad-Hoc Nominating Committee of our Board. We look forward to her specific insights and the additional diversity she will bring to our Board.

APPRECIATION OF DEDICATED SERVICE

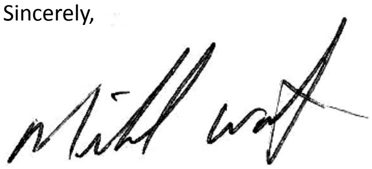
I would like to recognize the Directors of our Board and our senior management team for their commitment and contribution to another successful year in helping our clients meet their goals and objectives. In particular, I would like to express our appreciation of the service of Wiktor Askanas who retired as a Director on our Board in August. Wiktor initially played a key role on the Board of the N.B. Investment Management Corporation and was instrumental in the oversight of the Vestcor transition and integration process.

It is also important to recognize the support and accountability oversight activities of our Shareholder Board, Vestcor Corp. More detail on their structure and activities during the year can be found at **www.vestcor.org/en/about-us/vestcor-corp**.

Finally, I would like to recognize and thank our employees. They have faced significant change over the past two years as we worked diligently on integration activities and accommodated organizational realignment including, in some cases, new teams, operating policies and procedures. Throughout, our employees have continued to provide innovative client-focused operational improvements and investment strategies.

In closing and as noted last year, as a not-for-profit, independent organization, Vestcor continues to remain well-aligned with the best interests of our various clients. I trust this report provides a thorough accounting of our corporate activities in 2018, however we remain available to address any questions or provide further information by contacting us at **comments@vestcor.org** at your convenience. Please also note that a significant amount of other governance related material is available on our website at **www.vestcor.org**.

Sincerely,



Michael W. Walton, Chairperson
Vestcor Inc.

April 1, 2019
Fredericton, New Brunswick

REPORT FROM THE **PRESIDENT AND CEO**

Although 2018 was a difficult year in the global financial markets, and we experienced a material increase in administration-related service demands from our clients' plan members, it was a very successful period at Vestcor in many ways. Our risk-focused investment programs helped our clients continue to exceed their long-term return and risk management goals, our client administration activities met or exceeded their key performance indicators, and we have made significant progress on a number of our strategic goals during our second full year of operations as Vestcor.

Vestcor also continued to grow in 2018 with the addition of one new pension investment client. Our experience and success in helping design specifically targeted return and lower risk investment programs at a low cost continues to be of interest to a number of public sector clients.

Dealing with our continued growth requires the dedicated efforts of our employees, each of whom participated in our inaugural firm wide Vestcor Workplace Environment and Leadership surveys during the year. We were very encouraged with the positive constructive results of these surveys, and management remains concentrated on building on our strong team-based culture of providing client focused cost-effective services. To assist with this growth, we have intensified our recruiting activities at our provincial universities, and we continue to support an industry related education program through the Center of Financial Studies at the University of New Brunswick.

Risk management continued to be a significant focus during the year with our Board approving an updated Enterprise Risk Management Framework (ERMF) which now includes risks pertinent to our pension and benefits administration business teams. Cybersecurity measures continued to be enhanced during the year and our ERMF has now been expanded to include a number of specific risk indicators that are being closely and proactively monitored by our management team.

INVESTMENT MANAGEMENT

Global financial market volatility increased in 2018, with Central Bank interest rate increases, global trade concerns, political uncertainty and economic and corporate growth rate declines all seeming to accumulate in the last quarter of the year leading to significant global equity markets losses.

From a pension perspective, RBC Investor & Treasury Services reported that Canadian defined benefit pension plans ended 2018 in negative territory with a median annual return of -0.7%. Vestcor's pension clients however realized an annual overall return of 2.07%, not only significantly outperforming most other Canadian plans but preserving capital in a difficult market environment. Our longer-term four-year annualized pension client return of 6.09% per annum is also higher than median Canadian defined benefit pension plans with much lower realized risk and much lower investment management costs. It was encouraging to see the continued validation of our strategy of focusing on generating more consistent returns that meet client long-term return objectives, while also protecting assets in more difficult market environments. Specific client returns are reported to their members through their own communication process, and many of these reports are available through their specific sections of our website.

On a total funds under management basis, the gross return from overall Vestcor investment management activities was 2.08% for the year ended December 31, 2018. These results were achieved with a similarly low management expense ratio for the year of approximately 0.12%. Long-term annualized gross four-year returns stand at 6.05% and our return since our inception in 1996 was 7.09%.

Our overall total funds' value-added portfolio performance of 1.15% once again exceeded both the blended client investment policy benchmarks and our investment management costs during the year. This performance provided our clients with additional returns of approximately $192 million of investment earnings through active portfolio management activities versus their benchmarks, or approximately $172 million in additional net earnings after covering $20.0 million of our total investment operating costs.

Total assets under management increased to a new all-time high of $16.9 billion from $16.6 billion in the prior year. This increase in assets resulted from $324 million in net investment earnings, net client payouts of $281.7 million and $215.3 million of new client assets and additional client capital contributions.

We are pleased to describe further in this report more detail on how we continued to exceed **both our primary investment objective of exceeding the long-term investment returns** required by our clients, **and our secondary investment objective of producing value-added returns** that exceed their investment policy benchmarks after covering all of our relatively low investment management expenses.

PENSION AND BENEFITS ADMINISTRATION

Our pension and benefit administration teams were able to meet or exceed their clients' key performance indicators with respect to their service delivery standards during the year, while also dealing with a significant increase in processing volumes due to a rise in client member requests. Our member services team is on the front line of addressing these requests and continues to be scored highly through feedback provided by the members being served.

As mentioned in last year's report, improving the quality and timeliness of services to plan members continues to be an important focus for Vestcor and our client groups. A major part of this focus during the year was a review of our legacy custom-built pension and benefits administration system. This review resulted in a decision to replace that system with a modernized system hosted by a third-party provider. An implementation project has begun and is expected to be completed in mid-2019. This project is expected to result in a reduction of the operational risks that we faced with our former system and provides opportunity for further service enhancements in the future.

The pension board support team continues to make a significant contribution in assisting the Trustees of a number of our client groups more effectively achieve their governance objectives. Our coordination of various strategic client education opportunities, communication activities, and research material continued to assist these groups with their many responsibilities.

Our communications team also had a very productive year on behalf of our clients. A new **www.vestcor.org** website was launched in early 2018 which has helped consolidate our clients' pension and benefit program information in a much easier to access and understand format. The team continued to assist our clients in their reporting activities and member interactions and launched a new educational video capability on our website with two inaugural videos on "Planning your Retirement" and "How to Estimate your Pension with Vestcor's On-line Calculator". We look forward to continuing to assist our clients to expand the effectiveness of their member communications efforts.

OUTLOOK

While we were very pleased with Vestcor's performance in the difficult 2018 business environment, a number of challenges and risks remain. The global economy has begun its 11th year of expansion post the great financial crisis of 2007-08, however its' growth rate has begun to show signs of a slowdown. This slowdown, in combination with continued global trade and political concerns, has led to lower corporate earnings forecasts and continued central bank policy uncertainty.

We expect that investment returns will remain challenging over the next few years with a continuation of the higher market volatility we experienced in 2018. We continue to advise our clients that a portfolio strategy biased towards lower volatility equity assets, and our absolute return strategies, should continue to meet their long-term return objectives while minimizing volatility as many require through their shared risk / target benefit plan requirements. We will also continue to work hard on improving client returns via active portfolio management within their investment policy guidelines.

Vestcor will continue to closely monitor the increasing trend in pension and benefit administration service requirements from our clients' members. We look forward to the efficiencies and risk mitigation impacts that our upgraded administration system project will bring and will use the implementation period to review our alignment of resources to continue to efficiently serve these members.

We recognize that our clients face many challenges, whether in trying to provide sustainable pension benefits to their members or to efficiently fund some other type of financial liability. Vestcor looks forward to continuing to help our clients meet these challenges through our strongly aligned interests and long-term focused, low cost approach.

Questions and comments are always welcome at **comments@vestcor.org** or by telephone through our reception team at 506-444-5800.

Sincerely,

John A. Sinclair, President and Chief Executive Officer
Vestcor Inc.

April 1, 2019
Fredericton, New Brunswick

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 organization. Key elements of the 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.

This Management's Discussion & Analysis provides an outline of the operations for Vestcor Inc. (Vestcor) for the year ended December 31, 2018.

Our website at **www.vestcor.org** also has available the audited financial statements for the various Vestcor Investment Entities for the year ended December 31, 2018. The Vestcor Investment Entities are pooled investment funds structured as either unit trust funds for which Vestcor serves as trustee or as limited partnerships for which a wholly-owned subsidiary of Vestcor, Vestcor Investments General Partner, Inc., serves as general partner. These Vestcor Investment Entities have been created to facilitate the efficient investment of assets into separate investment strategies that deliver our clients' asset mix decisions.

CLIENTS AND SERVICES

Vestcor provides both pension and benefits administration services as well as investment management services to a wide range of public sector clients. In total, Vestcor provides services to 19 clients at December 31, 2018. Administration activities cover over 96,000 plan members and investment assets under management (AUM) at December 31, 2018 were $16.9 billion.

We continue to look forward to realizing on our corporate vision of being the public sector's provider of choice for pension and benefit administration services and investment management services by providing assistance in any or all of the following service offerings:

- Investment Management (Equity / Fixed Income / Inflation Linked / Alternatives)
- Investment Strategy Advice
- Compliance and Performance Measurement Services
- Pension Plan Administration
- Employee Benefits Plan Administration
- Client Trustee Governance Services and Support
- Financial Reporting
- Risk Management
- Communications

Clients are free to choose some, or all of the services provided by Vestcor. Vestcor operates as a not-for-profit entity using a cost recovery business model. Vestcor incurs expenses in connection with its services as investment manager and in connection with its services as a pension and benefits plan administrator. It is important to note however that the expenses for each of these service areas are allocated only to the respective clients of those service areas.

Investment management expenses are allocated to investment clients based on their proportionate share of total assets under management on the day an invoice is paid. If a client requires a more specific investment service, the costs to provide that service are fully allocated to that client.

For clients who use our plan administration services, the cost of our human resources to provide those services are allocated according to an annual evaluation of effort expended. Information systems and other general office and business costs are allocated based on an historical analysis of transaction volumes and number of members in each plan.

ADMINISTRATION HIGHLIGHTS

The Vestcor administration team is responsible for the day-to-day operations of 11 pension plans as well as 4 employee benefit programs. We provide service to approximately 60,000 active and 36,000 retired members. Our members include employees from the provincial public service sector, the education sector, provincial health authorities, crown corporations, and other quasi-public sector organizations.

The administration team is divided into four areas: member services; plan operations and pension policy; member communications and board and committee support services. Highlights from each of these areas for 2018 are as follows:

MEMBER SERVICES

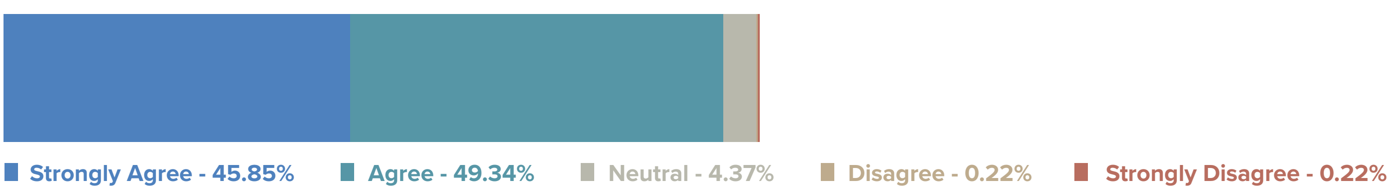
In 2018, the member services team had over 29,000 contacts with members through phone calls, emails and visits to our office, an increase of 9.52% as compared to 2017. This significant change in volume can be attributed to the increase in members requesting services including pension estimates and termination applications, in addition to inquiries related to forms. To ensure that we met the needs of our clients, Vestcor continued to administer client satisfaction surveys, initially launched in 2017. These surveys were sent to members who had received a specific service from Vestcor during the year.

MEMBER SERVICES SATISFACTION SURVEY RESULTS

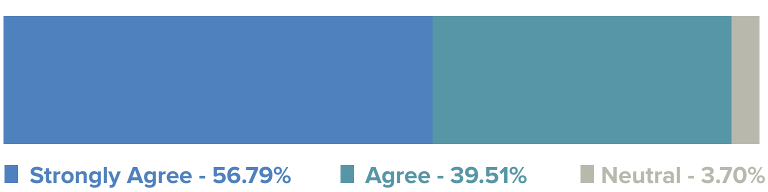
Vestcor continued to provide both member and employer education. In 2018, approximately 945 plan members attended our information sessions. These sessions provide members the opportunity to learn more about the provisions of their pension and employee benefit plans in which they participate. Those who attended the sessions were very satisfied with the information they received.

RESPONDENTS WHO FELT THAT THEY UNDERSTOOD THEIR PENSION BETTER AFTER ATTENDING AN INFORMATION SESSION

EMPLOYEES



EMPLOYERS



Vestcor also provided pension and employee benefits information sessions with various employers. During these sessions, employers were provided with information to better serve their employees who are members of the plans.

Supporting its focus to continuously improve customer service, the member services team implemented an automated call distribution phone system. This system allows our reception team to answer calls in the order they are received, and more importantly, alleviates having multiple lines ringing at once.

PLAN OPERATIONS AND PENSION POLICY

During 2018 the team processed over 5,700 pension related applications and over 880 employee benefit related applications. A significant increase in pension estimates and termination applications was observed, at 28% and 43% over 2017, respectively.

Vestcor has key performance indicators that it has established with each of its client boards. These processing times continued to improve in 2018 compared to 2017, even with the increase in volumes:

Service	Target[1]	2018 Number Processed	2018 Achieved	2017 Achieved
Purchase of Service Requests	60 days	637	100.0%	99.7%
Pension Estimates	60 days	2,093	100.0%	99.5%
Retirements	60 days	1,741	100.0%	99.9%
Terminations	30 days	1,180	99.9%	99.3%
Marriage Breakdowns	42 days	152	100.0%	97.7%

[1] *Targets may vary slightly between clients. The above table illustrates the shortest target period.*

As part of our ongoing commitment to improving service to our members, Vestcor resolved to replace its legacy pension and employee benefits administration system with a new modernized system. The new system will reduce operational risks associated with the aging technology currently in place, while providing the opportunity to further enhance services provided to members and employers. The plan operations and pension policy teams have been deeply involved in the development of the new system, providing expertise to various phases of the project as applicable, all while meeting the consistently increasing volumes of pension and employee benefits related requests.

