

VESTCOR

ANNUAL REPORT 2019

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

MICHAEL W. WALTON

Chairperson of the Board
Member – Human Resources and Compensation,
Audit and Governance Committees

MICHEL ALLAIN, FCIA, FSA

Director
Member – Human Resources and Compensation
Committee

TANYA CHAPMAN, CPHR

Director
Member – Human Resources and Compensation
Committee

TIM MAWHINNEY, FCIA, FSA, CERA

Director
Member – Human Resources and Compensation
Committee

CATHY RIGNANESI, FCPA, CA

Director
Chairperson – Governance Committee
Member – Audit Committee

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Vice-Chairperson of the Board
Chairperson – Human Resources and
Compensation Committee
Member – Audit and Governance Committees

DONNA BOVOLANEAS, FCPA, FCA

Director
Chairperson – Audit Committee
Member – Governance Committee

ELEANOR MARSHALL, CPA, CA, CFA

Director
Member – Audit Committee

DANIEL MURRAY, CPA, CA

Director
Member – Audit Committee

NANCY WHIPP, FCPA, CA, ICD.D

Director
Member – Human Resources and Compensation
and Governance Committees

CORPORATE OFFICERS

JOHN A. SINCLAIR

President and Chief Executive Officer

JAN IMESON, CPA, CA

Chief Financial Officer

JENNIE NOEL-THÉRIAULT, GPC.D

Corporate Secretary

JONATHAN SPINNEY, CFA

Chief Investment Officer

BRENT HENRY, CPA, CA

Chief Compliance Officer

CONTACT INFORMATION

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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 nine different client groups representing approximately \$18.5 billion in assets under management. We also provide administration services to eleven pension plans and four employee benefit plans.

2019 HIGHLIGHTS

- **VESTCOR INVESTMENT DIVISION:**

- Client portfolios for which we provide investment advice continued to exceed their overall long-term investment risk and return targets.
 - o Their long-term investment risk and return performance also 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 0.49%. This represented approximately \$86.2 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 sixth consecutive year that our clients have benefited from a steady or declining MER.
- Assets under discretionary management increased to \$18.5 billion at year end.

- **VESTCOR ADMINISTRATION DIVISION:**

- Exceeded each of the team's Key Performance Targets.
- Continued a major project to modernize our plan administration technology capabilities.
- Coordinated a number of education and trustee onboarding opportunities, communication activities, research material and strategic education sessions for our clients' Boards of 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 2019 Annual Report. This Annual Report provides an accounting of our various operating activities in a format consistent with our prior Annual Reports.

Transparency, independence and accountability continue to be an important focus of our Board. While 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, please note that we also publish a significant amount of additional governance related information on our website at vestcor.org/governance.

Vestcor's team realized another successful year under the guidance and stewardship of our Board of Directors. This report will outline the advancements made by our Vestcor pension and benefits administration, investment, and corporate services teams during the year.

STRONG PERFORMANCE CONTINUES IN 2019

We are very pleased to outline throughout this report that Vestcor has continued to exceed our clients' long-term objectives during 2019. Our independent, not-for-profit business model continues to align well with our clients' objectives while also delivering excellent value through materially lower expenses and a customized focus on particular client goals and service requirements.

Client investment portfolios continued to realize strong investment returns on both an absolute basis and relative to their investment policy benchmarks, while our administration team exceeded client service processing targets in another year where their service request volumes continued to increase. Another major focus was the development and transition to a new more modernized administration and pension payroll system during the year. We were very pleased to have been able to implement this system before year-end and to successfully begin processing benefit payments directly from Vestcor to our client members as of January 1, 2020.

RECOGNIZING FUTURE CHALLENGES

While 2019 witnessed strong investment returns, financial markets valuation levels had reached elevated levels by year-end. They turned significantly more volatile at the time of writing particularly due to global coronavirus concerns. Anticipating more challenging financial markets ahead, our investment team engaged in investment policy reviews with four of our clients during the year. We expect our long-term focus and low risk approach will continue to assist our clients to meet their future challenges in this difficult investment environment as well as they have in the past.

STRATEGIC DIRECTION

As noted in my letter in last year's Annual Report, in consideration of the significant progress that had been made on the successful integration of Vestcor's two legacy companies since our creation in late 2016, our Board was planning to revisit our inaugural Strategic Plan in mid-2019. This process involved a detailed review of our integration experience and our various client requirements, and it included the participation of our senior management team and input from our shareholders and client Trustees. We were also able to consider the feedback we had recently received from an extensive client satisfaction survey that had been conducted earlier in the year.

Our first order of business was a reconfirmation of Vestcor's mission "To provide innovative, cost effective, and prudent investment and benefit administration services that address the needs of public sector funds". Our team subsequently determined that our long-term strategic intention would be "Prudently growing our business model for the long-term benefit of our clients". This intention was further broken down into the following four key strategic priorities: Operational Excellence, Pursuit of Intentional Aligned Growth, Enhancement of our Position as a Exceptional Trusted Advisor and Partner, and to help Advance as a Public Sector Pension Policy Resource and Solution Provider in Atlantic Canada. These priorities were then distilled down into five key strategic goals that will be used as guideposts to create Annual Business Plans to guide and measure our future progress.

A copy of this updated Strategic Plan can be found on our website at vestcor.org/strategicplan.

ADDITIONAL 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. Items of particular note included working with our shareholder, Vestcor Corp., to reappoint three of our Directors whose term had expired during the year, as well as initiating a process to replace at least one director who plans to leave our Board when their term will expire in 2020.

We were also pleased to have implemented a new independent Risk Manager and associated team during the year to work with our Board's Audit Committee in providing oversight and reporting with respect to our Enterprise Risk Management Framework. The addition of this independent oversight function along with the Internal Audit role we added in 2018 will provide another helpful level of risk oversight to our management team and the Board.

The Board also developed a self-assessment and an externally facilitated peer Director assessment process that will take place in early 2020. This process will include a subsequent governance improvement objective setting exercise where the Board will identify opportunities for improvement areas that will be addressed with the help of our senior management team.

Finally, it remains important to recognize the support and accountability oversight activities of our Vestcor Corp. Shareholder Board (vestcor.org/vestcorcorp) and to recognize and thank our employees for their continued achievements.

In closing, I trust this report provides a thorough accounting of our corporate activities in 2019, however we remain available to address any questions or provide further information by contacting us at comments@vestcor.org at your convenience.

Sincerely,

[signed by]

Michael W. Walton, Chairperson
Vestcor Inc.

March 30, 2020
Fredericton, New Brunswick

REPORT FROM THE PRESIDENT AND CEO

Vestcor was again able to accomplish strong investment management performance and excellent administration service results on behalf of our clients in 2019. More importantly our long-term performance continues to exceed the goals and objectives of our 9 investment, 11 pension plan, and 4 employee benefits plan clients. These clients represented over \$18.5 billion of financial assets, and approximately 99,100 plan members.

We were very pleased to have received strong scores and supportive responses from our inaugural client satisfaction survey which was conducted during the year. These results in combination with the helpful feedback we collected at our inaugural client forum in June help to validate our client aligned not-for-profit business model. This information provided supportive input to our Board and management team in updating our strategic plan at mid-year. Our new strategic direction has now been communicated to each of our clients and will help the Vestcor team continue to exceed our clients' challenges.

Risk management continued to be a significant focus during the year as we successfully implemented our new independent Risk Management team. This team now leads the coordination of our Enterprise Risk Management Framework process and were able to initiate a quarterly portfolio risk stress testing and scenario review process in our quarterly client reporting procedures. Cybersecurity risk continues to be a main emphasis at Vestcor and our Information Technology Team continues to administer best practice software and hardware solutions for our various business units.

INVESTMENT MANAGEMENT

Global financial markets rebounded strongly in 2019 after the particularly weak fourth quarter of 2018. Equity markets were particularly strong performers across the globe, with the U.S. market being the strongest. Fixed income portfolios also gained during the year as yields trended steadily lower during most of the year followed by a slight reversal in the fourth quarter. As would be expected in such a strong year for equity market returns, our Low Volatility strategies somewhat underperformed the conventional equity market and our Absolute Return Strategies had relatively lower returns versus equity markets. It is important to recognize however that these strategies continue to provide solid returns and downside risk protection from weaker market periods.

On a total assets under management basis, the gross return from overall Vestcor investment management activities was 11.76% or \$2.1 billion for the year ended December 31, 2019. This return was similar to many of our national public sector peers as reported by a national pension performance universe and was achieved with our consistently low management expense ratio of approximately 0.12%.

More importantly our long-term investment performance continues to exceed the targets of our many shared risk / target benefit pension plan clients. Our four-year annualized overall pension client return of 7.02% per annum is very close to other Canadian Defined Benefit Pension Plans with the advantage of much lower realized risk and much lower investment management costs. This long-term low risk performance continues to confirm what our strategic advice brings to clients, by focusing on generating more consistent returns that protect client assets in more difficult market environments like we witnessed in 2018.

Similar to past years, our 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.

Our overall total funds' value-added portfolio performance of 0.61% 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 \$107 million of investment earnings through active portfolio management activities versus their benchmarks, or approximately \$86 million in additional net earnings after covering our total investment operating costs of approximately \$21 million.

Total assets under management increased to a new all-time high of \$18.5 billion from \$16.9 billion in the prior year. This increase in assets resulted from \$1,941 million in net investment earnings, net client payouts of \$846 million and \$540 million of additional client capital contributions.

Our investment team also updated our Responsible Investment Guidelines in order to ensure that we are considering best practices with respect to the environmental, social, and governance actions of companies we invest in on behalf of our clients. They were also able to revisit the Investment Policy advice for four of our larger clients in order to assist their Trustees to ensure their policies continue to be well aligned in meeting future investment challenges.

We are pleased to describe further in this report how we continued to deliver 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 OPERATIONS

We were pleased to promote Marilyn McConnell to the role of Chief Pensions and Benefits Officer in early 2019. Marilyn and her team have provided our clients' plan members with service levels that exceeded their various key performance targets, while dealing with a significant increase in processing volumes due to a rise in plan 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.

The team also successfully implemented a new pension and benefits administration system during the year. This system is expected to significantly reduce the operational risks of our older legacy system while also allowing us to take more control of our client pension payrolls through an internalization process. We expect that this system will also allow us to provide more timely and enhanced service offerings once fully implemented.

