# VESTCOR CORP

# 2018 ANNUAL REPORT

# 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 subsidiary, Vestcor Inc. (Vestcor), a cost efficient, integrated investment management, pension and benefit service delivery platform to public sector entities.

## BOARD OF DIRECTORS

**Marcel Larocque**
Presiding Co-Chair

**Marilyn Quinn**
Co-Chair

**Robert Fitzpatrick**
Director

**Mark Gaudet**
Director

**Leonard Lee-White**
Director

**Susie Proulx-Daigle**
Director

**Michael Springer**
Director

**Reno Thériault**
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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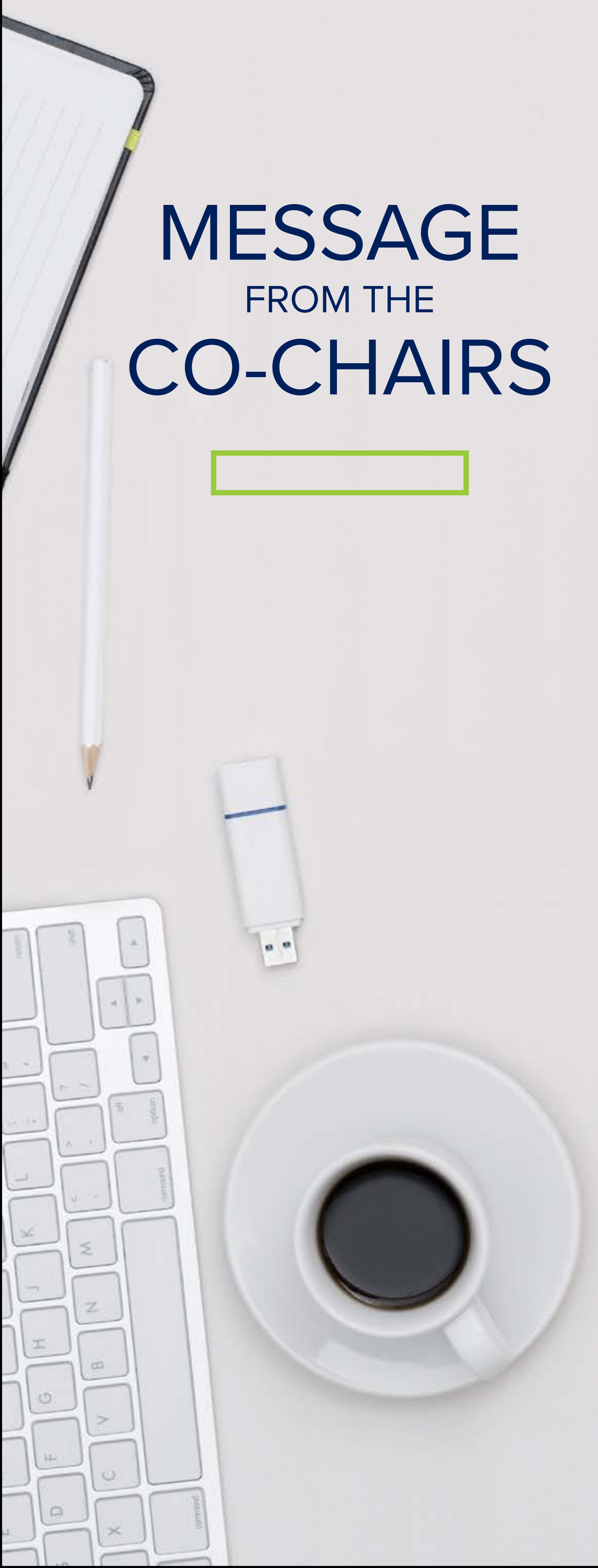

# MESSAGE
## FROM THE
# CO-CHAIRS

This is the second full year annual report for Vestcor Corp. (VCorp) and covers our activities to oversee our subsidiary, Vestcor Inc. (Vestcor). Vestcor was formed on January 1, 2018 through the amalgamation of two predecessor entities, Vestcor Pension Services Corporation (VPSC) and Vestcor Investment Management Corporation (VIMC). This annual report includes the audited non-consolidated financial statements for VCorp in its role as shareholder of Vestcor. Vestcor has prepared a separate Annual Report of its operations that is available on its website at **www.vestcor.org**.