MEMBER COMMUNICATIONS

After considerable effort in 2017 and early 2018 in the planning and development of a new Vestcor member-centric website, **www.vestcor.org** was launched in mid-2018. The new website integrates Vestcor's investment management, pension and employee benefits administration services and corporate areas into one cohesive site, all while providing an enhanced user experience. The new website also provided the organization with measurement tools. The built-in analytics enables the team to measure the reach of information distributed to members and employers and the most visited areas of the site, for example. This information will continue to provide better strategic direction to the organization as a whole.

Enhancing member communication also remained a priority for Vestcor in 2018. Modernization of resources, including forms and booklets, continued throughout the year. In addition, a video strategy was developed, enabling the organization to better support members using this popular medium. The first videos launched provided pension plan members with an overview of how to plan for their retirement, while the other video provided "how-to" instructions on using the pension estimate calculator. The video program is set to expand in 2019, supporting the organization in continuously improving service delivery to members.

BOARD SUPPORT SERVICES

Vestcor continues to provide robust operational support to our various client boards and committees. In 2018, the board support services team coordinated educational opportunities and research material in an effort to assist these groups in achieving their governance objectives. These included supporting client boards in delivering best practices related to topics such as succession planning, supporting the reappointment/ appointment process of several Trustees, and coordinating full-day education sessions targeted to each client's specific requirements.

ADMINISTRATION DIVISION COSTS

Vestcor administration clients continue to benefit from our low-cost, not-for-profit model and our focus on their specific needs and service requirements. We are very pleased to outline below that, considering the successful achievements noted above that the team made during the year, our overall administration division costs on an annualized basis only increased by approximately 1.2% versus the prior year.

		Year ended December 31, 2018 ($ thousands)		Year ended December 31, 2017 ($ thousands)
Salaries and benefits	$	6,011	$	5,561
Information systems		1,610		2,046
Client directed administration		472		464
Office rent		367		359
Office and business		348		283
Professional services		142		123
	$	8,950	$	8,836

The administration division expenses include salaries and benefits for approximately 80 employees on a full-time, part-time, casual or contract basis. Salaries and benefits were $6,011,000 for the year ended December 31, 2018 (2017 - $5,561,000). In 2018, to support the integration of the organization, the Board of Directors extended the Annual Incentive Plan to cover eligible administration staff, contributing to an increase to salaries and benefits of approximately $419,000. Further information on Vestcor's compensation program can be found in the Compensation Discussion and Analysis section of this Annual Report (see page 32).

Information systems costs fell to $1,610,000 for the year ended December 31, 2018 from $2,046,000 last year as new enhancements and maintenance for the current administration system were minimized given the previously mentioned project underway to replace that system. Approximately $2,015,000 has been incurred in the year ended December 31, 2018 to convert to the new system and these costs have been capitalized on the Statement of Financial Position as an intangible asset (see page 52). Amortization of these costs will commence once the new system is operational in mid-2019.

INVESTMENT HIGHLIGHTS

ASSETS UNDER MANAGEMENT

Assets under management (AUM) at December 31, 2018 were approximately $16.9 billion consisting of the following client mandates:

Client	2018 ($ millions)	2018 %	2017 ($ millions)	2017 %
New Brunswick Public Service Pension Plan (NBPSPP)	$ 7,618.7	45.1	$ 7,638.1	45.9
New Brunswick Teachers' Pension Plan (NBTPP)	5,744.6	34.0	5,780.2	34.7
Provincial Court Judges' Pension Plan (Judges)	49.4	0.3	48.8	0.3
New Brunswick Power Corporation (NBPC):				
Point Lepreau Decommissioning Fund	358.2	2.1	351.6	2.1
Point Lepreau Used Fuel Management Fund	206.8	1.2	209.1	1.3
Nuclear Fuel Waste Trust	166.4	1.0	160.5	1.0
Management Employees of New Brunswick School Districts Pension Plan (NBSD)	3.3	0.0	4.7	0.0
Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP)	350.2	2.1	339.3	2.0
University of New Brunswick Endowment Fund (UNBE)	50.2	0.3	47.4	0.3
Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (CBE)	2,144.2	12.7	1,764.5	10.6
Shared Risk Plan for City of Fredericton (CoF)	209.4	1.2	-	-
Total Discretionary Funds	16,901.5	100.0	16,344.2	98.2
Non-discretionary funds in transition	0.1	0.0	301.2	1.8
Total AUM	$ 16,901.6	100.0	$ 16,645.4	100.0

Each client mandate invests in a specific and unique combination of units of the Vestcor Investment Entities but may have also previously invested directly in an opportunity for which oversight is now provided by Vestcor portfolio managers.

INVESTMENT PERFORMANCE DEFINITIONS

Investment performance consists of any income and realized and unrealized capital gains or losses achieved on a portfolio(s) of assets over a defined length of time. Vestcor measures and reports returns in Canadian dollars using the aggregate return method on a daily basis. Daily returns are linked geometrically to calculate periodic returns.

Investment returns expressed on a gross basis are after the deduction of all trading and other directly associated expenses but before the deduction of Vestcor's investment management costs (see page 15). **Investment returns expressed on a net basis** are after the deduction of all expenses charged for the assets under management.

In addition to investment performance, a significant consideration in portfolio management is the amount of investment risk. **Investment risk** is the probability or likelihood of an investment loss relative to the expected return.

TOTAL FUND PERFORMANCE OBJECTIVES

Vestcor's main investment performance objectives can be summarized as follows:

a. The **primary investment performance objective** is to achieve the long-term return and risk performance that meet each client's specific return and risk targets, and

b. The **secondary investment performance objective** is to exceed the investment performance benchmarks over the long-term, net of all investment management costs, by the value added target(s) published in each client's respective Investment Policy Statement or other such directives / guidelines.

Vestcor has also developed a series of other investment-related key performance indicators (KPIs), as **continuous performance objectives**, that correspond to our 2017 - 2022 Strategic Plan. These KPI's are monitored on a quarterly basis.

PRIMARY INVESTMENT PERFORMANCE OBJECTIVES

Objective	Average Client Long-Term Targets	Year ended December 31, 2018 Actual	4 Year Annualized	Annualized Since Inception
Total Funds Real Return (after inflation)	>= 4.00% per annum	(0.19)%	4.37%	5.15%
Total Funds Nominal Return	>= 6.25% per annum	2.08%	6.05%	7.09%

SECONDARY INVESTMENT PERFORMANCE OBJECTIVE

Objective	Long-Term Targets	Year ended December 31, 2018 Actual	4 Year Annualized	Annualized Since Inception
Net Relative Return (in basis points (bps) after all investment management expenses)	>= 42 bps per annum	103.4 bps	94.8 bps	17.4 bps

CONTINUOUS PERFORMANCE EFFICIENCY OBJECTIVES

Objective	Target	Year ended December 31, 2018 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Regulatory 90% + 2.5%	95.4%	96.8%
Prime Broker #1	Regulatory 90% + 2.5%	97.5%	96.4%
Prime Broker #2	Regulatory 90% + 2.5%	96.9%	96.0%
Prime Broker #3	Regulatory 90% + 2.5%	96.7%	n/a
Budget Efficiency (excluding performance incentives)	100%	90.3%	90.2%
Absenteeism (%)	<= 2%	2.35%	1.69%
Employee Turnover (%)	<= 5%	3.88%	7.69%
IT System Availability	99%	99.9%	99.7%
IT Applications Availability	99%	99.9%	99.9%

RELATIVE PERFORMANCE VERSUS BENCHMARKS

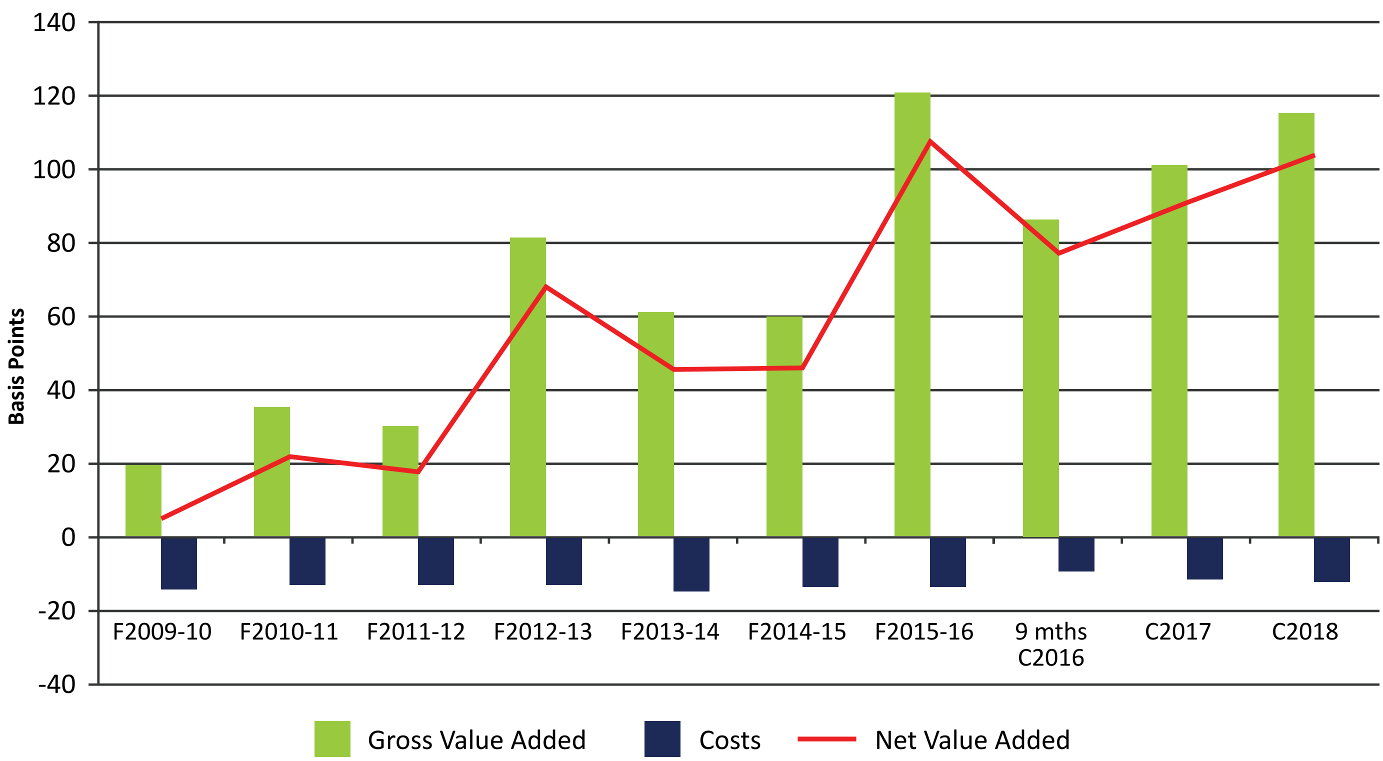
As noted above, our **second investment performance objective** is to add **value** (i.e. returns in excess of benchmarks) above our clients' various asset class benchmarks through active management strategies. This value added is expected to first cover all investment management costs and subsequently targets an additional 42 basis points (0.42%) per annum. A basis point is equal to 1/100ths of a percent. This is a key measure for our clients and accordingly is also a key measure considered in Vestcor's variable compensation performance incentives.

Our overall active management activities for the year added 115.4 basis points of gross value and 103.4 basis points of net value, or approximately $171.6 million, after covering all investment management costs.

Our longer-term four-year average annual value-added return, net of costs, was approximately 94.8 basis points per annum or approximately $567.1 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.

The following chart shows the history of our value-added activities over our most recent ten reporting periods, including the period during the financial markets crisis where we temporarily reduced most of the active risk from the portfolio to help preserve assets.

RESULTS OF ACTIVE MANAGEMENT



INVESTMENT MANAGEMENT COSTS

An important consideration in assessing investment performance is the cost incurred. Although the industry standard for investment performance is to report gross returns, it is the return net of costs that contributes to client asset growth. All else being equal, lower costs result in higher comparative net returns and help to maximize the available assets.

Investment management costs are influenced by many factors. Industry cost comparisons prove that it is generally more efficient to manage assets internally than to outsource the investment process to third parties. Also, passive investment strategies, those strategies that are designed to replicate a market index, are less expensive than active strategies which depend on expert judgment to differentiate return opportunities from the benchmark.

Investment structure also impacts total costs. For example, private market investments can be made directly, through limited partnerships, co-investments or through fund of funds structures. These structures may incur management and carried interest fees, interest expenses, taxes, asset acquisition and or disposition expenses, and other related charges that get reflected in the net asset value of the investments. This complexity continues to make cost transparency and monitoring an ongoing challenge in the investment industry.

Vestcor Investment Entities may also incur transaction costs associated with the trading of securities in each portfolio. For publicly-traded portfolios, these include broker commissions and borrowing fees which are dependent upon the volume of trading activity undertaken.

Lastly, an important factor for consideration is that Vestcor operates under a not-for-profit business model, compared to third party "for-profit" investment managers. This model not only results in considerable cost savings for our clients, but also provides for a better alignment in ensuring investment advice is truly related to specific client requirements.

The Vestcor investment management costs for the year ended December 31, 2018 to manage the approximately $16.9 billion of assets under discretionary management consist of the following:

		2018 ($ thousands)		2017 ($ thousands)
Internal Operational Expenses	$	16,757.1	$	15,588.4
Third Party Service Providers				
Investment counsel fees		3,043.4		2,770.3
Securities custody fees		173.1		150.4
Total Investment Management Costs	$	19,973.6		18,509.1
Total Assets Under Management ($ millions)	$	16,901.6		16,344.2

We internally manage the majority of assets under management (AUM) using our investment management professionals and technology systems that permit global trading activity from our location in Fredericton, New Brunswick. At December 31, 2018 Vestcor internally managed approximately $14.8 billion or 88% of client AUM, up from 85% at December 31, 2017 due to the further transition of approximately $500 million of client assets to Vestcor's investment management by year end. The costs incurred to manage investment strategies **internally**, measured against average AUM for the period, were 0.116% or 11.6 basis points (bps) for the year ended December 31, 2018.