The Pension Board Support Team made a significant contribution in assisting the Trustees of a number of our client groups to effectively achieve their governance and other operational objectives. This team assisted many of our clients with their own strategic planning updates and governance enhancement activities that took place during the year.

Finally, our Communications Team continued to be very engaged on many corporate and client member communications initiatives. At the Vestcor corporate level we increased the reporting and transparency of our organization primarily through our website vestcor.org, while our client communication support activities continue to grow on behalf of their pension and benefit plan members.

This report also provides more detail on our pension and benefits administration activities. We look forward to continuing to exceed the service delivery requirements of our clients in a very cost-efficient manner.

OUTLOOK

While 2019 resulted in a very strong year for investment management returns, we are concerned with a number of challenges and risks that remain. After the market gains experienced during the year, current valuations indicate that forward-looking returns will be more modest for global markets relative to long term averages.

Of particular concern at the time of writing this letter is the uncertainty investors are facing in trying to determine the impacts of the COVID-19 virus outbreak on global economic growth and their related investment positions. Unfortunately, not a lot is currently known about the exact risk and spread of this virus, which has led to a high degree of uncertainty and disruption.

We advise our clients that a well-diversified 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 expect that it will be even more important in the future to continue to be able to improve client returns via active portfolio management within their investment policy guidelines, while keeping investment management costs low.

Vestcor looks forward to meeting these challenges. Questions and comments are always welcome at comments@vestcor.org or by telephone through our reception team at 506-444-5800.

Sincerely,

[signed by]

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

March 30, 2020
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, 2019.

Our website at vestcor.org also has available the audited financial statements for the various Vestcor Investment Entities for the year ended December 31, 2019. 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, 2019. Administration activities cover over 99,000 plan members and investment assets under management (AUM) at December 31, 2019 were \$18.5 billion.

We 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 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 to the best of our ability 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 a periodic 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 62,600 active and 36,500 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.

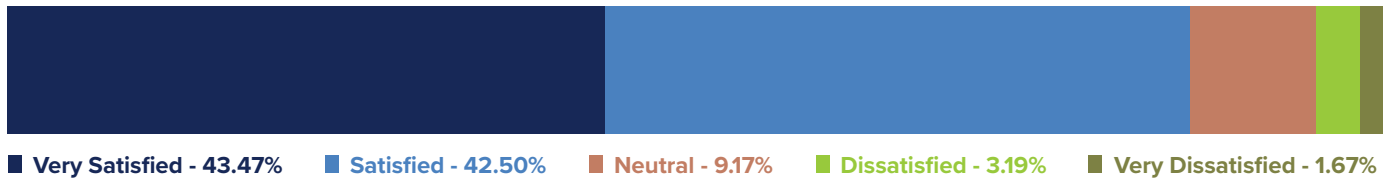
The administration team is divided into four areas: Member Services, Plan Operations and Pension Policy, Communications, and Board and Committee Support Services. Highlights for 2019 from each of these areas are as follows:

MEMBER SERVICES

In 2019, the member services team had over 33,000 contacts with plans members through telephone calls, emails and visits to our office, an increase of 12.12% as compared to 2018, where a 9.52% increase had been experienced. This sharp increase in volume continued to be attributed to the volume of members requesting services including pension estimates and termination applications, in addition to inquiries related to forms and estate settlements.

To ensure that we continued to meet the needs of our clients, Vestcor administered client satisfaction surveys, as initially launched in 2017. The surveys were sent to members who received a specific service from Vestcor during the year relating to pension estimates, purchases of service, terminations or retirements. The overall satisfaction score from the surveys was 95.14%, up from 91.70% in 2018.

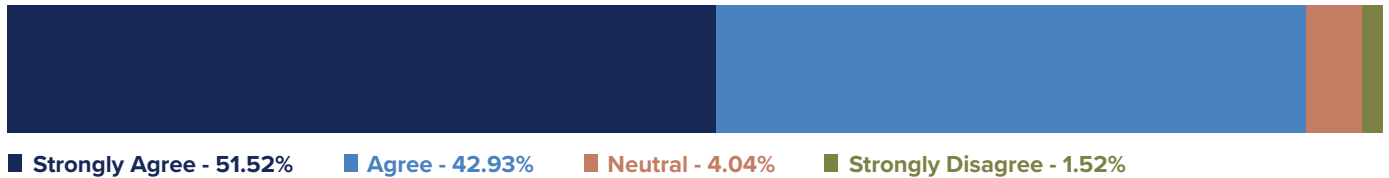
MEMBER SERVICES SATISFACTION SURVEY RESULTS



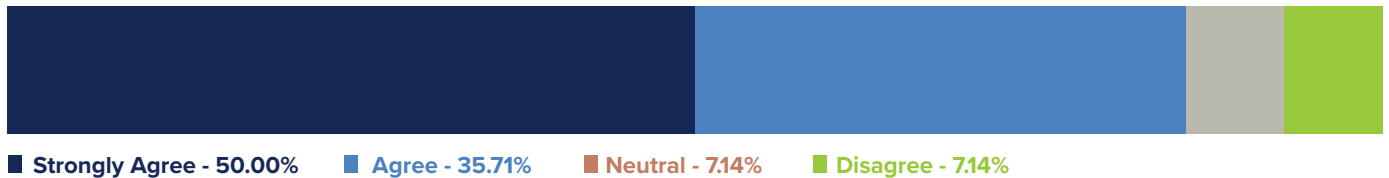
In addition to the services noted, Vestcor provided both member and employer education sessions. In 2019, 1,828 plan members attended these sessions. The member sessions provided them the opportunity to learn more about the provisions of their pension and employee benefit plans, while the employer sessions provided information to better service their employees who are members of the plans. Those who attended either type of sessions were very satisfied with the information they received, as outlined in the following tables.

MEMBER SERVICES EDUCATION SESSION SATISFACTION RESULTS

EMPLOYEES



EMPLOYERS



PLAN OPERATIONS AND PENSION POLICY

During 2019, the team processed over 7,000 pension and employee benefit related applications. A significant increase in purchase of service and termination applications was observed, at 13% and 21% over 2018, respectively.

Vestcor has key performance indicators that it has established with each of its client boards. These processing times continued to improve in 2019 compared to 2018, even with the increase in volumes:

Service	Target ¹	2019 Number Processed	2019 Achieved	2018 Achieved
Purchase of Service Requests	60 days	770	100.0%	100.0%
Pension Estimates	60 days	1,934	100.0%	100.0%
Retirements	60 days	1,855	100.0%	100.0%
Terminations	30 days	1,332	100.0%	99.9%
Marriage Breakdowns	42 days	171	100.0%	100.0%

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 is replacing 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.

As part of the system modernization, Vestcor decided to also launch a new pension payroll system, taking over this service from the Government of New Brunswick. Moving this service in-house provides efficiencies and cost saving opportunities long-term, further improving services provided to retirees.

Several modules of the system were completed and launched in 2019, with the remainder to be launched in early 2020.

MEMBER COMMUNICATIONS

Enhancing corporate and member communication remained a priority for 2019. This was done primarily through the delivery of the corporate and client-specific communication strategies. Client-specific strategies were developed in support of and in conjunction with the Board of Trustees of three pension plans, outlining deliverables to better support the plans with educating and informing their members and employers. In addition, important enhancements were made to the new Vestcor website to further serve plan members, including the addition of a Life Events section highlighting how specific life events may impact one's pension and the resources available for each. Efforts continued to improve member newsletters, while new newsletters were created for two smaller pension plans who had not provided them to members in the past.

From a corporate perspective, media monitoring was implemented to better understand the perception of Vestcor, its clients, and the pension and employee benefit industries in general. In addition, a Vestcor Client Satisfaction Survey was launched to measure satisfaction with the services provided by the organization. Results were very positive and distributing the survey on a regular basis in future is planned, using the 2019 results as a benchmark.

Finally, Vestcor hosted its first Client Forum, providing clients with both an opportunity to learn from the organization's staff and a select group of guest speakers, and network amongst themselves. Following positive feedback from clients on the event and a strong desire for another, plans for a second Client Forum in 2020 are underway.

BOARD SUPPORT SERVICES

Vestcor continues to provide robust operational support to our various client boards and committees. In 2019, the board support services team coordinated educational opportunities and research material to assist these groups in achieving their governance and fiduciary objectives. These activities included providing best practices to client boards related to topics such as Board effectiveness, risk management, support in regard to the drafting of internal policies, and coordinating the delivery of a trustee development program in partnership with a well-known school of business and externally facilitated strategic planning sessions.

ADMINISTRATION DIVISION COSTS

Vestcor administration clients continue to benefit from our cost-effective 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 3.9% versus the prior year.

	Year ended December 31, 2019 (\$ thousands)		Year ended December 31, 2018 (\$ thousands)
Salaries and benefits	\$ 6,388	\$	6,011
Information systems	1,641		1,610
Client directed administration	418		472
Office rent	369		367
Office and business	293		266
Professional services	85		142
Amortization	101		82
	\$ 9,295	\$	8,950

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 for the year ended December 31, 2019 were 6.3% higher than the costs in 2018 reflecting both annual compensation increases and filling several vacant positions. 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 for the year ended December 31, 2019 increased by 1.9% from the prior year. This increase primarily reflects the costs of strengthening our cybersecurity preparedness, partially offset with lower costs incurred in operating our administration system as we pared back non-urgent maintenance work while implementing our previously announced administration system replacement project. This project is now substantially complete. We were pleased to ring in 2020 by successfully processing our first pension payroll on January 1st and look forward to rolling out the new employer portal as we train each participating employer during early 2020. Project costs of approximately \$4.2 million have been capitalized on the Statement of Financial Position as an intangible asset called "deferred systems costs" and will be amortized on a straight-line basis over a ten-year period commencing in 2020.

