VESTCOR INVESTMENT MANAGEMENT CORPORATION
FINANCIAL STATEMENTS
December 31, 2016

KPMG LLP
Frederick Square
700-77 Westmorland Street
Fredericton NB E3B 6Z3
Telephone (506) 452-8000
Fax (506) 450-0072

One Factory Lane
PO Box 827
Moncton NB E1C 8N6
Telephone (506) 856-4400
Fax (506) 856-4499

133 Prince William Street
PO Box 2388 Stn Main
Saint John NB E2L 3V6
Telephone (506) 634-1000
Fax (506) 633-8828

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vestcor Investment Management Corporation

We have audited the accompanying financial statements of Vestcor Investment Management Corporation, which comprise the statement of financial position as at December 31, 2016, the statements of operations and changes in net assets and cash flow for the nine-month period ended December 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements present fairly, in all material respects, the financial position of Vestcor Investment Management Corporation as at December 31, 2016 and its results of operations and its cash flow for the nine-month period ended December 31, 2016, in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information

Without modifying our opinion, we draw attention to Note 4 to the financial statements which describes that Vestcor Investment Management Corporation adopted Canadian accounting standards for not-for-profit organizations on April 1, 2016, with a transition date of April 1, 2015. These standards were applied retrospectively by management to the comparative information in these financial statements, including the statement of financial position as at March 31, 2016 and April 1, 2015, and the statements of operations and changes in net assets and cash flow for the year ended March 31, 2016 and related disclosures. We were not engaged to report on the restated comparative information, and as such, it is unaudited.

KPMG LLP

Chartered Professional Accountants
March 27, 2017
Fredericton, Canada

VESTCOR INVESTMENT MANAGEMENT CORPORATION
Statement of Financial Position
(in thousands of Canadian dollars)

	December 31, 2016	March 31, 2016 *(Unaudited)*	April 1, 2015 *(Unaudited)*
ASSETS			
Current			
Cash	$ 74	$ 66	$ 53
Accounts receivable	5,046	3,680	2,779
Other receivables	76	6	2
Prepaid expenses	689	519	355
Total current assets	5,885	4,271	3,189
Long-term accounts receivable *(note 8)*	358	371	375
Capital assets *(note 5)*	371	503	450
	$ 6,614	$ 5,145	$ 4,014
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities *(note 6)*	$ 5,858	$ 4,252	$ 3,164
Current portion of supplemental pension *(note 8)*	26	19	25
Total current liabilities	5,884	4,271	3,189
Supplemental pension *(note 8)*	358	371	375
Deferred contributions related to capital assets *(note 10)*	371	503	450
Total liabilities	6,613	5,145	4,014
Unrestricted net assets	1	—	—
	$ 6,614	$ 5,145	$ 4,014

See accompanying notes to financial statements
Contractual obligations and contingencies *(note 7)*

Approved on behalf of the Board:

Michael W. Walton
Chairperson of the Board

Cathy Rignanesi
Chairperson of the Audit Committee

VESTCOR INVESTMENT MANAGEMENT CORPORATION
Statements of Operations and Changes in Net Assets
(in thousands of Canadian dollars)

	Nine months ended December 31, 2016	Year ended March 31, 2016 *(Unaudited)*
REVENUE		
Investment management fees *(note 11)*	$ 13,335	$ 17,719
Amortization of deferred contributions related to capital assets *(note 10)*	159	176
Other	2	2
Total revenue	13,496	17,897
EXPENSES		
Internal investment management		
Salaries and benefits	7,906	9,237
Information systems	1,536	1,873
Securities custody	776	1,183
Office and business	326	414
Professional services	268	376
Office rent	244	303
Amortization of capital assets	159	176
Total internal investment management	11,215	13,562
External investment management		
Investment management	2,188	4,288
Securities custody	93	47
Total external investment management	2,281	4,335
Total expenses	13,496	17,897
Excess of revenue over expenses	—	—
Unrestricted net assets, beginning of period	—	—
UNRESTRICTED NET ASSETS, end of period	$ —	$ —

See accompanying notes to financial statements

VESTCOR INVESTMENT MANAGEMENT CORPORATION
Statement of Cash Flow
(in thousands of Canadian dollars)

	Nine months ended December 31, 2016	Year ended March 31, 2016 *(Unaudited)*
OPERATING ACTIVITIES		
Excess of revenue over expenses	$ —	$ —
Non-cash items:		
Amortization of capital assets	159	176
Amortization of deferred contributions related to capital assets	(159)	(176)
Supplemental pension	13	15
Changes in non-cash operating working capital:		
Increase in accounts receivable	(1,352)	(897)
Increase in other receivables	(70)	(4)
Increase in prepaid expenses	(170)	(164)
Increase in accounts payable and accrued liabilities	1,606	1,088
Net cash from operating activities	27	38
INVESTING ACTIVITIES		
Purchases of capital assets	(27)	(229)
Deferred contributions related to capital assets	27	229
Net cash used in investing activities	—	—
FINANCING ACTIVITIES		
Payment of supplemental pension	(19)	(25)
Net cash used in financing activities	(19)	(25)
INCREASE IN CASH DURING PERIOD	8	13
Cash, beginning of period	66	53
CASH, END OF PERIOD	$ 74	$ 66

See accompanying notes to financial statements

(in thousands of Canadian dollars)

1. Nature of Operations

Vestcor Investment Management Corporation ("VIMC" or "the Corporation") was established pursuant to *New Brunswick Investment Management Corporation Act* which was proclaimed on March 11, 1996 and was continued effective October 1, 2016 as a share corporation pursuant to the *Vestcor Act* (the "Act"). VIMC's mandate is to act as an investment manager for pension and other pools of capital within the public sector.