Approximately $2.1 billion, or 12% of investments, are **externally** managed at December 31, 2018. These mandates arise when access to a desired investment opportunity or specific strategy expertise is not available internally. Of this, $1.5 billion of assets are related to externally managed private investments and $0.6 billion are related to publicly-traded mandates.

As mentioned above, the external costs to manage the private investments may include direct and indirect manager fees, carried interest, professional fees and other associated expenses. These costs are not included in the Vestcor investment management costs but instead have been deducted in reporting the investment performance of each pooled fund as per industry practice *(see Vestcor Investment Entities*

Performance on page 48). The audited financial statements for the Vestcor Investment Entities are available under the Publications tab on our website at **www.vestcor.org**.

The costs of externally-managed publicly-traded investments are charged directly to Vestcor in its capacity as trustee of these pooled funds and are reflected in the Statement of Operations and Changes in Net Assets in Vestcor's audited financial statements on page 52. Measured on average AUM, these **external** costs were 41.8 bps for the year ended December 31, 2018.

In total, investment management costs reflected in Vestcor's audited financial statements for the year ended December 31, 2018 were approximately 12.0 bps of average AUM. This is consistent with the investment management costs of 12.0 bps for the year ended December 31, 2017 and demonstrates the continuing cost efficiencies achieved by Vestcor for our clients.

We benchmark our investment management costs against other peer pension fund managers annually. We continue to compare favourably to publicly available information offered by other public sector peer funds. We also participate in an annual survey of defined benefit pension plans conducted by CEM Benchmarking Inc. Through this benchmarking activity, we conservatively believe that our costs are approximately 25 bps lower than the average of our public sector pension fund manager peers and 35 bps lower than private sector asset managers. This cost differential means that for the year ended December 31, 2018 our clients were able to retain a minimum of $41.6 million due to our lower cost advantage. This significant cost advantage has been a cornerstone of our service delivery value since our inception twenty-two years ago.

ANNUAL PERFORMANCE **BY ASSET CLASS**

The following discussion of annual investment performance is organized by each major Vestcor investment asset class, along with a more detailed breakdown by asset class sub-portfolio.

Vestcor offers a pooled fund structure consisting of unit trust funds, as well as limited partnership structures for private investments, through which clients can customize their specific investment allocations to achieve their unique investment objectives. For a description of investment performance by pooled fund, please refer to the Vestcor Investment Entities Performance (page 48).

FIXED INCOME PORTFOLIOS

OBJECTIVES

Vestcor provides a number of fixed income focused portfolios that allow clients to access a broad mix of both maturity term and credit quality exposures. These portfolios can be combined to represent standard industry benchmarks or used separately to provide more customized exposure to fit specific investment objectives or requirements.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2018

Portfolio	AUM[1] ($ millions)	2018 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Short Term Assets	$ 1,618	1.79	1.38	1.23	0.77
Nominal Bonds	2,860	1.76	1.53	2.38	2.11
Corporate Bonds	2,944	1.03	1.10	2.67	2.73
International High Yield	170	0.46	(0.91)	n/a	n/a
Global Fixed Income	78	26.37	25.14	n/a	n/a
Long-Term Bonds[2]	9	(0.63)	(0.63)	3.71	3.84
Real Return Bonds	726	0.13	(0.05)	1.75	1.57

[1] Includes cross-fund ownership interests
[2] Special client restricted fund

OVERVIEW

Bond yields rose in a choppy pattern through most of 2018 as a synchronized global economic expansion appeared underway. There was also widespread belief that inflation was finally moving higher in response to robust economic growth and a multi-decade low in the U.S. unemployment rate. After hitting multi-year yield highs in October and November, conditions changed as bond yields plummeted for the remainder of the year as economic statistics around the globe weakened abruptly. In addition to the weaker economic reports, other headwinds included a U.S. Government shutdown, ongoing U.S./China trade friction, a near 20% decline in equity markets, much lower oil prices and worsening U.K. Brexit uncertainty. For the first time in many years, there was credible concern of a possible recession on the horizon.

During 2018 the U.S. Federal Reserve raised their Federal Funds rate four times bringing the range up to 2.25% -2.50%. After each rate hike the U.S. Federal Reserve seemed intent on continuing with a steady stream of future rate hikes, citing reasonably strong economic growth and an uptick in wages. This expected path of aggressive future rate hikes was the main reason for the market sell off during the final two months of the year, as investors worried that additional hikes in 2019 could push an already uneven economy into recession. In recognition of this risk, the U.S. Federal Reserve changed its messaging at year end, signaling a pause in rate hikes as they adopt a more patient mode when it comes to future rate adjustments.

Whereas North American bond yields peaked in November, most European yields hit their high mark in February and spent the remainder of the year in a gentle downward direction. European economies had to deal with protectionist trade threats from the United States along with the drawn-out Brexit situation. In addition, Italy continued to run higher deficits than allowed under EU rules and expectations of less stimulative central bank policies became more of a concern. German bonds yielded record lows against U.S. Treasuries throughout the year.

The Canadian economy underperformed the U.S. economy in 2018 as we dealt with uncertainty regarding tariffs and NAFTA negotiations while the U.S. continued to benefit from their tax cuts passed in late 2017. The Bank of Canada raised its administered rate three times in 2018 with the rate ending 2018 at 1.75%. In raising rates, the Bank of Canada mentioned strong employment gains and inflation being close to its target level and voiced its desire to push their administered rate closer to neutral. Some factors keeping the Bank of Canada from hiking further included a decline in home sales, over-indebted consumer concerns in combination with a late year plunge in oil prices.

Fixed income credit markets were stable for most of 2018 with only a slight widening in credit spreads. The final two months of 2018 however resulted in credit spreads widening significantly as the economic growth concerns manifested itself in the significant risk off move in not only equities but also Corporate bonds. One area of particular concern was the BBB portion of the investment grade index due to increasing leverage ratios.

PUBLIC EQUITY PORTFOLIOS

OBJECTIVES

We provide two main types of geographically diverse public equity investment portfolios: standard market capitalization-based portfolios, and low volatility equity portfolios. These portfolios are used to help clients gain exposure to the long-term economic growth in global regions on both an active and passively managed basis.

Vestcor has focused significant resources in developing internally managed low volatility portfolios in the various geographic regions as outlined below. We feel that these portfolios provide an effective public equity investment approach, particularly for our target benefit pension fund clients, in terms of providing similar long-term performance to traditional equity markets with significantly less risk. With the launch of our Emerging Markets Equity low volatility strategy in 2015, we currently cover the entirety of the MSCI All Country World Index with our internally managed low volatility funds.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2018

Portfolio	AUM[1] ($ millions)	2018 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Market Capitalization Weighted:					
Canadian Equity	$ 956	(8.99)	(8.89)	2.57	2.49
Canadian Small Cap Equity[2]	140	(16.83)	(15.56)	n/a	n/a
U.S. Equity	828	4.27	4.19	11.75	11.68
U.S. Small Cap Equity[2]	4	(5.10)	(6.19)	n/a	n/a
International Equity	778	(6.66)	(6.03)	6.75	6.23
Low Volatility:					
Canadian Equity	794	(7.40)	(6.84)	3.42	3.29
U.S. Equity	993	7.65	9.95	12.19	12.83
International Equity	888	0.45	2.80	9.55	9.42
Emerging Markets Equity	675	(0.97)	2.71	n/a	n/a

[1] Includes cross-fund ownership interests
[2] Start date April 30, 2018

OVERVIEW

Equity markets experienced significant volatility and mixed returns in 2018, with significant drawdowns at both the beginning and end of the calendar year. In general, while economic growth and employment performance remained solid through the year, geopolitical risk and investor concerns about macroeconomic policy normalization led to meaningful bouts of turmoil for markets throughout the year. After having experienced just eight days in 2017 with moves of greater than +/- 1%, in 2018, the S&P 500 had in excess of sixty trading days with moves of that size - more than double the typical experience.

Globally, equity returns were significantly negative for the year as measured in their local currency, although the weaker Canadian dollar provided a meaningful cushion for unhedged investors. Low volatility strategies outperformed market capitalization weighted benchmarks by a wide margin, with all the outperformance coming during the periods of market stress in the first and fourth quarters of the year.

ALTERNATIVE INVESTMENT PORTFOLIOS

OBJECTIVES

Vestcor offers non-traditional alternative investment strategies which help provide clients with additional diversification benefits and exposure to investments which may help reduce their overall portfolio risk from the more traditional public equity and fixed income markets.

Our Absolute Return Strategies are internally managed portfolios that consist of publicly-traded securities designed to provide stable returns with a low correlation to standard public market equity index returns. The Private Equity portfolio provides investors with the opportunity to invest in more concentrated or control based equity positions in companies which are at various growth stages and located in a number of different geographic regions.

Real Estate and Infrastructure investments provide clients with the ability to invest capital in a diverse portfolio of long-term assets that provide an ongoing yield that typically adjusts with inflation over the time horizon of the investment.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2018

Portfolio	AUM[1] ($ millions)	2018 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Absolute Return Strategies	$ 1,322	2.36	1.38	4.00	0.77
Private Equity	666	24.91	(2.09)	19.11	7.78
Real Estate	1,078	10.85	5.86	10.85	7.12
Infrastructure	1,012	9.18	5.86	7.53	5.56

[1] *Includes cross-fund ownership interests*

OVERVIEW

Our Absolute Return portfolio seeks to produce stable, positive returns in all market environments while resulting in little to no correlation with traditional investment strategies, thus providing attractive returns and enhanced diversification for the combined portfolio. To achieve this, we manage separate internal strategies that provide exposure to event-driven, fundamental, and quantitative investment approaches, in varying amounts. Meaningful allocations to these portfolios combined with a well-developed risk management and capital allocation framework allow the strategy to achieve the goal of positive, low risk returns without taking on unintended risk exposures as can often be the case in multi-strategy absolute return portfolios. While each strategy is managed in a diversified and prudent manner by a portfolio management team, we additionally employ a combined portfolio risk budgeting approach to ensure risk is efficiently managed and budgeted through all market environments by shifting capital and risk allocations to their most favorable locations where necessary.

In 2018, the benefit of a diversified investment approach is apparent. While each of the sub-strategies provided positive total returns, only two of the three sub-strategies provided returns in excess of the benchmark. The combined portfolios provided a positive total return of 2.36%, delivering stable performance in a volatile, risk adverse environment. Vestcor uses a proactive risk management approach for these strategies, meaning that these positive returns were achieved with extremely low volatility and near zero correlation to traditional investment categories. On a four-year basis, the strategy has managed to navigate challenging investment environments to produce a positive 4.00% annualized return while maintaining net zero exposure to broad equity markets.

The private equity portfolio is diversified across several factors including geographies, industry sectors and currencies, and investments are made through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. In 2018, this portfolio produced very strong returns, outperforming comparable public market strategy benchmarks by 27%. A record amount of distributions were received by the private equity program during 2018 as a healthy exit environment prevailed. Over the longer-term four year period, private equity returned 19.11%, outperforming the blended benchmark by greater than 11% per year.

The Real Estate portfolio has two broad components: North American Real Estate Investment Trust (REIT) securities, and private real estate in the form of limited partnership interests, direct co-investments and direct holdings. Canada represents the largest component of the private portfolio however we continue to seek high quality opportunities abroad. The private portfolio continued to achieve strong returns in 2018 as a result of good fundamentals in supply and demand and continued low capitalization rates.

The Infrastructure portfolio has two broad components: first, private infrastructure in the form of co-investments diversified by geography, currency and by asset type and also fund commitments to limited partnerships. Second, an internal public infrastructure portfolio that is designed to provide similar long-term return and risk characteristics as private infrastructure investments. Both portfolios produced positive returns in 2018, with particularly strong private portfolio returns stemming from a combination of solid growth in earnings and continued low market discount rates.

RISK **MANAGEMENT**

Vestcor faces a number of risks in fulfilling our various client mandates. A summary of our Enterprise Risk Management Framework, available at **www.vestcor.org**, provides guidance and structure for ensuring that the organization can react and adapt to emerging risks.

Risk management is a key element in helping provide stability to both pension plan contributions and benefits and making sure that our investment management activities do not bring undue risk to our clients' 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.

RISK MANAGEMENT – BOARD OVERSIGHT

Although management has the primary responsibility for managing risk, under its terms of reference, the Board of Directors is responsible for understanding the risks and the systems that management has put in place to mitigate and manage those risks. The Board is specifically responsible for the oversight of investment risk. The Board is also responsible for oversight of fiduciary and business strategy risks.

Within the Board structure, the Audit Committee focuses specifically on oversight of financial risks and risks relating to the systems of internal controls over financial reporting as well as fraud risk. The Human Resources and Compensation Committee focuses on risks relating to our employees and work environment. This includes the leadership of the President and CEO, 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 Vestcor.

RISK MANAGEMENT – INTERNAL AUDIT FUNCTION

Vestcor has an Internal Audit function under a co-sourcing model that comprises internal employees and external independent audit consultants. The Internal Audit function reports directly to the Audit Committee. Internal Audit pursues a rotating examination of an audit universe that covers all of the corporate policies and processes followed by Vestcor to assist the Audit Committee in its oversight responsibilities.

RISK MANAGEMENT – MANAGEMENT ACTIVITIES

Vestcor uses six internal Risk Management Committees to monitor and address issues arising from the Enterprise Risk Management Framework. These committees have cross-functional membership, including management and non-management positions as well as some overlap among the committees, providing a rich opportunity for sharing perspectives and insights:

Enterprise Risk Management Council (ERMC)	In accordance with its Terms of Reference, the ERMC is responsible for reviewing the status of the Enterprise Risk Management Framework on a quarterly basis in advance of presenting the quarterly risk matrix report to the Board of Directors and advising the President and CEO of areas of emerging risk. In fulfilling this mandate, the ERMC reviews: • a quarterly key risk indicators report; • weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies; • a quarterly client liquidity analysis; • monthly counterparty exposure reports; • quarterly securities lending compliance reports; • results from management's annual fraud risk assessment; and • recommendations from internal audit reviews.
Investment Risk Management Committee (IRMC)	In accordance with its Terms of Reference, the IRMC: • monitors investment risk measures; • reviews the results of asset mix stress testing and back-testing; • 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 and our clients.
Trade Management Oversight Committee (TMOC)	In accordance with its Terms of Reference, the TMOC: • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; and • manages exposure to broker counterparty risk.
Information Technology Risk Management Committee (ITRMC)	In accordance with its Terms of Reference, the ITRMC: • assists in the development of IT strategy and future direction; • approves new application risk assessments; • monitors adherence to IT policies and processes; and • oversees cyber security risks.
Business Continuity Plan Team (BCP)	In accordance with its Terms of Reference, the BCP: • develops and implements the Business Continuity Plan including disaster recovery; • discusses possible disaster scenarios; and • uses passive and active scenario testing to practice response protocols.
Occupational Health & Safety Committee	In accordance with its Terms of Reference, the Occupational Health & Safety Committee considers physical environment risks.