INVESTMENT HIGHLIGHTS

ASSETS UNDER MANAGEMENT

Assets under management (AUM) at December 31, 2019 were approximately \$18.5 billion consisting of the following client mandates:

Client	December 31, 2019		December 31, 2018	
	(\$ millions)		(\$ millions)	
New Brunswick Public Service Pension Plan (NBPSPP)	\$ 8,333.9	45.0%	\$ 7,618.7	45.1%
New Brunswick Teachers' Pension Plan (NBTPP)	6,266.3	33.8%	5,744.6	34.0%
Provincial Court Judges' Pension Plan (Judges)	54.8	0.3%	49.4	0.3%
New Brunswick Power Corporation (NBPC):				
Point Lepreau Decommissioning Fund	396.2	2.1%	358.2	2.1%
Point Lepreau Used Fuel Management Fund	221.0	1.2%	206.8	1.2%
Nuclear Fuel Waste Trust	182.9	1.0%	166.4	1.0%
Management Employees of New Brunswick School Districts Pension Plan (NBSD)	2.5	0.0%	3.3	0.0%
Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP)	395.4	2.1%	350.2	2.1%
University of New Brunswick Endowment Fund (UNBE)	58.6	0.3%	50.2	0.3%
Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (CBE)	2,395.0	12.9%	2,144.2	12.7%
Shared Risk Plan for City of Fredericton (CoF)	230.1	1.3%	209.4	1.2%
Total AUM	18,536.7	100.0%	16,901.5	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 investment management 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:

- 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
- 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 KPIs are monitored on a quarterly basis.

PRIMARY INVESTMENT PERFORMANCE OBJECTIVES

Objective	Average Client Long-Term Targets	Year ended December 31, 2019 Actual	4 Year Annualized	Annualized Since Inception
Total Funds Real Return (after inflation)	>= 4.00% per annum	9.62%	5.02%	5.25%
Total Funds Nominal Return	>= 6.25% per annum	11.76%	6.92%	7.21%

SECONDARY INVESTMENT PERFORMANCE OBJECTIVE

Objective	Long-Term Targets	Year ended December 31, 2019 Actual	4 Year Annualized	Annualized Since Inception
Net Relative Return (in basis points (bps) after all investment management expenses)	>= 42 bps per annum	48.7 bps	85.9 bps	18.6 bps

CONTINUOUS PERFORMANCE EFFICIENCY OBJECTIVES

Objective	Target	Year ended December 31, 2019 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Regulatory 90% + 2.5%	98.0%	97.2%
Prime Broker #1	Regulatory 90% + 2.5%	94.1%	96.0%
Prime Broker #2	Regulatory 90% + 2.5%	98.3%	97.0%
Prime Broker #3	Regulatory 90% + 2.5%	92.5%	n/a
Budget Efficiency (excluding performance incentives)	100%	91.7%	90.3%
Absenteeism (%)	<= 2%	2.1%	2.0%
Employee Turnover (#)	<= 5%	1.6%	2.8%
IT System Availability	99%	99.9%	99.7%
IT Applications Availability	99%	99.9%	99.8%

RELATIVE PERFORMANCE VERSUS BENCHMARKS

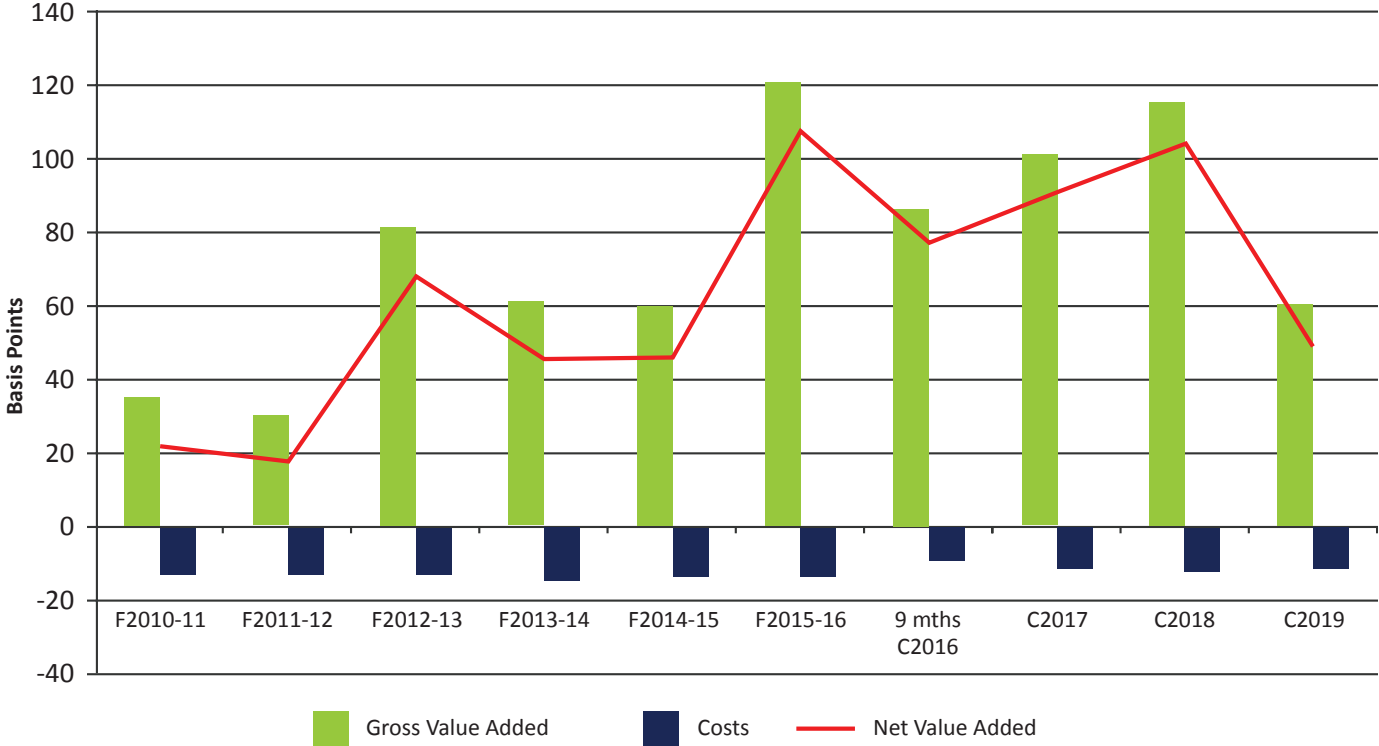
As noted above, our **second investment performance objective** is to add value (i.e. returns in excess of benchmarks) above our clients’ various asset class benchmarks through active management strategies. This value added is expected to first cover all investment management costs and subsequently targets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

Our overall active management activities for the year added 60.6 basis points of gross value and 48.7 basis points of net value, or approximately \$86.2 million, after covering all investment management costs.

Our longer-term four fiscal year average annualized value-added return, net of costs, was approximately 85.9 basis points or approximately \$512.4 million in additional value over the four fiscal years. The four fiscal 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 fiscal reporting periods.

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 assets available to fund client objectives.

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, as 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 incur transaction costs associated with the trading of securities in each portfolio. For portfolios holding publicly traded securities, these may include broker commissions and securities borrowing fees which are dependent upon the volume of trading activity undertaken. These costs are reflected in the net asset value of the investment pools rather than in the corporate financial statements.

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 in the best interests of specific client requirements.

Vestcor’s independently audited corporate financial statements (see pages 50 - 62) reflect the following investment management costs to manage the \$18.5 billion of AUM for the year ended December 31, 2019:

	2019 (\$ thousands)		2018 (\$ thousands)
Internal Operational Expenses	\$ 17,717.6	\$	16,757.1
Third Party Service Providers			
Investment counsel fees	3,351.9		3,043.4
Securities custody fees	24.1		173.1
Total Investment Management Costs	\$ 21,093.6		19,973.7
Total AUM (in \$ millions)	\$ 18,536.7		16,901.6

INTERNAL MANAGEMENT

Using our technology systems for global trading activities, our investment management professionals internally manage the majority of the AUM from our location in Fredericton, New Brunswick. This permits a significant cost savings to the benefit of our clients. At December 31, 2019 Vestcor internally managed approximately \$16.2 billion or 88% of client AUM (2018 - \$14.8 billion and 88% respectively). The costs incurred to manage investment strategies internally, measured against average internally managed AUM for the year ended December 31, 2019, were 0.11% or 11.4 basis points (bps) (2018 – 11.6 bps).

EXTERNAL MANAGEMENT

Approximately \$2.3 billion, or 12% of investments, are externally managed at December 31, 2019 (2018 - \$2.1 billion and 12% respectively). These mandates arise when access to a desired investment opportunity or specific strategy expertise is not available internally. Of this, \$1.7 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 47). The audited financial statements for each of the Vestcor Investment Entities are available under the Publications tab on our website at vestcor.org.

The costs of externally managed publicly traded investments are charged directly to Vestcor Inc. 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 50. Measured on average externally managed AUM, these **external** costs, were 52.1 bps for the year ended December 31, 2019 (2018 – 41.8 bps).

In total, investment management costs reflected in Vestcor Inc.'s audited financial statements for the year ended December 31, 2019 were approximately 11.9 bps of average AUM. This is lower than the investment management costs of 12.0 bps for the year ended December 31, 2018 due primarily to AUM growth and demonstrates the continuing cost efficiencies achieved by Vestcor for our clients.

We benchmark our investment management costs 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 peers and 35 bps lower than other private sector asset managers. This cost differential means that for the year ended December 31, 2019 our clients were able to retain approximately \$61.1 million (2018 - \$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-three 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 the investment performance by pooled fund, please refer to the Vestcor Investment Entities Performance (pages 47 - 49). The audited financial statements for the Vestcor Investment Entities for the year ended December 31, 2019 are available on our website at vestcor.org.

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, 2019

Portfolio	AUM ¹ (\$ millions)	2019 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Short Term Assets	\$ 1,707	2.12	1.65	1.52	1.03
Nominal Bonds	3,143	6.87	6.42	3.15	2.73
Corporate Bonds	3,208	8.03	8.05	3.95	4.03
International High Yield	194	14.52	12.20	n/a	n/a
Long-Term Bonds ²	-	10.46	10.46	n/a	n/a
Real Return Bonds	724	8.31	8.02	3.02	2.84

¹ Includes cross-fund ownership interests

² Special client restricted fund ended August 1, 2019

OVERVIEW

Bond yields spent the first half of 2019 moving steadily lower before reversing course in the final four months of the year. The Canadian Government 10-year yield started the year at 1.97%, reached a low of 1.09% in August, and rebounded to close the year at 1.7%. In the U.S., the 10-year benchmark yield followed a similar pattern, opening 2019 at 2.68%, closing the year at 1.92%, with a drop to as low as 1.46% in the late summer period.