VCorp is governed by a Board of Directors that is appointed equally by our members, the NB Public Service Pension Plan (NBPSPP) and the NB Teachers' Pension Plan (NBTPP). Our subsidiary, Vestcor, is governed by an independent Board of Directors appointed by VCorp.

## RECENT ACTIVITIES

The VCorp Board of Directors met twice during 2018 and a description of the decisions made at our meetings is provided in the following *Corporate Governance* section under *Board Decisions*.

We incurred costs associated with the functioning of our Board of Directors (see page 5).

## APPRECIATION OF DEDICATED SERVICE

On behalf of the Board, we wish to thank and congratulate the employees and management teams of Vestcor for a successful year in continuing to meet the goals of our clients. Their accomplishments continue to attract attention from other Public Sector Funds exploring potential strategic partnerships and we look forward to continuing to expand our business in the best interest of our clients.

We trust this Annual Report to Members provides a thorough accounting of our activities during 2018.

Sincerely,

**Marcel Larocque**,
Presiding Co-Chair

**Marilyn Quinn**,
Co-Chair

May 30, 2019
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"). VCorp's purpose is to be a holding company for Vestcor Inc. (or "Vestcor"). Together, the Vestcor Group operates on a commercial basis using sound business practices. The *Act* also requires that each Member of VCorp is required to be a client of Vestcor.

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 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;
- Appoint an independent board of directors for Vestcor;
- Approve the annual operating and capital expenditure budgets for Vestcor;
- Provide an annual report of VCorp to its Members.

The *Vestcor Act* and the Members' Agreement can be found at **www.vestcor.org/vestcorcorp**.

## 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, 2018.

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 |
|---|---|---|
| Marcel Larocque, Presiding Co-Chair | NBTPP | 2/2 |
| Marilyn Quinn, Co-Chair | NBPSPP | 2/2 |
| Robert Fitzpatrick | NBTPP | 2/2 |
| Mark Gaudet | NBPSPP | 2/2 |
| Leonard Lee-White | NBPSPP | 2/2 |
| Susie Proulx-Daigle | NBPSPP | 1/2 |
| 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, 2018 of $10,500 (year ended December 31, 2017 – $10,792) plus travel and accommodation reimbursements of $1,066 (year ended December 31, 2017 – $1,994) and meeting and translation expenses of $6,281 (year ended December 31, 2017 – $6,379).

## BOARD DECISIONS

Major decisions made by the VCorp Board during the year ended December 31, 2018 included:

- Convened a special Board meeting to review a business case presentation from management to replace the highly customized and aging plan administration system with a new, scalable solution. This decision was approved;
- Approved the decision to present separate annual reports for VCorp and Vestcor, including financial statements in 2017 to clarify and highlight the separate roles and accomplishments of each entity's Boards of Directors and management teams;
- Held an in camera meeting with the Chairperson of Vestcor at each Board meeting to foster an effective relationship and to discuss strategic direction and accomplishments;
- Received the Vestcor Annual Report for VCorp for the year ended December 31, 2017;
- Received and approved the 2017 Audit Findings Report from the external auditor;
- Reviewed and approved the VCorp audited non-consolidated financial statements for the year ended December 31, 2017;
- Reviewed and approved the VCorp Annual Report for the year ended December 31, 2017
- Approved the recommendation from the operating companies' Ad-Hoc Nominating Committee to reappoint two directors, Mike Walton and Donna Bovolaneas, whose terms were expiring in 2018 and to appoint a new director, Tanya Chapman, for a term of three years;
- Approved a recommendation from Vestcor's Board for a change in the corporate by-laws to remove the term limits for the Chair and Vice Chair.
- Approved a recommendation from Vestcor's Board to revise the Director Compensation Policy to reflect the recent amalgamation of the operating companies;
- Received a presentation from the President and CEO regarding the Vestcor Inc. Board's decision to extend its Incentive Plan to all employees to better reflect industry market compensation and encourage integration and team collaboration;
- Received status reports from the CFO of Vestcor of progress made on the administration system implementation project;
- Received a summary document from the CFO of the Vestcor decision-making authorities for ease of reference in future decisions;
- Reviewed and approved an amendment to the Amended and Restated Members' Agreement to allow for arbitration, when necessary, to proceed in either official language.
- Received a request from a plan member for public disclosure of the Amended and Restated Members' Agreement and approved the posting of this document on the Vestcor website;
- Received a memorandum from the Audit Committee of Vestcor concerning their 2017 assessment of the external auditor and recommendation to reappoint the auditor for the 2018 fiscal year, which was approved;
- Reviewed and approved the 2018 Audit Plan for VCorp from the external auditor;
- Reviewed and approved the 2019 operating and capital budgets for the Vestcor Group; and
- Received a memorandum from the President & CEO concerning best practices for shareholder involvement in the Board of Directors appointment process.

# 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 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

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Tel (506) 452-8000
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# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Vestcor Corp.

***Opinion***

We have audited the non-consolidated financial statements of Vestcor Corp. (the Entity) which comprise:

- the non-consolidated statement of financial position as at end of December 31, 2018
- the non-consolidated statement of operations and change in net assets for the year then ended
- the non-consolidated statement of cash flow for the year then ended
- and notes to the non-consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

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

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG LLP

Chartered Professional Accountants

Fredericton, Canada

May 30, 2019

**VESTCOR CORP.**
**Non-Consolidated Statement of Financial Position**
As at December 31

| | 2018 | 2017 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 5,222 | $ 3,007 |
| Accounts receivable *(note 7)* | 440 | 5,056 |
| Total current assets | 5,662 | 8,063 |
| Investment in subsidiary *(note 3)* | 2,000 | 2,000 |
| Capital assets *(note 4)* | 93,066 | 165,117 |
| | $ 100,728 | $ 175,180 |
| **LIABILITIES AND NET ASSETS** | | |
| Current | | |
| Accounts payable and accrued liabilities *(note 5)* | $ 7,662 | 10,063 |
| Total current liabilities | 7,662 | 10,063 |
| Deferred contributions related to capital assets *(note 6)* | 93,066 | 165,117 |
| Total liabilities | 100,728 | 175,180 |
| Unrestricted net assets | — | — |
| | $ 100,728 | $ 175,180 |

*See accompanying notes to financial statements*

Approved on behalf of the Board:

Marcel Larocque
Presiding Co-Chair of the Board

Marilyn Quinn
Co-Chair of the Board

**VESTCOR CORP.**
**Non-Consolidated Statement of Operations and Change in Net Assets**
**For the year ended December 31**

| | 2018 | 2017 |
|---|---|---|
| **REVENUE** | | |
| Members’ contributions *(note 7)* | $ 26,622 | $ 22,665 |
| Amortization of deferred contributions related to capital assets | 72,051 | 51,036 |
| **Total revenue** | 98,673 | 73,701 |
| **EXPENSES** | | |
| Board remuneration | 10,500 | 10,792 |
| Board travel | 1,066 | 1,994 |
| Translation | 3,120 | 3,587 |
| Business expenses | 3,161 | 2,792 |
| Professional services | 8,775 | 3,500 |
| Amortization of capital assets | 72,051 | 51,036 |
| **Total expenses** | 98,673 | 73,701 |
| **Excess of revenue over expenses** | — | — |
| **Unrestricted net assets, beginning of year** | — | — |
| **UNRESTRICTED NET ASSETS, end of year** | $ — | $ — |