CORPORATE **GOVERNANCE**

Vestcor's Board of Directors is appointed by its shareholder, Vestcor Corp., based on recommendations from a Vestcor Inc. Ad-Hoc Nominating Committee. A skills matrix is developed by the Ad Hoc Nominating Committee to ensure an appropriate diversity of Board experience and skills. Upon the initial formation of Vestcor in 2016, a professional executive search firm was engaged to assist the Committee in the solicitation and evaluation of interested applicants against this skills matrix. Upon the final recommendation of the Ad-Hoc Committee, as approved by Vestcor Corp., ten highly qualified independent directors were appointed to serve on the inaugural Board in 2016. During 2018, one of these Directors retired from the Board and was replaced with a new Director who was nominated by another Vestcor Inc. Ad Hoc Nominating Committee and appointed by Vestcor Corp.

The *Vestcor Act*, a Members' Agreement and the corporate by-laws set out the duties and responsibilities of the Board of Directors.

A primary consideration of the Board is to oversee Vestcor's activities as a pension and benefits administrator and investment manager for the funds under management. The Board ensures that, as required under the *Vestcor Act*, all Vestcor's transactions are conducted on a purely commercial basis, and that decisions and actions are based on sound business practices in the best interest of our clients.

The Board is responsible for the stewardship and strategic direction of Vestcor. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President and CEO, 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 ongoing effectiveness, the Board performs a 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, whose reports follow. Day-to-day management is delegated to the Chief Executive Officer, while investment-related matters are delegated to the Chief Investment Officer.

Additional information about our corporate governance practices is available on our website at **www.vestcor.org**. This includes: our governing statutes, Board composition, Board and Committee Terms of Reference, Nomination Guidelines, Director Orientation and Education Policy, and Code of Ethics and Business Conduct.

BOARD ATTENDANCE

Board members are expected to attend the Board meetings and meetings of committees of which they are a member. The following table provides the number of meetings held and attendance by each of the appointed directors.

Appointed Director	Board	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Michael Walton	7/7	4/4	4/4	3/4
Michel Allain	7/7	n/a	n/a	4/4
Wiktor Askanas[1]	4/4	n/a	n/a	2/2
Donna Bovolaneas	7/7	4/4	4/4	3/3
Tanya Chapman[2]	4/4	n/a	n/a	1/1
David Losier	6/7	4/4	4/4	n/a
Eleanor Marshall	7/7	4/4	n/a	n/a
Tim Mawhinney	7/7	n/a	n/a	4/4
Daniel Murray	7/7	4/4	n/a	n/a
Cathy Rignanesi	7/7	4/4	4/4	n/a
Nancy Whipp	6/7	n/a	4/4	4/4

[1] *Retired from the Board on August 13, 2018.*
[2] *Appointed to the Board on June 13, 2018.*

A Director Orientation Program assists new directors in understanding the mandate and stakeholders of Vestcor. 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 Vestcor's organizational structure, introduces the senior leadership team, and provides a primer on the pension and benefits administration and investment management services and industries. Management has provided director orientation to each of the directors.

On-going director education includes exposure to relevant news and articles of interest as well as a program of educational sessions. In 2018, these sessions included Board risk considerations, compensation trends, a primer on stochastic modeling, capital at risk and policy asset mix capital at risk methodologies, and an overview of shared risk plan considerations. Vestcor has also acquired a corporate membership in the Institute of Corporate Directors to ensure that directors and management have ready access to evolving best governance practices.

BOARD DECISIONS

Major decisions made by the Vestcor Board during the year ended December 31, 2018, in addition to the matters referred to it by the Board Committees *(see Committee reports following)* included:

- Approval of a revised Strategic Plan for 2017 – 2022 that reflected the corporate amalgamation completed on January 1, 2018;
- Approval of the creation of an ad hoc Director Nomination Committee to address director term expirations in 2018;
- Approval of the 2019 Annual Business Plan and weightings for Incentive Plan purposes;
- Approval of the 2018 Incentive Plan compensation payments;
- Recommended to the shareholder the appointment of T. Chapman and the re-appointment of D. Bovolaneas and M. Walton as directors for a term of three years, which was approved;
- Approval of the creation of three new Unit Trust Funds pursuant to the Trust Declaration;
- Approval of the appointment of D. Losier as Vice Chairperson of the Board and N. Whipp as Chairperson of the Human Resources and Compensation Committee;
- Approved the amended employment contract for the President & CEO as recommended by the Ad Hoc CEO Contract Committee;
- Approval of the re-appointment of M. Walton as Chairperson of the Board;
- Approval of a revised Board Committee membership structure commencing in November 2018;

- Approval of revisions to the Vestcor Investment Entities Profiles dated September 24, 2018;
- Recommendation to the shareholder the 2019 operating and capital expenditure budgets for Vestcor Inc., which were approved;
- Approval of revisions to the Board evaluation survey to be conducted in 2018, received the results and developed objectives for several future governance improvement initiatives;
- Approval of two revisions to the Investment Authorities including the daily blotter and settlement limits and trading transaction limits;
- Approval of signing authorities for the corporate bank accounts to reflect the amalgamation of Vestcor Investment Management Corporation and Vestcor Pension Services Corporation completed on January 1, 2018 and the addition of a new bank account; and
- Approval of revisions to the Responsible Investment Guidelines.

BOARD COMMITTEE REPORTS

The following highlights of the Board Committee Reports for the year ended December 31, 2018.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee oversees the financial affairs of Vestcor and the Vestcor Investment Entities, including the selection of accounting policies to be followed in the preparation of financial statements, the systems of internal control, information systems used to produce accurate, appropriate and timely management and financial information, strategies to identify and mitigate financial risks, and the relationships with the external and internal auditors.

Management is responsible for the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining appropriate accounting policies, processes, procedures and systems of internal control to ensure compliance with accounting standards and applicable laws and regulations. The external auditor is responsible for planning and carrying out an audit of the annual financial statements.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2018:

Financial Statements and Other Statements	• Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards (GIPS®) for the year ended December 31, 2018 for the: o NBPSPP Composite; o NBTPP Composite o Provincial Court Judges' Composite; o NBSD Composite; o CBE Hospitals Composite; o Low Volatility Global Equity Composite; o City of Fredericton Composite; and recommended their approval by the Board; • Reviewed the Schedule of Composite Performance in accordance with GIPS® for the year ended March 31, 2018 for the Environmental Reclamation Fund Composite and recommended its approval by the Board; • Reviewed the Schedule of Composite Performance in accordance with GIPS® for the year ended June 30, 2018 for the AESRP Composite and recommended its approval by the Board; • Reviewed the audited financial statements for the Vestcor Investment Entities for the year ended December 31, 2018 and recommended their approval by the Board; • Reviewed the audited financial statements for Vestcor for the year ended December 31, 2018 and recommended their approval by the Board; • Reviewed the draft Vestcor Annual Report material for the year ended December 31, 2018 and recommended its approval by Board; • Reviewed the draft press release announcing the publication of the Vestcor Annual Report for the year ended December 31, 2018; • Reviewed quarterly unaudited financial statements for the Vestcor Investment Entities and Vestcor together with management's certifications regarding changes in accounting policies, significant accounting estimates, and subsequent events; • Received the audited financial statements for the year ended December 31, 2017 for a wholly-owned subsidiary of the NBIMC Canadian Real Estate Fund; • Received a quarterly status report concerning the completion of corporate and client financial reporting activities; • Completed the annual review of the Valuation Policies for investment securities; and • Received a Discussion Paper concerning the Composite Inception Date for GIPS® reporting and approved a revision to Vestcor's GIPS® Policies to include new client accounts in composite reporting from the date when their investment strategy, as per the client's Statement of Investment Policy, is considered substantially complete.
Internal Control and Information Systems	• Reviewed the Business Case for implementation of a new Pension and Benefits Administration System and recommended it to the Board for approval; • Monitored management's key performance indicators related to timely resolution of all audit recommendations; • Received a quarterly status report concerning the progress of the Pension and Benefits Administration System implementation; • Reviewed the 2018 Internal Control Report prepared by management outlining Vestcor's major processes, risks and key controls and approved its release to clients and client auditors; and • Received an update to the Vestcor Five-Year IT Strategic Plan.

Risk Management	• Completed an annual review of the Enterprise Risk Management Framework and recommended for approval by the Board; • Developed key risk indicators for including in the quarterly risk matrix presented by management; • Reviewed management's findings from Vestcor's 2018 fraud risk assessment; • Reviewed an annual listing of the major suppliers; and • Reviewed and approved management's recommendations regarding the annual renewal of the Corporate Insurance Program.
Internal Audit	• Received a quarterly Internal Audit Report outlining the work conducted by the Internal Audit function; • Reviewed the Internal Audit Terms of Reference; • Approved the 2019 Internal Audit Plan including updated audit universe; • Received a document explaining the different roles and responsibilities between the inhouse and outsourced internal audit teams; • Received the Internal Auditor's recommendations and management's responses for their various internal audits; • Reviewed the September 2018 Follow-Up Report from the Internal Auditor concerning management's responses to previous internal audit recommendations; and • Met *in camera* quarterly with the Internal Auditor.
External Auditor	• Reviewed and recommended for approval by the Board the External Auditor's engagement, audit plan, timing, staffing and fees for the Vestcor financial statements for the year ended December 31, 2018, and the Vestcor Investment Entities' financial statements for the year ended December 31, 2018; • Pre-approved all non-audit, tax or other services to be performed by the External Auditor in accordance with the Audit Committee's Pre-Approval Policy for Audit and Non-Audit Services; • Reviewed and refreshed the Pre-Approval Policy for Audit and Non-Audit Services; • Reviewed the External Auditor's Audit Findings Report for the year ended December 31, 2018 and obtained confirmation of the External Auditor's independence; • Met *in camera* quarterly with the External Auditor; • Completed an External Auditor Assessment resulting in: (i) a recommendation to the shareholder for the re-appointment of the External Auditor; and (ii) a memorandum outlining Committee expectations for the audit process provided to the External Auditor; • Reviewed and approved a draft Audit Partner Rotation Policy that will result in a mandatory rotation every seven years in order to preserve independence and fresh perspectives by Vestcor's external Audit Partner; and • Interviewed and selected a new Audit Partner to replace the incumbent Audit Partner who had served for a full seven-year term.
Committee Objectives	• Completed a review of the Committee's terms of reference, accomplishments for the year ended December 31, 2018 and set objectives for 2019.
Other	• Received quarterly reporting of legal and regulatory compliance; and • Received a quarterly status report of class action litigation in which Vestcor has participated as a claimant pursuant to Vestcor's Responsible Investment Guidelines.

This report has been approved by the members of the Audit Committee.
D. Bovolaneas (Chair), D. Losier, E. Marshall, D. Murray, C. Rignanesi, M. Walton (ex officio).

REPORT OF THE GOVERNANCE COMMITTEE

The Governance Committee reviews the terms of reference for the Board and each Board 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 Corporate Communications Policy, Director Orientation and Education programs and the Code of Ethics and Business Conduct. A Board self-assessment process is facilitated by the Governance Committee.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ending December 31, 2018:

Governance Documents and Initiatives	• Conducted a review and recommended to the Board for approval revisions to the Terms of Reference for the Board of Directors for Vestcor and for each of the Governance, Audit and Human Resources and Compensation Committees and other internal Board policies; • Reviewed the draft Corporate Governance disclosure for the 2018 Vestcor Annual Report and recommended its approval by the Board; and • Developed Board Governance Improvement objectives from the 2018 Board self-assessment process.
Ethics	• Reviewed the annual compliance by staff and directors with the Code of Ethics and Business Conduct; • Reviewed and recommended to the Board for approval revisions to the personal trading restrictions within the Code of Ethics and Business Conduct; • Received each quarter a status report of compliance by staff with the Code of Ethics and Business Conduct; and • Recommended for approval by the Board revisions to the Code of Ethics and Business Conduct.
Board and Committee Meetings	• Received the results of an evaluation conducted by each director after each Board meeting to assist in identification of improvements to meeting content and efficiency.
Director Nominations	• Received the recommendation from an Ad Hoc Committee who conducted a review of proposed applicants against the director skills assessment matrix; and • Recommended to the Board, subject to approval by the shareholder, the appointment of T. Chapman as a director of Vestcor for a term of three years.
Directors' Compensation	• Reviewed the Board Compensation Policy and made a recommendation to the Board for approval; and • Reviewed a Report of Directors' Compensation and Expenses for the year ended December 31, 2018.
Director Orientation and Education	• Developed a list of educational topics of interest to directors that could be presented in advance of Board meetings; • Approved a corporate membership for the Institute of Corporate Directors to provide valuable training and resource material for both management and directors; and • Approved the expansion of the cyber security awareness training program that is mandatory for all Vestcor employees to the Board of Directors.
Board Effectiveness	• Reviewed the Board's accomplishments for the year ended December 31, 2018 and discussed objectives for 2019.

