

2020 Annual Information Meeting

Question and Answer Summary



Included in this document is a summary of the questions submitted by members before, during and after the 2020 NBPSP Annual Information Meeting. If you would like to submit additional questions to the Board of Trustees of the NBPSP, you can do so through any of the following methods:

- In writing at NBPSP Board of Trustees, c/o Vestcor, PO Box 6000, Fredericton, NB E3B 5H1;
- By telephone at 1 800 561 4012 (toll free) or at 506 453 2296 (Fredericton); or
- By email at info@vestcor.org.

A recording of the 2020 Annual Information Meeting is available [here](#).

Why did Vestcor report gross returns in their presentation and not the net amount? And what is their investment management expense ratio?

The investment industry reporting standard is gross investment returns. For example, the RBCITS comparison numbers on [slide 12 of Vestcor's presentation](#) are reported as gross returns and therefore to be comparable, we also presented investment returns on a gross basis.

We do recognize that it is the net return that goes to the pension plan and we noted in the footnote on [slide 12](#) that Vestcor is very cost effective versus other investment management alternatives. Our actual investment management expense ratio is 0.13% as discussed on page 20 of the [2019 Annual Report](#).

Has consideration been given to eliminate the penalty for retirement after the age of 60? If not, how could this happen?

The [Funding Policy](#) is the tool used by the Board of Trustees that provides guidance and rules regarding decisions that must, or may, as applicable, be made by the Board of Trustees around funding levels, contributions and benefits.

Your Cost of Living Adjustment (COLA), is the first benefit that the Board can and does provide every year. Following COLA, there are a number of other decisions and benefits to consider, in a specified order depending on how well funded the plan is. The second benefit improvement to consider, is a reduction in contributions, if the plan gets fully funded at over 140%. The third would be an establishment of a reserve for 10 years for COLA.

Only once these three "steps" have been attained, would there be an opportunity for the Board of Trustees to consider other benefit improvements to the plans, such as easing early retirement reductions. That type of benefit improvement would only be a recommendation that the Board would make to the NBPSP Parties (i.e. the Province and the Unions who executed the Agreement and Declaration of Trust), who would then have to either approve or negotiate the improvements.

Unfortunately, eliminating the penalty is not an immediate priority of the Board of Trustees given that they must first grant annual COLA, contribution reductions and a 10-year reserve for guaranteeing future COLA prior to considering any other benefit improvements.

What is the Board's involvement with the approval process of the audited Financial Statements?

The financial statements are prepared by Vestcor and then they're audited by the auditing firm KPMG who is selected by the Board. Both Vestcor and KPMG present a report to the Board's audit committee and after the audit committee approves the financial statements, they are then presented to the NBPSP Board of Trustees for final approval.

How are members of the Board selected?

The NBPSP's Plan Text specifies which organizations appoint members to the Board. The Board performs individual evaluations of both performance and skills that are prevalent on the Board. They would advise the NBPSP Parties when a Trustee's term is about to expire and indicate whether that person was still interested and is willing to serve, and whether they were still suitable, depending on the changing nature of the Skills Matrix.

The Board would then advise the appointing body whether they should be seeking a new appointment, or consider reappointing that individual. The actual appointment is out of the Boards hands and would be up to the NBPSP Parties.

In this time of pandemic, and with risk management being on top of mind, has the Board done any work on risk management?

Managing risk is a key responsibility of a board of trustees and an ability to manage risk is fundamental to the success of a pension board. An Enterprise Risk Management Framework (ERMF) was developed and put in place in 2018. Prior to that, risk management oversight was focused on the funding policy, taking into consideration the asset mix, performance and rates of return on the fund, amongst other items.

The ERMF identifies and defines risks, assigns responsibility for managing each risk and determines how to control and monitor the risk.

Risks for NBPSP are categorized into 5 areas: Board Effectiveness, Plan Design and Funding, Investment Policy, Communications and Agency Risk (outsourcing/expense of the outsourcing). Let's look at one risk item: The asset mix is suboptimal and does not achieve the funding policy's risk management test. This falls under the category – Investment Policy and the responsibility is assigned to the Board.

Our measures and controls are: Annual funding policy risk management tests; Review of quarterly investment report performance; and ALM (Asset - Liability Model) studies outlining alternative asset mix choices.

The ERMF is a working document and as risks are identified, they will be incorporated. One of these items is the risk of data breach which falls under our category of Agency risk, as the management of our plan and the payments to pensioners have been outsourced. We have added that our service providers report annually on their cybersecurity controls.

When COVID-19 hit the financial markets, the Governance committee requested an update from Vestcor on how the plan could be affected. This was followed up in the Board meeting of March 18, 2020 with a further update from Vestcor and Morneau Shepell outlining how the then negative returns would affect our portfolio and therefore, our risk management tests. An estimate of the Open Group Funded Ratio was provided, along with an assurance that the diversification of the portfolio provided downside protection.

Items set out to control and monitor risks are incorporated in our regular Board and Committee meetings.

