

VESTCOR GROUP

ANNUAL REPORT 2016

SOCIÉTÉ DE GESTION DES PLACEMENTS
VESTCOR
INVESTMENT MANAGEMENT CORPORATION

SOCIÉTÉ DES SERVICES DE RETRAITE
VESTCOR
PENSION SERVICES CORPORATION

BOARDS OF DIRECTORS

VESTCOR CORP. (HOLDING COMPANY)

Marcel Larocque,
Presiding Co-Chair

Robert Fitzpatrick,
Director

Leonard Lee-White
Director

Michael Springer
Director

Marilyn Quinn
Co-Chair

Mark Gaudet
Director

Susie Proulx-Daigle
Director

Reno Thériault
Director

VESTCOR GROUP (OPERATING COMPANIES)

Vestcor Investment Management Corporation/Vestcor Pension Services Corporation

Michael W. Walton^{1, 2, 3}
Chairperson of the Board

Michel Allain, FSA, FICA³
Director

David Losier^{1, 2}
Director

Tim Mawhinney, MBA, FCIA, FSA, CERA³
Director

Cathy Rignanesi, CPA, CA²
Director
Chairperson – Audit Committee

¹ Member of Audit Committee

² Member of Governance Committee

³ Member of Human Resources & Compensation Committee

Wiktor Askanas, Ph.D.
Vice-Chairperson of the Board
Chairperson – Human Resources & Compensation Committee

Donna Bovolaneas, FCPA, FCA^{1, 3}
Director
Chairperson – Governance Committee

Eleanor Marshall¹
Director

Daniel Murray¹
Director

Nancy Whipp, CPA, CA^{2, 3}
Director

CORPORATE OFFICERS

John A. Sinclair
President & Chief Executive Officer

Jan Imeson, CPA, CA
Chief Financial Officer

Inge Després
Corporate Secretary (Vestcor Group)

Jonathan Spinney, CFA
Chief Investment Officer

Troy Mann, FCPA, FCGA
Chief Pensions & Benefits Operations Officer

Misha Nowicki
Corporate Secretary (Vestcor Corp.)

CONTACT INFORMATION

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WHO WE ARE

The Vestcor Group of two private not-for-profit companies, Vestcor Investment Management Corporation and Vestcor Pension Services Corporation, combine to deliver a cost efficient, integrated investment management, pension and benefit service delivery platform to a number of public sector entities.

Located in Fredericton, New Brunswick, we are the largest investment manager in Atlantic Canada providing global investment management services to 8 different client groups representing approximately \$15.7 billion in assets under management, and providing administration services to 11 pension plans and 5 employee benefit plans.

2016 HIGHLIGHTS

- The Vestcor Group was created through Province of New Brunswick legislation in July 2016 (the *Vestcor Act*).
- As of October 1, 2016, the N.B. Investment Management Corporation was continued as Vestcor Investment Management Corporation, while the operations of the Pension and Employees Benefits Division of the Province of New Brunswick's Department of Human Resources were transferred to Vestcor Pension Services Corporation. Each company is equally owned by Vestcor Corp., a holding company jointly owned by the N.B. Public Service Pension Plan and the N.B. Teachers' Pension Plan.
- Vestcor Investment Management Corporation:
 - Continued to exceed overall client long-term investment risk and return targets.
 - Long-term investment risk and return performance continued to remain strong versus other pension fund and diversified investment manager alternatives.
 - Nominal returns for assets under discretionary management exceeded overall client benchmarks over the nine month reporting period, net of all investment management costs, by 0.77 percentage points. This represented approximately \$111.2 million of additional return over client investment policy benchmarks.
 - Our overall management expense ratio on an annualized basis declined for the third consecutive year to 0.12% of total funds under management.
 - We added one new significant Shared Risk Pension Plan client during the year, bringing total assets under management to \$15.7 billion at year end.
- Vestcor Pension Services Corporation:
 - Achieved 98% of Key Performance Targets.
 - Calculation processing response times reduced by approximately 50%.
 - Provided enhanced Plan and Member communication resources.
 - Launched an inaugural client satisfaction survey.

CONTENTS

| | |
|--|----|
| Who We Are | 3 |
| 2016 Highlights | 3 |
| Message from the Vestcor Corp. Co-Chairs | 5 |
| Message from the Chairperson | 6 |
| Report from the President & CEO | 8 |
| The Vestcor Story | 10 |
| Management's Discussion & Analysis | 11 |
| VPSC and VIMC Acquisitions | 11 |
| Clients and Services | 11 |
| Vestcor Consolidated Operating Costs | 12 |
| Administration Highlights | 13 |
| Key Performance Indicator | 14 |
| Investment Highlights | 15 |
| Assets Under Management | 15 |
| Total Fund Performance Objectives | 15 |
| Relative Performance Versus Benchmarks | 17 |
| Investment Management Costs | 17 |
| Annual Performance by Asset Class | 19 |
| Fixed Income Portfolios | 19 |
| Public Equity Portfolios | 20 |
| Alternative Investment Portfolios | 21 |
| Risk Management | 23 |
| Compensation Discussion and Analysis | 25 |
| Compensation Governance | 25 |
| Compensation Program (Exhibit A) | 26 |
| Corporate Compensation Philosophy | 27 |
| Compensation Risk Management | 28 |
| Compensation Program | 29 |
| Impact of Performance Results | 30 |
| Summary Compensation Table | 33 |
| Annual Incentive Plan (AIP) Overview | 33 |
| Long-Term Incentive Plan (LTIP) Overview | 36 |
| Corporate Governance | 37 |
| Vestcor Corp. | 37 |
| Vestcor Group of Operating Companies | 37 |
| Directors' Remuneration | 42 |
| Board Committee Reports | 43 |
| Report of the Audit Committee | 43 |
| Report of the Governance Committee | 45 |
| Report of the Human Resources & Compensation Committee | 46 |
| Responsible Investing Guidelines | 48 |
| Industry Relationships | 48 |
| Employee Activity in Our Community | 49 |
| Local Charitable Causes | 49 |
| Pooled Fund Performance | 50 |
| Vestcor Corp. Consolidated Financial Statements | 52 |
| Management Responsibility for Financial Statements | 52 |

MESSAGE FROM THE VESTCOR CORP. CO-CHAIRS

On behalf of the Vestcor Corp. members, the New Brunswick Public Service Pension Plan (NBPSPP) and the New Brunswick Teachers' Pension Plan (NBTPP), we are very pleased to present the 2016 Annual Report for the Vestcor Group. This report will provide a summary of the months of effort to realize a vision of an integrated pension services organization capable of fulfilling the core requirements of all pension entities.

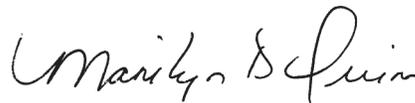
This vision was created by a Working Group on Pension Plan Governance that was formed out of the Memoranda of Understanding that formed the basis for the conversion of the *Public Service Superannuation Act* and the *Teachers' Pension Plan Act* to target benefit plans in 2014. The Working Group, together with members of management of each of the New Brunswick Investment Management Corporation (NBIMC) and the Pensions and Employee Benefits Division (PEBD) of the Office of Human Resources for the Province, set out to design a solution to the challenge that these two entities continued to be associated administratively with government. As the target benefit plans were converted to a model of shared responsibility, we visualized a future where the services used by our plans would be able to execute efficiently with best practices, good governance, and prudent risk management. In addition, we saw that this model could be equally helpful to any pension plan because it would be completely aligned with the best interests of such plans.

With the creation of the Vestcor Group, and the transfer of the operations of NBIMC into Vestcor Investment Management Corporation (VIMC) and PEBD into Vestcor Pension Services Corporation (VPSC), we have achieved the first step in delivering on this vision. With the oversight of an independent, highly qualified operating companies' Board of Directors, the management teams of both entities are now firmly focused on what they will need to do to deliver best-of-class services to their clients.

We would like to thank management, the operating companies' Board of Directors and the Boards of Trustees for the NBPSPP and NBTPP for their dedication, effort and enthusiasm in tackling the foundation of our vision to date. We look forward to reporting on progress on the vision in next year's report.



Marcel Larocque
Presiding Co-Chair



Marilyn Quinn
Co-Chair

MESSAGE FROM THE CHAIRPERSON

On behalf of the Board of Directors and management of the operating subsidiaries Vestcor Investment Management Corporation (VIMC) and Vestcor Pension Services Corporation (VPSC), I am pleased to introduce our inaugural 2016 Annual Report.

This year brought about a significant amount of organizational change. As of October 1, 2016 the N.B. Investment Management Corporation (NBIMC) was continued as VIMC and the employees of the Pension and Employees Benefits Division of the Province of New Brunswick's Department of Human Resources became employees of VPSC.

Our Vestcor organization, as outlined in the following report, provides an efficient integrated pension and benefit service delivery platform that will continue to provide very cost effective client focused investment management and administration services to a number of public sector pension and benefit plans and other pools of investment capital.

In this Annual Report, we are pleased to report on the successful Vestcor integration story and the progress made to date with respect to how VIMC and VPSC have continued to meet the objectives of their various client groups. The following report provides an annual update, similar to past NBIMC Annual Reports, on VIMC's achievement against their specific corporate performance objectives and also provides a report on how VPSC has delivered on the service goals they have set out with their various client groups.

VESTCOR GOVERNANCE

Vestcor Corp. is governed by a Board of Directors that is appointed equally by its' members, the NB Public Service Pension Plan (NBPSPP) and the NB Teachers' Pension Plan (NBTPP). VIMC and VPSC are governed by a shared and independent Board of Directors appointed by Vestcor Corp. These Directors were selected and nominated through an ad hoc Director Nomination Committee process which utilized the help of an independent recruitment consultant to fill a specific skills matrix.

More specific details on these Boards are contained in the Corporate Governance section of this report.

RECENT ACTIVITIES

I am pleased to report that our VIMC and VPSC Board of Directors and management teams have recently completed a strategic planning session that will result in the publication of a new Vestcor Strategic Plan in mid-2017 which will help guide our future business planning efforts.

A primary focus of those discussions was with respect to the further integration of our respective companies as contemplated under the *Vestcor Act*. In order to best facilitate this integration and prepare our organizations for a more formal future amalgamation, the Board has appointed John Sinclair as the President & Chief Executive Officer of Vestcor.

John has successfully led the growth and development of the VIMC team over the past fourteen years and has played an integral role in the integrated pension services corporation initiative which ultimately led to the creation of the Vestcor Group last October. With his well over 30 years of industry experience the Board looks forward to John leading our corporate teams in continuing to successfully meet the long-term goals of our clients.

APPRECIATION OF DEDICATED SERVICE

On behalf of the Board I wish to thank and congratulate the respective staff and management teams of both VPSC and VIMC for a successful Vestcor integration to date and for their continued diligence and hard work in continuing to meet the goals of our clients. Their accomplishments have continued to lead to a number of other Public Sector Funds approaching us to explore potential strategic partnerships and we look forward to continuing to expand our business in the best interest of all of our clients.

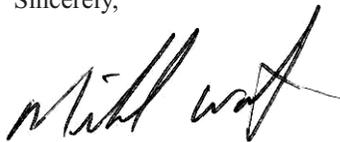
The Board would also like to recognize and thank Troy Mann for his efforts with respect to the integrated pension corporation transition and in his recent role as Acting President and Chief Executive Officer of VPSC. We look forward to his continued contribution as a member of the senior leadership team of our organization.

I would also like to recognize the significant efforts and wise counsel of the transitional board created to steer the Integrated Pension Services Corporation initiative that resulted in Vestcor becoming a reality. This board, chaired by Ernie MacKinnon (NBPSPP), included Robert Fitzpatrick (NBTPP), David Nowlan (NBTPP) and Leigh Sprague (NBPSPP), who worked diligently to bring this initiative to fruition.

Finally, I wish to thank and bid farewell to our former NBIMC directors and welcome our new VIMC / VPSC directors.

I trust this Annual Report provides a thorough accounting of our activities during 2016, however I encourage our numerous stakeholders to feel free to contact us through comments@vestcorinvestments.com with any questions or for any further information at their convenience.

Sincerely,



Michael W. Walton, Chairperson
Vestcor Investment Management Corporation
Vestcor Pension Services Corporation

May 29, 2017
Fredericton, New Brunswick

REPORT FROM THE PRESIDENT & CEO

I am pleased to report that Vestcor's investment management program has continued to exceed the long-term goals of our clients, while our pension and benefits administration activities continued to improve upon a number of their client based service delivery metrics during the year.

As discussed throughout this report, 2016 was a year of significant organizational change. The development and enactment of the *Vestcor Act* was another major next step in the Province of New Brunswick's earlier pension reform activities. One of the changes resulting from this reorganization was the change to a December 31st year end, which better matches the reporting period of our largest clients.

These organizational change activities took place during a period of continued financial market and geopolitical uncertainty that peaked with the significant upheaval brought about by the Brexit referendum in the United Kingdom and results of the U.S. presidential elections near year end.

That being said, our two new privately-held independent service delivery organizations (VIMC and VPSC) are well positioned to continue to deliver on our clients' specific requirements.

INVESTMENT MANAGEMENT

We are pleased to report further in this report that we continued to exceed **both our primary investment objective of exceeding the long-term investment returns** required by our clients, **and our secondary investment objective of producing value added returns** that exceed their investment policy benchmarks after covering all of our investment management expenses. This success along with the positive reviews received from a VIMC survey, conducted and communicated with our client Trustees during the year, indicate that we continue to provide good value to our clients.

At the beginning of the fiscal year we were pleased to appoint Jonathan Spinney, CFA, as our Acting Chief Investment Officer (CIO). Jon has more recently been named our permanent CIO and will play an important role in helping to lead our ongoing investment strategy innovations, prudent risk management focus and client growth activities.

The total blended gross return of the pension funds under our discretionary management was 5.96% for the nine month period between our prior reporting period of March 31, 2016 to December 31, 2016. On a full 2016 calendar year basis this return was 6.53%, while our long-term annualized since inception return was 7.23%.

Our overall total funds' value added portfolio performance once again exceeded both the blended client investment policy benchmarks and our investment management costs by 0.77% during this nine month period. This performance provided our clients with additional returns of approximately \$125 million of investment earnings through discretionary portfolio management activities versus their benchmarks, or approximately \$111.2 million in additional net earnings after covering \$13.5 million of VIMC's total operating costs.

These investment management results continued to provide an excellent example of how our strategy of successful discretionary management performance in combination with low expenses can add significant additional gains on behalf of our clients in a challenging lower return investment environment.

Net investment assets under management increased to a new all-time high of \$15.7 billion from \$13.3 billion in the prior year. This increase in assets resulted from \$736.7 million in net investment earnings, net client payouts of \$181.3 million and \$1,926.8 million of new client assets.