Committee Appointments	• Reviewed Committee membership and recommended appointments to each Committee, the appointment of the Vice-Chairperson, and the reappointment of the Board Chairperson for another term.
By-laws and Board Policies	• Reviewed and recommended to the Board for approval, subject to shareholder approval, Board Policies as noted under Governance Documents above; and • Reviewed and recommended to the Board for approval, subject to shareholder approval, revisions to the Corporate By-Laws to remove a restriction for the number of terms that a director may serve.
Communications and Public Policy	• Reviewed and recommended to the Board for approval a revised Vestcor Strategic Communications Plan; and • Initiated quarterly reporting by the Communications team of ongoing media scanning.
Risk Management	• Received quarterly updates on the status of outstanding litigation.
Committee Objectives	• Reviewed the Governance Committee's accomplishments for the year ending December 31, 2018 and discussed objectives for 2019.
Other	• Received a final memorandum of the activities required to complete the January 1, 2018 amalgamation of Vestcor's predecessor entities; • Received a quarterly update on potential new client mandates; and • Received an overview of the items discussed at each shareholder Board meeting held in 2018.

This report has been approved by the members of the Governance Committee.
C. Rignanesi (Chair), D. Bovolaneas, D. Losier, N. Whipp, M. Walton (ex officio)

REPORT OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

The Human Resources and Compensation Committee conducts an annual performance appraisal for the President and CEO. It also oversees changes to the Compensation Philosophy, compensation and benefits, incentive plans and organizational structure as well as monitors management's compliance with employment-related regulatory and legislative matters.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2018:

Evaluation of the CEO	• Conducted the annual performance review for the President and CEO; and • Reviewed and approved the performance of the President and CEO against the business plan targets for the year ended December 31, 2018.
Compensation and Employee Benefits	• Reviewed and approved revisions to the Vestcor Compensation Philosophy; • Reviewed revisions to Vestcor's Substance Abuse Policy to incorporate the recent legalization of cannabis; • Reviewed the individual business plan success weightings of the Business Plan for the year ended December 31, 2018 and recommended their approval by the Board; • Reviewed a comparison of Value-Added Targets against peers; • Reviewed corporate results for the year ended December 31, 2018 versus the Business Plan and recommended approval by the Board of the individual incentive performance award; and • Reviewed and recommended to the Board the overall Incentive Compensation Pool for the year ended December 31, 2018.
Organizational Structure	• Recommended for approval by the Board the creation of new positions for a Chief Operating Officer, Risk Officer and Investment Client Relationship Manager and restructuring of resources into an independent risk management function; and • Received updated integrated organizational charts for Vestcor.
Leadership Development and Succession	• Reviewed the Succession Plans for the President and CEO and senior management positions and recommended approval by the Board; • Reviewed the proposed questions for the biennial leadership survey conducted in 2018. This survey provides an opportunity for anonymous feedback to leaders from their employees to assist in leader development; and • Reviewed the subsequent results of the CEO's leadership survey.
Human Resources Planning and Policies	• Reviewed the 2017-2018 Human Resources Strategic Plan and recommended its approval by the Board; and • Reviewed the proposed questions for the biennial workplace environment survey and subsequent results.
Compliance Monitoring	• Received quarterly certification from management as to regulatory compliance with various legislative requirements.
Risk Management	• Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities including the President and CEO's leadership effectiveness, performance integrity, and ability to attract and retain qualified personnel.

Annual Committee Objectives	•	Set the Committee's objectives for the year ended December 31, 2018 and reviewed subsequent achievements.
Other	•	Reviewed the draft Compensation Discussion and Analysis section of the Vestcor 2018 Annual Report and recommended its approval by the Board.

This report has been approved by the members of the Human Resources & Compensation Committee.
N. Whipp (Chair), M. Allain, T. Chapman, T. Mawhinney, M. Walton (ex officio)

COMPENSATION **DISCUSSION AND ANALYSIS**

The following Compensation Discussion and Analysis explains the processes followed by Vestcor that have been applied in the current year and are expected to be applied to Vestcor in future.

COMPENSATION GOVERNANCE

The Board of Directors is responsible for the oversight of Vestcor's compensation principles, policies and programs. The Board approves the compensation program and awards, including the compensation of the President and CEO, based on recommendations made by the Human Resources and Compensation Committee (HRCC).

HRCC MANDATE

The 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 and the Chairperson who acts on the Committee in an ex officio capacity. The Committee meets a minimum of three times each year. External human resources consultants may be used to assist the Committee with fulfilling its mandate.

The HRCC's Terms of Reference are available at **www.vestcor.org** / About Us / Governance / Board Committees / Human Resources and Compensation Committee.

Key responsibilities include:

- Participation in an annual performance appraisal process for the President and CEO, including establishment of measurable goals and objectives, and recommendations for compensation arrangements including performance incentive awards;
- Development of a Compensation Philosophy that articulates principles to follow in approaching compensation decisions that will align with Vestcor's business objectives, operations and risks;
- Oversight of adjustments to competitive compensation ranges, incentive compensation plans, employee benefit plans and operational travel and expense policies;
- Recommendation of changes to the organization's structure, appointment of officers, and amendments to job descriptions as well as any management severance arrangements;
- Consideration of leadership development initiatives and succession plans for key employees;
- Approval of a long range Human Resources Strategic Plan that includes appropriate strategies and policies to attract and retain talented employees; and
- Review of the year-end incentive compensation pool for eligible employees and recommendation to the Board for approval.

INDEPENDENT ADVICE

The HRCC has retained the help of independent expert compensation advisors. The role of the advisor is to periodically review the Total Compensation components and levels offered to all employees within the context of Vestcor's Compensation Philosophy. This review typically uses a comparator group to represent the marketplace for employee positions. For Investment positions, the comparator group consists of pension funds of similar asset size and investment strategies. Finance and Administration positions are compared to similar positions in the Investment Comparator group, adjusted for regional differences, and to other Atlantic Canada organizations.

Vestcor also participates in and uses compensation surveys conducted by various compensation consultants to ensure that compensation trends are regularly monitored and trends are identified and reported to the HRCC.

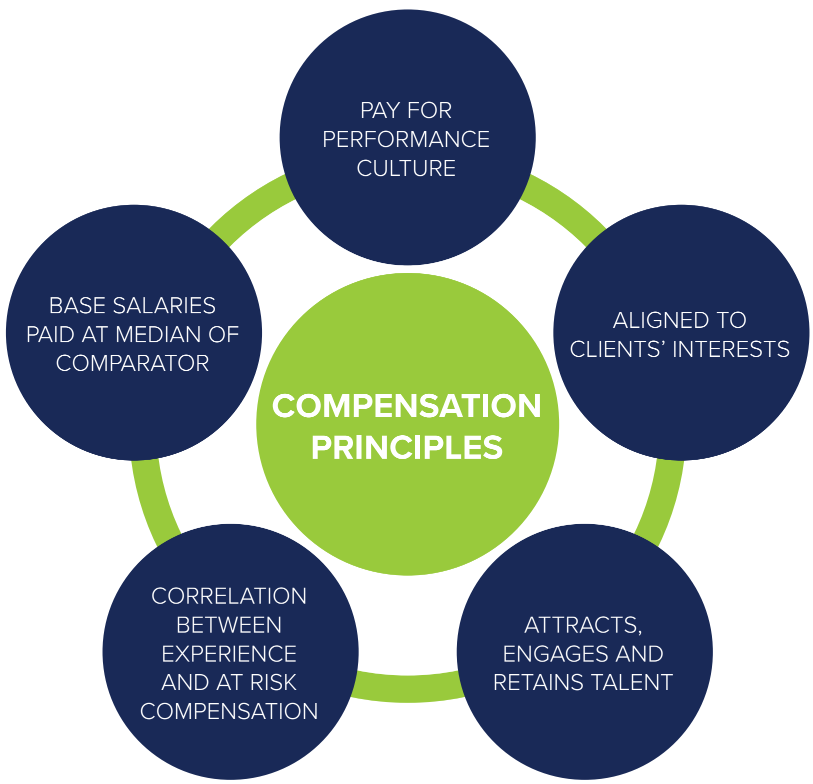
CORPORATE COMPENSATION PHILOSOPHY

Vestcor believes that employees are key to its performance and is committed to providing a positive working environment and competitive compensation. Vestcor also believes that the achievement of its mission will be facilitated by having meaningful alignment between employees' interests and the interests of its clients.

Accordingly, a Compensation Philosophy has been developed 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 policies of Vestcor;
- Promote awareness and attainment of individual, team and corporate strategic objectives;
- Enhance Vestcor's reputation as an employer of choice; and
- Treat employees fairly.

The principles on which this philosophy is based are summarized as follows:



COMPENSATION RISK MANAGEMENT

COMPENSATION DECISION-MAKING

The annual process for determining compensation includes the following steps:

Establish target compensation levels

The HRCC annually reviews the compensation program design and pay levels of its comparator groups to ensure that Vestcor's programs remain competitive. Market information received from various industry specific compensation and salary surveys is reviewed as it becomes available. An independent expert compensation advisor is periodically asked to conduct a Total Compensation Review. Compensation information from public disclosures of other similar peer organizations is also considered.

The HRCC also annually considers whether changes may be required to the Incentive Plan.

Set target compensation mix and pay at-risk

Total compensation is a mix of base salary, benefits and, for eligible employees, performance incentives. The mix varies by role, reflecting the opportunity to influence performance. In determining the mix, market practices are considered as well as Vestcor's compensation principles, including alignment with clients' interests. A significant portion of the performance incentives are earned over a four-year cycle to discourage short-term risk-taking.

Establish performance objectives

Each year, the Board approves an annual business plan designed to support achievement of Vestcor's five-year Strategic Plan. This annual business plan contains a balanced mix of financial, investment strategy, administration and operational performance objectives and key initiatives. Each of these performance objectives and key initiatives is then weighted according to its level of importance to the overall Strategic Plan. The President and CEO delegates the key initiatives among the various functional teams based on their specific roles and responsibilities.

Evaluate performance against objectives

Vestcor's actual performance is then assessed against these performance and annual business plan objectives. Real returns (i.e., after inflation), nominal investment returns and other financial key performance indicators are assessed quantitatively against objectives, while achievement of key business plan initiatives are assessed both quantitatively and qualitatively. The President and CEO recommends to the HRCC the factors to be used in assessing achievement of each element of the annual business plan.

Determine performance-based awards

The HRCC is responsible for recommending for board approval the amount of performance incentive compensation to be awarded to the President and CEO and the overall weighted factor based on the evaluations noted above. The President and CEO does not participate in this discussion. The President and CEO in turn reviews performance evaluations for each member of the Incentive Plan and allocates the individual awards based on individual contribution.

COMPENSATION PROGRAM

The Compensation Program is outlined in Exhibit A on page 44. The program takes the form of salary and benefits as well as individual performance-based incentive awards for all staff and for certain staff, an annual and a long-term investment-based incentive plan.

The compensation program has been developed by the HRCC with the help of an independent compensation consultant to align with the above Compensation Philosophy. Total compensation levels are periodically benchmarked using independent compensation consultants and against external peer institutional funds 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. Vestcor provides full-time employees with benefits that include vacation and sick leave entitlement, life and disability insurance, health and dental benefits, and an employee assistance plan.

Effective January 1, 2014, all full-time employees participate in and contribute to the New Brunswick Public Service Pension Plan (NBPSPP). The NBPSPP provides a pension upon retirement equal to 1.4% of pensionable earnings up to the Yearly Maximum Pensionable Earnings (YMPE) for each year or part thereof plus 2% of earnings in excess of YMPE. The Plan is subject to an early retirement reduction factor if retirement is prior to age 65. Indexing is contingent on NBPSPP performance as outlined in the NBPSPP Funding Policy. Employees who earn in excess of the earnings required to earn the Maximum Pension (Canada) as defined in the NBPSPP Plan Text in the year also participate in a retirement compensation arrangement sponsored by the Province of New Brunswick.

Prior to January 1, 2014, all full-time employees were members of the *Public Service Superannuation Act (PSSA)* pension plan. The *PSSA* provided for a pension upon retirement equal to 1.3% of the annual average of the best five consecutive years of earnings up to the annual average YMPE for the year of retirement and the two preceding years plus 2% of the excess of the annual average of the best five consecutive years of earnings over the annual average YMPE for the year of retirement and two preceding years, multiplied by the years of pensionable service. Base pre-indexed benefits earned under the *PSSA* up to January 1, 2014 have been provincially guaranteed.

Annual incentive plan

Full-time Investment and Research employees, President and CEO and the Chief Financial Officer are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months. Upon the completion of an industry specific compensation review in late 2017, conducted by the HRCC with the assistance of an expert independent compensation advisor, the individual component of the AIP was extended to all full-time permanent employees commencing January 1, 2018.

The AIP includes components based on quantitative investment performance and individual achievement. Investment performance is measured quantitatively as **total fund** net value added investment returns on both a one-year and four-year cumulative basis, compared against an annual target set by the Board. Net value-added investment returns represent the gross investment return in excess of the investment policy benchmark returns, after deducting all investment management costs. Quantitative awards are limited to a maximum of two times target (84 bps) after costs. The one-year investment results have a lower weighting relative to four-year results to reinforce the importance of consistency over a longer period and to encourage employee retention. The individual component of the AIP is calculated as a percentage of salary, weighted to reflect the role and impact that each eligible employee has on achievement of Corporate Business Plan objectives.

The AIP also includes a team award for asset class value added returns of actively managed portfolios to promote teamwork within these asset classes. Investment employees only are organized into one of five teams eligible for the team award by asset class: Fixed Income, Quantitative Investments, Equities, Traders and Private Markets. The remaining employees do not participate in the team award due to the overarching focus of their responsibilities.

Long-term incentive plan

Vestcor also has a long-term incentive plan (LTIP) for Investment and Research staff, President and CEO and the Chief Financial Officer provided they have been employed a minimum of four years. The LTIP 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 investment performance in excess of Board-approved investment policy benchmark returns and investment management costs measured over a retroactive period of four consecutive fiscal periods. LTIP awards are limited to a maximum target level of 75 bps after costs.

IMPACT OF PERFORMANCE RESULTS

Vestcor's investment program had another successful year as measured by a number of short-term and longer-term investment performance metrics:

- The total fund **active nominal return**, where we have full management discretion, for the year ended December 31, 2018 was 2.08% and represents approximately $0.34 billion in gross earnings from the overall investment program. The annualized active return for the past four fiscal periods ending December 31, 2018 was 4.64%, which represents approximately $2.68 billion of cumulative investment earnings.
- **Relative returns** were higher than the combined weighted average client Investment Policy benchmarks for the year ended December 31, 2018, adding 103.4 basis points of value after deducting all investment management costs. These excess net investment returns resulted in approximately $171.6 million of additional actively-managed net investment earnings provided to our clients in 2018 and have resulted in over $567.1 million of net additional returns over the longer four fiscal periods to December 31, 2018.

