VESTCOR CORP

ANNUAL REPORT TO MEMBERS 2017

WHO WE ARE

Vestcor Corp. (VCorp.) was established pursuant to the *Vestcor Act* which was proclaimed on July 8, 2016. VCorp.'s mandate is to provide, through its wholly owned subsidiaries, Vestcor Investment Management Corporation (VIMC) and Vestcor Pension Services Corporation (VPSC), a cost efficient, integrated investment management, pension and benefit service delivery platform to a number of public sector entities.

BOARD OF DIRECTORS

Marilyn Quinn
Presiding Co-Chair

Marcel Larocque
Co-Chair

Susie Proulx-Daigle
Director

Robert Fitzpatrick
Director

Michael Springer
Director

Reno Thériault
Director

Leonard Lee-White
Director

Mark Gaudet
Director

CORPORATE OFFICERS

John A. Sinclair
President and Chief Executive Officer

Jan Imeson, CPA, CA
Chief Financial Officer

Misha Nowicki
Corporate Secretary

CONTACT INFORMATION

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MESSAGE FROM THE CO-CHAIRS

This is the first full year annual report for Vestcor Corp. (VCorp.) and covers our activities to oversee our two subsidiaries, Vestcor Pension Services Corporation (VPSC) and Vestcor Investment Management Corporation (VIMC), known collectively as the Vestcor operating companies. This annual report includes the audited non-consolidated financial statements for VCorp. in its role as shareholder of the Vestcor operating companies. VPSC and VIMC have prepared a separate Annual Report of their combined operations that is available on their website at **www.vestcor.org**.

VCorp. 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 VCorp. 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.

RECENT ACTIVITIES

As reported in last year's Annual Report, a primary focus for the Vestcor Group in 2017 was to combine the VPSC and VIMC operations to provide a fully integrated pension services organization as was originally contemplated in the *Vestcor Act*. We are most pleased to report that the VIMC and VPSC organizations moved quickly and have now completed their integration by amalgamating into one entity, Vestcor Inc., effective January 1, 2018. This is a major milestone and sets the stage for further enhancement of service delivery.

The VCorp. Board of Directors met twice during 2017 and a description of the decisions made at our meetings is provided in the following *Corporate Governance* section under *Board Decisions*.

VCorp. incurred costs associated with the functioning of its Board of Directors (see page 9) as well as final Vestcor transition costs in the amount of $74 (thousand) in conjunction with completion of legal work to organize Vestcor and the cost to transition VPSC's information technology infrastructure to equipment hosted by VIMC that was completed in April 2017. It should be noted that the costs of creating the Vestcor organization have been funded entirely by the Members of Vestcor, the NBPSPP and NBTPP and not by the clients of the operating companies.

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 and for their continued diligence and hard work in continuing to meet the goals of their clients. Their accomplishments have continued to lead to a number of other Public Sector Funds approaching Vestcor to explore potential strategic partnerships and we look forward to Vestcor continuing to expand their business in the best interest of all stakeholders.

We trust this Annual Report to Members provides a thorough accounting of our activities as the Vestcor shareholder during 2017.

Sincerely,

Marilyn Quinn, Presiding Co-Chair

Marcel Larocque, Co-Chair

June 13, 2018
Fredericton, New Brunswick

CORPORATE GOVERNANCE

Under the *Vestcor Act,* Vestcor Corp. (or "VCorp.") 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 VCorp. 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 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.

The *Vestcor Act* can be found at
http://www.gnb.ca/legis/bill/FILE/58/2/Bill-38-e.htm

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

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 VCorp. 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 the renumeration and travel expense policy for directors of the Vestcor Group of companies;
- 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;
- Provide an annual report of VCorp. to its Members.

BOARD ATTENDANCE

The VCorp. Board was appointed by the Members to be effective upon proclamation of the *Act*. Board members are expected to attend the Board meetings.

The table below provides the number of meetings held and attendance by each of the appointed directors during the year ended December 31, 2017.