PENSION AND BENEFITS OPERATIONS

VPSC made significant progress during the year against three specific strategic priorities; meeting the needs of our clients, embracing information technology advancements, and improving organizational effectiveness.

Significant achievements have been made over the past few years with respect to the impacts experienced from the Province of New Brunswick's pension reform activity. Meaningful improvements in benefit calculation processing times and member communication support requirements have been especially recognized by the client groups impacted by these reforms.

Improving the quality and timeliness of services to plan members continues to be a primary VPSC focus and we look forward to working on these priorities under the direction of our new Strategic Plan and input that will be received from a recently commenced client satisfaction survey.

I am also very pleased to note that Troy Mann was recently appointed Chief Pension & Benefits Operations Officer. Troy will continue to play an important role in leading our continued member service improvement efforts.

OUTLOOK

As mentioned in our earlier Chairperson's message, the VIMC and VPSC Board of Directors and management teams recently completed a strategic planning session in early March of 2017. We look forward to communicating a new Vestcor Strategic Plan to our clients and stakeholders in mid-2017, and in using it as a template for our more detailed future business planning efforts.

From a shorter-term investment perspective, we remain cautiously biased toward taking on investment risk in the form of equities and credit securities. Policymakers appear to remain cautious in their approach and most measures of investor sentiment appear to show strong expectations, thus contributing to the significant market resiliency we have observed in recent years. Risks to the short-term view include potential uncertainty about the true ability of the new U.S. administration to achieve its pro-growth tax and regulatory reform objectives, in addition to continuing geopolitical risks such as (but not limited to) the U.K. seeking a "hard Brexit" option, potentially providing for years of economic uncertainty in Europe going forward.

Despite the short-term bias, our longer term outlook is for more modest investment returns. While financial asset valuations do not necessarily provide an asset allocation guideline in the short run, evidence shows that long-run returns are significantly impacted by the starting valuations in most financial markets. For example, U.S. equity market valuations now sit at a level well above average and likely indicate a higher probability of low long-term returns going forward. Investor demand for yield also remains strong. While U.S. bond yields have increased (thus improving expectations for some investors going forward), Canadian and many other G7 sovereign nation yields remain extremely low across the entire maturity spectrum, leaving investors facing low returns and unbalanced risk profiles.

This environment fits well with our prudent well diversified investment programs that provide a good level of value added returns versus client benchmarks, combined with our very cost effective investment and benefit administration operational platforms.

On a more personal note I appreciate the confidence that our Board of Directors has placed in me with respect to my recent appointment as President & CEO of the Vestcor Group. I look forward to working with our team to continue to help our clients and stakeholders meet their integrated long-term financial services goals and objectives.

Sincerely,



John A. Sinclair
President & Chief Executive Officer
Vestcor Group

May 29, 2017
Fredericton, New Brunswick

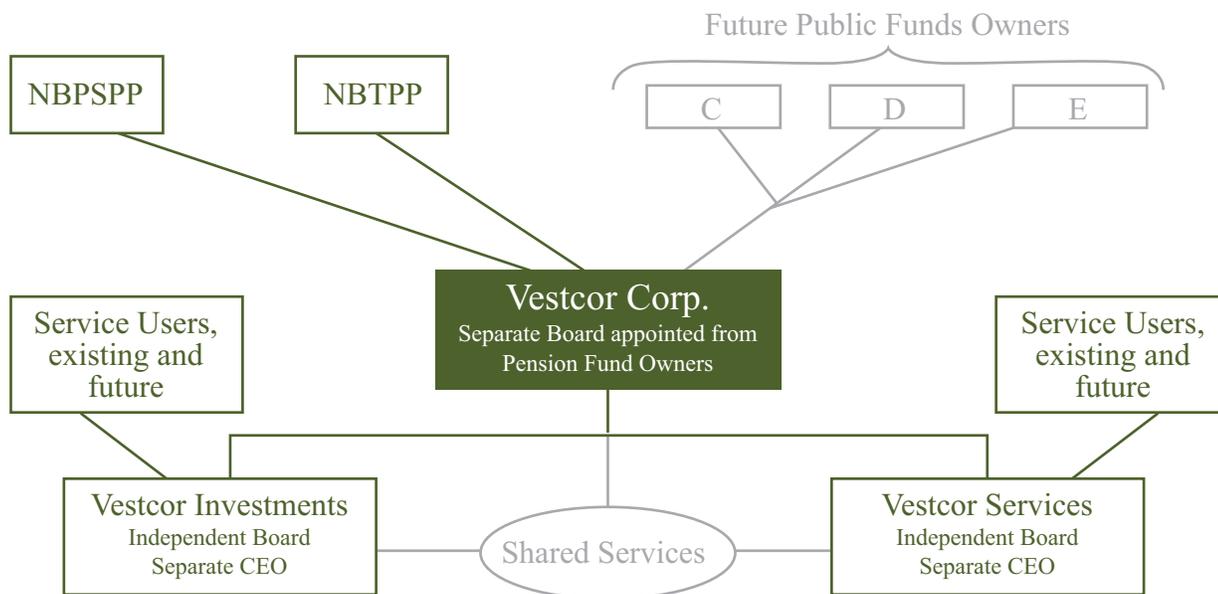
THE VESTCOR STORY

As reported in last year's Annual Report, one of the most significant events to occur in 2016 was the introduction of legislation, the *Vestcor Act*, to create an integrated pension services organization.

The independent Boards of Trustees for the NBPSPP and NBTPP, through a Governance Working Group process, set out to address the incongruity of having responsibility for their respective newly converted pension plans while using the services of provincial government-owned service providers. As a Crown corporation, NBIMC had developed a successful long-term track record as an investment manager for public sector pensions and other pools of capital. As a department of government, the Pension and Employees Benefits Division of the Province of New Brunswick's Department of Human Resources was a trusted administrator of pension and benefits plans. Both organizations operated on a cost recovery basis and both organizations had a knowledgeable, dedicated and experienced workforce focused on providing service excellence for their clients.

By designing an integrated pension services organization, the Boards of Trustees created an organization that would continue to deliver low cost, pension service excellence for public sector funds that would be independent of government. The independence objective facilitates the attraction of new public sector clients by both entities, thereby enabling further economies of scale for all clients. The low cost objective was met by entrenching the cost recovery, not-for-profit operating model as a requirement in the *Vestcor Act*.

The resulting structure includes a holding company, initially owned by the NBPSPP and the NBTPP, and VPSC and VIMC as wholly-owned operating companies. Vestcor Corp. fulfills the typical shareholder oversight role for the operating companies: appointment of the operating companies' boards of directors, receipt of their annual reports, and appointment of the independent auditors for the group of companies. To align with the financial reporting year ends of the pension plans, the Vestcor Group of companies has a calendar year end.



This new structure was effective on October 1, 2016.

The Board of Directors for the operating companies immediately set out to realize on the integrated pension services organization vision. Early decisions included the identification of areas for pursuit of shared services: Human Resources, Finance, Information Technology, Communications and certain administrative functions. Work on a new integrated Corporate Strategic Plan is well underway and the recent announcement of John Sinclair as the Chief Executive Officer for the Vestcor Group has helped to clarify the leadership structure for the new organization.

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 funds under management. 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 is the initial reporting on the consolidated results for Vestcor Corp. and covers the operations of that company and its two subsidiaries, Vestcor Pension Services Corporation (VPSC) and Vestcor Investment Management Corporation (VIMC), known collectively as Vestcor. With Vestcor Corp. being formed pursuant to the *Vestcor Act* (the Act) on July 8, 2016, the consolidated financial statements are for the period July 8, 2016 to December 31, 2016 and include the operations of VPSC and VIMC since October 1, 2016, the date these businesses were transferred from government to Vestcor. Accordingly, the audited consolidated financial statements of Vestcor Corp. contain the results of operations of VPSC and VIMC for the three months ended December 31, 2016.

New Brunswick Investment Management Corporation (NBIMC) previously reported on a March 31st fiscal year basis. Separately audited financial statements for VIMC (formerly NBIMC) for the period from April 1, 2016 to its new calendar year end of December 31, 2016 are available on its website at www.vestcor.org. Also available are the audited financial statements for the NBIMC Pooled Funds, for which VIMC serves as trustee. The year end for each of the Pooled Funds was also changed from March 31st to December 31st to align with the year end of the Vestcor organization.

VPSC AND VIMC ACQUISITIONS

Under the Act, NBIMC was continued as VIMC on October 1, 2016, and ownership of the company was transferred from the Province of New Brunswick to Vestcor Corp. Also on October 1, 2016, VPSC became a subsidiary of Vestcor Corp. and the net assets and operations of the Pension and Employees Benefits Division of the Province of New Brunswick's Department of Human Resources were transferred to VPSC under a General Conveyance Agreement between the Province and VPSC.

Both of these acquisitions were completed for nil consideration following a thorough review by the Province's Strategic Program Review consultation process of the not-for-profit status of each company, and their cost recovery operating model.

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 provided services to 17 clients at December 31, 2016. Administration activities cover over 88,000 plan members and investment assets under management (AUM) at December 31, 2016 were \$15.7 billion.

Clients are free to choose some or all services provided by Vestcor. Most recently, VIMC was pleased to be chosen as Investment Manager for approximately \$1.9 billion of pension funds of the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals, a pre-existing client of VPSC. Responsibility for the investment management of these assets was assumed on September 1, 2016, and transition of approximately one half of these assets to VIMC's active management had been completed by December 31, 2016.

We continue to look forward to being the public sector’s provider of choice for pension and benefit 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

VESTCOR CONSOLIDATED OPERATING COSTS

The consolidated financial statements for Vestcor Corp. for the period since its inception on July 8, 2016 to December 31, 2016 presented in this Annual Report include certain costs incurred by Vestcor Corp. as a shareholder of the Vestcor Group as well as the operating costs of the separate legal entities, VPSC and VIMC.

Vestcor Corp. incurred costs associated with the functioning of its Board of Directors (see page 42) as well as costs in the amount of \$141 (thousand) primarily in conjunction with legal set-up fees and director search consulting services. It should be noted that the costs of creating Vestcor and transitioning PEBD and NBIMC into Vestcor have been funded entirely by the Members of Vestcor, the NBPSPP and the NBTPP, and not by the clients of the operating companies.

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 that the expenses for each of these service areas are allocated only to the respective clients of those service areas. The following tables outline the operating expenses for these services from the date of acquisition on October 1, 2016 to December 31, 2016:

(a) Investment management expenses

| <i>(in thousands)</i> | Three months ended December 31, 2016 |
|----------------------------------|---|
| Salaries and benefits | \$ 3,581 |
| External investment manager fees | 718 |
| Information systems | 544 |
| Securities custody | 289 |
| Office and business | 108 |
| Professional services | 80 |
| Office rent | 77 |
| Amortization | 26 |
| | \$ 5,423 |

The investment management costs are approximately 70% of consolidated operating costs, driven mainly by salaries and benefits, which include an accrual in the amount of \$3.2 million for performance incentives for investment staff, the Chief Financial Officer and three other management positions. The performance incentives are intended to align the interests of investment staff with our clients' interests. A more complete description is available in the Compensation Discussion and Analysis on page 25 which outlines the incentive program for VIMC for the nine months since its last public reporting at March 31, 2016. As well, a further description of investments costs for that nine month period is on page 17.

(b) Administration services expenses

| <i>(in thousands)</i> | Three months ended December 31, 2016 |
|--------------------------------|---|
| Salaries and benefits | \$ 1,249 |
| Information systems | 576 |
| Client directed administration | 147 |
| Office and business | 82 |
| Professional services | 33 |
| Office rent | 90 |
| | \$ 2,177 |

The administration services expenses of VPSC include salaries and benefits for approximately 80 employees on a full-time, part-time, casual or contract basis in the following areas: Member Services, Benefit Services, Pension Policy, Board Support, Communications, Financial Services and Information Technology.

ADMINISTRATION HIGHLIGHTS

VPSC focused on three strategic priorities during the year: meeting the needs of our clients, embracing information technology, and organizational effectiveness. The organization administers the day-to-day operations of 11 pension plans as well as 5 employee benefit programs for approximately 55,000 active and 33,000 retired members from the provincial public service sector, the education sector, provincial health authorities, as well as crown corporations and other quasi-public sector organizations.

VPSC responsibilities include the collection and remittance of contributions and premiums, insurance claims administration, the calculation and payment of benefits, providing pension and employee benefit information services to clients, serving governing bodies and committees of pension and employee benefit plans, and supporting corporate policy activities.

These services are provided through high quality client service to plan members and employers via in-coming calls, emails, and face-to-face meetings. In addition, VPSC prepares and delivers educational presentations, and analyzes and interprets plan documents relating to pension and insured benefits. These duties are carried out within a framework of various acts, regulations, collective agreements, policies and procedures. VPSC maintains awareness of developing issues, major trends, risks and events in the pension and benefits industries while providing a highly cost effective delivery model.

Transition to a separate private organization on October 1, 2016 was both a significant challenge and achievement for VPSC management and staff. During this period, VPSC was able to continue to make improvements to the quality and timeliness of services provided to plan members in the day-to-day operations of the organization.

Key Performance Indicators

VPSC continuously measures and reports to its clients against the following key performance indicators:

| Service | Target ¹ | 2016 Total Processed | Achieved |
|------------------------------|---------------------|----------------------|----------|
| Purchase of Service Requests | 90 days | 901 | 99.0% |
| Pension Estimates | 60 days | 1,212 | 99.5% |
| Retirements | 60 days | 1,637 | 98.5% |
| Terminations | 30 days | 922 | 95.0% |
| Marriage Breakdowns | 42 days | 142 | 88.0% |

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

In an ongoing effort to better understand the needs of plan members, a first phase of member research was launched in the fall of 2016 to assess the overall satisfaction of members to whom VPSC recently delivered key services. The questions were focused on understanding the members' satisfaction rate with:

- their overall service experience with VPSC ;
- their experience with any other organizations they may have encountered throughout VPSC service delivery;
- their experience with VPSC Pensions and Benefits Specialists;
- the documentation provided;
- the timeliness of service delivery;
- the resources provided through Vestcor's website or in print, if used; and
- the ease of access to the service they require.

The first phase of surveys was sent in the fall of 2016. Responses were received from 168 members, with 91.5% indicating that their overall experience with VPSC was satisfactory or better. This first phase allowed VPSC to develop the tools and the processes required to continue this membership research on an ongoing basis. Going forward, we intend to perform more targeted research in order to guide continued service improvements.

Our future focus will be to broaden the communication tools and mediums used to allow VPSC to increase the frequency and timeliness with which it communicates with members and stakeholders. During 2016, 76,000 newsletters were sent to active and retired members of VPSC's four largest pension plans.

With the transition to Vestcor in 2016, one of the top priorities will be the development of a new website for Vestcor. The new website will provide an easy and fluid navigation experience for active members, retirees and employers to access information relating to their pension and benefit plans.