While 2018 saw investors bracing for continued increases in short term rates (contributing to the market volatility observed in the 4th quarter of that year), 2019 would not continue that trend. Reacting to the increasing sources of global economic uncertainty around geopolitical risk, trade negotiations, and global economic policy, the Federal Reserve lowered short term rates three times during the year, reducing the upper bound of the Federal Funds Target Rate from 2.5% at mid-year to 1.75% by year end. The policy easing actions, a significant reversal of the previous year's policy stance effectively halted the move lower in longer term rates and appeared to be well received by investors, beginning a strong rally in growth sensitive assets through year end.

Fixed income portfolios in general were strong performers in 2019. Despite the back up in yields in the 4th quarter, rates were mostly lower at year end when compared to the beginning of the year, contributing to the gains. Credit markets – both investment grade and higher risk, higher yielding securities – performed particularly strongly during the year, with gains arising from both the decline in underlying reference rates as well as a general tightening of credit spreads. Additionally, although corporate bonds trailed their benchmark due to the requirement to maintain more highly liquid positions to facilitate client demand in the strategy, most of Vestcor’s fixed income portfolios outperformed their benchmarks as a group due to strong security selection, market timing, and risk management decisions by the portfolio management team throughout the year.

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, 2019

Portfolio	AUM ¹ (\$ millions)	2019 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Market Capitalization Weighted:					
Canadian Equity	\$ 876	23.03	22.88	10.19	10.28
Canadian Small Cap Equity ²	155	18.59	15.84	n/a	n/a
U.S. Equity	603	24.80	24.79	12.61	12.56
U.S. Small Cap Equity ²	5	19.10	18.68	n/a	n/a
International Equity	693	16.27	15.85	5.86	5.53
Low Volatility:					
Canadian Equity	1,048	24.96	24.10	10.43	10.01
U.S. Equity	1,233	19.87	20.67	10.68	11.80
International Equity	1,143	11.42	10.84	5.83	5.26
Emerging Markets Equity	734	6.10	3.00	6.61	5.87

¹ Includes cross-fund ownership interests

² Start date April 30, 2018

OVERVIEW

Equity markets started and finished 2019 with gains, although with moderate volatility through the middle part of the year. The first quarter saw a gain of nearly 14% as the market recovered from the drawdown in the 4th quarter of 2018, while Q4 2019 was also significantly positive with investors continuing to pursue high performance securities. Significant strength was observed in larger capitalization higher growth companies, which again outperformed traditional (generally smaller) value stocks. While essentially all major markets were positive for the year, the U.S. market was particularly strong, gaining approximately 31% in 2019 (25% adjusted for the increase in the foreign exchange value of the Canadian dollar).

As would be expected during a year of strong equity market returns, Low Volatility strategies mostly lagged market capitalization weighted benchmarks in all major regions with the exception of Canada, where more stable companies outperformed slightly. Vestcor's Low Volatility portfolios in general performed well vs. their benchmarks, outperforming in the Canadian, International and Emerging Market regions. The U.S. under-performed its benchmark due to the underperformance of valuation-based signals in the U.S. market during recent years, as investors continued to pursue higher growth, valuation insensitive names. Given that most of our clients hold exposures in each of these strategies, we are expecting to combine these Low Volatility portfolios into a single low volatility global equity fund offering in 2020 to promote trading efficiencies.

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.

The 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, 2019

Portfolio	AUM ¹ (\$ millions)	2019 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Absolute Return Strategies	\$ 1,448	5.85	1.65	4.64	1.03
Private Equity	796	5.28	19.20	13.43	8.49
Real Estate	1,169	12.50	9.44	11.48	7.37
Infrastructure	1,115	12.40	6.11	9.40	5.68

¹ Includes cross-fund ownership interests

OVERVIEW

Our Absolute Return portfolio is designed to produce stable positive returns in all market environments while generating little to no correlation with traditional investment strategies thus providing attractive returns and enhanced diversification for client portfolios. To achieve this, we manage separate internal portfolios that provide exposure to a variety of securities, markets and strategies managed using both traditional and quantitative approaches. Meaningful allocations to these portfolios combined with a well-developed risk budgeting framework allow the strategy to achieve the goal of positive, low risk returns without taking on the unintended risk exposures that can often be found in traditional multi-strategy absolute return portfolios. While each strategy is managed in a diversified and prudent manner by a particular 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. This results in a strategy that has produced significant positive returns with minimal correlation to traditional markets and approximately half the volatility of traditional hedge funds. In 2019, the Absolute Return Strategy generated returns of 5.85%.

The private equity portfolio is diversified across geography, sector and currency, and investments are made through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. In 2019, the portfolio

produced positive returns but was unable to match the strong performance of its public equity benchmark. Over the longer-term four-year period, private equity returned 13.43%, outperforming the portfolio's benchmark by 4.94% per year.

The Real Estate portfolio has two 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. Canadian opportunities represent the largest component of the private portfolio however we continue to seek high quality opportunities abroad. In 2019, the combined portfolio earned a return of 12.5% vs. a benchmark return of 9.44%.

Vestcor's Infrastructure portfolio has two components: first, private infrastructure in the form of both fund commitments into limited partnerships as well as co-investments (diversified by geography, currency and by asset type) and 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 2019, contributing strongly to the 12.4% total return for the infrastructure strategy for the year.

RISK MANAGEMENT

Vestcor faces a number of risks in fulfilling our various client mandates. A summary of our Enterprise Risk Management Framework, available at vestcor.org/framework, provides guidance and structure for ensuring that the organization can assess 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 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.

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 assisted in this responsibility through the efforts of its Committees to which certain risk oversight has been delegated. The Board maintains specific responsibility for the oversight of fiduciary, business strategy and investment risk however.

Within the Board structure, the Human Resources and Compensation Committee focuses on risks relating to our employees and work environment. These include the leadership of the President and CEO, the ability to attract and retain qualified and motivated staff, leadership development and succession plans, and our Human Resource policies and practices. The Governance Committee focuses on the leadership and effectiveness of the Board and the reputation and public image of Vestcor. The Audit Committee focuses on oversight of financial risks including risks relating to the systems of internal control and financial reporting as well as cybersecurity and fraud risk.

INTERNAL AUDIT FUNCTION

The Audit Committee of the Board uses an independent internal audit function, consisting of internal employees and external independent audit consultants, to assist the Committee in ensuring that the internal controls and information systems used by Vestcor are appropriate and effective. The internal audit function reports directly to the Audit Committee. Internal audit pursues a rotating examination of an audit universe that covers the expanse of Vestcor's corporate policies and processes.

MANAGEMENT ACTIVITIES

In 2019, Vestcor created a new position of Risk Manager. This independent position is responsible for development, communication and administration of Vestcor's Enterprise Risk Management Framework and leads the Enterprise Risk Management Council and reports directly to the Chair of the Audit Committee.

Vestcor uses seven 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 and key risk indicators to the Audit Committee 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 cybersecurity 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.

Valuation Committee

In accordance with its Terms of Reference, the Valuation Committee:

- reviews the valuations for all private investments classified as Level 2 or Level 3 under International Financial Reporting Standards; and
- maintains the valuation procedures manual in accordance with sound business practices and effective internal controls;

CORPORATE GOVERNANCE

Vestcor was established under the *Vestcor Act* in 2016 as a not-for-profit corporation that is indirectly owned by its Members, currently the NBPSPP and NBTTP (“the Founding Members”) through a shareholder corporation, Vestcor Corp.

APPOINTMENT OF BOARD OF DIRECTORS

Vestcor’s Board of Directors is appointed by 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. A professional executive search firm may be engaged to assist the Committee in the solicitation and evaluation of interested applicants against this skills matrix.

The *Vestcor Act*, a Members’ Agreement and the corporate by-laws set out the duties and responsibilities of the Board of Directors. Also, under a Director Independence Policy that seeks to minimize potential conflicts with respect to Board operations, the current Board operates with nine of its ten directors declaring full independence.

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 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	5/5	5/6	3/4	4/4
Michel Allain	5/5	n/a	n/a	4/4
Donna Bovolaneas	5/5	6/6	4/4	n/a
Tanya Chapman	5/5	n/a	n/a	3/4
David Losier	5/5	6/6	4/4	n/a
Eleanor Marshall	5/5	6/6	n/a	n/a
Tim Mawhinney	5/5	n/a	n/a	4/4
Daniel Murray	5/5	6/6	n/a	n/a
Cathy Rignanesi	5/5	6/6	4/4	n/a
Nancy Whipp	5/5	n/a	3/4	4/4

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 2019, these sessions included an overview of the current low yield environment for fixed income markets, a global economic forecast and a two-day strategic planning workshop. Vestcor also has 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, 2019, in addition to the matters referred to it by the Board Committees (see Committee reports following) included:

- Approval of the creation of an ad hoc Director Nomination Committee to address director term expirations in 2020;
- Approval of the Strategic Communications Plan for 2020;
- Approval of the 2020 Annual Corporate Business Plan and weightings for Incentive Plan purposes;
- Approval of a revised Strategic Plan for 2019 – 2024 following an in-depth strategic planning workshop with the Board and senior management in July 2019;
- Approval of a Director Independence Policy for Vestcor requiring independence from management and the corporate entity to ensure appropriate oversight capabilities;
- Approval of the 2019 Incentive Plan compensation payments including the individual award factor based on 2019 business plan accomplishments;
- Approval of a revision to the Investment Authorities including the daily blotter and settlement limits and trading transaction limits;
- Approval of revisions to the Vestcor Investment Entities Profiles dated August 23, 2019;
- Approval of the revised organizational structure;
- Approved the process for the engagement of an independent consultant to undertake a Compensation Review for Vestcor employees and directors;
- Approval of the creation of Vestcor Real Estate Fund Limited Partnership, a closed-ended pooled fund for direct investment in domestic real estate;
- Recommendation to the shareholder of the reappointment of KPMG as independent auditor for the Vestcor Group for a three-year term 2019-2021, which was approved;
- Recommendation to the shareholder of the 2020 operating and capital expenditure budgets for Vestcor Inc., which were approved;
- Approval of the 2020 objectives for the President & CEO; and
- Approval of the 2020 Board reporting calendar.

BOARD COMMITTEE REPORTS

The following highlights of the Board Committee Reports for the year ended December 31, 2019.