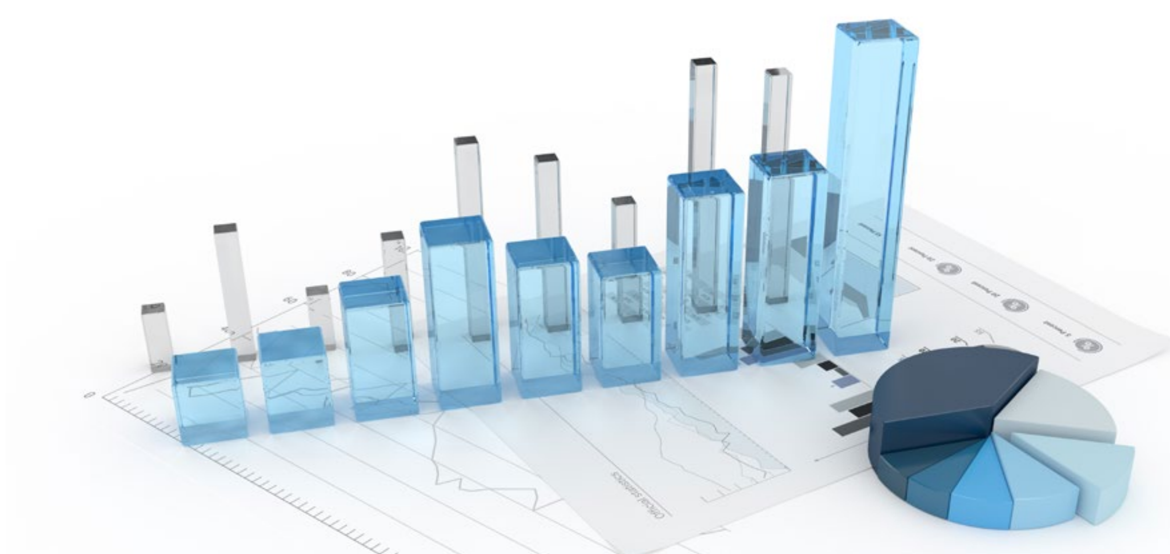
All directors have completed the Director Orientation Program that assists new directors in understanding the mandate and stakeholders of VCorp.

Director	Appointing Member	Meeting Attendance
Marilyn Quinn, Presiding Co-Chair	NBPSPP	2/2
Marcel Larocque, Co-Chair	NBTPP	2/2
Robert Fitzpatrick	NBTPP	2/2
Mark Gaudet	NBPSPP	2/2
Leonard Lee-White	NBPSPP	2/2
Susie Proulx-Daigle	NBPSPP	2/2
Michael Springer	NBTPP	2/2
Reno Thériault	NBTPP	2/2

DIRECTORS' REMUNERATION

Directors' remuneration is established in VCorp.'s By-Laws and includes 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 VCorp. Board function, included per diems and Board education for the year ended December 31, 2017 of $10,792 (period from July 8, 2016 to December 31, 2016 – $9,285) plus travel and accommodation reimbursements of $1,994 (period from July 8, 2016 to December 31, 2016 – $603) and meeting and translation expenses of $6,379 (period from July 8, 2016 to December 31, 2016 – $5,609).



BOARD DECISIONS

Major decisions made by the VCorp. Board during its full first year of operations ended December 31, 2017 included:

- Received a presentation from the Chairman of the Board of the Vestcor operating companies and approved that Board to pursue integration of operations and a legal amalgamation of the operating companies on January 1, 2018;
- Approved the Vestcor Annual Report for the period since inception on July 8, 2016 to December 31, 2016;
- Approved the VCorp. audited consolidated financial statements for the period since inception on July 8, 2016 to December 31, 2016;
- Approved the press release covering publication of the 2016 Vestcor Annual Report and consolidated financial statements;
- Received a presentation of the Corporate Strategic Plan for the Vestcor operating companies;
- Approved a recommendation from the Governance Committee of the Vestcor operating companies' boards for revisions to the Corporate By-laws for those companies;
- Appointed John A. Sinclair as the CEO for VCorp.
- Approved a Resolution of Banking Authorities for VCorp.
- Approved a revised Remuneration and Travel Expense Policy for the Vestcor operating companies;
- Approved the recommendation from the Vestcor operating companies' Board of Directors to reappoint three directors whose terms were expiring in 2017;
- Following the formation of an Ad Hoc Governance Committee, approved that Committee's recommendation for establishment of a Membership Principles and Review Process Policy to follow should a client of the Vestcor operating companies seek a membership seat on the VCorp. Board of Directors.
- Approved the appointment of the external auditor for the Vestcor Group and the audit plan for the year ended December 31, 2017;
- Approved a proposed investment in commercial real estate that may also provide suitable office space for the Vestcor operating companies upon expiration of their current leased facilities;
- Approved the operating and capital budgets for VCorp. and each of the Vestcor operating companies;
- Approved the Amalgamation Agreement between VIMC and VPSC and an Amended and Restated Members' Agreement, effective on January 1, 2018;
- Approved a revised Remuneration and Travel Expense Policy for VCorp. to reflect the approvals required for expenses claimed by either of the Co-Chairs.