INVESTMENT HIGHLIGHTS

The following description of the investment management services covers the **nine months** from the last reporting of VIMC at March 31, 2016 to December 31, 2016.

Assets Under Management

Assets under management (AUM) at December 31, 2016 were approximately \$15.7 billion, consisting of the following client mandates:

| Client | December 31, 2016 | | March 31, 2016 | |
|--|-------------------|--------|----------------|--------|
| | \$ | % | \$ | % |
| New Brunswick Public Service Pension Plan (NBPSPP) | 7,215.1 | 45.9% | 6,931.1 | 52.3% |
| New Brunswick Teachers' Pension Plan (NBTPP) | 5,484.1 | 34.9% | 5,290.7 | 39.9% |
| Provincial Court Judges' Pension Plan (Judges) | 45.3 | 0.3% | 43.2 | 0.3% |
| New Brunswick Power Corporation (NBPC): | | | | |
| Point Lepreau Decommissioning Fund | 325.9 | 2.1% | 308.6 | 2.3% |
| Point Lepreau Used Fuel Management Fund | 228.2 | 1.5% | 223.8 | 1.7% |
| Nuclear Fuel Waste Trust | 152.0 | 1.0% | 140.7 | 1.0% |
| Management Employees of New Brunswick School Districts Pension Plan (NBSD) | 5.6 | 0.0% | 6.4 | 0.1% |
| Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP) | 313.9 | 2.0% | 291.6 | 2.2% |
| University of New Brunswick Endowment Fund (UNBE) | 31.0 | 0.2% | 23.5 | 0.2% |
| Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (CBE) | 907.9 | 5.8% | — | — |
| Total Discretionary Funds | 14,709.0 | 93.6% | 13,259.6 | 100.0% |
| Non-discretionary CBE funds in transition | 997.5 | 6.4% | — | — |
| Total AUM | \$ 15,706.5 | 100.0% | \$ 13,259.6 | 100.0% |

As discussed earlier, VIMC added one additional investment management client on September 1, 2016. We worked closely with this client to begin a transition of their investment funds into an appropriate mix of NBIMC Pooled Funds and private investments in accordance with their existing investment policy. We are currently completing an asset liability study for this client to help ensure that the asset mix decisions in their investment policy are well diversified and able to take advantage of a number of our strategies that are expected to provide similar returns with lower risk characteristics. We look forward to assisting them to meet their long-term investment goals and appreciate the confidence that they have placed in our team.

Total Fund Performance Objectives

The main investment performance objectives that VIMC focuses on 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 investment management costs, by the value added target(s) published in each client's respective Investment Policy Statement or other such directives / guidelines.

VIMC has also developed a series of other key performance indicators, as **continuous performance objectives**, that correspond to our 2015-20 Strategic Plan. As noted earlier, the operating companies' Board have also been working on a new Strategic Plan for the entire Vestcor organization on which we look forward to reporting in the future.

Key performance indicators are monitored on a quarterly basis. They are reported below for VIMC's nine months ended December 31, 2016 for **total funds under discretionary management** (i.e., pension and other clients):

Primary Investment Performance Objectives

| Objective | Long-Term Targets | Nine Months to December 31, 2016 Actual | 4 Year Annualized | Annualized Since Inception |
|-------------------------------|--------------------|---|-------------------|----------------------------|
| Real Return (after inflation) | >= 4.00% per annum | 4.83% | 8.35% | 5.35% |
| Nominal Return | >= 6.25% per annum | 5.92% | 9.82% | 7.30% |

Secondary Investment Performance Objective

| Objective | Long-Term Targets | Nine Months to December 31, 2016 Actual | 4 Year Annualized | Annualized Since Inception |
|--|---------------------|---|-------------------|----------------------------|
| Net Relative Return (after all investment management expenses) | >= 42 bps per annum | 76.8 bps | 75.8 bps | 8.5 bps |

Continuous Performance Efficiency Objectives

| Objective | Long-Term Targets | Nine Months to December 31, 2016 Actual | 4 Year Annualized |
|---|------------------------------|---|-------------------|
| Trade-Matching Efficiency: | | | |
| Securities Custodian | <i>Regulatory 90% + 2.5%</i> | 97.2% | 97.0% |
| Prime Broker #1 | <i>Regulatory 90% + 2.5%</i> | 97.5% | 96.8% |
| Prime Broker #2 | <i>Regulatory 90% + 2.5%</i> | 94.2% | 94.3% |
| Prime Broker #3 | <i>Regulatory 90% + 2.5%</i> | 95.3% | n/a |
| Budget Efficiency (excluding performance incentives) | 100% | 80.2% | 91.9% |
| Absenteeism (%) | <= 2% | 1.94% | 1.84% |
| Employee Turnover (#) | <= 3/yr | 1/yr | 0.5/yr |
| IT System Availability | 99% | 99.8% | 99.8% |

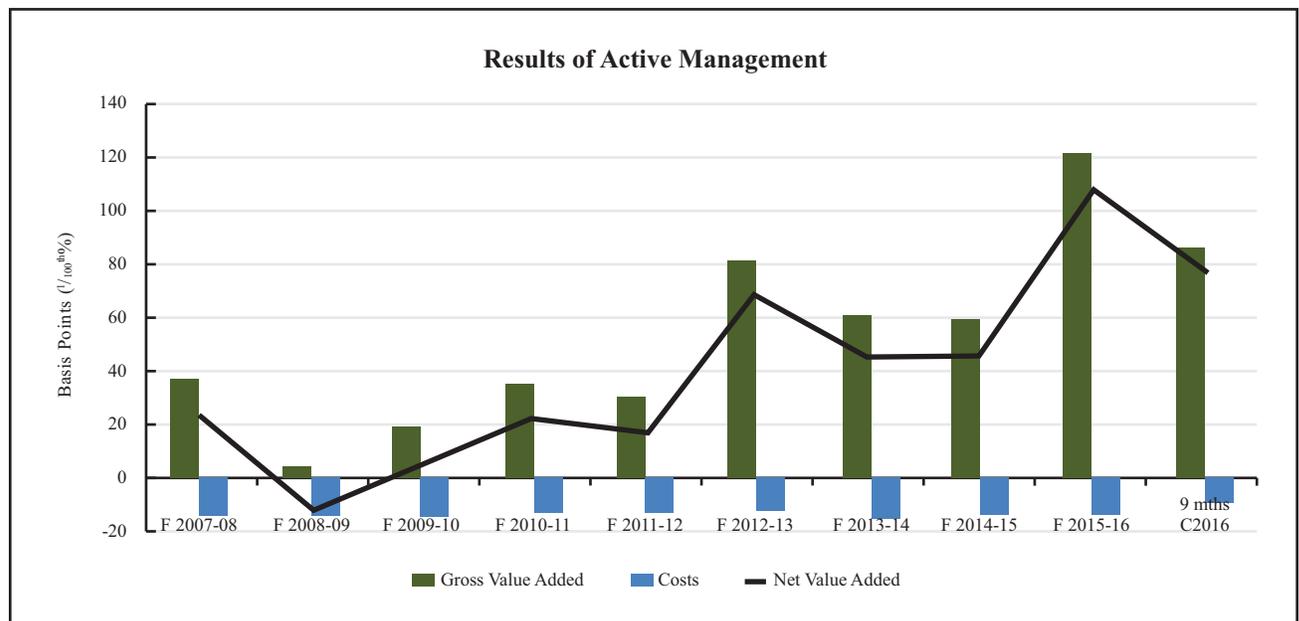
Relative Performance Versus Benchmarks

As noted above, our **second investment performance objective** is to add value, above our various asset class benchmarks, through active management strategies. This value added, relative to benchmark, is expected to first cover all investment management costs, and subsequently targets an additional 42 basis points (0.42%) per annum.

Our overall discretionary management activities for the nine month period added 86.4 basis points of gross value and 76.8 basis points of net value, or approximately \$111.2 million, after covering all investment management costs.

Our longer term four year average annual value added, net of costs, was approximately 75.8 basis points per annum, or approximately \$357.4 million, in additional value over the four year period. The four year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer term measure.

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



INVESTMENT MANAGEMENT COSTS

One of the most important considerations 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 asset growth. All else being equal, lower costs result in higher comparative net returns and help to maximize the available assets.

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

The investment management costs to manage the approximately \$15.7 billion of assets under management consist of the following:

| (in millions of Canadian dollars) | Nine Months ended December 31, 2016 | Year ended March 31, 2016 |
|--|--|--------------------------------------|
| VIMC Operational Expenses | \$ 11.2 | \$ 13.6 |
| External Investment Management | 2.3 | 4.3 |
| Total Investment Management Costs | \$ 13.5 | \$ 17.9 |
| Total Assets Under Management | \$ 15,706.5 | \$ 13,259.6 |

We internally manage the majority of assets under management (AUM) using our investment management professionals and technology systems that permit global trading activity from our location in Fredericton, New Brunswick. At December 31, 2016, Vestcor internally managed approximately 81% of AUM, down from 89% at March 31, 2016 due to the addition on September 1, 2016 of approximately \$1.9 billion of AUM from the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals, only one half of which had been transitioned to VIMC's internal management by year end.

The costs incurred to manage investment strategies **internally**, measured over average AUM for the period, were 0.091% or 9.1 basis points (bps) for the nine months ended December 31, 2016. Approximately 19% of investments are externally managed at December 31, 2016. These external mandates result from either assets being transitioned to VIMC management, as is the case for the CBE Hospitals plan assets, or access to the desired investment opportunities or specific strategy expertise is not available internally. The cost of managing investments through our **external** investment managers, also measured on average AUM, was 13.3 bps for the nine months ended December 31, 2016. **In total**, investment management costs were approximately 9.6 bps of average AUM during the nine months ended December 31, 2016.

In addition to these investment management costs, the NBIMC Pooled Funds incur transaction costs associated with trading of securities in each portfolio. These costs include broker commissions and borrowing fees which are dependent upon the volume of trading activity undertaken. As well, management fees and other fees paid to General Partners and advisors are incurred on initial investment and over the holding period of private market investments. All such costs are not included in the investment management costs above but instead have been deducted in reporting the investment performance of each pooled fund. The audited financial statements for the NBIMC Pooled Funds are available under the Publications tab on the VIMC website at www.vestcor.org.

We benchmark our investment management costs against other peer pension fund managers annually. We continue to compare favourably to publicly available information offered by other public sector peer funds. We also participate in an annual survey of defined benefit pension plans conducted by CEM Benchmarking Inc. Through this benchmarking activity, we conservatively believe that our costs are approximately 25 bps lower than the average of our peers and 35 bps lower than private sector asset managers. This cost differential means that for the nine months ended December 31, 2016 our clients were able to retain approximately \$34.9 million due to our lower cost advantage. This cost advantage has been a cornerstone of our service delivery since our inception over twenty years ago.

ANNUAL PERFORMANCE BY ASSET CLASS

The following discussion of annual investment performance is organized by major asset class supported by Vestcor on behalf of our clients. This discussion also provides a breakdown by asset class sub-portfolio. Vestcor offers a pooled fund structure consisting of unit trust funds, as well as a limited partnership structure for private investments, in which clients can invest with customized weights to achieve their unique investment objectives. For a description of investment performance by pooled fund, please refer to Pooled Fund Performance (page 50).

FIXED INCOME PORTFOLIOS

Objectives

Vestcor provides a number of Canadian fixed income focused portfolios that allow clients to access a broad mix of 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, 2016)

| Portfolio | AUM ¹ (\$ millions) | 2016 Annual Return | | 4 Year Annualized Return | |
|------------------------------|-----------------------------------|--------------------|-----------|-----------------------------|-----------|
| | | Portfolio | Benchmark | Portfolio | Benchmark |
| Short Term Assets | \$ 1,123 | 1.05% | 0.51% | 1.18% | 0.77% |
| Nominal Bonds | 2,301 | 1.45% | 0.89% | 3.21% | 2.92% |
| Corporate Bonds | 2,333 | 3.91% | 3.73% | 3.81% | 3.69% |
| Global Fixed Income | 70 | 1.10% | 0.15% | n/a | n/a |
| Long-Term Bonds ² | 68 | 2.70% | 2.70% | n/a | n/a |
| Real Return Bonds | 700 | 2.91% | 2.86% | 1.12% | 0.99% |

¹ Includes cross-fund ownership interests

² Special client restricted fund

Overview

Bond yields moved substantially lower during the first half of 2016 as overseas risk led by European bank instability, rising Asian debt concerns, and of course the vote to Brexit on June 24th dominated global market events. As the year progressed, yields reversed course and ratcheted higher first on the realization that Brexit would take a long time to play out, and then on comments from the U.S. Federal Reserve (FED) in August that the case for a rate hike had recently strengthened. Yields got an extra kick higher in November after the U.S. election of Donald Trump as investors realized that much of his platform is economically friendly and could pressure inflation higher.

For the most part of 2016, many Sovereign country debt markets were trading with negative yields out to 10-year terms to maturity. Many economies struggled and subsequently turned to more aggressive forms of quantitative easing to fight the declining trend in growth and inflation. In North America we did not encounter negative yields; however, in July, U.S. 10 year Treasury yields hit a record low of 1.32% soon followed by a 0.94% low yield on Canadian 10 year debt.

After having hiked rates for the first time in over a decade back in December 2015, it took the FED a full year later to register one more follow up rate hike on December 14, 2016. During the 2016 rate hike announcement, the FED recognized that employment strengthened and inflation had increased. As a result, the FED increased their projected number of rate hikes in 2017 from the originally anticipated two, to a revised three, rate increases.

The Canadian economy underperformed its U.S. neighbor in 2016 as the decline in oil prices and subsequent slow recovery, exacerbated by the impact of forest fires in Fort McMurray, curtailed capital spending plans on oil projects. In leaving their benchmark rate unchanged during 2016, the Bank of Canada recognized that employment had improved, but continued to highlight that considerable slack remained in the Canadian economy. To complicate things, the Bank of Canada must now weigh the potential negative economic impact of President Trump's anti-trade rhetoric versus the potential positives that could come to Canada if the U.S. economy does experience an economic boom from the U.S. pro-growth agenda.

After a rough first quarter of 2016 for credit markets, the remainder of the year saw both Provincial and Corporate debt security spreads narrow substantially. A major factor in creating this change was the European Central Bank's decision in March to buy corporate securities as part of their quantitative easing program. Subsequently, each new issue of Corporate and Provincial debt has seen significant demand.

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 a number of global regions on both an actively and passively managed basis.