The following table shows compensation for both divisions, excluding Directors' remuneration (see page 43), for the year ended December 31, 2018.

	2018 ($ thousands)		2017 ($ thousands)	
Salaries and benefits	$	17,589.0	$	16,321.8
Performance incentives:				
AIP – net investment relative performance	$	865.2	$	909.3
AIP – individual performance		1,726.5		1,037.2
Total AIP		2,591.7		1,946.5
LTIP		2,420.1		2,353.3
Total performance incentives	$	5,011.8	$	4,299.8

BASE SALARIES AND BENEFITS

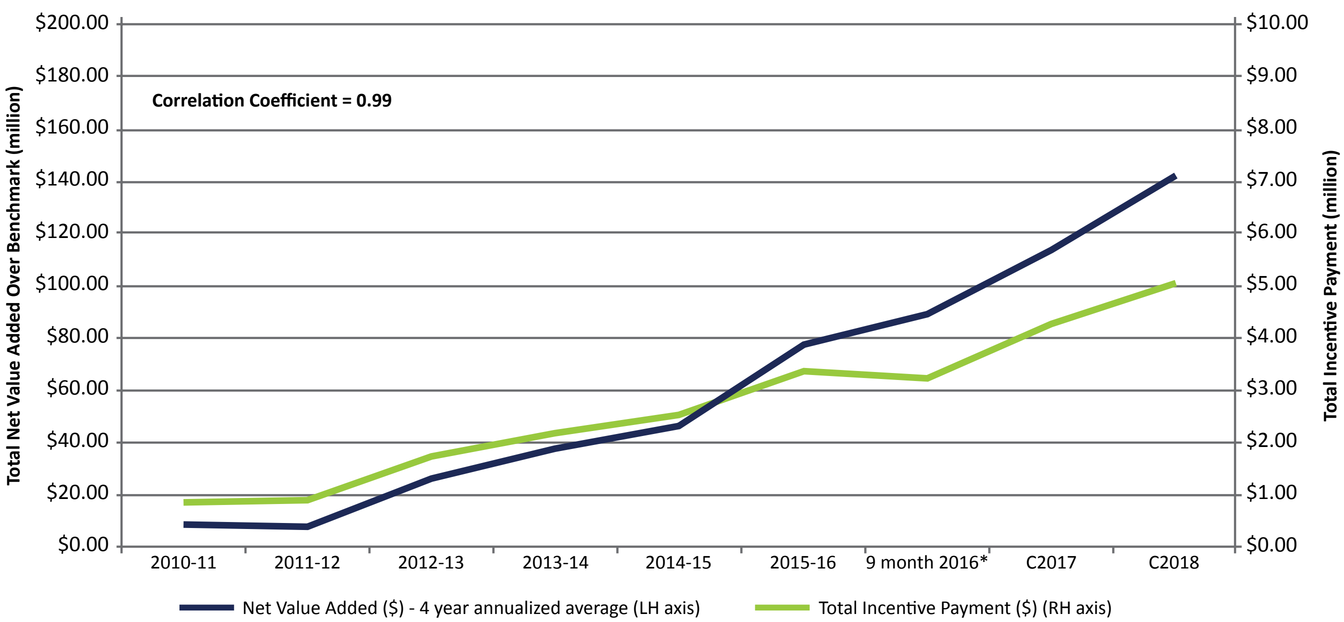
For the year ended December 31, 2018, and after consideration of the continuing competitive talent retention environment, the Board approved a 2.0% overall cost of living increase and a 1.0% merit pool.

The Board also approved three new full-time positions effective January 1, 2019, a Chief Operating Officer, Risk Officer and Investment Client Relations Manager.

COMPENSATION LINKED TO INVESTMENT PERFORMANCE

The objective of performance-based compensation is to encourage alignment of employee interests with those of clients, including an appropriate balance between maximizing long-term returns and minimizing risks. Investment performance with respect to incentive compensation can be summarized into two categories: (i) long-term net relative investment returns versus benchmarks, and (ii) long-term nominal total fund portfolio returns and other business plan achievements.

The following chart compares the total incentive compensation payments awarded over time to the long-term annualized net investment returns in excess of policy benchmarks. The resulting graphical correlation indicates a relatively strong relationship between actual incentive compensation and investment performance as is intended in the design of the incentive plan.



**Note: 9 month 2016 annualized for calculation and comparison purposes.*

SUMMARY COMPENSATION TABLE

The following summary compensation table discloses information on compensation for the President and CEO, CFO and the next three highest paid key management personnel (each a Named Executive or NEO) for the past three years. This disclosure is based on **annual periods** and expressed in dollars.

Name and Position	Year	Salary $	AIP[1] $	LTIP[1] $	Pension Contribution[2] $	All Other[3] $	Total Compensation $
John Sinclair President and CEO	2018	351,389	452,438	450,000	128,933	2,333	1,385,093
	2017	327,779	334,335	491,669	108,638	2,269	1,264,690
	2016	327,779	238,831	421,396	113,431	2,314	1,103,752
Jonathan Spinney Chief Investment Officer, VP, Quantitative Investing & Applied Research	2018	245,829	197,128	269,500	29,167	2,000	743,624
	2017	233,750	201,076	232,750	27,933	1,980	697,489
	2016	208,923	121,088	169,701	20,598	1,935	522,244
James Scott VP, Fixed Income	2018	230,000	121,891	207,000	27,562	1,958	588,411
	2017	225,000	145,515	202,500	26,997	1,950	601,962
	2016	218,769	114,959	169,701	21,652	2,124	527,205
Daniel Goguen VP, Private Markets	2018	214,000	173,276	171,200	25,850	1,911	586,237
	2017	207,000	173,259	165,600	25,071	1,894	572,823
	2016	201,023	100,284	138,846	19,753	1,901	461,807
Jan Imeson CFO	2018	224,000	131,680	134,400	26,920	702	517,702
	2017	220,000	132,000	132,000	26,462	713	511,175
	2016	213,769	93,748	110,563	21,117	755	439,952

[1] AIP and LTIP earned in the year are paid in the year following the award.
[2] The pension contribution column shows the employer contribution made in the year to the combination of the NBPSPP and the related Retirement Compensation Arrangement (RCA). Corresponding employee contributions are required as set out in the Plan. As set out in his employment contract, Mr. Sinclair's performance incentive payouts are pensionable for purposes of the employer and employee contribution to the pension plan and RCA. Performance incentive payouts for all other eligible employees are non-pensionable.
[3] Amounts shown in the All Other column above include the cost of employer-paid enrolment in a post-retirement private health plan, group life insurance, accidental death and dismemberment insurance and a parking benefit.

ANNUAL INCENTIVE PLAN (AIP) OVERVIEW

The AIP component of $2,591.7 (thousand) consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was $865.2 (thousand). One quarter of this component is based on the current year's net value added result and the remainder is based on the annualized net value added over benchmarks for the most recent four fiscal periods ended December 31, 2018. The 2018 net value added result was 103.4 basis points (bps), and the long-term annualized net value added result was 101.1 bps.

A summary table of prior period value added results used to determine the long-term cumulative net value added AIP result is as follows:

	Net Value Added (bps)	Percentage of Target (%)
Year ended March 31, 2016	107.5	255.8
Nine Months ended December 31, 2016	76.8	243.8
Year ended December 31, 2017	89.3	212.7
Year ended December 31, 2018	103.4	246.2
Annualized Long-Term (Four Fiscal Periods)	101.1	240.8

The **AIP related to business plan achievements** is $1,726.5 (thousand) for the year ended December 31, 2018. This component is based on an achievement factor of 1.57 times overall target approved by the Board of Directors, compared to the achievement factor of 1.75 for the year ended December 31, 2017.

The individual component of the AIP is based on business plan accomplishments. The annual business plan includes both key performance indicators and specific action plans and initiatives focused on the six key goals in the Corporate Mission. A specific weighting for each key goal is determined by the Board at the beginning of each year. The weighting reflects the Board's direction to management for prioritization of its efforts to implement the business plan.

Achievement of the long-term investment returns required by each pension and non-pension client in a risk-controlled fashion was Vestcor's primary investment performance objective for 2018 and accounts for the largest weighting proportion. The overall total fund active return for all clients combined was 2.08% gross for the year ended December 31, 2018, an annualized 4.64% gross for the most recent four fiscal periods ended December 31, 2018, and most importantly 7.09% gross per annum since Vestcor's inception in 1996.

Key Goals	2018 Weighting	Achievement
To advance Vestcor's governance, management and organizational effectiveness.	10%	Exceeded
To meet our clients' pension and benefit administration needs through efficient practices and prudent advancements.	20%	Exceeded
To meet our clients' specific long-term objectives through prudent advice and well-executed risk managed investment strategies.	25%	Exceeded
To maintain, develop and attract a highly skilled and experienced team of professionals.	20%	Met
To strengthen and expand client and other stakeholder communications and relationships.	10%	Exceeded
To support effective and efficient information technology, data management and client reporting solutions.	15%	Exceeded

In establishing the achievement factor, the Board considered the achievement of key performance indicators associated with each of the six key goals as well as the following accomplishments:

Key Goals	Business Plan Accomplishments Year ended December 31, 2018

To advance Vestcor's governance, management and organizational effectiveness.

- Assisted the Board of Directors to complete the biennial self-assessment review process and resultant goal-setting for governance improvements.
- Facilitated the work of a Board Ad-Hoc Nominating Committee to review and interview director candidates culminating in a recommendation to the shareholder for appointment of T. Chapman. Subsequent to shareholder approval, completed the new director orientation process.
- Prepared and published the combined Annual Report for Vestcor for the year ended December 31, 2017.
- Completed the legal amalgamation work associated with combining Vestcor Investment Management Corporation and Vestcor Pension Services Corporation into Vestcor Inc., including new banking arrangements and client communications activities. Senior management team participated in monthly business meetings to establish and build integrated corporate culture.
- Expanded Enterprise Risk Management Council contributed to cross-functional communications by developing enterprise risk indicators for quarterly Board reporting.
- Completed the annual securities regulation compliance reporting to the Audit Committee and the Board of Directors and filed annual audited financial statements with the Financial and Consumer Services Commission.
- Following the assessment of the physical space requirements in 2017, signed a memorandum of understanding for a private real estate co-investment opportunity and facilities lease. Commenced office space layout design work.
- Continued implementation of the 2017 – 2018 Corporate Communications Plan and updated this plan for 2018 – 2019.
- Exceeded long-term peer client service, investment performance and cost effectiveness benchmarks.

To meet our clients' pension and benefits administration needs through efficient practices and prudent advancements.

- In conjunction with a Stakeholder Communication Plan, launched a newly-designed Vestcor website platform hosting sites for each pension administration client while supporting parallel Government of New Brunswick legacy websites for an initial period.
- Completed two website videos to assist in plan member communications.
- Co-sponsored with Humber College the delivery of the multi-level Pension Plan Administration Certificate (PPAC) program for regional service providers and Vestcor staff.
- Participated in ongoing client strategic planning discussions including response to expanded Canada Pension Plan implications and pension plan consolidation considerations.
- Developed client benefit plan newsletters.
- Created and published 2017 annual report for Vestcor Corp. for reporting on their oversight activities of their subsidiary, Vestcor, to their Members.
- On behalf of client Boards of Trustees, created, distributed and summarized responses to surveys of their plan members concerning the Boards' pension plan governance.
- Assisted in the creation of new branding for two client organizations.
- Presented 14 employer education sessions.
- Presented 27 employee pre-retirement planning sessions covering approximately 945 plan members.
- Met or exceeded all client service processing standards.

Key Goals	Business Plan Accomplishments Year ended December 31, 2018

To meet our clients' specific long-term investment objectives through prudent advice and well-executed risk managed investment strategies.

- Exceeded the respective nominal or real (after inflation) long-term investment return targets for those clients where we provide investment policy advice.
- Maintained lower portfolio risk than clients' shared risk plan targets and significantly lower than Canadian defined benefit pension plans.
- Completed research into Canadian and U.S. small cap equity exposures culminating in recommendations to add this exposure to the asset mix for certain clients. In conjunction with this recommendation, finalized amendment to Vestcor's trust declaration to create new unit trust funds, as well as amendments to current ISDA agreements for related derivative investments.
- Completed research project into Environmental, Social and Governance (ESG) factors affecting investment decisions and approved associated revisions to Vestcor's Responsible Investment Guidelines.
- Completed a successful onboarding of one new investment management client effective January 1, 2018 together with cost effective investment transition to the Vestcor Investment Entities.

To maintain, develop, and attract a highly-skilled and experienced team of professionals.

- Completed an independent Compensation Review for all Administration staff.
- Communicated and implemented the recommendations from the compensation review including hosting two employee information sessions and refreshing the Incentive Plan.
- Conducted the biennial Workplace Environment (employee satisfaction) Survey. Survey results were distributed to all staff and the Board. A volunteer staff committee reviewed the responses and developed improvement recommendations for senior management which are or have been implemented.
- Conducted biennial 360˚ Leadership Surveys to provide all management level staff with feedback concerning their job performance.
- Updated the senior management succession plan and presented to the Human Resources & Compensation Committee.
- Provided a significant contribution to the instruction and strategic planning for University of New Brunswick's Student Investment Fund Program.
- In conjunction with Vestcor's on-campus recruiting efforts, developed a program of permanent IT positions to be filled with rotating co-op students from New Brunswick-based post-secondary institutions.

To strengthen and expand client and other stakeholder communications and relationships.

- Exceeded client quarterly reporting timelines.
- Met plan member service satisfaction targets as reported from member surveys.

To support effective and efficient information technology, data management and client reporting solutions.

- Completed a business case for replacement of the pension and benefit plan administration system that was subsequently approved by the Board and the shareholder. A project team is currently engaged in successful delivery of the new system in 2019.
- Completed annual update to Five Year IT Strategic Plan.
- Contracted with a national IT service provider and implemented an online cybersecurity awareness training program for employees.
- Exceeded all systems and application availability performance targets.

LONG-TERM INCENTIVE PLAN (LTIP) OVERVIEW

The LTIP component is $2,420.1 (thousand) for the year ended December 31, 2018. This component is based on the annualized net investment results in excess of the total fund performance benchmark for the most recent four fiscal periods.