VESTCOR CORP. NON-CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Vestcor Corp. ("VCorp." or the "Corporation") was created on July 8, 2016 pursuant to the *Vestcor Act* of the New Brunswick Legislature (the "*Vestcor Act*").

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

Management prepared VCorp.'s non-consolidated financial statements in accordance with CPA Handbook Part III - *Accounting Standards for Not-for-Profit Organizations*. The non-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 non-consolidated financial statements, including amounts based on best estimates and judgments. VCorp. 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 non-consolidated financial statements rests with the Board of Directors.

KPMG LLP, the external auditors of the non-consolidated financial statements, are directly accountable to the Board of Directors. They have conducted an independent examination of the non-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

NON-CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vestcor Corp.

We have audited the accompanying non-consolidated financial statements of Vestcor Corp., which comprise the non-consolidated statement of financial position as at December 31, 2017, the non-consolidated statements of operations and changes in net assets and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Non-Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these non-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 non-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 non-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 non-consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the non-consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the non-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 non-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 non-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 non-consolidated financial statements present fairly, in all material respects, the non-consolidated financial position of Vestcor Corp. as at December 31, 2017 and its non-consolidated results of operations and its non-consolidated cash flow for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative Information

The non-consolidated financial statements of Vestcor Corp. as at and for the period ended December 31, 2016 are unaudited. Accordingly, we do not express an opinion on them.

KPMG LLP

Chartered Professional Accountants
Fredericton, Canada
June 13, 2018

VESTCOR CORP.
Non-Consolidated Statement of Financial Position

		December 31, 2017		December 31, 2016 *(unaudited)*
ASSETS				
Current				
Cash	$	3,007	$	—
Accounts receivable *(note 6)*		5,056		42,640
Total current assets		8,063		42,640
Investment in subsidiaries *(note 3)*		2,000		2,000
Capital assets *(note 4)*		165,117		188,160
	$	175,180	$	232,800
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities	$	10,063	$	44,640
Total current liabilities		10,063		44,640
Deferred contributions related to capital assets *(note 5)*		165,117		188,160
Total liabilities		175,180		232,800
Unrestricted net assets		—		—
	$	175,180	$	232,800

See accompanying notes to financial statements

Approved on behalf of the Board:

Marilyn Quinn
Presiding Co-Chair of the Board

Marcel Larocque
Co-Chair of the Board

VESTCOR CORP.
Non-Consolidated Statement of Operations and Change in Net Assets

		Year ended December 31, 2017		Since inception on July 8, 2016 to December 31, 2016 *(unaudited)*
REVENUE				
Members' contributions *(note 6)*	$	22,665	$	168,552
Amortization of deferred contributions related to capital assets		51,036		—
Total revenue		73,701		168,552
EXPENSES				
Board remuneration		10,792		9,285
Board travel		1,994		603
Translation		3,587		5,036
Business expenses		2,792		572
Professional services		3,500		153,056
Amortization of capital assets		51,036		—
Total expenses		73,701		168,552
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.
Non-Consolidated Statement of Cash Flow

	Year ended December 31, 2017	Since inception on July 8, 2016 to December 31, 2016 *(unaudited)*
OPERATING ACTIVITIES		
Excess of revenue over expenses	$ —	$ —
Non-cash items:		
Amortization of capital assets	51,036	—
Amortization of deferred contributions related to capital assets	(51,036)	—
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	37,584	(42,640)
(Decrease) increase in accounts payable and accrued liabilities	(34,577)	44,640
Net cash from operating activities	3,007	2,000
INVESTING ACTIVITIES		
Acquisition of Vestcor Pension Services Corporation	—	(1,000)
Acquisition of Vestcor Investment Management Corporation	—	(1,000)
Purchases of capital assets	(27,993)	(188,160)
Deferred contributions related to capital assets	27,993	188,160
Net cash used in investing activities	—	(2,000)
INCREASE IN CASH DURING PERIOD	3,007	—
Cash, beginning of period	—	—
CASH, END OF PERIOD	$ 3,007	$ —

See accompanying notes to financial statements

1. Nature of Operations

Vestcor Corp. (“VCorp.”) was established pursuant to the *Vestcor Act* which was proclaimed on July 8, 2016. VCorp.’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.

VCorp. 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”).

VCorp. recovers all operating expenses and capital expenditures on a cost recovery basis from its Members. VCorp. 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 non-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) Revenue recognition

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. VCorp. 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

2. Significant Accounting Policies *(continued)*

(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. VCorp. 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, VCorp. 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 VCorp. 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 5).*

3. Investments in Subsidiaries

(a) Vestcor Pension Services Corporation

On October 1, 2016, VCorp. acquired all of the common shares of Vestcor Pension Services Corporation (VPSC). 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.