VIMC has focused significant resources in recent years in developing internally managed low volatility portfolios in the various geographic regions 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, 2016)

| Portfolio | AUM ¹ (\$ millions) | 2016 Annual Return | | 4 Year Annualized Return | | |
|--|-----------------------------------|--------------------|-----------|--------------------------|-----------|--|
| | | Portfolio | Benchmark | Portfolio | Benchmark | |
| Market Capitalized: | | | | | | |
| Canadian Equity | \$ 1,290 | 20.48% | 21.08% | 9.01% | 8.52% | |
| U.S. Equity | 903 | 8.63% | 8.62% | 23.24% | 23.23% | |
| International Equity | 812 | (2.53%) | (2.49%) | 12.76% | 12.03% | |
| Low Volatility: | | | | | | |
| <i>Comparison with MSCI Low Volatility Benchmarks*</i> | | | | | | |
| Canadian Equity | 759 | 16.74% | 17.58% | 11.88% | 10.49% | |
| U.S. Equity | 897 | 9.05% | 6.56% | 24.40% | 22.33% | |
| International Equity | 820 | (1.93%) | (5.20%) | 14.92% | 14.90% | |
| Emerging Markets Equity | 406 | 4.33% | 0.31% | n/a | n/a | |
| <i>Comparison with Standard Market Indices**</i> | | | | | | |
| Canadian Equity | 759 | 16.74% | 21.08% | 11.88% | 8.52% | |
| U.S. Equity | 897 | 9.05% | 8.62% | 24.40% | 23.23% | |
| International Equity | 820 | (1.93%) | (2.49%) | 14.92% | 12.03% | |
| Emerging Markets Equity | 406 | 4.33% | 8.15% | n/a | n/a | |

¹ Includes cross-fund ownership interests

* Canada: MSCI Canada Minimum Volatility (CAD) Index Gross in \$CAD
 U.S.: MSCI USA Minimum Volatility (USD) Index, Net in \$CAD
 EAFE: MSCI EAFE Minimum Volatility (USD) Index, Net in \$CAD
 EM: MSCI Emerging Markets Minimum Volatility (USD) Index, Net in \$CAD

** Canada: S&P/TSX Composite Index in \$CAD
 U.S.: S&P 500 Index in \$CAD
 EAFE: MSCI EAFE Index, Net in \$CAD
 EM: MSCI Emerging Markets Index, Net in \$CAD

Overview

Despite somewhat heightened volatility at times brought on by geopolitical events globally, the 2016 calendar year proved a modestly positive one for global equity investors, with the global benchmark MSCI ACWI Index up nearly 5% in Canadian dollar terms (assuming unhedged currency exposures). Much of this positive return was earned in particular in the aftermath of the November U.S. presidential elections, which resulted in a significant “risk-on” rally in global business-cycle sensitive assets such as equities.

Low volatility equities experienced some performance drag against market indices in regions such as Canada and the Emerging Markets where markets were relatively stronger during the period, whereas in regions that experienced more moderate performance, Low Volatility strategies tended to perform more in line with broad market portfolios.

Canadian equities were, broadly speaking, the strongest of all developed market country indices, as particular strength in commodity sensitive sectors (reversing the experience from the previous periods) resulted in the benchmark S&P/TSX Composite Index earning a return of about 21% during the year, well above the 5% earned by global equities in general.

Active management during the year was successful, in particular driven by outperformance of our internally managed low volatility portfolios. Spurred by the increasing valuations of lower risk equities (as these portfolios have significantly outperformed in recent years and attracted additional capital flows), our valuation and quality sensitive portfolio management approach resulted in significant outperformance in all low volatility strategies outside of the Canadian market.

ALTERNATIVE INVESTMENT PORTFOLIOS

Objectives

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

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

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

Performance Summary (as at December 31, 2016)

| Portfolio | AUM ¹ (\$ millions) | 2016 Annual Return | | 4 Year Annualized Return | |
|----------------------------|-----------------------------------|--------------------|-----------|-----------------------------|-----------|
| | | Portfolio | Benchmark | Portfolio | Benchmark |
| Absolute Return Strategies | \$ 1,128 | 5.12% | 0.51% | 4.78% | 0.77% |
| Private Equity | 557 | 6.43% | 4.02% | 17.48% | 15.21% |
| Real Estate | 830 | 11.31% | 8.99% | 12.19% | 10.11% |
| Infrastructure | 690 | 8.01% | 5.31% | 5.36% | 5.33% |

¹ Includes cross-fund ownership interests

Overview

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

In 2016, each of the three sub-strategies once again produced positive returns in helping the combined portfolio achieve a total return of 5.12%. With our proactive approach to risk management and capital allocation, this positive return was also matched with low risk and minimal correlation to traditional markets that we expect from our absolute return allocation. On a four year basis, the strategy has managed to navigate challenging investment environments to produce a positive 4.78% return per year.

The Private Equity portfolio is diversified among several factors including geographies, industry sectors and currencies. Investments are achieved through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. The past year saw strong returns in most parts of the underlying portfolio, primarily in the European and U.S. components, as global growth continues albeit at a moderate pace. Currency exposure is unhedged and reduced value during the year as the U.S. dollar, British pound and the Euro all declined versus the Canadian dollar during calendar 2016.

The Real Estate portfolio has two broad components: public North American Real Estate Investment Trust (REIT) securities and private real estate in the form of limited partnership interests, both in Canada and in Europe, direct co-investments and direct holdings. Our real estate investments continued to benefit from low interest rates, solid fundamentals and strong investor demand. The private and public components of the portfolio each provided positive returns for 2016 with the REIT portfolios providing especially strong returns.

The Infrastructure portfolio has two broad components: first, private infrastructure in the form of co-investments diversified by geography, currency and by asset type, as well as fund investments via limited partnership commitments; and second, an internal public infrastructure portfolio which is expected to provide similar longer term return and risk characteristics to private infrastructure investments. The private and public components of the portfolio each provided positive returns during 2016.

RISK MANAGEMENT

Vestcor faces a number of risks in attempting to fulfill our mandates. A critical part of Vestcor's management activities is our disciplined risk management focus. While the following section primarily focuses on VIMC activities to date, it is important to note that we will be integrating VPSC activities into our risk management framework upon completion of our current Strategic Plan process.

Risk management is a key element in helping provide stability to both pension plan contributions and benefits, and making sure that our investment management activities do not bring undue risk to our clients' assets. All investment decisions are made in a risk context that not only focuses on the expected returns of our activities but also on the potential gains or losses that could be realized by those activities.

Risk Management – Board Oversight

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

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

Risk Management – Independent Audits

To assist in its oversight of risk management, the Audit Committee has engaged an independent internal audit service provider (a firm external to Vestcor) to conduct reviews and provide advice on the effectiveness of Vestcor's internal controls and processes.

Risk Management – Management Activities

VIMC previously developed a Summary Enterprise Risk Management Framework that can be found on the About VIMC tab of our website at www.vestcor.org. This Summary Framework identifies three main categories of risk: strategic risk, investment risk and operational risk. The Summary Framework highlights seventeen specific risk elements within these three categories, including a definition of each element, the responsibility for risk oversight and the measures taken by management and the Board to mitigate each risk. As mentioned above, this framework is currently being updated to encompass the enterprise risk for the combined Vestcor organization.

VIMC uses the following six internal 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:

| | |
|---|--|
| <p>Enterprise Risk Management Council (ERMC)</p> | <p>In accordance with its Terms of Reference, the ERMC is responsible for reviewing the status of the Enterprise Risk Management Framework on a quarterly basis in advance of presenting the quarterly risk matrix report to the Board of Directors and advising the President & CEO of areas of emerging risk.</p> <p>In fulfilling this mandate, the ERMC reviews:</p> <ul style="list-style-type: none"> • weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies; • asset mix stress testing and back-testing results; • 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 independent audit reviews. |
| <p>Investment Risk Management Committee (IRMC)</p> | <p>In accordance with its Terms of Reference, the IRMC:</p> <ul style="list-style-type: none"> • monitors investment risk measures; • considers risks associated with new investment strategies and products; and • proposes procedures to measure and monitor investment risk, subject to the approval of the Chief Investment Officer and within the parameters established by the Board and our clients. |
| <p>Trade Management Oversight Committee (TMOC)</p> | <p>In accordance with its Terms of Reference, the TMOC:</p> <ul style="list-style-type: none"> • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; and • manages exposure to broker counterparty risk. |
| <p>Information Technology Risk Management Committee (ITRMC)</p> | <p>In accordance with its Terms of Reference, the ITRMC:</p> <ul style="list-style-type: none"> • assists in the development of IT strategy and future direction; • approves new application risk assessments; and • monitors adherence to IT policies and processes. |
| <p>Business Continuity Plan Team (BCP)</p> | <p>In accordance with its Terms of Reference, the BCP:</p> <ul style="list-style-type: none"> • develops and implements the Business Continuity Plan including disaster recovery; • discusses possible disaster scenarios; and • uses passive and active tests to practice response protocols. |
| <p>Occupational Health & Safety Committee</p> | <p>In accordance with its Terms of Reference, the Occupational Health & Safety Committee considers physical environment risks.</p> |

COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis explains the processes followed by VIMC that have been applied in the current period and are expected to be applied to the consolidated Vestcor entity 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 & CEO, based on recommendations made by the Human Resources & Compensation Committee (HRCC).

HRCC Mandate

The HRCC assists the Board in fulfilling its obligations relating to the establishment of policies for compensation of directors and employees, leadership succession planning, and setting of human resource policies and practices.

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

The HRCC's Terms of Reference are available at www.vestcor.org / VIMC / Governance / Corporate Governance / Human Resources & Compensation Committee.

Key responsibilities include:

- Participation in an annual performance appraisal process for the President & 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 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 monitored regularly and trends are identified and reported to the HRCC.

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 | Investment and research staff, the Chief Financial Officer and certain management positions subject to a minimum of six months employment. | Investment and research staff and the Chief Financial Officer subject to a minimum of six months employment. | Investment and research staff 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. | 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 fiscal period | 4 year (prorated) | 4 year |
| Type of program | Cash | Cash | Cash |
| Performance metric(s) | Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark. Individual performance versus Board approved pre-determined Annual Business Plan Objectives. | Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark. | Total fund return in excess of benchmark, net of investment management expenses. |
| Range: Threshold Target Maximum | Full VIMC cost recovery 42 bps after costs 84 bps after costs | Full VIMC cost recovery 42 bps after costs 84 bps after costs | Full VIMC cost recovery 42 bps after costs 75 bps after costs |

Indirect Compensation

| | Membership in the New Brunswick Public Service Pension Plan | Employee benefits and post-retirement benefits | Perquisites |
|--------------------|--|--|---|
| 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. |

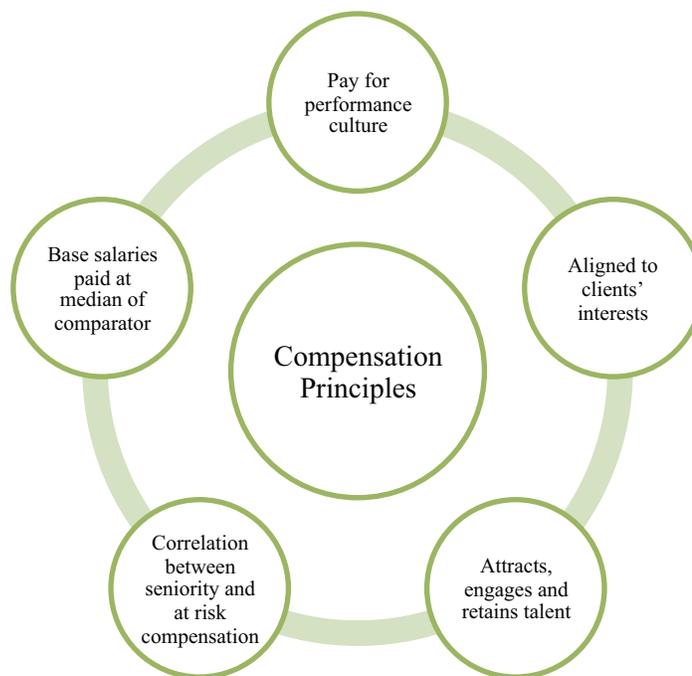
CORPORATE COMPENSATION PHILOSOPHY

Vestcor believes that employees are key to the performance of VIMC and VPSC 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.

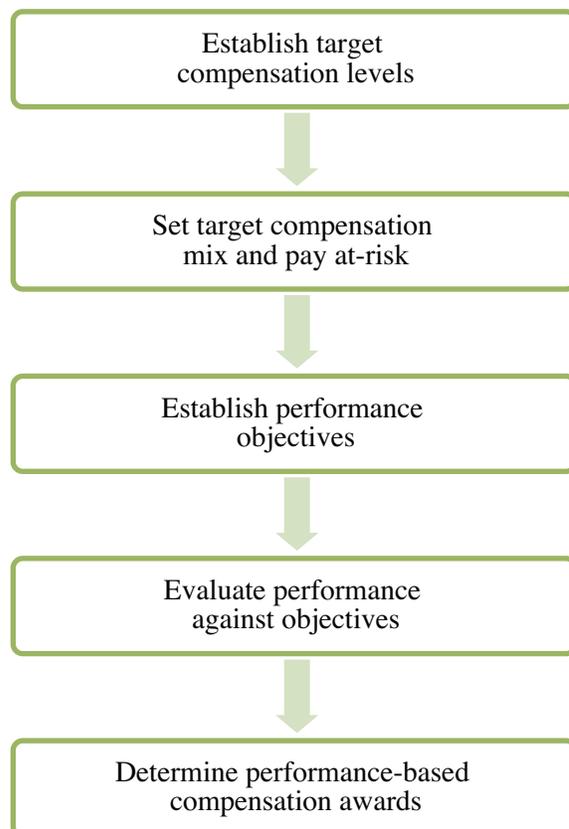
The principles on which this philosophy is based are summarized as follows:



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 compensation and salary surveys is reviewed as it becomes available. An Independent Compensation Advisor is periodically asked to conduct a Total Compensation Review. Compensation information from public disclosures 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 and seniority, reflecting the opportunity to influence performance. In determining the mix, market practices are considered, as well as Vestcor's compensation principles, including alignment with clients' interests. A significant portion of the performance incentives are earned over a four year cycle to discourage short-term risk-taking.

Establish performance objectives

Each year, the Board approves an annual business plan designed to support achievement of Vestcor's five year Strategic Plan. This annual business plan contains a balanced mix of financial, investment strategy 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 & CEO delegates the key initiatives among the various functional teams based on their specific roles and responsibilities.

Evaluate performance against objectives

The performance of Vestcor 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 & CEO recommends to the HRCC the factors to be used in assessing achievement of each element of the annual business plan.

Determine performance-based awards

The HRCC is responsible for recommending for board approval the amount of performance incentive compensation to be awarded to the President & CEO and the overall weighted factor based on the evaluations noted above. The President & CEO does not participate in this discussion. The President & 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 26. The program takes the form of salary and benefits and for certain staff, an annual investment and individual performance-based incentive plan, and a long-term investment-based incentive plan.