The impact of the LTIP results differ from the long-term component of the AIP results because the LTIP plan has a maximum target level of 75 bps after costs versus a maximum of 84 bps after costs under the AIP.

A summary table of the net value-added results used to determine the annualized LTIP result is as follows:

	Net Value Added (bps)	Percentage of Target (%)
Year ended March 31, 2016	107.5	298.4
Nine Months ended December 31, 2016	76.8	282.9
Year ended December 31, 2017	89.3	243.4
Year ended December 31, 2018	103.4	286.0
Annualized Long-Term Result	101.1	279.2

DIRECTORS' REMUNERATION

Directors' remuneration is established in Vestcor's By-Laws. Directors are paid an annual retainer and a per diem allowance for meeting attendance and preparation time. Directors who travel to attend meetings receive a per diem for travel time, reimbursement for reasonable accommodation costs and other out-of-pocket expenses.

Director	Annual Retainer $ *(dollars)*	Board and Committee Meeting Per Diems $ *(dollars)*	Total Remuneration $ *(dollars)*	Travel Reimbursement $ *(dollars)*
Michael Walton, Chair of Board of Directors	25,000	11,000	36,000	3,751
Michel Allain	10,000	5,950	15,950	2,018
Wiktor Askanas[1], *(formerly Vice Chair of Board of Directors and Chair of Human Resources & Compensation Committee)*	9,231	3,550	12,781	120
Donna Bovolaneas, Chair of Audit Committee *(formerly Chair of Governance Committee)*	15,000	12,000	27,000	2,573
David Losier, Vice Chair of Board of Directors	12,981	8,250	21,231	3,730
Tanya Chapman[2]	5,500	2,450	7,950	666
Eleanor Marshall	10,000	4,550	14,550	1,003
Tim Mawhinney	10,000	5,250	15,250	1,290
Daniel Murray	10,000	4,550	14,550	119
Cathy Rignanesi, Chair of Governance Committee *(formerly Chair of Audit Committee)*	15,000	10,000	25,000	2,045
Nancy Whipp, Chair of Human Resources & Compensation Committee	12,981	6,750	19,731	2,159

[1] *Retired from the Board on August 13, 2018*

[2] *Appointed to the Board on June 13, 2018.*

The total cost of the Vestcor Board function, including per diems, director orientation and Board education, for the year ended December 31, 2018 was $242.0 thousand (December 31, 2017 – $253.3 thousand) plus travel and accommodation reimbursements of $19.4 thousand (December 31, 2017 – $21.1 thousand).

COMPENSATION PROGRAM

BASE SALARY

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

VARIABLE COMPENSATION PROGRAM

	Annual Incentive (targets 15% -55% of base salary)		Long-Term Incentive (targets 15% -75% of base salary)
	Short-term	**Long-term**	**Deferred**
Eligibility	Short-term plan - Investment and research staff, the President and CEO, Chief Financial Officer subject to a minimum of six months employment. Individual component only – Full-time permanent employees subject to a minimum of six months employment.	Investment and research staff, President and CEO and the Chief Financial Officer subject to a minimum of six months employment.	Investment and research staff, President and CEO and the Chief Financial Officer subject to a minimum of four years employment.
Objectives	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation. Reward individual performance with respect to achievement of Annual Business Plan objectives.	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation.	Align eligible employee compensation to total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation.
Time horizon	Current year	4 fiscal periods	4 fiscal periods
Type of program	Cash	Cash	Cash
Performance metric(s)	Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark. Individual performance versus Board approved pre-determined Annual Business Plan Objectives.	Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark.	Total fund return in excess of benchmark, net of investment management expenses.
Range:			
Threshold	Full cost recovery	Full cost recovery	Full cost recovery
Target	42 bps after costs	42 bps after costs	42 bps after costs
Maximum	84 bps after costs	84 bps after costs	75 bps after costs

INDIRECT COMPENSATION

	Membership in the NBPSPP	Employee benefits and post-retirement benefits	Prerequisites
Eligibility	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.
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 including parking and a health spending account allowance.

RESPONSIBLE INVESTING **GUIDELINES**

The responsible investment actions of investment managers continue to increasingly be a focus of investors, governments, regulators, and various third-party interest groups. In order to remain current with evolving industry best practices in this area, Vestcor reviewed and updated our set of Responsible Investment Guidelines in 2018.

While our fiduciary responsibilities and relatively limited organizational footprint continue to restrict our ability to provide exclusionary screens or divestment options, we have proactively included responsible investment considerations as part of our active portfolio management process. Vestcor also continues to be a very active long-term member / partner in a number of organizations that support best practice environmental, social, and governance-related investment actions. For example, Vestcor has been an active long serving member in organizations such as the Pension Investment Association of Canada (**www.piacweb.org**) and the Canadian Coalition for Good Governance (**http://www.ccgg.ca**). Each of these organizations continue to have successful active industry engagement programs that are focused on responsible investment related issues.

Our active involvement with these groups helps to develop and promote best practice guidelines in this area which benefits both investors and society in general. Additional detail can be found in our Responsible Investment Guidelines under the Investments tab on our website at **www.vestcor.org**.

INDUSTRY **RELATIONSHIPS**

Vestcor's professionals are recognized nationally as a constructive resource with respect to investment industry-related Board or Executive Committee participation. The following list outlines a number of relationships in which management has actively participated in this type of capacity during the fiscal year:

- Association of Canadian Pension Management (ACPM)
- Beaverbrook Art Gallery Investment Committee
- Buy-Side Investment Management Association (BIMA)
- Canadian Bond Investors' Association
- Canadian Coalition for Good Governance (CCGG)
- Canadian Pension & Benefits Institute (CPBI)
- CFA Society Atlantic Canada
- Fredericton Community Foundation Investment Committee
- Pension Investment Association of Canada (PIAC)
- S&P/TSX Canada Index Committee
- Université de Moncton – Comité de placements
- University of New Brunswick Investment Committee

EMPLOYEE ACTIVITY **IN OUR COMMUNITY**

Vestcor management and staff continued to be very active with a number of important causes in both our local and the larger national community. These efforts can vary from volunteering time, sharing professional expertise, or the donation of personal financial resources.

Vestcor staff once again exceeded their target contribution level for the annual corporate United Way campaign. Staff also continued to organize a number of successful fundraising activities for local charities, and Vestcor is proud to continue to recognize these employee volunteer activities.

VESTCOR INVESTMENT ENTITIES **PERFORMANCE**

The specific performance of each Vestcor Investment Entity and its respective benchmark return for the period indicated to December 31, 2018 is outlined in the table below.

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
NBIMC Nominal Bond Fund	1.75	2.17	1.93	2.37	3.79	4.11	5.23
Benchmark	1.53	1.86	1.53	2.11	3.50	3.60	5.04
NBIMC Corporate Bond Fund	1.03	1.98	2.62	2.67	3.70		3.73
Benchmark	1.10	2.23	2.73	2.73	3.68		3.62
NBIMC Global Fixed Income Fund	26.37	13.89					10.70
Benchmark	25.14	13.31					9.89
NBP Canadian Long-Term Bond Fund	(0.63)	4.46	3.86	3.71	5.30		5.38
Benchmark	(0.63)	4.46	3.86	3.84	5.61		5.69
NBIMC International High Yield Fixed Income Fund							0.46[2]
Benchmark							(0.91)
NBIMC New Brunswick and Atlantic Canada Fixed Income Opportunity Fund	2.58	3.02	2.73	3.32	4.58	4.37	6.20
Benchmark	1.53	1.86	1.53	2.11	3.50	3.60	5.04
NBIMC Money Market Fund	1.79	1.45	1.31	1.23	1.25	1.27	2.67
Benchmark	1.38	0.97	0.82	0.77	0.80	0.82	2.33
NBIMC Student Investment Fund	(2.84)	1.76	4.55	2.78	4.25	5.97	6.52
Benchmark	(2.97)	1.39	4.47	2.83	4.32	5.81	6.34
NBIMC Canadian Equity Index Fund	(8.78)	(0.12)	6.71	2.80	4.62	8.19	6.15
Benchmark	(8.89)	(0.30)	6.37	2.49	4.06	7.92	5.75
NBIMC Canadian Small Cap Equity Fund							(16.83)[2]
Benchmark							(15.56)
NBIMC Low Volatility Canadian Equity Fund	(7.40)	0.96	5.97	3.42	6.74		8.11
Benchmark[3]	(6.84)	0.19	5.68	3.29	5.81		6.38
NBIMC External Canadian Equity Fund	(8.57)	(0.09)	5.59	3.07	4.62	8.87	9.30
Benchmark	(8.89)	(0.30)	6.37	2.49	4.06	7.92	8.31
NBIMC Canadian Equity Active Long Strategy Fund	(9.03)	(0.31)	5.25	1.07	3.26	7.22	2.68
Benchmark	(8.89)	(0.30)	6.37	2.49	4.06	7.92	3.20
NBIMC External International Equity Fund	(7.80)	5.63	2.77	7.63	7.50	8.97	5.41
Benchmark	(6.03)	4.78	2.29	6.23	5.71	7.40	4.02
NBIMC EAFE Equity Index Fund	(5.79)	5.12	2.54	6.72			6.72
Benchmark	(6.03)	4.78	2.29	6.49			6.49
NBIMC EAFE Equity Index Fund – Class N	(5.75)	5.06	2.58	6.51	5.97	7.60	4.35
Benchmark	(6.03)	4.78	2.29	6.23	5.71	7.40	4.02

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
NBIMC Low Volatility International Equity Fund	0.46	7.15	4.03	9.57			9.57
Benchmark[3]	2.80	8.08	3.46	9.42			9.42
NBIMC Low Volatility International Equity Fund – Class N	0.38	7.12	3.96	9.47	9.73		12.34
Benchmark[3]	2.80	8.08	3.46	9.42	9.06		12.33
NBIMC Low Volatility Emerging Markets Equity Fund – Class N	(0.97)	8.03	6.78				3.91
Benchmark	2.71	10.28	6.85				4.09
NBIMC U.S. Equity Index (2017) Fund	4.27						4.87
Benchmark	4.23						4.82
NBIMC U.S. Equity Index Fund – Class N	4.28	8.89	8.80	11.75	14.06	14.35	11.26
Benchmark	3.62	8.35	8.44	11.44	13.85	14.25	11.24
NBIMC U.S. Small Cap Equity Fund							(5.10)[2]
Benchmark							(6.19)
NBIMC Low Volatility U.S. Equity (2017) Fund	7.65						4.15
Benchmark	9.95						6.20
NBIMC Low Volatility U.S. Equity Fund – Class N	7.68	7.15	7.78	12.19	15.21		17.26
Benchmark[3]	9.95	10.22	8.99	12.83	15.61		18.22
NBIMC Inflation Linked Securities Fund	0.13	0.53	1.32	1.75	3.92	5.23	6.70
Benchmark	(0.05)	0.34	1.17	1.57	3.80	4.95	6.52
NBIMC Canadian Real Estate Fund	15.13	15.15	13.52	12.71	11.93	9.79	12.16
Benchmark	5.86	5.66	5.54	5.56	5.51	5.47	5.70
NBIMC Canadian Real Estate Investment Trust Fund	6.69	8.34	11.42	7.22	7.88		7.74
Benchmark	6.32	8.07	11.17	6.98	7.65		7.52
NBIMC Non-Canadian Private Real Estate Fund	13.32	17.08	10.97				7.61
Benchmark	5.86	5.66	5.54				5.47
Vestcor Investments Private Real Estate, L.P.	2.69						3.46
Benchmark	5.86						5.67
Vestcor Investments Private Real Estate 2, L.P.							6.57[2]
Benchmark							2.02
NBIMC International Real Estate (2017) Fund	3.82						0.26
Benchmark	4.60						0.65
NBIMC International Real Estate Fund – Class N	3.82	2.05	3.09	7.73	13.87	13.59	9.44
Benchmark	3.32	1.90	3.05	7.64	13.39	13.52	9.30
NBIMC Public Infrastructure (2017) Fund	0.84						(1.20)
Benchmark	5.86						5.42
NBIMC Public Infrastructure Fund – Class N	0.51	2.04	3.71				2.22
Benchmark	5.86	5.66	5.54				5.53
NBIMC Infrastructure Fund	10.27	12.47	11.20	10.49	9.31		8.79
Benchmark	5.86	5.66	5.54	5.56	5.51		5.63

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
Vestcor Investments Infrastructure, L. P.	19.66						16.37
Benchmark	5.86						5.43
NBIMC North American Market Neutral (2017) Fund	1.45						1.42
Benchmark	1.38						1.10
NBIMC North American Market Neutral Fund – Class N	1.56	2.90	3.19	2.40	1.62	0.97	2.13
Benchmark	1.38	0.97	0.82	0.77	0.80	0.82	1.69
NBIMC Quantitative Strategies (2017) Fund	0.81						3.79
Benchmark	1.38						1.10
NBIMC Quantitative Strategies Fund – Class N	(0.21)	2.93	3.76	4.04	4.76	4.22	3.95
Benchmark	1.38	0.97	0.82	0.77	0.80	0.82	0.95
NBIMC Quantitative Strategic Beta (2017) Fund	4.87						5.27
Benchmark	1.38						1.10
NBIMC Quantitative Strategic Beta Fund – Class N	4.92	4.86					5.31
Benchmark	1.38	0.97					0.87
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	0.22	12.90	10.55	8.87	6.49	20.70	9.97
Benchmark	5.86	5.66	5.54	5.56	5.51	5.58	6.86
NBIMC Private Equity Fund	27.81	22.97	17.20	20.19	20.13	11.71	11.85
Benchmark	(2.57)	5.70	5.11	7.91	8.60	10.07	7.04
Vestcor Investments Private Equity, L. P.	14.13						(8.55)
Benchmark	(4.22)						(0.77)

[1] *On April 1, 2008, Vestcor implemented Canadian dollar benchmarks for international exposures. Prior to that date, the benchmarks for international exposures were reflected in the local currencies. To ensure comparative information is presented for performance and benchmarks, the Since Inception column above reflects the returns from the later of the first day of trading in the entity or, if an international entity, April 1, 2008.*

[2] *These entities were implemented during the current fiscal year.*

[3] *Effective October 14, 2014 minimum volatility benchmarks replaced the market cap indices for Canadian, U.S., and EAFE Low Volatility public equity funds.*

VESTCOR **FINANCIAL STATEMENTS**

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following annual financial statements report the financial position and results of operations of Vestcor Inc. ("Vestcor") for the year ended December 31, 2018. They have been prepared by management and approved by the Board of Directors.