VIMC is wholly-owned by Vestcor Corp., a not-for-profit organization whose Members consist of the New Brunswick Public Service Pension Plan ("NBPSPP") and New Brunswick Teachers' Pension Plan ("NBTPP"). Under the Act, the fiscal year end of VIMC was changed to December 31. The authorized share capital of VIMC consists of an unlimited number of shares of one class without par value. On October 1, 2016, 1,000 shares were issued to Vestcor Corp. for $1 (dollar) per share.

VIMC recovers all operating expenses and capital expenditures on a cost recovery basis. VIMC is a not-for-profit organization and, as such, is exempt from income taxes under Subsection 149(1)(l) of the *Income Tax Act* (Canada).

At December 31, 2016, the estimated market value of assets managed by VIMC was $15.7 billion. These assets are held in separate partnerships and pooled fund entities, managed by VIMC.

2. Significant Accounting Policies

(a) Basis of presentation

These 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) Revenue recognition

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

(c) Capital assets

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

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

2. Significant Accounting Policies *(continued)*

(d) Employee future benefits

Since January 1, 2014, full-time employees of VIMC are members of the NBPSPP. The NBPSPP is a multiemployer contributory target benefit plan. Prior to January 1, 2014, VIMC 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 VIMC's portion of the obligations, VIMC uses defined contribution accounting to account for its portion of these plans. Accordingly, employer contributions are expensed as incurred.

(e) 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. VIMC 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, VIMC 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 VIMC 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.

(f) Use of estimates

The preparation of the financial statements requires management to make estimates and assumptions that effect 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 5)* and deferred contributions *(note 10)* and the estimated actuarial liability for supplemental pension *(note 8)*.

3. Comparative Figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year. Management changed its practice of reporting fees incurred for external investment managers net of fees billed on the Statement of Operations and Changes in Net Assets and instead reports these items on a gross basis as revenue and expenses. Management believes that this presentation better reflects the full service provided to its clients from its activities. Accordingly, total revenue and total expenses for the comparative period have been reclassified by $5,518.

(in thousands of Canadian dollars)

4. Transition to Accounting Standards for Not-for-Profit Organizations

VIMC adopted Canadian accounting standards for not-for-profit organizations (NFP GAAP) on April 1, 2016, with changes applied retrospectively. Previously, VIMC reported in accordance with Canadian public sector accounting standards (PSAS).

Under PSAS, revenue was recognized when billed with no deferral, thereby creating surplus or deficit whenever capital assets purchased in the period differed from the amortization of previous purchases of capital assets. Under NFP GAAP, VIMC will defer the recognition of fees billed relating to capital expenditures to match the amortization of those capital expenditures over their estimated useful lives. On April 1, 2015, the date of transition to NFP GAAP, deferred contributions related to capital assets as shown on the Statement of Financial Position was increased by $450 and net assets were decreased by $450.

Section 1501, *First-Time Adoption by Not-for-Profit Organizations*, sets out the decisions to be made and the accounting to be followed, including certain elections and exemptions, to facilitate the transition from PSAS to NFP GAAP. NFP GAAP permits a first-time adopter to:

- elect to measure its capital assets at fair value;
- apply a transitional provision to recognize any unamortized transitional obligation related to employee future benefits;
- designate a financial asset or financial liability to be measured at fair value at the date of adoption of NFP GAAP.

VIMC has chosen to not elect, apply or designate any of these accounting adjustments.

Section 1101, *Generally Accepted Accounting Principles for Not-for-Profit Organizations*, clarifies the primary sources of GAAP for purposes of reporting under NFP GAAP and requires that Part II of the CPA Handbook, *Accounting Standards for Private Enterprises* (ASPE), be used if there is no specific Part III guidance available. Under Section 3462, *Employee Future Benefits,* an entity is not required to accrue for a liability for sick-pay benefits that accumulate but do not vest. Accordingly on April 1, 2015, VIMC has decreased the employee future benefits obligation related to its sick leave benefit as shown on the Statement of Financial Position by $64 and increased net assets by $64.

VIMC obtained an actuarial valuation of its supplemental pension. For purposes of preparing an actuarial valuation, the discount rate assumption used for NFP GAAP purposes is the rate on high quality long-term bonds rather than the government's cost of borrowing as required under PSAS. This change in discount rate resulted in VIMC recording a supplemental pension liability as at April 1, 2015 of $400 by increasing the supplemental pension liability in the Statement of Financial Position by $40 and decreasing the net assets by $40.