The compensation program has been developed by the HRCC with the help of an 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 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.

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 Yearly Maximum Pensionable Earnings (YMPE) for the year of retirement and the two preceding years plus 2% of the excess of the annual average of the best five consecutive years of earnings over the annual average YMPE for the year of retirement and two preceding years, multiplied by the years of pensionable service. Base pre-indexed benefits earned under the PSSA up to January 1, 2014 have been provincially guaranteed.

Annual incentive plan

Full-time Investment and Research employees, and the Chief Financial Officer are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months. In addition, three other management level positions were added as eligible employees for the individual component of the AIP commencing April 1, 2016.

The AIP is calculated as a percentage of salary, weighted to reflect the role and impact that each eligible employee has on achievement of Corporate Business Plan objectives. The AIP includes components based on quantitative investment performance and individual achievement. Investment performance is measured quantitatively as **total fund** net value added investment returns on both a one year and four year cumulative basis, compared against an annual target set by the Board. Net value added investment returns represent the gross investment return in excess of the investment policy benchmark returns, after deducting all investment management costs. 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.

Previously as a Crown corporation, NBIMC reported using a March 31 fiscal year end. Upon continuation of the Corporation as VIMC, the fiscal year end has been changed to December 31. Accordingly for the current fiscal period, salaries have been prorated to be 75% of annual base salary and investment returns have been measured for the nine month period ended December 31, 2016 for purposes of calculating the short-term component of the AIP. The long-term component of the AIP has also been adjusted to reflect the nine months ended December 31, 2016.

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

On the recommendation of the HRCC, the Board also approves an individual incentive component determined by comparing achievement of business plan targets established annually as part of the corporate strategic planning process. The overall individual component is then allocated by management based on team and individual contributions to the business plan achievements. The three management level employees only participate in this component of the AIP.

Long-term incentive plan

Vestcor also has a long-term incentive plan (LTIP) for Investment and Research staff 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.

IMPACT OF PERFORMANCE RESULTS

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

- The total fund **active nominal return**, where we have full management discretion, for the nine months ended December 31, 2016 was 5.92% and represents approximately \$0.9 billion in gross earnings from the overall investment program during the year. The longer term 3.75 year annualized active return to December 31, 2016 was 9.25%, which represents approximately \$4.2 billion of cumulative investment earnings.
- **Relative returns** were higher than the combined weighted average client Investment Policy benchmarks for the nine months ended December 31, 2016, adding 77 basis points of value after deducting all investment management costs. These excess net investment returns resulted in approximately \$111.2 million of additional actively-managed net investment earnings provided to our clients for the nine months ended December 31, 2016, and have resulted in over \$358.0 million of net additional returns throughout this longer term period.

Compensation, excluding Directors' remuneration (see page 42), for VIMC employees only, consists of:

| (in millions of Canadian dollars) | Nine Months ended December 31, 2016 | Year ended March 31, 2016 |
|---|--|--------------------------------------|
| Salaries and benefits | \$ 4,686.4 | \$ 5,738.2 |
| Performance incentives: | | |
| AIP – net investment relative performance | \$ 589.3 | \$ 661.5 |
| AIP – individual performance | 710.2 | 863.3 |
| Total AIP | 1,299.5 | 1,524.8 |
| LTIP | 1,919.3 | 1,887.1 |
| Total performance incentives | \$ 3,218.8 | \$ 3,411.9 |

Base Salaries and Benefits

For the nine months ended December 31, 2016, and after consideration of the continuing competitive talent retention environment, the Board approved a 2.5% overall base salary increase.

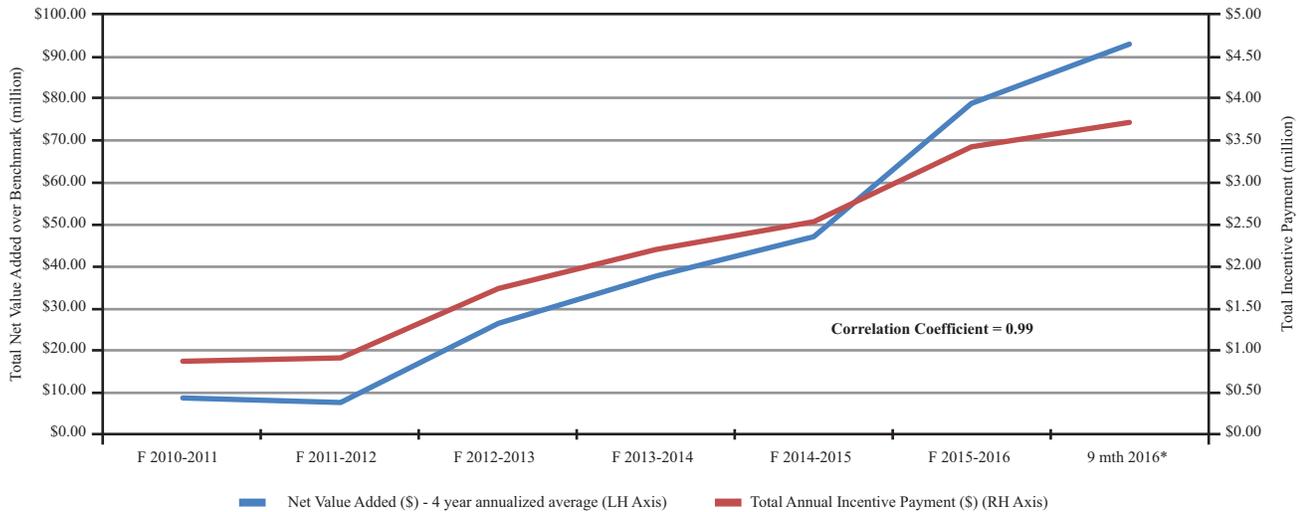
Previously, John Sinclair has served as both the President & CEO as well as the Chief Investment Officer for VIMC. In recognition of the increasing business activities and the additional number of clients served by Vestcor, and as part of its ongoing oversight of effective succession planning, the Board made the decision to separate these two roles. Accordingly, effective April 1, 2016, Jonathan Spinney, Vice President of Quantitative Investing & Applied Research was also appointed as Acting Chief Investment Officer and has subsequently been confirmed as Chief Investment Officer.

The Board also approved the creation of three new full-time positions during the year: an Investment Accountant position in the Fund Accounting Team, an Investment Analyst for the Private Markets Team, and a Human Resources Coordinator position. These new positions were created in recognition of the increased business activities in these areas, the continued insourcing of our investment activity and the provision of human resources support as a shared service to the integrated organization.

Compensation Linked to Investment Performance

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

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



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

SUMMARY COMPENSATION TABLE

The following summary compensation table discloses information on compensation for the President & 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 & CEO | 2016 | 327,779 | 238,831 | 421,396 | 113,431 | 2,314 | 1,103,752 |
| | 2015 | 327,779 | 308,624 | 440,048 | 93,889 | 2,445 | 1,172,785 |
| | 2014 | 327,779 | 258,707 | 307,012 | 108,073 | 2,250 | 1,003,820 |
| James Scott Vice-President, Fixed Income | 2016 | 218,769 | 114,959 | 169,701 | 21,652 | 2,124 | 527,205 |
| | 2015 | 213,808 | 150,363 | 173,184 | 21,162 | 1,931 | 560,448 |
| | 2014 | 202,000 | 120,026 | 118,017 | 26,987 | 1,883 | 468,913 |
| Jonathan Spinney Chief Investment Officer, Vice-President, Quantitative Investing & Applied Research | 2016 | 208,923 | 121,088 | 169,701 | 20,598 | 1,935 | 522,244 |
| | 2015 | 175,133 | 113,602 | 140,964 | 17,024 | 1,802 | 448,524 |
| | 2014 | 155,250 | 101,783 | 98,348 | 20,392 | 1,718 | 377,491 |
| Daniel Goguen Vice-President, Private Markets | 2016 | 201,023 | 100,284 | 138,846 | 19,753 | 1,901 | 461,807 |
| | 2015 | 195,491 | 155,524 | 140,695 | 19,202 | 1,871 | 512,784 |
| | 2014 | 188,500 | 106,690 | 96,047 | 24,829 | 1,830 | 417,896 |
| Jan Imeson CFO | 2016 | 213,769 | 93,748 | 110,563 | 21,117 | 755 | 439,952 |
| | 2015 | 208,808 | 118,832 | 112,771 | 20,627 | 906 | 461,944 |
| | 2014 | 200,743 | 99,691 | 76,805 | 26,465 | 664 | 404,368 |

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 enrollment 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 \$1,299.5 (thousand) consists of both an investment performance component and a business plan achievement component.

The AIP related to the investment performance component was \$589.3 (thousand). One quarter of this component is based on the current period's net value added result and the remainder is based on the longer term four year annualized net value added. The current period net value added result was 76.8 basis points (bps), and the long-term annualized net value added result was 75.8 bps.

A summary table of prior period value added results used to determine the current four year cumulative net value added AIP result is as follows:

| | Net Value Added (bps) | Percentage of Target (%) |
|-------------------------------------|-----------------------|--------------------------|
| Year ended March 31, 2014 | 45.4 | 108.1 |
| Year ended March 31, 2015 | 45.6 | 108.6 |
| Year ended March 31, 2016 | 107.5 | 255.8 |
| Nine Months ended December 31, 2016 | 76.8 | 243.8 |
| Annualized Long-Term (Four Years) | 75.8 | 180.4 |

The **AIP related to business plan achievements** is \$710.2 (thousand) for the nine months ended December 31, 2016. This component is based on an achievement factor of 1.71 times overall target approved by the Board of Directors, equal to the achievement factor of 1.71 for the year ended March 31, 2016.

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

Achievement of the long-term investment returns required by each pension and non-pension client in a risk-controlled fashion was VIMC's primary investment performance objective for the nine months ended December 31, 2016 and accounts for the largest weighting proportion. The overall total fund active return for all clients combined was 5.92% for the nine months ended December 31, 2016, an annualized 9.25% on a 3.75 year basis, and most importantly 7.21% per annum since VIMC's inception in 1996.

| Key Goals | C2016 Weighting | Achievement |
|---|-----------------|--------------------|
| To advance governance, management and organizational effectiveness. | 30% | Above expectations |
| To meet our clients' long-term objectives through prudent investment advice and well-executed risk management strategies. | 40% | Above expectations |
| To expand VIMC's client servicing and support operations. | 10% | At target |
| To maintain, develop and attract a highly skilled and experienced team of investment management professionals. | 10% | Above expectations |
| To strengthen and expand client and other stakeholder communications and relationships. | 5% | Above expectations |
| To support effective and efficient information technology, data management and client reporting solutions. | 5% | Above expectations |

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

**Nine Months ended December 31, 2016
Business Plan Accomplishments**

Key Goals

To advance governance, management and organizational effectiveness.

- Successfully collaborated with the government’s Strategic Program Review process.
- Supported the Pension Working Group in developing and completing the legislative process to create the Vestcor Group of companies.
- Provided Vestcor Corp. Board with an initial director orientation.
- Developed and obtained execution of initial Vestcor documents including Members’ Agreement, by-laws, and General Conveyance Agreement.
- Developed new director nomination process, facilitated director recruitment process using external executive search consultants, assisted with interview process and provided initial director orientation for the operating companies’ Board.
- Completed transition to new Vestcor operating companies including assignment of client agreements, conducting employee transition, completing the initial stage transition of information technology capabilities including new domains, website, and corporate accounting processes.
- Completed full budget process for 2017 for both operating companies and consolidated entity.
- Successfully improved securities custody services through a competitive review process.
- Achieved targets for all key performance indicators including no investment policy violations, trade matching regulatory requirements and operating costs within budget.

To meet our clients’ long-term objectives through prudent investment advice and well-executed risk management strategies.

- Achieved or exceeded the respective nominal or real (after inflation) long-term investment return targets for those clients where we provide investment policy advice.
- Maintained long-term risk adjusted returns in line with specific shared risk pension plan client requirements.
- Exceeded all clients’ relative long-term value added targets versus benchmarks, net of expenses.
- Initiated an asset/liability analysis for CBE Hospitals’ pension plan.
- Completed research and delivered recommendations on internalization of U.S. Real Estate Investment Trust mandate as well as transition planning.
- Completed research on new more efficient private market investment limited partnership structures for future Private Equity, Private Real Estate and Private Infrastructure investments.

To expand VIMC’s client servicing and support operations.

- Modified our Fiscal 2015-16 Annual Report to include information on Vestcor activities. Expanded direct interactions with each client group.
- Received positive reviews through our inaugural client satisfaction survey.
- Completed refinements on our client reporting process including quarterly investment reports and annual tax reporting.
- Continued to actively engage with a number of prospective new clients as approached.

**Nine Months ended December 31, 2016
Business Plan Accomplishments**

Key Goals

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

- Implemented an integrated Human Resources function for combined Vestcor companies including completing the VPSC employee transition, group benefits program changes and individual counselling.
- Coordinated response to findings from biennial workplace environment survey process.
- Appointed an Acting Chief Investment Officer role as part of overall Succession Planning process.
- Finalized an Employee Total Compensation Statement.

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

- Finalized a new investment management agreement with CBE Hospitals' pension plan.
- Reviewed results and management analysis of initial client satisfaction survey to Vestcor Board and to each client group.
- Successfully communicated and coordinated stakeholder impacts related to Vestcor transition.

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

- Planned and created a separate network infrastructure for transition of VPSC from government infrastructure. Final transition planned for April 2017 to align with partial administration system upgrade.
- Exceeded system availability performance target.

LONG-TERM INCENTIVE PLAN (LTIP) OVERVIEW

The LTIP component is \$1,919.3 (thousand) for the nine months ended December 31, 2016. This component is based on the long-term annualized net investment results in excess of the total fund performance benchmark.

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

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

| | Net Value Added (bps) | Percentage of Target (%) |
|-------------------------------------|------------------------------|---------------------------------|
| Year ended March 31, 2014 | 45.4 | 108.1 |
| Year ended March 31, 2015 | 45.6 | 108.6 |
| Year ended March 31, 2016 | 107.5 | 298.4 |
| Nine Months ended December 31, 2016 | 76.8 | 282.9 |
| Annualized Four Year | 75.8 | 202.4 |

CORPORATE GOVERNANCE

VESTCOR CORP.

Under the *Vestcor Act* (<http://www.gnb.ca/legis/bill/FILE/58/2/Bill-38-e.htm>), Vestcor Corp. (or “Vestcor”) is established as a non-share, not-for-profit corporation that is owned by its Members, currently the NBPSPP and NBTPP (“the Founding Members”). It operates on a commercial basis using sound business practices. The Act also requires that a Member of Vestcor is required to be a client of at least one of the Vestcor Group of operating companies.