REPORT OF THE AUDIT COMMITTEE

Under its Terms of Reference, the Audit Committee is responsible for assisting the Board in its oversight of the integrity of Vestcor's financial reporting and disclosure processes. This oversight includes:

- monitoring 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 and the transparency of financial disclosures;
- appointment of qualified and independent external auditors including an annual assessment of the quality of the external audit and a periodic review of the Committee's policies respecting audit partner rotation and pre-approval of the external auditor's audit and non-audit fees and their impact on the auditor's independence;
- performance of the internal audit function including completeness of the audit universe, approval of the annual audit plan and a regular assessment of the effectiveness of the internal audit function;
- adequacy and effectiveness of Vestcor's internal controls and management information systems used to produce accurate, appropriate and timely management and financial information;
- robustness of management's enterprise risk management program and strategies to identify and mitigate financial risks; and
- compliance with legal and regulatory matters.

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.

At the beginning of each year the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its own effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2019:

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, 2019 for the:
 - o NBPSPP Composite;
 - o NBTPP Composite;
 - o Provincial Court Judges' Composite;
 - o NBSD Composite;
 - o CBE Hospitals Composite;
 - o City of Fredericton Composite;
 - o Low Volatility Global Equity Composite; andrecommended their approval by the Board;
- Reviewed the Schedule of Composite Performance in accordance with GIPS for the year ended March 31, 2019 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, 2019 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, 2019 and recommended their approval by the Board;
- Reviewed the audited financial statements for Vestcor for the year ended December 31, 2019 and recommended their approval by the Board;
- Reviewed the draft Vestcor Annual Report material for the year ended December 31, 2019 and recommended its approval by Board subject to the review and approval by each of the Governance and Human Resources and Compensation Committees of material relating to those committees;
- Reviewed the draft press release announcing the publication of the Vestcor Annual Report for the year ended December 31, 2019 and recommended approval by the Board;
- 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, errors if any, material weaknesses in internal controls over financial reporting if any, fraud or illegal acts if any and subsequent events;
- Received the audited financial statements for the year ended December 31, 2018 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; and
- Approved the Valuation Policies for investment securities.

Internal Control and Information Systems

- Monitored the status of management's remediation efforts to address internal control findings from previous external audits;
- Received a quarterly status report concerning the progress of the Pension and Benefits Administration System implementation and requested that status be reported monthly to the full Board due to the importance of this system;
- Reviewed the 2019 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

- Requested that the new position of Risk Manager attend all Audit Committee meetings to present her quarterly Risk Report including the enterprise risk management matrix with key risk indicators;
- Completed the annual review of the Enterprise Risk Management Framework and recommended for approval by the Board;
- Reviewed findings from management's 2019 fraud risk assessment; and
- Reviewed an annual listing of Vestcor's major suppliers;

Risk Management (continued)

- Reviewed and approved management's recommendations regarding the annual renewal of the Corporate Insurance Program for recommendation to the shareholder; and
- Reviewed management's cyber security self-assessment using the assessment form recommended by the Office of the Superintendent of Financial Institutions and supported management's plan to use this assessment as a tool in developing its annual IT Strategic Plan.

Internal Audit

- Received a quarterly Internal Audit Report outlining the work conducted by the Internal Audit function including recommendations and management's responses;
- Approved the 2020 Internal Audit Plan including projects, budget, updated audit universe and a five-year professional development plan for the Manager, Internal Audit;
- Reviewed a 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, 2019, and the Vestcor Investment Entities' financial statements for the year ended December 31, 2019;
- 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 approved an independent audit relating to the implementation of the new Pension and Benefits Administration System to ensure accuracy and completeness of the data conversion activities;
- Reviewed the External Auditor's Audit Findings Report for the year ended December 31, 2019 and obtained confirmation of the External Auditor's independence;
- Met *in camera* quarterly with the External Auditor;
- Held a special in person meeting with the External Auditor's Engagement Quality Control Review Partner to discuss trends in the asset management and investment industry, audit processes for pension funds and target benefit plan developments across Canada;
- Received management's feedback concerning the effectiveness and quality of the External Audit;
- Completed an External Auditor Assessment resulting in: (i) a recommendation to the shareholder for the reappointment of the External Auditor for a period of three years; and (ii) a memorandum outlining Committee expectations and recommendations for improvements in the audit process provided to the External Auditor; and
- Reviewed and reconfirmed the Hiring Policy respecting Employees and Partners of the External Auditor as originally approved to ensure appropriate independence of the External Audit is maintained.

Committee Objectives

- Recommended revisions to the Committee's Terms of Reference to incorporate the Fraud Risk Management Policy and the annual compliance report from the Chief Compliance Officer under securities regulation for approval by the Board;
- Received the results of an evaluation conducted by each director after each Audit Committee meeting to assist in identification of improvements to meeting content and efficiency; and
- Reviewed the Audit Committee's accomplishments for the year ending December 31, 2019 and discussed objectives for enhancing its effectiveness in 2020.

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

Under its Terms of Reference, the Governance Committee is responsible for assisting the Board of Directors in fulfilling its obligations by providing a focus on governance and public policy to enhance Vestcor's performance and ensure that its governance and communications policies and practices meet evolving best practices. To accomplish this, the Committee annually reviews the terms of reference for the Board and each Board committee, all Board policies and the Nomination Guidelines for new directors, oversees the Corporate Communications Policy, Director Orientation and Education programs and the Code of Ethics and Business Conduct. On a triennial basis, the Committee reviews the corporate by-laws, Board Operations Policy and Corporate Information and Confidentiality Policy. A Board and director self-assessment process is facilitated by the Governance Committee.

At the beginning of each year the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its own effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ending December 31, 2019:

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;
- Reviewed a proposed change to the Director Orientation and Education Policy to include a director feedback process regarding their ongoing director education and recommended its approval by the Board;
- Reviewed the Travel Policy for employees and directors and recommended to the Board for approval a revision in the mileage reimbursement to conform to the annual rate as established by the Canada Revenue Agency;
- Reviewed a draft Director Independence Policy, including the Governance Committee's role in annually assessing each director's level of independence, and recommended its approval by the Board;
- Reviewed draft revisions to the Guidelines for the Nomination of New Directors to incorporate director competencies in enterprise risk management, pension plan management and customer service as well as consultation with the shareholder, Vestcor Corp., and recommended approval by the Board; and
- Reviewed the draft Corporate Governance disclosure for the 2019 Annual Report and recommended its approval by the Board.

Ethics

- Reviewed and recommended to the Board for approval revisions to the definition of "Included Securities" in the Code of Ethics and Business Conduct;
- Reviewed the annual compliance by staff and directors with 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
- Reviewed and recommended for approval by the Board additional revisions to the Code of Ethics and Business Conduct to simplify the process for reporting personal trading compliance by employees and to align the process with that used by peer organizations.

Director Nominations

- Received an update from an Ad Hoc Director Nominating Committee that advised that each of the directors whose terms were expiring in 2019 were interested in renewing their terms and approved a recommendation for renewal to the shareholder;
- Reviewed the Directors' Terms and Skills Competency Matrix in anticipation of terms expiring in 2020; and
- Appointed an Ad Hoc Director Nominating Committee for purposes of considering the 2020 term expirations.

Directors' Compensation

- Recommended that directors' compensation be subjected to an independent review by an external Compensation Consultant when the employees' compensation review planned by the Human Resources and Compensation Committee is conducted in 2020;
- Approved a Report of Directors' Compensation and Expenses for the year ended December 31, 2019; and
- Approved a Report of the President & CEO's travel expense claims for the year ended December 31, 2019.

Director Orientation and Education

- Renewed a corporate membership in the Institute of Corporate Directors to provide valuable training and resource material for both management and directors.

Board Effectiveness

- 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;
- Received a quarterly update on activities undertaken to address the Board Governance Improvement Objectives identified as part of the 2018 Board evaluation process;
- Reviewed the process to be used for the 2020 Board Assessment and recommended that the process also include individual peer assessments;
- Reviewed and approved a proposal for a facilitator to conduct the Board and peer assessment process; and
- Reviewed the Board's accomplishments for the year ended December 31, 2019 and discussed objectives for enhancing Board effectiveness in 2020.

Communications and Public Policy

- Reviewed and recommended to the Board for approval a revised Strategic Communications Plan; and
- Received a quarterly Media Monitoring Report from the Communications team.

Risk Management

- Received an overview of Vestcor's Crisis Response Plan and components;
- Reviewed a request for amendment to Vestcor's current Exemptive Order to securities regulation regarding interfund trading; and
- Provided oversight to Vestcor's securities regulation compliance process.

Committee Objectives

- Received the results of an evaluation conducted by each director after each Governance Committee meeting to assist in identification of improvements to meeting content and efficiency; and
- Reviewed the Governance Committee's accomplishments for the year ending December 31, 2019 and discussed objectives for enhancing its effectiveness in 2020.

Other

- Received a quarterly update on potential new client mandates; and
- Received an overview of the items discussed at each shareholder Board meeting held in 2019.

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

Under its Terms of Reference, the Human Resources and Compensation Committee (HRCC) is responsible for assisting the Board of Directors to fulfill its obligations relating to the compensation of employees and directors, leadership succession, and human resources policies and practices. In doing so, the HRCC conducts an annual performance appraisal for the President and CEO, oversees changes to the Compensation Philosophy, compensation, employee benefits and incentive plans, organizational structure, leadership development and succession, monitors management's compliance with employment-related regulatory and legislative matters and oversees risk management systems related to Vestcor's human resources.

At the beginning of each year the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2019:

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, 2019.

Compensation and Employee Benefits

- Reviewed proposed additions to the Incentive Plan to reflect the newly created positions of Chief Operating Officer and Risk Manager and recommended its approval to the Board;
- Received results of an industry survey conducted by an external compensation consultant;
- Recognizing that the last independent corporate-wide Compensation Review was conducted in 2015 and pursuant to Vestcor's Compensation Philosophy that an independent review be undertaken as needed or at least every four years, recommended to the Board that a Compensation Review be undertaken for all positions;
- Received the results of an independent Internal Audit review of the value-added target calculations;
- Reviewed the individual business plan success weightings of the Business Plan for the year ended December 31, 2019 and recommended their approval by the Board;
- Reviewed corporate results for the year ended December 31, 2019 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, 2019.

Severance

- N/A – No severances in 2019.

Code of Business Conduct and Ethics

- N/A – No concerns referred by the Governance Committee occurred in 2019.

