

Compensation Backgrounder

Supplemental Overview - June 2019

Governance

Vestcor Inc. (Vestcor) is an independent not-for-profit private corporation that provides client specific fiduciary-based investment management and pension and benefit administration services to various public sector investment funds and pension and benefits plans. Vestcor is jointly owned by the New Brunswick Public Sector Pension Plan and the New Brunswick Teachers' Pension Plan and is governed by an independent Board of Directors who are legislated to manage the affairs of Vestcor on a commercial basis. All decisions and actions are based on sound business practices.

With respect to compensation matters, the Board of Directors is supported by its Human Resources and Compensation Committee (HRCC). The Board of Directors has established the HRCC to assist in fulfilling its obligations relating to management compensation, leadership succession, human resources policies and practices to attain Vestcor's strategic goals, and to perform other human resources related duties set out by the Board from time to time.

The HRCC is comprised of Directors with experience in compensation-related issues. They are assisted from time to time by compensation consulting experts and through investment industry-based compensation surveys carried out by third parties.

The Board of Directors, with the assistance of the HRCC, has developed a Compensation Philosophy and compensation program which supports Vestcor's Strategic Plan, desired organizational culture, and positioning within the competitive marketplace and industry best practices.

Compensation Principles

Vestcor's Compensation Program is designed to attract and retain a team of high quality, New Brunswick-based investment and administration professionals. The team is focused on achieving our clients' objectives by aligning employees' interests with those of our clients and other related stakeholders. The compensation program also recognizes the skills and experience required to successfully manage more than \$16.9 billion of investment capital directly in global financial markets.

Vestcor operates on the general principle that compensation should consist of a **base component** and a **performance-based incentive component**.

A pay-for-performance incentive program is typical for our industry. The percentage of compensation that is performance-based is proportional to the level of employee responsibility.

Performance is generally measured over longer periods of time. This longer-term focus is consistent with Vestcor's typical client mandate to achieve a precise long-term investment rate of return while minimizing risk.

Base Salaries

The base salaries will be paid at the median of respective comparator groups. Senior management and investment positions are compared to similar public sector investment managers, while also taking into account their total assets under management, investment strategies and internal equity. Finance and administration positions are compared against similar public sector investment and pension administration organizations and Atlantic Canada-based companies of similar size and complexity.

Performance Incentive Program

The performance incentive program contains two main components: an Annual Incentive Plan based on performance over a combination of both the past year and a longer term four-year average, and a Long-Term Incentive Plan designed to reward performance over the longer term.

The incentive program contains two main components:

1) Annual Incentive Plan:

The Annual Incentive Plan has two components based on quantitative and qualitative criteria as follows:

- a. Each Investment Team participates in a team award based on their targeted annualized value-added achievements. The performance criteria include a combination of net team and total fund investment rates of returns in excess of specifically defined market-based benchmarks. Investment costs are deducted from total fund performance to determine the net excess rate of return. The majority (75%) of excess returns are measured over a longer term rolling four year period, while the remaining (25%) are measured for the most recently completed fiscal year.
- b. Full-time permanent employees are eligible for an individual award based on Qualitative Individual Performance measures that include the achievement of annual business plan objectives. These objectives are set by the Board of Directors at the beginning of each fiscal year giving regard to Vestcor's five-year strategic plan.

2) Long-Term Incentive Plan:

- a. Eligible investment division employees who have been employed at Vestcor for four years or longer, are eligible for an additional incentive based on targeted long-term criteria. These criteria include only the net total fund investment rates of return, after deducting investment costs, in excess of specifically defined market-based benchmarks. The excess returns are measured over only the longer term rolling four-year period.

Results for the Year ended December 31, 2018

The overall nominal fund return for total assets under discretionary management was 2.08% for the year ended December 31, 2018 and the longer-term annualized nominal total fund return was 4.64%. The long-term period is typically based on four years, however with the 2016 change of year end for Vestcor from March 31 to December 31, this period is currently 3.75 years.

Additional net relative investment value, consisting of investment returns in excess of benchmarks and all investment costs, was \$171.6 million for the current year. Over the past four fiscal periods, Vestcor has been able to add approximately \$567.1 million of net relative investment value.

For the year ended December 31, 2018, and after consideration of the challenging competitive talent retention environment, the Board approved a 2.0% overall cost of living increase and a 1% merit pool.

The performance-based incentive component of total compensation is \$5,011,800 for the year ended December 31, 2018, compared to \$4,299,800 for the year ended December 31, 2017.

Annual Incentive Plan

- The quantitative award pool is \$865,200.
- The qualitative individual award reflects the accomplishment of weighted annual business plan objectives. The Board considered these business plan objectives and determined that they had been 157% achieved, resulting in an individual award pool of \$1,726,500.

Long-Term Incentive Plan

Based on the quantitative total funds' long-term annualized net value-added result, the award pool was \$2,420,100.

It is important to note that all award components are included in the overall corporate operating costs that are covered as part of the relative return performance calculation outlined in our Annual Report. Accordingly, Vestcor continues to provide our clients with a significant cost advantage over both peer public and private sector service providers.

Message from Board Chairperson Michael Walton

Chair of the Board of Directors of Vestcor Inc., Mr. Walton is also a Member of the Audit, Human Resources & Compensation, and Governance Committees

“Vestcor’s success in continuing to exceed our clients’ long-term objectives can be largely attributed to our ability to attract and retain high quality, experienced industry professionals. The Vestcor Board and its Human Resources and Compensation Committee will continue to place a high priority on ensuring that our compensation practices are strongly aligned with the best interests of our growing client base and both of our pension plan owners.”

Reference Links:

Vestcor Compensation Philosophy Overview www.vestcor.org/compensationphilosophy

Human Resources and Compensation Committee Terms of Reference www.vestcor.org/hrcc

2018 Annual Report www.vestcor.org/annualreports