The Act provides for the Board of Directors for Vestcor to consist of a minimum of eight directors, four of whom are appointed by the NBPSPP and four by the NBTPP. The Board may be increased by up to another four potential seats in the event that new Members are admitted. Each director is appointed for a term of three years and may be reappointed at the discretion of the appointing Member. The Board will elect two directors to be Co-Chairs. The Co-Chairs will preside over Board affairs on an alternating twelve month basis.

A Members’ Agreement between the NBTPP and NBPSPP further describes the decision-making process that will be followed for the oversight of Vestcor.

The Act and the Members’ Agreement requires the approval of the Members for the admission of any new Member, any amalgamation, restructuring or dissolution of any of the Vestcor Group of companies, any changes to the by-laws of the Vestcor Group and the appointment or dismissal of the external independent auditor.

The Board of Directors of Vestcor Corp. is mandated under the Act or the Members’ Agreement to:

- Approve the by-laws and any changes to the by-laws for each company in the Vestcor Group;
- Approve any remuneration for directors of the Vestcor Group of companies including reasonable expense reimbursements;
- Appoint a board of directors for each of the Vestcor operating Companies;
- Approve the annual operating and capital expenditure budgets for each of the Vestcor operating companies; and
- Approve the annual report of the Vestcor Group to its Members.

VESTCOR GROUP OF OPERATING COMPANIES

Following proclamation of the Act, the Board of Directors for Vestcor Corp. formed an ad hoc Nominating Committee consisting of R. Fitzpatrick (a Vestcor Corp. director) and D. Bovolaneas, M. Walton and J. Sinclair (NBIMC directors) for purposes of determining eligible nominees to the Boards of Directors for each of the Vestcor operating companies: VIMC and VPSC. The Committee developed a skills matrix to ensure an appropriate diversity of Board experience and skills. They also engaged the services of a professional executive search firm to assist the Committee in the solicitation and evaluation of interested applicants against this skills matrix. Upon the final recommendation of the ad hoc Nominating Committee, the Vestcor Corp. Board appointed ten highly qualified independent directors to serve on the Board of each operating entity. It is also important to note that the Board for each operating company comprises the same directors (the “Operating Companies’ Board”).

The Act, the Members’ Agreement and the corporate by-laws set out the duties and responsibilities of the Operating Companies’ Board.

A primary consideration of the Operating Companies’ Board is to oversee VPSC’s activities as a pension and benefits administrator and VIMC’s activities as investment manager for the funds under management. The Board ensures that all of operating companies’ transactions are conducted on a purely commercial basis, and that decisions and actions are based on sound business practices in the best interest of their specific clients.

The Board is responsible for the stewardship and strategic direction of the operating companies. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President & CEO, as well as oversight of the business planning process, financial position and results, risk management, internal controls and information systems, human resources, communications and stakeholder relations for each of VIMC and VPSC. To ensure its ongoing effectiveness, the Board will perform 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 & Compensation Committee and the Governance Committee, whose reports follow. Day-to-day management is delegated to the Chief Executive Officer, while investment-related matters are delegated to the Chief Investment Officer.

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

Board Attendance

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

(a) Vestcor Corp.

The Vestcor Corp. Board was appointed by the Members to be effective upon proclamation of the Act. The appointed directors attended a director orientation meeting and two board meetings in the period since inception on July 8, 2016 to December 31, 2016:

| Director | Appointing Member | Meeting Attendance |
|-------------------------------------|-------------------|--------------------|
| Marcel Larocque, Presiding Co-Chair | NBTPP | 3/3 |
| Marilyn Quinn, Co-Chair | NBPSPP | 3/3 |
| Robert Fitzpatrick | NBTPP | 3/3 |
| Mark Gaudet | NBPSPP | 3/3 |
| Leonard Lee-White | NBPSPP | 3/3 |
| Susie Proulx-Daigle | NBPSPP | 3/3 |
| Michael Springer | NBTPP | 3/3 |
| Reno Thériault | NBTPP | 3/3 |

(b) Vestcor Pension Services Corporation

A Transitional Board for VPSC was appointed by the shareholder, Vestcor Corp., on July 8, 2016 to be effective on an interim basis until the conclusion of the director search process undertaken by the ad hoc Nominating Committee. Recognizing the need for Board continuity, this Transitional Board consisted of four existing directors of the Board of Directors for the New Brunswick Investment Management Corporation (NBIMC), and three members of the previously discussed Pension Working Group. Each of the appointees from the Pension Working Group also signed a director resignation to be effective upon the appointment of the new directors.

| Director | | Meeting Attendance |
|------------------|--------------------------------|---------------------------|
| Michael Walton | NBIMC | 1/1 |
| Wiktor Askanas | NBIMC | 1/1 |
| Donna Bovolaneas | NBIMC | 1/1 |
| Cathy Rignanesi | NBIMC | 1/1 |
| Ernie MacKinnon | Pension Working Group (NBPSPP) | 1/1 |
| David Nowlan | Pension Working Group (NBTPP) | 1/1 |
| Leigh Sprague | Pension Working Group (NBPSPP) | 1/1 |

On September 13, 2016, and after reviewing the recommendations from the ad hoc Nominating Committee, Vestcor Corp. appointed the Board of Directors for VPSC. The new Board had an initial board orientation meeting and met twice in the three months ended December 31, 2016:

| Director | Meeting Attendance |
|----------------------------|---------------------------|
| Michael Walton, Chair | 3/3 |
| Wiktor Askanas, Vice Chair | 3/3 |
| Michel Allain | 3/3 |
| Donna Bovolaneas | 3/3 |
| David Losier | 3/3 |
| Eleanor Marshall | 3/3 |
| Tim Mawhinney | 3/3 |
| Daniel Murray | 3/3 |
| Cathy Rignanesi | 3/3 |
| Nancy Whipp | 3/3 |

(c) Vestcor Investment Management Corporation

On October 1, 2016, NBIMC ceased to be a Crown corporation and was continued as a share capital not-for-profit corporation, owned by Vestcor Corp. and renamed as VIMC. The fiscal year end for the company was also changed from March 31 to December 31. Accordingly, for the nine months from April 1, 2016 to December 31, 2016, the Board attendance was as follows:

| Appointed Director¹ | Board | Audit Committee | Governance Committee | Human Resources & Compensation Committee |
|---------------------------------------|--------------|------------------------|-----------------------------|---|
| Michael Walton | 6/6 | 2/3 | 2/3 | 2/3 |
| Michel Allain ² | 3/3 | n/a | n/a | 1/1 |
| Wiktor Askanas | 5/6 | 2/2 | 2/2 | 3/3 |
| Donna Bovolaneas | 6/6 | 3/3 | 3/3 | 1/1 |
| David Losier ² | 3/3 | 1/1 | 1/1 | n/a |
| Ronald Maloney | 3/3 | n/a | n/a | 2/2 |
| Eleanor Marshall ² | 3/3 | 1/1 | n/a | n/a |
| Tim Mawhinney ² | 3/3 | n/a | n/a | 1/1 |
| Daniel Murray ² | 3/3 | 1/1 | n/a | n/a |
| Cathy Rignanesi | 6/6 | 3/3 | 3/3 | n/a |
| Richard Speight | 3/3 | n/a | 2/2 | n/a |
| Reno Thériault | 3/3 | n/a | 2/2 | 2/2 |
| Nancy Whipp ² | 3/3 | n/a | 1/1 | 1/1 |

¹ The NBIMC Board of Directors also included three ex officio members until October 1, 2016: the President & CEO of NBIMC, the Deputy Minister of Finance (non-voting), and the Vice-President of Finance of New Brunswick Power Corporation.

² Appointed to the Board on September 13, 2016 and to the Audit, Governance and/or Human Resources & Compensation Committees on November 7, 2016.

Board Education

The 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 investment industries. Management provided director orientation to each of the Boards of Directors for the Vestcor companies. On-going director education includes exposure to relevant news and articles of interest as well as a program of educational sessions.

Board Decisions

(a) Vestcor Corp.

Major decisions made by the Vestcor Corp. Board during its initial fiscal period since inception on July 8, 2016 to December 31, 2016 included:

- Appointment of M. Larocque and M. Quinn as Co-Chairs, to serve for a term of three years;
- Appointment of M. Larocque as Presiding Co-Chair for a term of one year;
- Appointment of J. Imeson as Chief Financial Officer and M. Nowicki as Corporate Secretary;
- Appointment of KPMG LLP as the independent Auditor;
- Approval of the Members' Agreement;
- Approval of the Vestcor Group Corporate By-laws;
- Approval of a Remuneration and Travel Expense Policy for the Vestcor Corp. Board of Directors;
- Appointment of the Board of Directors for VPSC and VIMC;
- Ratification of the Remuneration and Travel Policy for the Operating Companies' Board;
- Approval of the operating budget for Vestcor Corp. for its initial fiscal period ended December 31, 2016 and for 2017;
- Approval of the 2017 operating and capital budgets for VIMC and VPSC;
- Approval of the external audit plan for the consolidated financial statements of Vestcor Corp. for the period since inception on July 8, 2016 to December 31, 2016 and approval of the external audit plan for the financial statements of VPSC and VIMC for their respective fiscal periods ended December 31, 2016;

(b) Vestcor Pension Services Corporation

Major decisions made by the VPSC Board during its initial fiscal period since inception on October 1, 2016 to December 31, 2016 (see Committee reports following) included:

- Appointment of M. Walton as Chair and W. Askanas as Vice-Chair;
- Appointment of T. Mann as Acting Chief Executive Officer;
- Approval of letters of offer to the employees of the Pensions and Employee Benefits Division of the Department of Human Resources;
- Recommendation to the shareholder for the approval of the external audit plan for VPSC for the financial statements for the three months ended December 31, 2016;
- Appointment of the Audit Committee, being: C. Rignanesi (Chair), E. Marshall, D. Murray, D. Bovolaneas, D. Losier, and M. Walton (*ex officio*);
- Appointment of the Human Resource & Compensation Committee, being: W. Askanas (Chair), M. Allain, T. Mawhinney, N. Whipp, D. Bovolaneas, and M. Walton (*ex officio*);
- Appointment of the Governance Committee, being: D. Bovolaneas (Chair), D. Losier, N. Whipp, C. Rignanesi, and M. Walton (*ex officio*);
- Approval of the Vestcor Corp. Members' Agreement;
- Recommended for approval the VPSC Corporate By-laws;
- Appointment of J. Imeson as Chief Financial Officer and I. Després, as Corporate Secretary;
- Recommendation to the shareholder for the approval of the 2017 operating and capital budgets;
- Approval of the issuance a 1,000 shares of VPSC to Vestcor Corp. for \$1 per share.

(c) Vestcor Investment Management Corporation

Major decisions made by the VIMC Board (and by its predecessor NBIMC Board) during the nine months ended December 31, 2016, in addition to the matters referred to it by the Board Committees (see Committee reports following) included:

- Approval of the Annual Business Plan and weightings for Incentive Plan purposes and approval of subsequent change in incentive calculation methodology to reflect the change of fiscal year end to December 31, 2016;
- Approval of the Letter of Performance Objectives for Fiscal 2016 -17;
- Approval of the NBIMC Pooled Fund Profiles for publication;
- Approval of an Investment Policy Statement for the newly-created NBIMC Quantitative Equity Strategic Beta Fund;
- Approval of an extension to the employment contract for the President and Chief Executive Officer to June 2018;
- Approval of the Vestcor Corp. Members' Agreement;
- Approval of the Trust Transfer Agreement and Indemnity to effect a transfer on October 1, 2016 of the trustee responsibility for the Provincial Court Judges' Pension Plan to the Minister of Finance for the Province of New Brunswick;
- Appointment of M. Walton as Chair and W. Askanas as Vice-Chair;
- Appointment of the Audit Committee, being: C. Rignanesi (Chair), E. Marshall, D. Murray, D. Bovolaneas, D. Losier, and M. Walton (*ex officio*);
- Appointment of the Human Resource & Compensation Committee, being: W. Askanas (Chair), M. Allain, T. Mawhinney, N. Whipp, D. Bovolaneas, and M. Walton (*ex officio*);
- Appointment of the Governance Committee, being: D. Bovolaneas (Chair), D. Losier, N. Whipp, C. Rignanesi, and M. Walton (*ex officio*);
- Recommended for approval the VIMC Corporate By-laws;
- Recommendation to the shareholder for the approval of the 2017 operating and capital budgets;
- Approval of the issuance a 1,000 shares of VIMC to Vestcor Corp. for \$1 per share.
- Appointment of J. Sinclair as President and Chief Executive Officer;
- Ratification of the appointment of officers of NBIMC to continue as officers of VIMC; and
- Approval of the establishment of three new limited partnership entities: Vestcor Investments Private Equity L.P., Vestcor Investments Private Real Estate L.P. and Vestcor Investments Infrastructure L.P., together with a new corporate entity, Vestcor Investments General Partner Inc.

DIRECTORS' REMUNERATION

Directors' remuneration is established in each Vestcor entity's By-Laws and includes 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.

The cost of the VIMC Board function, including per diems, director orientation and Board education, for the nine months ended December 31, 2016 was \$91.6 (thousand) (year ended March 31, 2016 – \$101.9) plus travel and accommodation reimbursements of \$11.6 (year ended March 31, 2016 – \$12.8). The cost of the Board function for the VPSC Board for the three months ended December 31, 2016 was \$14.5 (thousand). The cost of the Vestcor Corp. Board function for the period July 8, 2017 to December 31, 2016 was \$9.3 (thousand).

BOARD COMMITTEE REPORTS

The following highlights of Board Committee Reports include the combined activities of VIMC for the period April 1, 2016 to December 31, 2016 and VPSC for the period October 1, 2016 to December 31, 2016.