Organizational Structure

- Recommended for approval by the Board the creation of three new full-time positions and restructuring of resources into an independent risk management function;
- Considered a strategic adjustment to restructure certain roles and recommended approval of this organizational restructuring to the Board;
- Received a proposed organizational structure in conjunction with the development of the 2020 budget. The proposed structure included six new positions relating to programming and data management, investment research, and accounting to ensure human resource capacity and resiliency to achieve the growth objectives in the 2019 – 2024 Corporate Strategic Plan; 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 management's leadership development plans for identified succession candidates; and
- Received regular updates on management's recruiting efforts.

Human Resources Planning and Policies

- Reviewed the 2020 Human Resources Strategic Plan, including short, medium and long-term objectives to build Vestcor's infrastructure to support prudent client growth while reducing enterprise risk exposure and ensuring organizational sustainability, and recommended its approval by the Board.

Compliance Monitoring

- Received quarterly certification from management as to regulatory compliance with various legislative requirements.

Risk Management

- Following the results of the 2018 Biennial Workplace Environment Survey and the subsequent recommendations made by the internal employee Workplace Environment Focus Group to enhance employee satisfaction, monitored action plans taken by management to address those recommendations;
- Monitored quarterly key performance indicators related to human resource matters including position vacancies, absenteeism, retention and training; and
- 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

- Reviewed the Committee's Terms of Reference to enhance clarity and ensure responsibilities remain appropriate and recommended approval by the Board; and
- Established the Committee's objectives for the year ended December 31, 2019 in the form of a Committee dashboard and reviewed subsequent achievements throughout the year.

Other

- Reviewed the draft Compensation Discussion and Analysis section of the Vestcor 2019 Annual Report and recommended its approval by the Board.

This report has been approved by the members of the Human Resources & Compensation Committee.

D. Losier (Chair), N. Whipp, 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 Board 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 vestcor.org/governance, under "Board Committees" and "The 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 from time to time. 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.

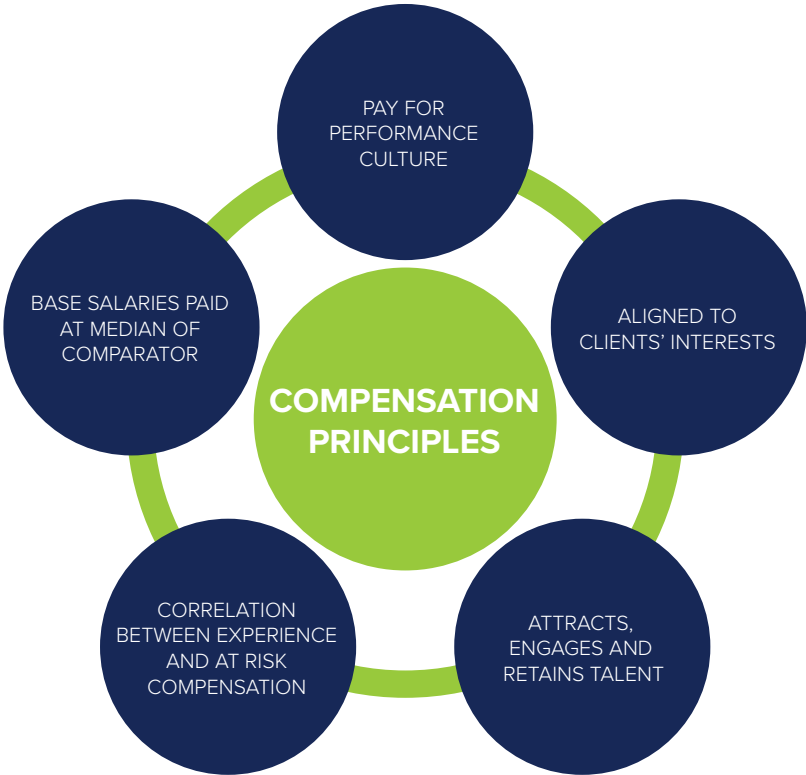
CORPORATE COMPENSATION PHILOSOPHY

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 utilized to conduct a Total Compensation Review at a minimum of every four years. 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 investment related 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 considered 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

All full-time permanent employees are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months.

Each position includes an individual achievement award and eligible investment positions include a component based on quantitative investment performance. 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.

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 pre-selected short-term and longer-term investment performance metrics:

- The total fund **active nominal return** for investment mandates where we have full management discretion for the year ended December 31, 2019 was 11.76% and represents approximately \$2.1 billion in gross earnings from the overall investment program. The annualized active return for the past four fiscal periods ending December 31, 2019 was 7.36%, which represents approximately \$4.6 billion of cumulative investment earnings.
- **Relative returns** were higher than the combined weighted average client Investment Policy benchmarks for the year ended December 31, 2019, adding 48.7 basis points of value after deducting all investment management costs. A basis point is equal to 1/100ths of a percent. These excess net investment returns resulted in approximately \$86.2 million of additional actively managed net investment earnings provided to our clients in 2019 and have resulted in over \$512.4 million of net additional returns over the longer four fiscal periods to December 31, 2019.

The following table shows compensation for both divisions, excluding Directors' remuneration (see page 43), for the year ended December 31, 2019.

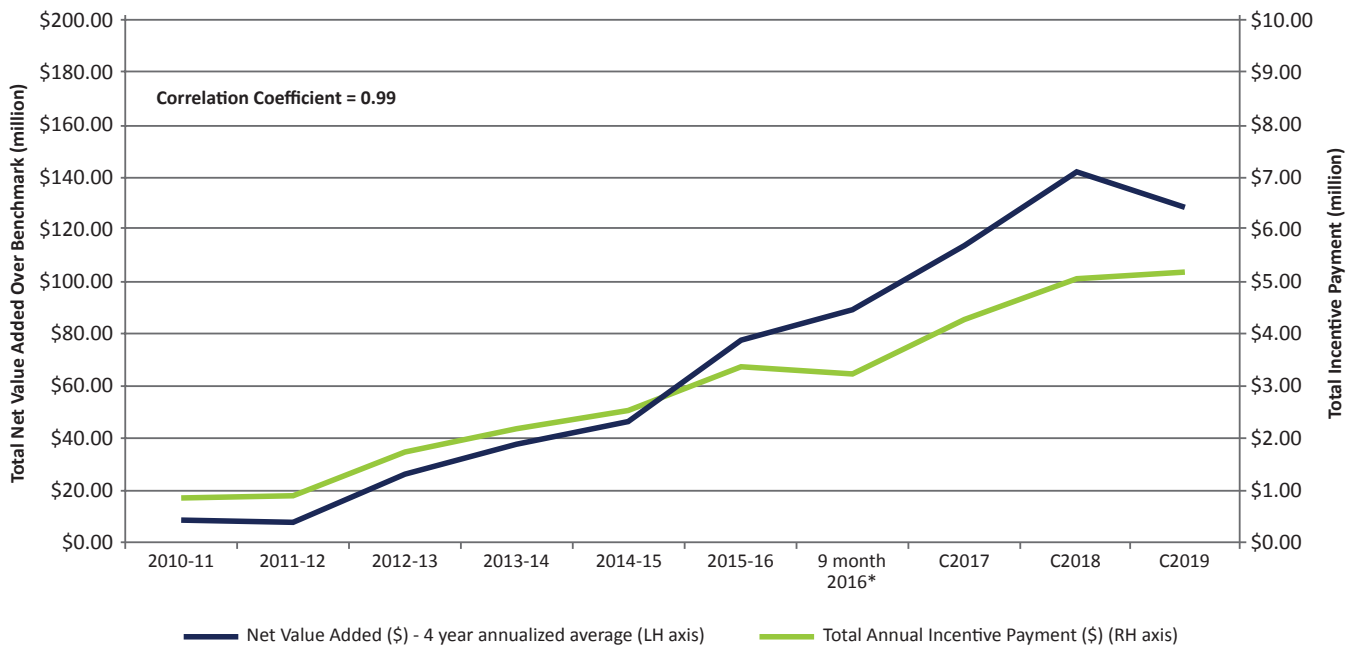
		2019 (\$ thousands)		2018 (\$ thousands)
Salaries and benefits, excluding performance incentives	\$	12,818.1	\$	12,577.2
Performance incentives:				
AIP – net investment relative performance	\$	946.7	\$	865.2
AIP – individual performance		1,840.8		1,726.5
Total AIP		2,787.5		2,591.7
LTIP		2,513.4		2,420.1
Total performance incentives	\$	5,300.9	\$	5,011.8

For the year ended December 31, 2019, and after consideration of the continuing competitive talent retention environment, the Board approved a modest cost of living increase and merit pool. The Board also approved six new full-time positions in September 2019 to continue to build our operational capacity in line with our continued growth. The increase in performance incentives reflects the six additional positions added in the year, the changes to base salaries and, for eligible investment staff, the active management value added after costs.

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, which is subject to maximum caps, and long-term 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	2019	375,047	432,721	450,000	136,584	2,225	1,396,578
	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
Jonathan Spinney Chief Investment Officer, VP, Quantitative Investing & Applied Research	2019	255,008	230,518	280,500	29,471	2,132	797,630
	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
James Scott VP, Fixed Income	2019	240,008	147,263	216,000	27,866	2,087	633,224
	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
Mark Holleran VP, Equities	2019	223,035	142,723	200,700	26,050	2,034	594,543
	2018	221,105	126,560	198,000	26,492	1,928	574,085
	2017	214,000	158,937	192,600	25,820	1,915	593,272
Jan Imeson CFO	2019	228,510	122,509	137,088	26,636	718	515,460
	2018	224,000	131,680	134,400	26,920	702	517,702
	2017	220,000	132,000	132,000	26,462	713	511,175

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 New Brunswick Public Service Pension Plan 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 \$2,787.5 (thousand) consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was \$946.7 (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, 2019. The 2019 net value added result was 48.7 basis points (bps), and the long-term annualized net value added result was 85.9 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 (%)
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
Year ended December 31, 2019	48.7	115.9
Annualized Long-Term (Four Fiscal Periods)	85.9	204.6

The **AIP related to business plan achievements** is \$1,840.8 (thousand) for the year ended December 31, 2019. This component is based on an achievement factor of 1.57 times overall target approved by the Board of Directors, equal to the achievement factor of 1.57 for the year ended December 31, 2018.

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 as set out in the following table. 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 2019 and accounts for the largest weighting proportion. The overall total fund active return for all clients combined was 11.76% gross for the year ended December 31, 2019, an annualized 7.36% gross for the most recent four fiscal periods ended December 31, 2019, and most importantly 7.28% gross per annum since Vestcor's inception in 1996.