*See accompanying notes to financial statements*

**VESTCOR CORP.**
**Non-Consolidated Statement of Cash Flow**
For the year ended December 31

| | 2018 | 2017 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| **Excess of revenue over expenses** | $ — | $ — |
| Non-cash items: | | |
| Amortization of capital assets | 72,051 | 51,036 |
| Amortization of deferred contributions related to capital assets | (72,051) | (51,036) |
| Changes in non-cash operating working capital: | | |
| Decrease in accounts receivable | 4,616 | 3,194 |
| Decrease in accounts payable and liabilities | (2,401) | (187) |
| Net cash from operating activities | 2,215 | 3,007 |
| **INVESTING ACTIVITIES** | | |
| Purchases of capital assets | — | (27,993) |
| Deferred contributions related to capital assets | — | 27,993 |
| Net cash used in investing activities | — | — |
| **INCREASE IN CASH DURING YEAR** | 2,215 | 3,007 |
| Cash, beginning of year | 3,007 | — |
| **CASH, END OF YEAR** | $ 5,222 | $ 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 its carrying amount is written down to its residual value. Capital assets are amortized over their estimated useful lives, calculated on a straight-line basis, using the following rates:

| | |
|---|---|
| Computer equipment | - 3 years |
| Furniture and equipment | - 12.5 years |

## 2. Significant Accounting Policies *(continued)*

### *(d) 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.

### *(e) 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 6).*

## 3. Investment in Subsidiary

VCorp. owns 100% of the issued capital stock of Vestcor Inc. (“Vestcor”), a not-for-profit share capital corporation created on January 1, 2018 following the amalgamation of two predecessor entities, Vestcor Pension Services Corporation and Vestcor Investment Management Corporation. Vestcor offers investment management and pension and benefits plan administration services on a cost recovery basis to public sector entities.

Vestcor owns 100% of Vestcor Investments General Partner, Inc. As at December 31, 2018, Vestcor Investments General Partner, Inc. is the general partner in four limited partnerships in which the NBPSPP and NBTPP are limited partners: Vestcor Investments Private Real Estate, L.P., Vestcor Investments Private Real Estate 2, L.P., Vestcor Investments Infrastructure, L.P. and Vestcor Investments Private Equity, L.P.

### 4. Capital Assets

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| **Cost** | | | | |
| Computer equipment, opening balance | $ | 216,153 | $ | 188,160 |
| Purchases | | — | | 27,993 |
| Computer equipment, closing balance | | 216,153 | | 216,153 |
| **Accumulated amortization** | | | | |
| Opening balance | | 51,036 | | — |
| Amortization expense | | 72,051 | | 51,036 |
| Closing balance | | 123,087 | | 51,036 |
| Net book value | $ | 93,066 | $ | 165,117 |

### 5. Government remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2018 which include amounts payable for GST/HST of $2,417 (2017 – ($125)).

### 6. Deferred Contributions Related to Capital Assets

The balance of unamortized deferred contributions consists of the following:

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Balance, beginning of year | $ | 165,117 | $ | 188,160 |
| Additional contributions received, net | | — | | 27,993 |
| Less amounts amortized to revenue | | (72,051) | | (51,036) |
| Balance, end of year | $ | 93,066 | $ | 165,117 |

### 7. 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 Vestcor that are recoverable from its Members, the NBPSPP and NBTPP. For the year ended December 31, 2018, each Member's share of such costs was $13,311 (2017 – $11,333) 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, 2018, each Member contributed nil (2017 – $13,997) for these purchases which are included in deferred contributions related to capital assets on the Statement of Financial Position. At December 31, 2018, $220 (2017 – $1,528) and $220 (2017 – $3,528) 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.

## 8. 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.

## 9. 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 which have all been collected subsequent to the date of the financial statements.