Obviously, we need some discussion of the expected impact of the pandemic. Did the Risk Management in Section 5 of the Financial Statements cover this? To me this appears to be a test of the assumptions in Table C.1 of the Actuarial Evaluation Report.

Morneau Shepell's presentation at the Annual Information Meeting included the impact that the volatility in financial markets has had on the NBPSP during 2020, and provided financial status at March 31, 2020 (bottom of the financial markets) and August 31, 2020 (most recent month-end values available).

The Note 5. Financial Instrument Risk Management section of the audited financial statements provide general information about certain financial risks, and are not specifically related to the pandemic.

What prevents Vestcor from creating a pool that just invests in their own products and hence artificially inflates the value of investments?

There are several controls preventing something like this from occurring. First, Vestcor is under the direction of the NBPSP Investment Policy Statement that is the responsibility of the trustees. Second, within Vestcor, there is an independent compliance team that makes sure that they follow a number of other guidelines and procedures. With respect to financial reporting on a quarterly basis, there's an intensive valuation process that takes place which determines a current market price of its investments. This process is under the direction of Vestcor's Audit Committee and is annually reviewed by Vestcor's external auditor.

What impact could COVID-19 have on the long term and short-term value of our pensions?

The short-term financial market and economic impact is going to depend on how quickly there will be a deployment of a COVID vaccine.

That being said, Vestcor is a very long-term investor that is focused on a very diversified investment policy. Global Central banks, including the Bank of Canada, have also been very accommodative in terms of providing very low interest rates and additional stimulus to help make sure that investment markets stay very liquid and that companies have capital available to invest and continue to conduct their business.

Therefore, over the medium to longer term, Vestcor certainly would expect that they'd be able to continue to generate necessary returns that are required for this plan, as laid out in the investment policy.

Do you know when we can expect the release of the Employee Statements of Pension Benefit for 2019?

Vestcor is expecting to have the statements available and in distribution in mid-November. This delay has been due to the implications of COVID-19 on the implementation of a new administration system that is being deployed this year.

Please keep in mind, there is always the ability to determine an information estimate by using our [pension calculator](#) on our website, and utilizing your prior year statement with updated information with respect to the year of salary that you've subsequently accrued.

Any member who is seriously considering retirement and needs that information in a critical fashion, can reach out to Vestcor's Member Services team for assistance at their convenience.

When we retire we should have the option to take either post OR pre shared risk portions of our pension. Us having to take both at the same time is ridiculous. Both amounts have to be figured out anyways and it's our pension so give us the choice. I know it can be done, for example the City of Fredericton is doing it.

As stated in previous years, amending the Plan to allow members to take their pre-conversion pension as early as 60 years of age, and their post-conversion pension as of 65 is seemingly cost neutral to the Plan, with one significant exception: administrative costs.

It is significantly costlier to administer a pension plan that is set up this way. We also understand that research has shown that for many Plans who have offered this option, the number of members who have selected it has been very low, leaving the increased administrative cost to all members to potentially outweigh the value to the limited number of members who would elect this option.

Our pension administrator, Vestcor, have launched their new pension administration system which may help us consider this option further in the future however it is not a priority of the Board at this time.

How did this plan perform in the last 4 years in the Royal Bank of Canada Investor and Treasury services survey?

Over the four-year period, the NBPSPP had gross annual returns of 6.89% and the RBC survey had gross annual returns of 7.14%, meaning that the median plan was slightly ahead of the NBPSPP on a pre-expense basis. Over longer-term 5-10 periods, the NBPSPP gross returns exceeded the RBC median.

The difference in the four-year period is about 25 basis points or 0.25% and it's important to look at these numbers after costs, if we adjust accordingly, we would expect that the NBPSPP would be slightly ahead on a net of cost basis.

The last COLA period calculation ended on June 30, 2020 but will only be applied on January 1 2021. Why is there a delay?

Practicality we need the time to obtain the applicable information, perform the applicable Shared Risk Plan actuarial calculations, obtain approval by the Board of Trustees, and finally implement the results in member accounts.

As some Vestcor employees are now working remotely, what protocols and protection of personal information have been put in place, as remote access continues? I am referring to the fact that Vestcor employees are accessing personal, confidential information from their home. What security measures have been put in place?

Vestcor had a detailed set of predetermined policies and guidelines that were applicable to employees who were working either at our office or through remote access.

IT Policies

All employees are required to adhere to Vestcor's IT policies at all times when using corporate devices. Employees are required to read these policies, ask questions if they don't understand them, and certify annually that they have done so. These policies include: Password policy; Email policy; Internet usage policy; Mobile device policy; VPN policy; and Protection of personal information policy.

Technology

All remote communications are encrypted and required two-factor authorization. Vestcor also ensures that their IT environment has: Redundant data centers; Firewalls including intrusion detection and prevention; Virtual Private Network (VPN) encrypted via Secure Socket Layer (SSL) technology; Disk encryption; RSA token for multi-factor authentication; Logs that are monitored 24/7 by their external Security Operations Center (SOC) service provider; and an automated patch management system.