Report of the Audit Committee

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

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

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

Highlights

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the fiscal period ended December 31, 2016:

- Reviewed a discussion paper concerning the appropriate accounting framework to be used for financial reporting by the Vestcor entities and approved the decision to apply Part III of the CPA Handbook, *Accounting Standards for Not-for-Profit Organizations*;
 - Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards for the year ended December 31, 2016 for the:
 - o NBPSPP Composite;
 - o NBTPP Composite;
 - o Judges' Composite;
 - o NBSD Composite;
 - o CBE Composite;
 - o Low Volatility Global Equity Composite; andrecommended their approval by the VIMC Board;
 - Reviewed the Schedule of Composite Performance in accordance with Global Investment Performance Standards for the year ended March 31, 2016 for the Environmental Reclamation Fund Composite and recommended its approval by the VIMC Board;
 - Reviewed the audited financial statements for the NBIMC Unit Trust Funds and VIMC for the nine months ended December 31, 2016 and recommended their approval by the VIMC Board and shareholder;
 - Reviewed the audited financial statements for VPSC for the three months ended December 31, 2016 and recommended their approval by the VPSC Board and shareholder;
 - Reviewed the audited consolidated financial statements for Vestcor for the period since inception on July 8, 2016 to December 31, 2016 and recommended their approval by the operating companies' Board and shareholder;
 - Received the draft Vestcor Consolidated Annual Report material for the period since inception on July 8, 2016 to December 31, 2016 and recommended its approval by the operating companies' Board and shareholder;
-

- Reviewed quarterly unaudited financial statements for the NBIMC Unit Trust Funds, VIMC and VPSC together with management's certifications regarding changes in accounting policies, significant accounting estimates, errors, material weaknesses in internal controls over financial reporting, fraud or illegal acts and subsequent events;
- Reviewed quarterly unaudited financial statements for the Provincial Court Judges' Pension Plan Trust until the trustee responsibility was transferred from VIMC to the Minister of Finance on October 1, 2016;
- Received a regular status report of the Integrated Pension Services Organization (project to establish Vestcor) from the President & CEO until the *Vestcor Act* received Royal Assent on July 8, 2016;
- Reviewed a quarterly memorandum from the Chief Financial Officer outlining financial reporting decisions and changes required to respond to pension reform, the addition of new clients and the integrated pension services organization initiative and monitored the changes necessitated by these events on processes and resources;
- Received the audited financial statements for the year ended March 31, 2016 for a wholly-owned subsidiary of the NBIMC Canadian Real Estate Fund;
- Received a quarterly memorandum concerning future financial reporting matters to be considered by the Committee;
- Reviewed and recommended for approval by the operating companies' Board and shareholder the External Auditor's engagement, audit plan, timing, staffing and fees for each of the VIMC and NBIMC Unit Trust Funds financial statements for the nine months ended December 31, 2016, for the VPSC financial statements for the three months ended December 31, 2016 and for the consolidated Vestcor Corp. financial statements for the period since inception on July 8, 2016 to December 31, 2016;
- 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 the External Auditor's Audit Findings Report for the nine months ended December 31, 2016 and obtained confirmation of the External Auditor's independence;
- Approved the Internal Auditor's plan and budget for 2017;
- Received the Internal Auditor's recommendations and management's responses for two internal audits: a GST/HST Review, and a Personal and Institutional Trading Review;
- Approved the Internal Auditor's plan for an External Client Reporting Process Review;
- Reviewed the September 2016 Follow-Up Report from the Internal Auditor concerning management's responses to previous internal audit recommendations;
- Each quarter met *in camera* with each of the External Auditor, the Internal Auditor and management;
- Monitored management's key performance indicators related to timely resolution of all external and internal audit recommendations;
- Reviewed a listing of the major suppliers for each of VIMC and VPSC;
- Completed an annual review of the Enterprise Risk Management Framework;
- Received a status report on a Request for Proposal for securities custody services including preliminary findings and management's recommendations;
- Reviewed the 2016 Internal Control Report prepared by management outlining VIMC's major processes, risks and key controls;
- Reviewed a quarterly risk coverage chart highlighting independent reviews of risk areas in order to ensure appropriate focus on key risks;

| | |
|--|--|
| | <ul style="list-style-type: none"> • Reviewed a quarterly risk matrix showing trends in key risk areas; • Reviewed management’s findings from VIMC’s annual fraud risk assessment; • Received an update to VIMC’s Five Year IT Strategic Plan that incorporated integrated activities for both VIMC and VPSC; • Completed a review of the Valuation Policies for investment securities; • Received quarterly reporting of legal and regulatory compliance; • Received a quarterly status report of class action litigation in which VIMC has participated as a claimant pursuant to their Responsible Investment Guidelines; • Reviewed and approved the insurance coverage of significant business risks and uncertainties; • Received a Summary of Information Technology Risks and a report on Assessing Cyber Security from management; • Completed a review of the Committee’s terms of reference, accomplishments for their fiscal periods ended December 31, 2016 and set objectives for 2017. |
|--|--|

This report has been approved by the members of the Audit Committee.

C. Rignanesi (Chair), E. Marshall, D. Murray, D. Bovolaneas, D. Losier, M. Walton (ex officio).

Report of the Governance Committee

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

The Vestcor Corp. Board of Directors formed an ad hoc Governance Committee to consider the process by which Vestcor will admit new Members and expects that Committee to meet and report in June 2017.

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

| | |
|-------------------|---|
| <p>Highlights</p> | <p>In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the fiscal period ending December 31, 2016:</p> <ul style="list-style-type: none"> • Continued implementation of Board effectiveness goals for the fiscal period ending December 31, 2016; • Reviewed the Director Orientation and Education policy; • Received a quarterly update on the Integrated Pension Services Organization initiative and new client mandates; • Reviewed quarterly compliance with the Code of Ethics and Business Conduct and ensured all new directors had provided their Initial Declaration of Compliance; • Reviewed a Report of Directors’ Compensation and Expenses for the fiscal period ended December 31, 2016; • Received a quarterly status report of progress made in addressing the Board Governance Improvement initiatives; • Received a presentation of the contents of the Board Governance Manual available for reference by all directors; • Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities: fiduciary, legal and regulatory compliance; |
|-------------------|---|

- Received a status report of discussions with the Financial and Consumer Services Commission regarding the status of VIMC’s securities regulation exemption;
- Conducted a review of By-laws, Governance policies, Board practices and Board independence and recommended revisions to the Code of Ethics and Business Conduct policy;
- Reviewed the Strategic Communications Policy including an update on progress with communications and public policy activities;
- Received periodic updates from the ad hoc Nomination Committee;
- Reviewed the composition and tenure of the directors recommended by the ad hoc Nominating Committee;
- Reviewed the Governance Committee’s accomplishments for the fiscal period ending December 31, 2016 and discussed objectives for 2017;
- Reviewed the Board’s accomplishments for the fiscal period ended December 31, 2016 and discussed objectives for 2017;
- Reviewed the draft Corporate Governance disclosure for the Vestcor Group 2016 Annual Report and recommended its approval by the Board and shareholder.

This report has been approved by the members of the Governance Committee.

D. Bovolaneas (Chair), D. Losier, N. Whipp, C. Rignanesi, M. Walton (*ex officio*).

Report of the Human Resources & Compensation Committee

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

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

Highlights

- In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the fiscal period ended December 31, 2016:
- Reviewed the Committee’s Terms of Reference Business and recommended changes to the Board for approval;
 - Set the Committee’s objectives for the fiscal period ended December 31, 2016 and reviewed subsequent achievements;
 - Reviewed the individual business plan success weightings of the VIMC Business Plan for the fiscal period ended December 31, 2016 and recommended their approval by the Board;
 - Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities including the President’s leadership effectiveness, performance integrity, and ability to attract and retain qualified personnel;
 - Reviewed the Succession Plans for the President & CEO and senior management positions and recommended approval by the Board;
 - Received the results of the 2016 Leadership Survey for the President & CEO;
 - Discussed the pending expiry of the employment contract for the President & CEO and recommended to the Board to extend for a further one year term to expire in June 2018;
 - Reviewed and proposed amendments to the Incentive Plan to reflect an adjustment to recognize the Acting Chief Investment Officer position and to add three other positions as eligible employees;

- Reviewed changes required to the organizational structure resulting from the Vestcor initiative and proposed shared services areas and recommended approval by the Board of the addition of new positions for: Human Resources Coordinator, Internal Auditor, Investment Accountant, Corporate Accountant, Technical Support Analyst, and Manager of Plan and Member Communications and the amalgamation of two other existing positions into one new position of Director of Member Services and Communications;
- Received a status report on activities undertaken to address the results of the December 2015 Workplace Environment Survey;
- Reviewed the Human Resources Strategic Plan and recommended its approval by the Board;
- Received quarterly certification from management as to regulatory compliance with various legislative requirements;
- Reviewed a comparison of Value Added Targets against peers;
- Due to the requirement to change the fiscal year end from March to December that resulted in a nine month fiscal period ended December 31, received the results of an external independent compensation consultant's review of the proposed Incentive Plan calculation methodology;
- Reviewed corporate results for the fiscal period ended December 31, 2016 versus the Business Plan and recommended approval by the Board of the individual incentive performance award;
- Reviewed and approved the performance of the President & CEO against the business plan targets for the fiscal period ended December 31, 2016;
- Reviewed and recommended to the Board the overall Incentive Compensation Pool for the fiscal period ended December 31, 2016; and
- Reviewed the draft Compensation Discussion and Analysis section of the Vestcor 2016 Annual Report and recommended its approval by the Board and shareholder.

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

W. Askanas (Chair), M. Allain, T. Mawhinney, N. Whipp, D. Bovolaneas, M. Walton (*ex officio*).

RESPONSIBLE INVESTING GUIDELINES

The responsible investment actions of investment managers have increasingly become a focus of investors, governments, regulators, and various third party interest groups in recent years.

While our fiduciary responsibilities and relatively limited organizational footprint restrict our ability to provide exclusionary screens or divestment options, VIMC has been a very active long-term member / partner in a number of organizations that support best practice environmental, social, and governance-related investment actions. For example, VIMC has been an active long serving member in organizations such as the Pension Investment Association of Canada (<https://www.piacweb.org>) and the Canadian Coalition for Good Governance (<http://www.cgg.ca>). Each of these organizations have successful active 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 detail can be found in our Responsible Investment Guidelines under the Investments tab on our website at www.vestcor.org.

INDUSTRY RELATIONSHIPS

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

- Association of Canadian Pension Management (ACPM)
- Beaverbrook Art Gallery Investment Committee
- 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 staff continued to be very active with a number of important causes in both our local and the larger national community. These efforts can vary from volunteering time, sharing professional expertise, or the donation of personal financial resources.

LOCAL CHARITABLE CAUSES

During the year, the Vestcor staff continued to exceed their target contribution level for the annual corporate United Way campaign. At the same time each company also continued to organize a number of successful fund raising activities for local charities.

VIMC was also proud to continue to further recognize their employee volunteer activities. During 2016, employees provided an average of 47 hours per volunteer to over 43 non-profit organizations. Over 67% of employees were involved in volunteer efforts in some capacity.

POOLED FUND PERFORMANCE

The specific performance of each NBIMC Pooled Fund and its respective benchmark return for the period indicated to December 31, 2016 is outlined in the table below.

| Unit Trust Fund | 1 Yr % | 2 Yrs % | 3 Yrs % | 4 Yrs % | 5 Yrs % | 10 Yrs % | Since Inception ¹ % |
|---|-----------|------------|------------|------------|------------|-------------|-----------------------------------|
| NBIMC Nominal Bond Fund | 1.45 | 2.57 | 4.88 | 3.20 | 3.18 | 4.88 | 5.56 |
| Benchmark | 0.89 | 2.36 | 4.62 | 2.92 | 2.87 | 4.57 | 5.39 |
| NBIMC Corporate Bond Fund | 3.91 | 3.37 | 4.87 | 3.81 | 4.44 | | 4.44 |
| Benchmark | 3.73 | 3.22 | 4.65 | 3.69 | 4.18 | | 4.18 |
| NBIMC Global Fixed Income Fund | | | | | | | 1.10 ² |
| Benchmark | | | | | | | 0.15 |
| NBP Canadian Long-Term Bond Fund | 2.70 | 2.97 | 5.87 | | | | 6.02 |
| Benchmark | 2.70 | 3.22 | 6.39 | | | | 6.55 |
| NBIMC New Brunswick Fixed Income Opportunity Fund | 2.17 | 3.61 | 5.64 | 3.72 | 3.66 | 5.42 | 6.55 |
| Benchmark | 0.89 | 2.36 | 4.62 | 2.92 | 2.87 | 4.57 | 5.39 |
| NBIMC Money Market Fund | 1.05 | 1.01 | 1.11 | 1.18 | 1.24 | 1.81 | 2.81 |
| Benchmark | 0.51 | 0.58 | 0.69 | 0.77 | 0.82 | 1.39 | 2.48 |
| NBIMC Student Investment Fund | 10.36 | 3.80 | 5.93 | 6.02 | 5.91 | 5.19 | 7.05 |
| Benchmark | 10.92 | 4.29 | 6.33 | 6.15 | 6.00 | 4.88 | 6.89 |
| NBIMC Canadian Equity Index Fund | 21.81 | 5.80 | 7.91 | 9.32 | 9.14 | 5.22 | 6.84 |
| Benchmark | 21.08 | 5.36 | 7.06 | 8.52 | 8.25 | 4.65 | 6.42 |
| NBIMC Low Volatility Canadian Equity Fund | 16.74 | 5.94 | 10.77 | 11.88 | | | 11.88 |
| Benchmark ³ | 17.58 | 6.48 | 9.73 | 9.62 | | | 9.62 |
| NBIMC External Canadian Equity Fund | 17.92 | 6.33 | 7.88 | 9.90 | 9.35 | 5.98 | 10.74 |
| Benchmark | 21.08 | 5.36 | 7.06 | 8.52 | 8.25 | 4.65 | 9.62 |
| NBIMC Canadian Equity Active Long Strategy Fund | 17.33 | 2.47 | 5.71 | 7.61 | 7.44 | | 3.31 |
| Benchmark | 21.08 | 5.36 | 7.06 | 8.52 | 8.25 | | 3.95 |
| NBIMC External International Equity Fund | (2.73) | 9.67 | 8.76 | 15.10 | 15.22 | | 5.36 |
| Benchmark | (2.49) | 7.70 | 6.34 | 12.03 | 12.52 | | 3.84 |
| NBIMC EAFE Equity Index Fund | (2.43) | 8.35 | | | | | 8.35 |
| Benchmark | (2.49) | 8.24 | | | | | 8.24 |
| NBIMC EAFE Equity Index Fund – Class N | (2.21) | 7.99 | 6.59 | 12.21 | 12.73 | | 4.18 |
| Benchmark | (2.49) | 7.70 | 6.34 | 12.03 | 12.52 | | 3.84 |
| NBIMC Low Volatility International Equity Fund | (1.92) | 12.05 | | | | | 12.05 |
| Benchmark ³ | (5.20) | 10.78 | | | | | 10.78 |