Accordingly, the reconciliation between previously reported accumulated surplus and restated net assets as at April 1, 2015 is as follows:

Previously reported accumulated surplus at April 1, 2015	$	8
Adjustments on transition to NFP GAAP:		
Recognition of accounting timing differences in accounts receivable		418
Recognition of deferred contributions		(450)
Derecognition of sick leave liability		64
Increase in supplemental pension liability		(40)
Restated net assets in accordance with NFP GAAP	$	—

(in thousands of Canadian dollars)

4. Transition to Accounting Standards for Not-for-Profit Organizations *(continued)*

The reconciliation between previously reported annual surplus and restated excess of revenue over expenses in accordance with NFP GAAP for the year ended March 31, 2016 reflects the impact of these adjustments as follows:

Annual surplus previously reported in accordance with PSAS	$	41
Adjustments relating to NFP GAAP:		
Amortization of deferred contributions related to capital assets		176
Deferral of contributions related to capital assets		(229)
Decrease of sick leave expense		12
Restated excess of revenue over expenses in accordance with NFP GAAP	$	–

5. Capital Assets

		Computer equipment		Furniture and equipment		Leasehold improvements		December 31, 2016 Total
Cost								
Opening balance	$	1,441	$	477	$	444	$	2,362
Purchases		12		13		2		27
Closing balance		1,453		490		446		2,389
Accumulated amortization								
Opening balance		1,114		380		365		1,859
Amortization expense		136		13		10		159
Closing balance		1,250		393		375		2,018
Net book value	$	203	$	97	$	71	$	371

		Computer equipment		Furniture and equipment		Leasehold improvements		March 31, 2016 Total (Unaudited)
Cost								
Opening balance	$	1,258	$	450	$	425	$	2,133
Purchases		183		27		19		229
Closing balance		1,441		477		444		2,362
Accumulated amortization								
Opening balance		968		364		351		1,683
Amortization expense		146		16		14		176
Closing balance		1,114		380		365		1,859
Net book value	$	327	$	97	$	79	$	503

(in thousands of Canadian dollars)

6. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2016 of $47 (March 31, 2016 - $88 (unaudited); April 1, 2015 - $58 (unaudited)) which include amounts payable for GST/HST and payroll-related taxes.

7. Contractual Obligations and Contingencies

VIMC leases its premises under a ten-year operating lease which expires on January 31, 2022. The future minimum lease payments are $256 per annum. Upon signing, VIMC 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 the 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.

8. Supplemental Pension

VIMC has an estimated liability of $384 (March 31, 2016 - $390 (unaudited) and April 1, 2015 - $400 (unaudited)) 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 VIMC 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.

9. Employee Future Benefits

VIMC is a participating employer in the NBPSPP. For the nine months ended December 31, 2016, VIMC expensed contributions of $398 under the terms of the NBPSPP pension plan (March 31, 2016 – $533 (unaudited)). VIMC is also a participating employer in a retirement compensation arrangement (“RCA”). For the nine months ended December 31, 2016, VIMC expensed contributions of $124 under the terms of the RCA (March 31, 2016 – $100 (unaudited)).

10. Deferred Contributions Related to Capital Assets

The balance of unamortized deferred contributions consists of the following:

		December 31, 2016		**March 31, 2016** (Unaudited)
Balance, beginning of period	$	503	$	450
Additional contributions received, net		27		229
Less amounts amortized to revenue		(159)		(176)
Balance, end of period	$	371	$	503

11. Related Party Transactions and Balances

VIMC is a wholly-owned subsidiary of Vestcor Corp., an organization jointly controlled by the NBPSPP and NBTPP. VIMC is also related to Vestcor Pension Services Corporation ("VPSC") by virtue of common ownership. VIMC, VPSC and Vestcor Corp. ("the Vestcor Group") share certain employee functions relating to human resource management, finance, information technology and communications during their normal course of operations which are recorded at the exchange amount agreed to by the parties.

VIMC offers investment management services to the NBPSPP and NBTPP. Investment management 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 the nine months ended December 31, 2016, VIMC billed $6,648 and $4,945 to the NBPSPP and NBTPP respectively (year ended March 31, 2016 - $9,106 (unaudited) and $7,358 (unaudited) respectively). At December 31, 2016, NBPSPP and NBTPP owed VIMC $2,552 and $1,913 respectively (March 31, 2016 $1,874 (unaudited) and $1,498 (unaudited) respectively and April 1, 2015 $1,417 (unaudited) and $1,162 (unaudited) respectively) for such fees. These fees are included in accounts receivable.

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

12. Indemnifications

VIMC provides indemnifications to its officers and directors pursuant to certain corporate by-laws. VIMC 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 VIMC from making a reasonable estimate of the maximum potential payments that VIMC would be required to make. To date, VIMC 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 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.

13. Financial Risks

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