Vestcor Pension Services Corporation
Financial Position

		December 31, 2017		**December 31, 2016** *(unaudited)*
Total assets	$	1,773,000	$	2,344,000
Total liabilities		1,772,000		2,343,000
Unrestricted net assets	$	1,000	$	1,000

3. Investments in Subsidiaries *(continued)*

(a) Vestcor Pension Services Corporation *(continued)*

Results of Operations

		Year ended December 31, 2017		October 1, 2016 to December 31, 2016 *(unaudited)*
Total revenue	$	8,838,000	$	2,177,000
Total expenses		8,838,000		2,177,000
Excess of revenue over expenses	$	—	$	—

Cash Flows

		Year ended December 31, 2017		October 1, 2016 to December 31, 2016 *(unaudited)*
Cash from operations	$	(210,000)	$	613,000
Cash used in financing and investing activities		—		—
Increase in cash	$	(210,000)	$	613,000

(b) Vestcor Investment Management Corporation

On October 1, 2016, VCorp. also acquired all of the common shares of Vestcor Investment Management Corporation (VIMC). 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. VIMC provides investment management and advisory services to on a cost recovery basis to public sector entities.

Vestcor Investment Management Corporation
Financial Position

		December 31, 2017		December 31, 2016 *(unaudited)*
Total assets	$	6,940,000	$	6,614,000
Total liabilities		6,939,000		6,613,000
Unrestricted net assets	$	1,000	$	1,000

3. Investments in Subsidiaries *(continued)*

(b) Vestcor Investment Management Corporation *(continued)*

Results of Operations

		Year ended December 31, 2017		October 1, 2016 to December 31, 2016 *(unaudited)*
Total revenue	$	18,509,000	$	5,451,000
Total expenses		18,509,000		5,451,000
Excess of revenue over expenses	$	—	$	—

Cash Flows

		Year ended December 31, 2017		October 1, 2016 to December 31, 2016 *(unaudited)*
Cash from operations	$	215,000	$	49,000
Cash used in financing and investing activities		(26,000)		(3,000)
Increase in cash	$	189,000	$	46,000

On December 6, 2016, VIMC acquired the single issued common share of Vestcor Investments General Partner, Inc. for $1,000. As at December 31, 2017, Vestcor Investments General Partner, Inc. is the general partner in three limited partnerships in which the NBPSPP and NBTPP are limited partners: Vestcor Investments Private Real Estate, L.P., Vestcor Investments Infrastructure, L.P. and Vestcor Investments Private Equity, L.P.

4. Capital Assets

		December 31, 2017		December 31, 2016 *(unaudited)*
Cost				
Opening balance	$	188,160	$	—
Purchases		27,993		188,160
Closing balance		216,153		188,160
Accumulated amortization				
Opening balance		—		—
Amortization expense		51,036		—
Closing balance		51,036		—
Net book value	$	165,117	$	188,160

5. Deferred Contributions Related to Capital Assets

The balance of unamortized deferred contributions consists of the following:

		December 31, 2017		Since inception on July 8, 2016 to December 31, 2016 *(unaudited)*
Balance, beginning of period	$	188,160	$	—
Additional contributions received, net		27,993		188,160
Less amounts amortized to revenue		(51,036)		—
Balance, end of period	$	165,117	$	188,160

6. Related Party Transactions and Balances

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

VCorp. 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 year ended December 31, 2017, each Member's share of such costs was $11,333 (period since inception on July 8, 2016 to December 31, 2016 – $84,276 *(unaudited)*) which is included in Members' contributions in the Statement of Operations and Changes in Net Assets. Each Member also contributes an equal share of the cost of purchases of capital assets. For the year ended December 31, 2017, each Member contributed $13,997 (period since inception on July 8, 2016 to December 31, 2016 – $94,080 *(unaudited)*) for these purchases which are included in deferred contributions related to capital assets on the Statement of Financial Position. At December 31, 2017, $1,528 (2016 – $21,320 *(unaudited)*) and $3,528 (2016 – $21,320 *(unaudited)*) from NBPSPP and NBTPP respectively were recorded in accounts receivable for such costs.

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

7. Indemnifications

VCorp. provides indemnifications to its officers and directors pursuant to certain corporate by-laws. VCorp. 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 VCorp. from making a reasonable estimate of the maximum potential payments that VCorp. would be required to make. To date, VCorp. has not received any claims nor made any payments pursuant to such indemnifications.

8. Financial Risk

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