| Unit Trust Fund | 1 Yr % | 2 Yrs % | 3 Yrs % | 4 Yrs % | 5 Yrs % | 10 Yrs % | Since Inception ¹ % |
|---|-----------|------------|------------|------------|------------|-------------|-----------------------------------|
| NBIMC Low Volatility International Equity Fund – Class N | (2.09) | 11.88 | 11.50 | 14.86 | | | 14.54 |
| Benchmark ³ | (5.20) | 10.78 | 9.71 | 14.69 | | | 14.11 |
| NBIMC Low Volatility Emerging Markets Equity Fund | 4.31 | | | | | | (0.22) |
| Benchmark | 0.31 | | | | | | (2.00) |
| NBIMC U.S. Equity Index Fund | 8.63 | 14.68 | 17.64 | 23.16 | 21.16 | | 11.81 |
| Benchmark | 8.62 | 14.62 | 17.67 | 23.23 | 21.21 | | 11.91 |
| NBIMC Low Volatility U.S. Equity Fund | 9.05 | 17.47 | 20.91 | 24.40 | 21.57 | | 21.57 |
| Benchmark ³ | 6.56 | 15.49 | 19.34 | 24.54 | 21.58 | | 21.58 |
| NBIMC Inflation Linked Securities Fund | 2.91 | 2.98 | 6.24 | 1.12 | 1.47 | 5.21 | 7.38 |
| Benchmark | 2.86 | 2.83 | 6.17 | 0.99 | 1.36 | 5.09 | 7.20 |
| NBIMC Canadian Real Estate Fund | 10.33 | 10.32 | 9.84 | 8.37 | 9.47 | 9.78 | 11.71 |
| Benchmark | 5.31 | 5.46 | 5.40 | 3.97 | 5.34 | 5.55 | 5.70 |
| NBIMC Canadian Real Estate Investment Trust Fund | 17.83 | 6.12 | 7.57 | | | | 7.57 |
| Benchmark | 17.63 | 5.91 | 7.37 | | | | 7.37 |
| NBIMC Non-Canadian Private Real Estate Fund | (0.31) | | | | | | (4.46) |
| Benchmark | 5.31 | | | | | | 5.21 |
| NBIMC International Real Estate Fund | 5.19 | 13.73 | 22.50 | 19.03 | 18.27 | | 11.20 |
| Benchmark | 5.39 | 13.70 | 21.76 | 18.70 | 18.38 | | 11.06 |
| NBIMC Public Infrastructure Fund | 7.13 | | | | | | 2.42 |
| Benchmark | 5.31 | | | | | | 5.38 |
| NBIMC Infrastructure Fund | 8.70 | 8.54 | 7.26 | 6.39 | 7.83 | | 7.56 |
| Benchmark | 5.31 | 5.46 | 5.40 | 5.33 | 5.57 | | 5.62 |
| NBIMC North American Market Neutral Fund | 3.75 | 1.90 | 0.78 | 2.34 | 2.72 | 1.28 | 2.02 |
| Benchmark | 0.51 | 0.58 | 0.69 | 0.77 | 0.82 | 1.39 | 1.80 |
| NBIMC Quantitative Strategies Fund | 5.45 | 5.16 | 6.00 | 6.13 | 5.80 | | 4.18 |
| Benchmark | 0.51 | 0.58 | 0.69 | 0.77 | 0.82 | | 0.95 |
| NBIMC Quantitative Strategic Beta Fund | | | | | | | 3.49 ² |
| Benchmark | | | | | | | 0.23 |
| NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund | 6.00 | 4.98 | 2.42 | 3.97 | 15.34 | 19.56 | 9.66 |
| Benchmark | 5.31 | 5.46 | 5.40 | 5.33 | 5.57 | 5.70 | 6.98 |
| NBIMC Private Equity Fund | 6.45 | 17.47 | 18.28 | 18.51 | 16.98 | | 9.45 |
| Benchmark | 3.93 | 10.17 | 10.58 | 16.06 | 15.71 | | 7.35 |

¹ On April 1, 2008, VIMC 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 Fund or, if an international Fund, April 1, 2008.

² These funds 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 CORP. CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Vestcor Corp. ("Vestcor" or the "Corporation") was created on July 8, 2017 pursuant to the *Vestcor Act* of the New Brunswick Legislature.

The consolidated financial statements of Vestcor have been prepared by management. They have been approved by the Board of Directors.

Management prepared Vestcor's consolidated financial statements in accordance with CPA Handbook Part III - Accounting Standards for Not-for-Profit Organizations. The consolidated 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 consolidated 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 consolidated financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, consisting of five independent Board members. The Audit Committee reviews the consolidated 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 consolidated financial statements, are directly accountable to the Audit Committee. They have conducted an independent examination of the consolidated financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion to the Board of Directors.



John A. Sinclair
President and Chief Executive Officer



Jan Imeson, CPA, CA
Chief Financial Officer

VESTCOR CORP.
CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vestcor Corp.

We have audited the accompanying consolidated financial statements of Vestcor Corp., which comprise the consolidated statement of financial position as at December 31, 2016, the consolidated statements of operations and changes in net assets and cash flow for the period since inception on July 8, 2016 to December 31, 2016 and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Vestcor Corp. as at December 31, 2016 and its consolidated results of operations and its consolidated cash flow for the period since inception on July 8, 2016 to December 31, 2016, in accordance with Canadian accounting standards for not-for-profit organizations.

Chartered Professional Accountants

March 27, 2017
Fredericton, Canada

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.

VESTCOR CORP.
Consolidated Statement of Financial Position
(in thousands of Canadian dollars)

December 31, 2016

ASSETS

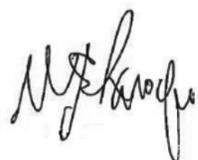
| | | |
|--------------------------------------|----|-------|
| Current | | |
| Cash | \$ | 687 |
| Accounts receivable <i>(note 10)</i> | | 6,641 |
| Other receivables | | 162 |
| Prepaid expenses | | 738 |
| Total current assets | | 8,228 |
| Long-term accounts recoverable | | 358 |
| Capital assets <i>(note 4)</i> | | 561 |
| | \$ | 9,147 |

LIABILITIES AND NET ASSETS

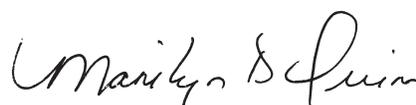
| | | |
|--|----|-------|
| Current | | |
| Accounts payable and accrued liabilities <i>(note 5)</i> | \$ | 8,202 |
| Current portion of supplemental pension <i>(note 6)</i> | | 26 |
| Total current liabilities | | 8,228 |
| Supplemental pension <i>(note 6)</i> | | 358 |
| Deferred contributions related to capital assets <i>(note 7)</i> | | 561 |
| Total liabilities | | 9,147 |
| Unrestricted net assets | | — |
| | \$ | 9,147 |

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

Approved on behalf of the Board:



Marcel Larocque
 Presiding Co-Chair of the Board



Marilyn Quinn
 Co-Chair of the Board

VESTCOR CORP.**Consolidated Statement of Operations and Change in Net Assets***(in thousands of Canadian dollars)*

| | Since inception on July 8, 2016 to December 31, 2016 |
|--|---|
| REVENUE | |
| Investment management fees <i>(note 10)</i> | \$ 5,397 |
| Pension administration fees <i>(note 10)</i> | 1,828 |
| Benefits administration fees | 349 |
| Members' contributions <i>(note 10)</i> | 156 |
| Amortization of deferred contributions related to capital assets | 26 |
| Total revenue | 7,756 |
| EXPENSES | |
| Salaries and benefits | 4,830 |
| Information systems | 1,120 |
| External investment management | 718 |
| Office and business | 345 |
| Securities custody | 289 |
| Professional services | 261 |
| Office rent | 167 |
| Amortization of capital assets | 26 |
| Total expenses | 7,756 |
| Excess of revenue over expenses | — |
| Unrestricted net assets, beginning of period | — |
| UNRESTRICTED NET ASSETS, end of period | \$ — |

See accompanying notes to financial statements

VESTCOR CORP.
Consolidated Statement of Cash Flow
(in thousands of Canadian dollars)

| | Since inception on July 8, 2016 to December 31, 2016 |
|--|---|
| OPERATING ACTIVITIES | |
| Excess of revenue over expenses | \$ — |
| Non-cash items: | |
| Amortization of capital assets | 26 |
| Amortization of deferred contributions related to capital assets | (26) |
| Supplemental pension | 4 |
| Changes in non-cash operating working capital: | |
| Increase in accounts receivable | (4,980) |
| Increase in other receivables | (159) |
| Increase in prepaid expenses | (379) |
| Increase in accounts payable and accrued liabilities | 6,087 |
| Net cash from operating activities | 573 |
| INVESTING ACTIVITIES | |
| Acquisition of Vestcor Pension Services Corporation <i>(note 3)</i> | — |
| Acquisition of Vestcor Investment Management Corporation <i>(note 3)</i> | 120 |
| Purchases of capital assets | (165) |
| Deferred contributions related to capital assets | 165 |
| Net cash provided by investing activities | 120 |
| FINANCING ACTIVITIES | |
| Payment of supplemental pension | (6) |
| Net cash used in financing activities | (6) |
| INCREASE IN CASH DURING PERIOD | 687 |
| Cash, beginning of period | — |
| CASH, END OF PERIOD | \$ 687 |

See accompanying notes to financial statements

VESTCOR CORP.

Notes to Consolidated Financial Statements

Since inception on July 8, 2016 to December 31, 2016

(in thousands of Canadian dollars)

1. Nature of Operations

Vestcor Corp. (“Vestcor”) was established pursuant to the *Vestcor Act* which was proclaimed on July 8, 2016. Vestcor’s mandate is to provide, through one or more subsidiary corporations, pension and benefits administration, investment management and advisory services and related services to pension, trust, endowment or similar funds within the public sector.

Vestcor 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”).

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 consolidated financial statements have been prepared in accordance with CPA Handbook Part III – Accounting Standards for Not-for-Profit Organizations. The significant accounting policies used in the preparation of these financial statements are as follows:

(b) Principles of consolidation

These consolidated financial statements include the accounts of Vestcor and each of its wholly-owned subsidiaries Vestcor Investment Management Corporation (“VIMC”) and Vestcor Pension Services Corporation (“VPSC”) from the date of acquisition on October 1, 2016. All significant intercompany transactions have been eliminated on consolidation. All subsidiaries have the same reporting year end as Vestcor and all follow the same accounting policies.

(c) Revenue recognition

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

(d) Capital assets

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

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

VESTCOR CORP.

Notes to Consolidated Financial Statements

Since inception on July 8, 2016 to December 31, 2016

(in thousands of Canadian dollars)

2. Significant Accounting Policies (continued)

(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 4*) and deferred contributions (*note 7*) and the estimated actuarial liability for supplemental pension (*note 6*).

VESTCOR CORP.

Notes to Consolidated Financial Statements

Since inception on July 8, 2016 to December 31, 2016

(in thousands of Canadian dollars)

3. Acquisitions

On October 1, 2016, Vestcor acquired all of the common shares of VPSC for aggregate consideration of \$1. VPSC was formerly the Pensions and Employee Benefits Division of the Department of Human Resources for the Province of New Brunswick. VPSC provides pension and benefits plan administration services on a cost recovery basis to public sector entities. Due to the not-for-profit basis upon which it operates, the net fair value of VPSC, including the net assets acquired, had an estimated fair value of nil. The estimated fair value of net assets acquired is as follows:

Estimated fair value of net assets acquired:

| | | |
|--|----|------|
| Accounts receivable | \$ | 62 |
| Accounts payable and accrued liabilities | | (62) |
| | \$ | — |

On October 1, 2016, Vestcor also acquired all of the common shares of VIMC for aggregate consideration of \$1. VIMC, formerly known as New Brunswick Investment Management Corporation, was a Crown corporation until it was continued as a private, not-for profit entity on October 1, 2016. The estimated fair value of net assets acquired is as follows:

Estimated fair value of net assets acquired:

| | | |
|--|----|---------|
| Accounts and other receivables | \$ | 1,960 |
| Prepaid expenses | | 359 |
| Capital assets | | 422 |
| Accounts payable and accrued liabilities | | (2,053) |
| Supplemental pension | | (386) |
| Deferred contributions related to capital assets | | (422) |
| Cash acquired | \$ | 120 |

4. Capital Assets

| | Computer equipment | Furniture and equipment | Leasehold improvements | December 31, 2016 Total |
|---------------------------------|-----------------------|----------------------------|---------------------------|-------------------------------|
| Cost | | | | |
| Opening balance | \$ — | — | — | — |
| Acquisitions (note 3) | 248 | 101 | 73 | 422 |
| Purchases | 161 | 3 | 1 | 165 |
| Closing balance | 409 | 104 | 74 | 587 |
| Accumulated amortization | | | | |
| Opening balance | — | — | — | — |
| Amortization expense | 21 | 2 | 3 | 26 |
| Closing balance | 21 | 2 | 3 | 26 |
| Net book value | \$ 388 | 102 | 71 | 561 |

VESTCOR CORP.

Notes to Consolidated Financial Statements

Since inception on July 8, 2016 to December 31, 2016

(in thousands of Canadian dollars)

5. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2016 of \$396 which include amounts payable for GST/HST and payroll-related taxes.

6. Supplemental Pension

Vestcor has an estimated liability of \$384 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 March 31, 2015 and extrapolated to March 31, 2016 and December 31, 2016. 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 Assets

The balance of unamortized deferred contributions consists of the following:

| | Since inception on July 8, 2016 to December 31, 2016 |
|--|---|
| Balance, beginning of period | \$ — |
| Acquisition (note 3) | 422 |
| Additional contributions received, net | 165 |
| Less amounts amortized to revenue | (26) |
| Balance, end of period | \$ 561 |

8. Employee Future Benefits

Vestcor is a participating employer in the NBPSPP. For the period ended December 31, 2016, Vestcor expensed contributions of \$266 under the terms of the NBPSPP pension plan. VIMC is also a participating employer in a retirement compensation arrangement (“RCA”). For the three months ended December 31, 2016, VIMC expensed contributions of \$35 under the terms of the RCA.

9. Contractual Obligations and Contingencies

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

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

Vestcor also occupies certain office space leased by the Province of New Brunswick under a ten year operating lease which expires on October 31, 2019. Vestcor continues to pay a rental charge in the amount of \$30 per month to the Province while negotiations regarding the assumption of the lease obligation for this space are being finalized.

VESTCOR CORP.

Notes to Consolidated Financial Statements

Since inception on July 8, 2016 to December 31, 2016

(in thousands of Canadian dollars)

10. Related Party Transactions and Balances

Vestcor is an organization owned in equal parts by each of the NBPSPP and NBTPP.

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 period ended December 31, 2016, Vestcor billed \$3,448 and \$2,365 to the NBPSPP and NBTPP respectively for these services, which are included in investment management and pension administration services revenue in the Statement of Operations. At December 31, 2016, NBPSPP and NBTPP owed Vestcor \$2,888 and \$2,075 respectively for such fees. These amounts are included in accounts receivable.

Vestcor also incurs costs relating to the functioning of its Board of Directors and its investment in its operating entities that are recoverable from its Members, the NBPSPP and NBTPP. For the period ended December 31, 2016, Vestcor billed \$78 to each of the NBPSPP and NBTPP which are included in Members' contributions in the Statement of Operations. At December 31, 2016, each of NBPSPP and NBTPP owed Vestcor \$4 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 VIMC 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 VIMC 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. VIMC 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 VIMC 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.