Management prepared Vestcor's financial statements in accordance with CPA Handbook Part III - *Accounting Standards for Not-for-Profit Organizations*. The financial statements are general purpose financial statements and include a Statement of Financial Position, Statement of Operations and Changes in Net Assets and Statement of Cash Flow.

Management is responsible for the integrity and fair presentation of the financial statements, including amounts based on best estimates and judgments. Vestcor maintains systems of internal control and supporting procedures to provide reasonable assurance that accurate financial information is available, that assets are protected and that resources are managed efficiently.

Ultimate responsibility for the financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, consisting of six independent Board members. The Audit Committee reviews the financial statements and recommends them for approval by the Board. The Audit Committee also reviews matters related to accounting, auditing, internal control systems, financial risk management and the scope, planning and audit findings of the internal and external auditors.

KPMG LLP, the external auditors of the financial statements, are directly accountable to the Audit Committee. They have conducted an independent examination of the financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion to the Board of Directors.

John A. Sinclair
President and Chief Executive Officer

Jan Imeson, CPA, CA
Chief Financial Officer

KPMG LLP
Frederick Square, TD Tower
700-77 Westmorland Street
Fredericton NB E3B 6Z3
Canada
Tel (506) 452-8000
Fax (506) 450-0072

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vestcor Inc.

Opinion

We have audited the financial statements of Vestcor Inc. (the Entity) which comprise:

- the statement of financial position as at end of December 31, 2018
- the statement of operations and changes in net assets for the year then ended
- the statement of cash flow for the year then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

April 1, 2019

VESTCOR INC.
Statement of Financial Position
As at December 31, 2018
(in thousands of Canadian dollars)

		2018		2017
ASSETS				
Current				
Cash	$	74	$	666
Accounts receivable *(note 10)*		8,743		6,660
Other receivables		72		16
Prepaid expenses		373		359
Total current assets		9,262		7,701
Long-term accounts recoverable for supplemental pension		331		349
Capital assets *(note 3)*		529		663
Intangible assets *(note 4)*		2,015		—
	$	12,137	$	8,713
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities *(note 5)*	$	9,234	$	7,673
Current portion of supplemental pension *(note 6)*		26		26
Total current liabilities		9,260		7,699
Supplemental pension *(note 6)*		331		349
Deferred contributions related to capital and intangible assets *(note 7)*		2,544		663
Total liabilities		12,135		8,711
Unrestricted net assets		2		2
	$	12,137	$	8,713

See accompanying notes to financial statements
Contractual obligations and contingencies *(note 9)*

Approved on behalf of the Board:

Michael W. Walton
Chairman of the Board

Donna Bovolaneas
Chair of the Audit Committee

VESTCOR INC.
Statement of Operations and Change in Net Assets
For the year ended December 31, 2018
(in thousands of Canadian dollars)

		2018		2017
REVENUE				
Investment management fees *(note 10)*	$	19,776	$	18,306
Pension administration fees *(note 10)*		7,453		7,481
Benefits administration fees		1,402		1,307
Amortization of deferred contributions related to capital assets		277		242
Other		14		11
Total revenue		28,922		27,347
EXPENSES				
Salaries and benefits		17,589		16,321
Information systems		4,040		4,291
External investment management		3,043		2,770
Securities custody		1,490		1,331
Office and business		1,218		1,151
Professional services		591		568
Office rent		674		673
Amortization of capital assets		277		242
Total expenses		28,922		27,347
Excess of revenue over expenses		—		—
Unrestricted net assets, beginning of year		2		2
UNRESTRICTED NET ASSETS, end of year	$	2	$	2

See accompanying notes to financial statements

VESTCOR INC.
Statement of Cash Flow
For the year ended December 31, 2018
(in thousands of Canadian dollars)

	2018	2017
OPERATING ACTIVITIES		
Excess of revenue over expenses	$ —	$ —
Non-cash items:		
Amortization of capital assets	277	242
Amortization of deferred contributions related to capital assets	(277)	(242)
Supplemental pension	8	17
Changes in non-cash operating working capital:		
Increase in accounts receivable	(2,065)	(18)
(Increase) decrease in other receivables	(56)	146
(Increase) decrease in prepaid expenses	(14)	379
Increase (decrease) in accounts payable and accrued liabilities	1,561	(519)
Net cash provided by operating activities	(566)	5
INVESTING ACTIVITIES		
Purchases of capital and intangible assets	(2,158)	(525)
Deferred contributions related to capital and intangible assets	2,158	525
Net cash provided by investing activities	—	—
FINANCING ACTIVITY		
Payment of supplemental pension	(26)	(26)
Net cash used in financing activity	(26)	(26)
DECREASE IN CASH DURING YEAR	(592)	(21)
Cash, beginning of year	666	687
CASH, end of year	$ 74	$ 666

See accompanying notes to financial statements

1. Nature of Operations

Vestcor Inc. ("Vestcor") was created on January 1, 2018 upon the amalgamation of Vestcor Investment Management Corporation ("VIMC") and Vestcor Pension Services Corporation ("VPSC"), both wholly-owned entities of Vestcor Corp. Vestcor Corp. is a not-for-profit organization without share capital whose Members consist of the New Brunswick Public Service Pension Plan ("NBPSPP") and New Brunswick Teachers' Pension Plan ("NBTPP"). The Vestcor operating entities were transferred to Vestcor Corp. from the Province of New Brunswick on October 1, 2016.

Vestcor's mandate is to provide pension and benefits administration, and investment management and advisory services to pension, trust, endowment or similar funds within the public sector.

Vestcor recovers all operating expenses and capital expenditures on a cost recovery basis. Vestcor is exempt from income taxes under Subsection 149(1)(l) of the *Income Tax Act* (Canada).

2. Significant Accounting Policies

(a) Basis of presentation

These financial statements present the operations of Vestcor for the year ended December 31, 2018 with audited comparative figures for the combined financial statements of VIMC and VPSC. They have been prepared in accordance with CPA Handbook Part III – *Accounting Standards for Not-for-Profit Organizations*. The significant accounting policies used in the preparation of these financial statements are as follows:

(b) Principles of combination

The comparative combined financial statements include the accounts of VIMC and VPSC for the year ended December 31, 2017. All intercompany transactions have been eliminated on combination.

(c) Revenue recognition

Fees for services are recognized in revenue as services are performed and collection is probable. Vestcor follows the deferral method of accounting for contributions. Contributions restricted for the purchase of capital assets are deferred and amortized into revenue on a straight-line basis at rates corresponding with amortization rates for the related capital assets.

(d) Capital assets

Capital assets are recorded at acquisition cost less accumulated amortization. When a capital asset no longer contributes to the corporation's ability to provide services, it's carrying amount is written down to its residual value. Capital assets are amortized over their estimated useful lives, calculated on a straight-line basis, using the following rates:

Computer equipment	- 3 years
Furniture and equipment	- 12.5 years
Leasehold improvements	- over the remaining lease term

2. Significant Accounting Policies *(continued)*

(e) Intangible assets

Intangible assets are related to consulting costs incurred for implementation of a third-party pension and benefits administration system. System development costs are recognized as an intangible asset when the capitalization criteria have been met. This includes: the ability to demonstrate technical feasibility; the company's intention to complete the implementation; the availability of adequate technical and financial resources to complete the development; the use of the system once implemented; and the ability to demonstrate that the asset will generate future economic benefits. Development costs that do not meet the capitalization criteria are expensed as incurred. Intangible assets are amortized on a straight-line basis over their estimated useful life of 10 years. Amortization of intangible assets commences upon implementation of the system.

(f) Employee future benefits

Full-time employees are members of the NBPSPP, a contributory target benefit plan. Prior to January 1, 2014, full-time employees were members of the *Public Service Superannuation Act*, a contributory defined benefit multiemployer plan. In addition, certain employees are also members of a retirement compensation arrangement sponsored by the Province of New Brunswick. These plans' assets and liabilities are not segregated. Since it is not practicable to obtain all of the information required for a materially precise attribution of Vestcor's portion of the obligations, Vestcor uses defined contribution accounting to account for its portion of these plans. Accordingly, employer contributions are expensed as incurred.

(g) Financial instruments

Financial instruments are recorded at fair value on initial recognition. All financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry any such financial instruments at fair value. Vestcor has not elected to carry any such financial instruments at fair value.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, Vestcor determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount Vestcor expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

(h) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Key items subject to such estimates and assumptions include the net recoverable amount of accounts receivable, determination of the estimated useful life and selection of rates of amortization of capital assets *(note 3)* and deferred contributions *(note 6)* and the estimated actuarial liability for supplemental pension *(note 6).*

(in thousands of Canadian dollars)

3. Capital Assets

	Computer equipment	Furniture and equipment	Leasehold improvements	2018 Total
Cost				
Opening balance	$ 1,912	$ 521	$ 490	$ 2,923
Purchases	123	9	11	143
Closing balance	2,035	530	501	3,066
Accumulated amortization				
Opening balance	1,478	388	394	2,260
Amortization expense	233	15	29	277
Closing balance	1,711	403	423	2,537
Net book value	$ 324	$ 127	$ 78	$ 529

	Computer equipment	Furniture and equipment	Leasehold improvements	2017 Total
Cost				
Opening balance	$ 1,479	$ 472	$ 447	$ 2,398
Purchases	433	49	43	525
Closing balance	1,912	521	490	2,923
Accumulated amortization				
Opening balance	1,269	374	375	2,018
Amortization expense	209	14	19	242
Closing balance	1,478	388	394	2,260
Net book value	$ 434	$ 133	$ 96	$ 663

4. Intangible assets

Development costs incurred during the year in connection with the implementation of a new pension and benefits administration system were $2,015. Amortization will commence once implementation is complete.

5. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2018 of $113 (2017 – $269) which include amounts payable for GST/HST.

(in thousands of Canadian dollars)

6. Supplemental Pension

Vestcor has an estimated liability of $357 (2017 - $375) for special supplemental pension relating to past service awarded during 2003-2004. The accrued liability was determined by an actuarial valuation carried out as of December 31, 2018. The accrued liability is equivalent to the present value of the expected future payments. The ultimate cost to Vestcor will vary based on the rise in the consumer price index and demographic factors. Changes in the expected liability are recorded in the period the change occurs. Payments are recovered in fees charged to clients.

7. Deferred Contributions Related to Capital and Intangible Assets

The balance of unamortized deferred contributions consists of the following:

		2018		2017
Balance, beginning of period	$	663	$	380
Additional contributions received, net		2,158		525
Less amounts amortized to revenue		(277)		(242)
Balance, end of period	$	2,544	$	663

8. Employee Future Benefits

Vestcor is a participating employer in the NBPSPP. For the year ended December 31, 2018, Vestcor expensed contributions of $1,158 (2017 – $1,104) under the terms of the NBPSPP pension plan. Vestcor is also a participating employer in a retirement compensation arrangement (“RCA”). For the year ended December 31, 2018, Vestcor expensed contributions of $143 (2017 – $120) under the terms of the RCA.

9. Contractual Obligations and Contingencies

Vestcor leases certain of its premises under an operating lease which expires on January 31, 2022. The future minimum lease payments for the lease are $256 per annum. Upon signing this lease, Vestcor received a lease inducement in the amount of $25 which is being amortized to office rent expense in the Statement of Operations on a straight-line basis over the term of the lease. A first charge on certain of Vestcor’s leasehold improvements, furniture and equipment has been pledged to the landlord as collateral for the lease inducement.

The lease contains two possible early termination clauses which would result in a retroactive increase to the minimum lease payments made to reflect the shorter lease term. Early termination would also trigger repayment of the unamortized balance of the lease inducement.

Vestcor also occupies certain office space leased by the Province of New Brunswick under a ten year operating lease which expires on October 31, 2020. Vestcor continues to pay a rental charge in the amount of $30 per month to the Province of New Brunswick.

10. Related Party Transactions and Balances

Vestcor offers investment management and pension administration services to the NBPSPP and NBTPP. Investment management and pension administration services for all clients are billed using the cost recovery method. Costs that are directly attributable to a specific client are charged directly to that client. All other costs are allocated among clients according to their prorata share of assets under management for investment management services and according to the effort involved to administer their plans for pension administration services. For the year ended December 31, 2018, Vestcor billed $11,692 and $8,160 to the NBPSPP and NBTPP respectively (2017 – $11,670 and $8,080 respectively) for these services, which are included in investment management and pension administration fees in the Statement of Operations. At December 31, 2018, NBPSPP and NBTPP owed Vestcor $3,571 and $2,760 (2017 - $3,112 and $2,230) respectively for such fees. These amounts are included in accounts receivable.

Vestcor is economically dependent upon the revenue received from its clients by virtue of the cost recovery business model under which it operates.

11. Indemnifications

Vestcor provides indemnifications to its officers and directors pursuant to certain corporate by-laws. Vestcor may be required to compensate these individuals in the event of a claim being made against them. The contingent nature of these indemnification obligations prevents Vestcor from making a reasonable estimate of the maximum potential payments that Vestcor would be required to make. To date, Vestcor has not received any claims nor made any payments pursuant to such indemnifications.

On January 20, 2016 Vestcor was served notice that a notice of action and statement of claim was filed in the New Brunswick Court of Queen's Bench on December 30, 2015 naming Vestcor and the Province of New Brunswick, the New Brunswick Union of Public And Private Employees, the New Brunswick Nurses Union, Local 37 of the International Brotherhood of Electrical Workers and the Board of Trustees of the NBPSPP, as defendants. The claim arises out of the restructuring of the NBPSPP as a shared risk plan. Vestcor had only a limited role in that restructuring and did so pursuant to a direction and indemnity provided by the Province of New Brunswick. The Province is defending Vestcor in this matter pursuant to its obligation under that indemnity.

12. Financial Risk

Vestcor has exposure to credit risk. Credit risk arises from the potential that a counterparty will fail to perform its obligations. Vestcor is exposed to the carrying value of its accounts receivable, all of which have been collected subsequent to the date of the financial statements.