Training

Mandatory awareness training is assigned to all users, which includes: IT Policies (as above); COVID-19 Cyber Threats; October Cyber Awareness Month topics; Data breach identification and reporting processes; and Privacy training.

Testing

- External firewall penetration test annually; and
- Automatic simulated phishing attempts for staff awareness.

Do you think the COLA of 1.36% is reasonable considering the pandemic and considerable augmentation of cost to habitation, food, services, etc.? I don't believe it's enough.

The Board of Trustees must follow the specific terms provided in the Funding Policy to award COLA. In accordance with the Funding Policy, they cannot award more than the increase in the Consumer Price Index for the year ending June 30th prior to the effective date of the award. That increase in CPI was equal to 1.46%, and therefore they awarded the maximum they could provide under the terms of the Funding Policy for the Plan.

With the increase in Canada Pension Plan (CPP) happening over the future and how it affects our NBPSPP, why has there not been an equal adjustment to our contribution rates?

The increase in CPP is totally independent from the NBPSPP. Changes to CPP will not impact the amount of pension payable from the NBPSPP, there is therefore no need to adjust contributions.

When might plan members be able to opt into socially responsible investment funds? It seems that there are some substantial investments in weapons manufacturers and fossil fuel companies/pipeline projects that may not align with our values.

The NBPSPP investment portfolio is structured as one consolidated fund that has been designed to provide and support secure pension benefits. The NBPSPP Trustees are responsible for the Statement of Investment Policies for the Plan, and as per standard industry practice it does not provide for plan members to select investment options.

That being said, our investment manager Vestcor, in line with their Responsible Investment Guidelines, manages their client portfolios with the objectives to maximize risk adjusted investment returns, and protect accumulated assets. As such, Vestcor has an approach to Responsible Investing that is intended to better facilitate their understanding of the investment opportunities through active ownership and shareholder engagement to promote effective corporate governance and industry best practices, and to incorporate Environmental, Social, and Governance information in order to make more informed investment management decisions and to better manage both short-term and long-term investment portfolio risks.

Is it the norm in pension plan management firms to have bonuses exceed over 130% of base salary?

Globally, the investment management industry has a compensation structure that is composed of a mix of base compensation and variable incentive compensation tied directly to each organization's performance. It is important that Vestcor has a similar incentive compensation program to be able to attract and retain the professional staff required to prudently manage over \$18.5 billion in assets.

Vestcor's compensation program is led by the organization's independent Human Resource Committee, a committee of the Vestcor Inc. Board of Directors. Detailed information on the program is disclosed in the Vestcor Annual Report.

To ensure that the compensation program, including performance-based incentives, are fair, the program has been assessed by Deloitte LLP and received a positive review, as detailed in the document "Compensation Practice Assessment Against Financial Stability Board Principles", which is available at vestcor.org/governance, under Board Committees, Human Resources & Compensation Committee section, along with other related documents.

The Plan's investment management costs, including all Vestcor compensation expenses, for 2019 were 0.13% of the Plan's total assets. This cost is significantly less than what most investment managers charge, and therefore helps provide additional growth to the fund assets.

According to your own annual report 11.8% was one of the stronger years growth yet the RB survey ranks it below average...how can we trust your reports?

Consistent long-term lower risk investment performance is important for pension plans. While the returns in 2019 were higher than we have seen in years prior, the lower risk taken by the NBPSPP Shared Risk Plan means that our performance is typically lower than other comparable plans in strong financial market periods such as we experienced in 2019. On the other hand the NBPSPP performance was much stronger than other comparable plans during the weaker financial market period in 2018, and most importantly compares very favorable to others over the most important long-term periods.

To learn more about Vestcor's longer-term investment performance, please see the video "Lower Risk Long-term Investing" available at vestcor.org/investments.

How do you defend the bonuses given out this year for the below average 11.8% growth when the average growth was 14%?

Vestcor's compensation program, including their performance-based incentives, follows industry best practices and guidelines with respect to long-term investment performance benchmarking and related compensation matters. The benchmarks are closely aligned with Vestcor's clients' success in meeting their funding goals and objectives, while always following industry standards. It is also important to note that in accordance, the percentage of an individual's compensation that is performance-based is proportional to the level of that employee's responsibility in the organization.

Additionally, Vestcor's compensation program includes both an Annual Incentive Plan, and a Long Term Incentive Plan, therefore you need to look at longer-term returns to get the full picture. The plans Vestcor manages are primarily Target Benefit Plans and Shared Risk Plans, as is the case with the NBPSP. These plans have strict risk management rules which Vestcor must follow. This risk management is put in place to protect the assets of the Plan from market volatility and provide more consistent returns. In years where the markets are strong, such as 2019, plans managed by Vestcor tend to have returns that are lower than riskier plans. In years where the markets are weaker, such as in 2018, plans managed by Vestcor tend to have returns that are higher than riskier plans. When you look at the longer-term returns of the plans managed by Vestcor, they outperform comparable plans, as well as the requirements of their clients.

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