Key Goals	2019 Weighting	Achievement
To advance Vestcor's governance, management and organizational effectiveness.	10%	Exceeded Target
To meet our clients' pension and benefit administration needs through efficient practices and prudent advancements.	20%	Significantly Exceeded Target
To meet our clients' specific long-term objectives through prudent advice and well-executed risk managed investment strategies.	25%	Significantly Exceeded Target
To maintain, develop and attract a highly skilled and experienced team of professionals.	20%	Met Target
To strengthen and expand client and other stakeholder communications and relationships.	10%	Significantly Exceeded Target
To support effective and efficient information technology, data management and client reporting solutions.	15%	Exceeded Target

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 business plan accomplishments for the year ended December 31, 2019:

KEY GOALS BUSINESS PLAN ACCOMPLISHMENTS (Year ended December 31, 2019)

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

- Assisted Board with development of new Corporate Strategic Plan 2019 – 2024 that focuses on operational excellence, intentional growth, and reputation as a trusted advisor and public sector pension policy resource. Plan is now available on the Vestcor website and was presented to client groups at their Fall 2019 meetings.
- Assisted with Ad Hoc Nomination Committee efforts regarding four October 2019 director term expirations, with ultimate recommendation to Vestcor's shareholder, Vestcor Corp., who approved the reappointments.
- Executed new office space lease, finalized design and floor plan layouts, developed required budget for leasehold improvements and office move for 2020 and presented a financing proposal that was approved by the shareholder.
- Developed and conducted a client satisfaction survey. Strong feedback and reviews received were presented to clients at inaugural client forum held in June 2019.
- Launched an independent Risk Office to assume responsibility for Vestcor's Enterprise Risk Management Framework and promote new reporting of client risk metrics, including portfolio stress testing, in quarterly Investment Report.
- Implemented more efficient Code of Ethics and Business Conduct processes for personal trading requests in line with peer manager research.
- Completed a Request for Proposal process for securities custody services to ensure efficient service offerings with competitive costs.
- Exceeded all related Board-approved key performance indicator targets.

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

- Implemented enhanced content for the Vestcor website to expand plan member resources and offer employer training capabilities.
- Co-sponsored with Humber College a New Brunswick-based offering of the Pension Plan Administration Certificate (PPAC) level 3 program and commenced a PPAC level 1 program for qualified Vestcor employees and other regional service provider stakeholders.
- Continued to refine the collection of website analytics to provide client trustees with meaningful feedback on the effectiveness of their communication strategies for plan members.
- Refined plan member service quality satisfaction survey.
- Executed clients' ongoing Member Communication Plans.
- On behalf of client Boards of Trustees, created, distributed and summarized responses to surveys of their plan members concerning the Boards' pension plan governance.
- Presented one employer education session.
- Presented 33 employee pre-retirement planning sessions covering over 950 plan members, and 4 employee benefits sessions covering over 800 members.
- Exceeded all client service processing standards.
- Exceeded all related Board-approved key performance indicator targets.

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 legal due diligence and drafting of limited partnership agreement for private real estate core fund investment structure.
- Completed asset – liability modelling studies for four client portfolios culminating in the presentation and approval of recommended changes to three client Investment Policy Statements during the year.
- Completed a review of investment strategy offerings resulting in a cost-effective portfolio simplification initiative.
- Accepted a successful new client relationship for a short-term investment mandate which was executed during the year.
- Communicated our updated Responsible Investment Guidelines at our inaugural client forum in June 2019.
- In due diligence discussions with two potential new clients.
- Renegotiated our service contracts with a significant data provider to realize a more favourable rate structure. Exceeded all related Board-approved key performance indicator targets.

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

- Implemented effective organizational changes to address requirements from continuing client growth and senior management succession plans.
- Completed all action plans identified from the recommendations arising from the biennial Workplace Environment (employee satisfaction) Survey conducted in 2018.
- Renegotiated employee group benefits program with minimal incremental cost impact.
- Rationalized corporate credit card program to reduce costs and improve internal controls.
- Facilitated long-term plan for funding partnership with University of New Brunswick's Centre for Financial Studies Program.
- In conjunction with Vestcor's on-campus recruiting efforts, continued a program of permanent co-op positions sourced from New Brunswick-based post-secondary institutions.
- Achieved related Board-approved key performance indicators.

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

- Organized our inaugural client forum with positive feedback responses from participants.
- Assisted two client Boards of Trustees with developing an Enterprise Risk Management Program for their pension plans.
- Exceeded plan member service satisfaction targets as reported from member surveys.
- Exceeded all related Board-approved key performance indicator targets.

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

- Completed implementation of new pension and benefit plan administration system including plan member data conversion, pension module, benefits module and pension payroll system within budget. Employer portal remaining to be completed in 2020.
- Completed annual update to Five Year IT Strategic Plan.
- Commenced research into available alternative portfolio management systems.
- Sourced alternative locations for a new secondary datacentre, completed due diligence and executed contract.
- Implemented permanent alternative operations centre under business continuity plan.
- Exceeded all systems and application availability performance targets.

LONG-TERM INCENTIVE PLAN (LTIP) OVERVIEW

The LTIP component is \$2,513.4 (thousand) for the year ended December 31, 2019. 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 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 (%)
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
Year ended December 31, 2019	48.7	120.2
Annualized Long-Term	85.9	233.1

DIRECTORS' REMUNERATION

Directors' remuneration is established in Vestcor's By-Laws as approved by the Board of Vestcor Corp. 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, as well as an automobile expense reimbursement based on the number of kilometers traveled.

Director	Annual Retainer (\$ dollars)	Board and Committee Meeting Per Diems (\$ dollars)	Total ¹ Remuneration (\$ dollars)	Travel Reimbursement (\$ dollars)
Michael Walton	25,000	11,000	38,335	2,088
Michel Allain	10,000	6,300	17,224	2,129
Donna Bovolaneas	15,000	11,150	26,556	2,516
David Losier	15,000	11,950	28,552	4,872
Tanya Chapman	10,000	3,850	15,177	773
Eleanor Marshall	10,000	5,600	16,488	1,486
Tim Mawhinney	10,000	5,950	16,856	1,576
Daniel Murray	10,000	5,250	16,120	212
Cathy Rignanesi	15,000	8,000	24,401	1,517
Nancy Whipp	15,000	9,150	24,807	3,628

¹ includes costs of employer-paid statutory deductions

The total cost of the Vestcor Board function, including per diems, director orientation and Board education, for the year ended December 31, 2019 was \$224.5 thousand (December 31, 2018 – \$242.0 (thousand)) plus travel and accommodation reimbursements of \$27.0 thousand (December 31, 2018 – \$19.4 thousand).

COMPENSATION PROGRAM

EXHIBIT A

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 returns in excess of benchmark, net of investment management expenses. Investment team(s) active returns in excess of benchmarks. Individual performance versus Board approved pre-determined Annual Business Plan Objectives.	Total fund returns in excess of benchmark, net of investment management expenses. Investment team(s) active returns in excess of benchmarks.	Total fund returns 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 NBSPSP	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 are increasingly a focus of investors, governments, regulators, and various third-party interest groups. Vestcor presented its recently updated Responsible Investment Guidelines at our inaugural Client Forum in June 2019, to ensure clients are fully aware of our efforts to incorporate environmental, social and governance metrics into our investment decisions.

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 various 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 (piacweb.org) and the Canadian Coalition for Good Governance (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 practise guidelines in this area which benefits both investors and society in general. Additional details can be found in our Responsible Investment Guidelines under the Investments tab on our website at 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 the relationships in which management has actively donated their time in this type of capacity during 2019:

- 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 Investment Performance Council
- 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 employees 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 employees once again exceeded their target contribution level for the annual corporate United Way campaign. Staff also continued to organize various successful fundraising activities for local charities. 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, 2019 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	6.88	4.29	3.72	3.14	3.26	4.38	5.30
Benchmark	6.42	3.95	3.36	2.73	2.95	4.09	5.11
NBIMC Corporate Bond Fund	8.03	4.47	3.96	3.95	3.72		4.26
Benchmark	8.05	4.52	4.14	4.03	3.77		4.16
NBP Canadian Long-Term Bond Fund							6.60
Benchmark							6.88
NBIMC International High Yield Fixed Income Fund	14.52						7.95
Benchmark	12.20						5.95
NBIMC New Brunswick and Atlantic Canada Fixed Income Opportunity Fund	4.36	3.47	3.46	3.14	3.52	4.73	6.12
Benchmark	6.42	3.95	3.36	2.73	2.95	4.09	5.11
NBIMC Money Market Fund	2.12	1.95	1.67	1.52	1.41	1.35	2.65
Benchmark	1.65	1.51	1.20	1.03	0.95	0.92	2.30
NBIMC Student Investment Fund	14.13	5.31	5.73	6.87	4.95	5.63	6.86
Benchmark	13.79	5.08	5.36	6.72	4.93	5.58	6.68
NBIMC Canadian Equity Index Fund	23.16	5.99	7.10	10.61	6.58	7.27	6.88
Benchmark	22.88	5.81	6.89	10.28	6.28	6.90	6.48
NBIMC Canadian Small Cap Equity Fund	18.59						(0.82)
Benchmark	15.84						(1.31)
NBIMC Low Volatility Canadian Equity Fund	24.96	7.57	8.40	10.43	7.41		10.37
Benchmark ³	24.10	7.52	7.60	10.01	7.15		8.75
NBIMC External Canadian Equity Fund	22.74	5.93	7.01	9.64	6.74	7.68	10.06
Benchmark	22.88	5.81	6.89	10.28	6.28	6.90	9.12
NBIMC Canadian Equity Active Long Strategy Fund							3.71
Benchmark							4.23
NBIMC External International Equity Fund	16.46	3.62	9.13	6.03	9.35	9.49	6.31
Benchmark	15.85	4.34	8.34	5.53	8.08	7.77	4.97
NBIMC EAFE Equity Index Fund	16.12	4.60	8.67	5.78	8.54		8.54
Benchmark	15.85	4.34	8.34	5.53	8.30		8.30
NBIMC EAFE Equity Index Fund – Class N	16.14	4.63	8.63	5.81	8.37	8.00	5.30
Benchmark	15.85	4.34	8.34	5.53	8.08	7.77	4.97
NBIMC Low Volatility International Equity Fund	11.43	5.80	8.56	5.84	9.94		9.94
Benchmark ³	10.84	6.74	8.99	5.26	9.70		9.70

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
NBIMC Low Volatility International Equity Fund – Class N	11.30	5.70	8.50	5.75	9.84		12.21
Benchmark ³	10.84	6.74	8.99	5.26	9.70		12.14
NBIMC Low Volatility Emerging Markets Equity Fund – Class N	6.10	2.50	7.38	6.61			4.35
Benchmark	3.00	2.86	7.80	5.87			3.87
NBIMC U.S. Equity Index (2017) Fund	24.80	14.07					11.72
Benchmark	24.84	14.07					11.70
NBIMC U.S. Equity Index Fund – Class N	24.81	14.09	13.96	12.60	14.24	16.01	12.36
Benchmark	24.09	13.39	13.36	12.16	13.86	15.84	12.28
NBIMC U.S. Small Cap Equity Fund	19.10						7.59
Benchmark	18.68						6.62
NBIMC Low Volatility U.S. Equity (2017) Fund	19.86	13.59					9.61
Benchmark	20.67	15.18					11.25
NBIMC Low Volatility U.S. Equity Fund – Class N	19.93	13.64	11.25	10.70	13.70		17.59
Benchmark ³	20.67	15.18	13.60	11.80	14.35		18.53
NBIMC Inflation Linked Securities Fund	8.31	4.14	3.06	3.02	3.03	4.47	6.77
Benchmark	8.02	3.91	2.84	2.84	2.83	4.34	6.59
NBIMC Canadian Real Estate Fund	11.29	13.19	13.85	12.96	12.42	12.08	12.10
Benchmark	6.11	5.99	5.81	5.68	5.67	5.51	5.72
NBIMC Canadian Real Estate Investment Trust Fund	23.21	14.65	13.09	14.26	10.25		10.15
Benchmark	22.79	14.26	12.77	13.97	9.97		9.89
NBIMC Non-Canadian Private Real Estate Fund	6.66	9.94	13.50	9.88			7.40
Benchmark	6.11	5.99	5.81	5.68			5.62
Vestcor Investments Private Real Estate, L.P.	11.13	6.83					6.11
Benchmark	6.11	5.99					5.83
Vestcor Investments Private Real Estate 2, L.P.	(0.20)						4.73
Benchmark	6.11						5.79
Vestcor Real Estate Fund Limited Partnership							(0.86) ²
Benchmark							0.50
NBIMC International Real Estate (2017) Fund	23.06	13.03					8.02
Benchmark	22.16	13.04					7.99
NBIMC International Real Estate Fund – Class N	22.86	12.94	8.56	7.71	10.60	14.77	10.52
Benchmark	20.76	11.70	7.83	7.22	10.14	14.65	10.23
NBIMC Public Infrastructure (2017) Fund	12.89	6.69					3.87
Benchmark	6.11	5.99					5.68
NBIMC Public Infrastructure Fund – Class N	12.35	6.27	5.37	5.81			4.31
Benchmark	6.11	5.99	5.81	5.68			5.66
NBIMC Infrastructure Fund	15.96	13.08	13.62	12.37	11.56		9.58
Benchmark	6.11	5.99	5.81	5.68	5.67		5.69

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
Vestcor Investments Infrastructure, L. P.	6.32	12.79					12.72
Benchmark	6.11	5.99					5.67
NBIMC North American Market Neutral (2017) Fund							2.61
Benchmark							1.13
NBIMC North American Market Neutral Fund – Class N							2.26
Benchmark							1.68
NBIMC Quantitative Strategies (2017) Fund	4.72	2.74					4.15
Benchmark	1.65	1.51					1.31
NBIMC Quantitative Strategies Fund – Class N	4.48	2.11	3.44	3.94	4.13	4.41	3.99
Benchmark	1.65	1.51	1.20	1.03	0.95	0.92	1.01
NBIMC Quantitative Strategic Beta (2017) Fund	6.96	5.91					5.92
Benchmark	1.65	1.51					1.31
NBIMC Quantitative Strategic Beta Fund – Class N	7.35	6.13	5.69				5.89
Benchmark	1.65	1.51	1.20				1.09
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	9.63	4.82	11.80	10.32	9.02	20.17	9.95
Benchmark	6.11	5.99	5.81	5.68	5.67	5.63	6.82
NBIMC Private Equity Fund	6.28	16.55	17.13	14.37	17.27	15.79	11.36
Benchmark	20.21	8.22	10.33	8.69	10.26	10.97	8.10
Vestcor Investments Private Equity, L. P.	1.00	15.27					(4.47)
Benchmark	18.70	6.63					7.45

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
DECEMBER 31, 2019

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, 2019. 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.

[signed by]

John A. Sinclair
President and Chief Executive Officer

[signed by]

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, 2019
- 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, 2019, 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



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.

Chartered Professional Accountants

Fredericton, Canada

March 30, 2020

VESTCOR INC.**Statement of Financial Position**

As at December 31

(in thousands of Canadian dollars)

	2019		2018
ASSETS			
Current			
Cash	\$ 1,983	\$	74
Accounts receivable <i>(note 10)</i>	9,231		8,743
Other receivables	65		72
Prepaid expenses	628		373
Total current assets	11,907		9,262
Long-term accounts recoverable for supplemental pension	344		331
Capital assets <i>(note 3)</i>	512		529
Intangible assets <i>(note 4)</i>	4,172		2,015
	\$ 16,935	\$	12,137
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities <i>(note 5)</i>	\$ 11,879	\$	9,234
Current portion of supplemental pension <i>(note 6)</i>	26		26
Total current liabilities	11,905		9,260
Supplemental pension <i>(note 6)</i>	344		331
Deferred contributions related to capital and intangible assets <i>(note 7)</i>	4,684		2,544
Total liabilities	16,933		12,135
Unrestricted net assets	2		2
	\$ 16,935	\$	12,137

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

Approved on behalf of the Board:

[signed by]
Michael W. Walton
Chairman of the Board

[signed by]
Donna Bovolaneas
Chair of the Audit Committee

VESTCOR INC.**Statement of Operations and Change in Net Assets**

For the year ended December 31

(in thousands of Canadian dollars)

	2019	2018
REVENUE		
Investment management fees <i>(note 10)</i>	\$ 20,918	\$ 19,776
Pension administration fees <i>(note 10)</i>	7,644	7,453
Benefits administration fees	1,534	1,402
Amortization of deferred contributions related to capital assets	271	277
Other	21	14
Total revenue	30,388	28,922
EXPENSES		
Salaries and benefits	18,568	17,589
Information systems	4,507	4,040
External investment management	3,352	3,043
Securities custody	1,386	1,490
Office and business	1,276	1,218
Professional services	467	591
Office rent	561	674
Amortization of capital assets	271	277
Total expenses	30,388	28,922
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

(in thousands of Canadian dollars)

	2019	2018
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ —	\$ —
Non-cash items:		
Amortization of capital assets	271	277
Amortization of deferred contributions related to capital assets	(271)	(277)
Supplemental pension	39	8
Changes in non-cash operating working capital:		
Increase in accounts receivable	(501)	(2,065)
Decrease (increase) in other receivables	7	(56)
Increase in prepaid expenses	(255)	(14)
Increase in accounts payable and accrued liabilities	2,645	1,561
Net cash provided by (used) in operating activities	1,935	(566)
INVESTING ACTIVITIES		
Purchases of capital and intangible assets	(2,413)	(2,158)
Deferred contributions related to capital and intangible assets	2,413	2,158
Net cash provided by investing activities	—	—
FINANCING ACTIVITY		
Payment of supplemental pension	(26)	(26)
Net cash used in financing activity	(26)	(26)
INCREASE (DECREASE) IN CASH DURING YEAR	1,909	(592)
Cash, beginning of year	74	666
CASH, END OF YEAR	\$ 1,983	\$ 74

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, 2019 with audited comparative figures for the year ended December 31, 2018. 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) 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.

(c) 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 its 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)

(d) 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.

(e) 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.

(f) 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.

(g) 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*).

3. Capital Assets

	Computer equipment	Furniture and equipment	Leasehold improvements	2019 Total
Cost				
Opening balance	\$ 2,035	\$ 530	\$ 501	\$ 3,066
Purchases	206	8	40	254
Disposals	(28)	—	—	(28)
Closing balance	2,213	538	541	3,292
Accumulated amortization				
Opening balance	1,711	403	423	2,537
Amortization expense	231	14	26	271
Disposals	(28)	—	—	(28)
Closing balance	1,914	417	449	2,780
Net book value	\$ 299	\$ 121	\$ 92	\$ 512

	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

4. Intangible assets

Development costs incurred during the year in connection with the implementation of a new pension and benefits administration system were \$2,157 (2018 - \$2,015). Amortization will commence in January 2020.

5. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2019 of \$287 (2018 – \$113) which include amounts payable for GST/HST.

VESTCOR INC.**Notes to Financial Statements**

Year ended December 31, 2019

*(in thousands of Canadian dollars)***6. Supplemental Pension**

Vestcor has an estimated liability of \$371 (2018 - \$357) 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, 2019. 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:

	2019	2018
Balance, beginning of period	\$ 2,544	\$ 663
Additional contributions received, net	2,411	2,158
Less amounts amortized to revenue	(271)	(277)
Balance, end of period	\$ 4,684	\$ 2,544

8. Employee Future Benefits

Vestcor is a participating employer in the NBPSPP. For the year ended December 31, 2019, Vestcor expensed contributions of \$1,165 (2018 – \$1,158) 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, 2019, Vestcor expensed contributions of \$151 (2018 – \$143) 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.

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.

Vestcor has entered into a new operating lease for an initial term of twenty years commencing on September 1, 2020 subject to successful completion of construction and tenant leasehold improvements. The future minimum lease payments for this lease are \$805 for the first ten years and thereafter adjusted annually by the Consumer Price Index All-Canada Index.

VESTCOR INC.**Notes to Financial Statements**

Year ended December 31, 2019

*(in thousands of Canadian dollars)***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, 2019, Vestcor billed \$12,110 and \$8,351 to the NBPSPP and NBTPP respectively (2018 – \$11,692 and \$8,160 respectively) for these services, which are included in investment management and pension administration fees in the Statement of Operations. At December 31, 2019, NBPSPP and NBTPP owed Vestcor \$3,887 and \$2,680 (2018 - \$3,571 and \$2,760) 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.