

VESTCOR

2020 ANNUAL REPORT

OUR MISSION:

To provide innovative, cost effective, and prudent investment and benefit administration services that address the needs of public sector funds.

BOARD OF DIRECTORS

MICHAEL W. WALTON

Chairperson of the Board
Member – Human Resources and Compensation,
Audit and Governance Committees

MICHEL ALLAIN, FCIA, FSA

Director
Member – Human Resources and Compensation
Committee

TANYA CHAPMAN, CPHR

Director
Member – Human Resources and Compensation
Committee

TIM MAWHINNEY, FCIA, FSA, CERA

Director
Member – Human Resources and Compensation
Committee

CATHY RIGNANESI, FCPA, CA

Director
Chairperson – Governance Committee
Member – Audit Committee

DAVID LOSIER, CPA, CGA, ICD.D

Vice-Chairperson of the Board
Chairperson – Human Resources and
Compensation Committee
Member – Audit and Governance Committees

DONNA BOVOLANEAS, FCPA, FCA

Director
Chairperson – Audit Committee
Member – Governance Committee

ELEANOR MARSHALL, CPA, CA, CFA

Director
Member – Audit Committee

DANIEL MURRAY, CPA, CA

Director
Member – Audit Committee

CORPORATE OFFICERS

JOHN A. SINCLAIR

President and Chief Executive Officer

JAN IMESON, CPA, CA

Chief Financial Officer

JENNIE NOEL-THÉRIAULT, GPC.D

Corporate Secretary

JONATHAN SPINNEY, CFA

Chief Investment Officer

BRENT HENRY, CPA, CA

Chief Compliance Officer

MARILYN MCCONNELL, CPA, CGA

Chief Pensions and Benefits Officer

CONTACT INFORMATION

VESTCOR INC.

140 Carleton Street,
Suite 400
Fredericton, NB E3B 3T4

Telephone: 1-800-561-4012

Fax: (506) 444-5025

Website: vestcor.org

WHO WE ARE

Vestcor Inc. is an integrated investment management, pension and benefit administration organization offering services to public sector entities. We provide tailored services to many risk-controlled target benefit pension plans and other pools of investment capital, and our not-for-profit business model results in very cost effective services for our clients.

Located in Fredericton, New Brunswick we are the largest investment manager in Atlantic Canada providing global investment management services to nine different client groups representing approximately \$19.4 billion in assets under management. We also provide administration services to eleven pension plans and four employee benefit plans.

2020 HIGHLIGHTS

- **VESTCOR INVESTMENT DIVISION:**

- Client portfolios for which we provide investment advice continued to exceed their overall long-term investment risk and return targets.
 - Their long-term investment risk and return performance also remained strong versus other pension fund and diversified investment manager alternatives.
- Although our one year Total Funds result underperformed client policy benchmarks for assets under discretionary management net of all investment management costs, by 0.17%, we continued to outperform by 0.57% for the longer term four-year annualized result. This represented approximately \$369.4 million of additional return over client investment policy benchmarks.
- Our annual Management Expense Ratio (MER) remained low at 0.11% of total funds under management. This was the seventh consecutive year that our clients have benefited from a steady or declining MER.
- Assets under discretionary management increased to \$19.4 billion at year end.

- **VESTCOR ADMINISTRATION DIVISION:**

- Completed a major project to modernize our plan administration technology capabilities.
- Continued to provide uninterrupted services to client members since the on-set of the COVID-19 pandemic.
- Coordinated a number of education and trustee onboarding opportunities, communication activities, research material and strategic education sessions for our clients' Boards of Trustees.
- Expenses remained low versus other public sector peers.

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MESSAGE FROM THE CHAIRPERSON

On behalf of the Board of Directors (the Board) and the Management team of Vestcor Inc. (Vestcor), I am pleased to introduce our 2020 Annual Report. This Annual Report provides an accounting for our pension and benefits administration, investment, and corporate service operating activities in a format consistent with our prior Annual Reports.

The Vestcor Inc. Board of Directors is responsible for the independent governance, stewardship and strategic direction of the company. The Board is assisted in its endeavors by the efforts of three Committees: the Audit Committee, the Human Resources and Compensation Committee and the Governance Committee. Ad-Hoc Committees are formed from time to time to assist with special Board projects.

Transparency and accountability continue to be an important focus of our Board. In addition to our regular owner and client reporting activities, we also publish a significant amount of governance related information on our website at vestcor.org/governance.

LONG-TERM SUCCESS DURING A CHALLENGING YEAR

Vestcor's team realized another successful year under the guidance and stewardship of our Board of Directors. As readers know, 2020 was a particularly challenging year due to the impact of the COVID-19 pandemic and associated state of emergency orders that significantly impacted our business operations and global economic activity. While the pandemic also challenged the implementation of our new more modernized administration and pension payroll system, as well as the transition of our operations to a new office facility, the Board was very pleased that Vestcor Management was able to continue to provide the essential services that our clients and their members depend on.

Our independent, not-for-profit business model continues to align well with our clients' objectives while also delivering excellent value through materially lower expenses and a customized focus on client goals and service requirements.

While global financial markets were significantly impacted by COVID-19 uncertainty during the year, our clients' investment portfolios continued to realize strong long-term investment returns on both an absolute basis and relative to their investment policy benchmarks. Our Administration team also successfully navigated many pandemic related challenges ensuring that our client members continued to receive the pension payments and related services they rely on.

FUTURE CHALLENGES REMAIN

While 2020 ended the year with strong investment returns, financial market valuation levels have reached even more elevated levels than those that concerned us in last year's Annual Report. Our Investment team remains engaged in investment policy reviews with many of our clients to ensure that they continue to be able to meet their long-term goals and objectives. We expect our long-term focus and low risk approach will continue to assist our clients meet their future challenges in this difficult investment environment.

In addition to our traditional Board of Director oversight activities, Vestcor Directors continue to be closely engaged with our Management team and owner company Vestcor Corp. in addressing the COVID-19 pandemic challenges. The Board will continue to work closely with Management in fulfilling our many oversight obligations, including our financial reporting, external audit, and securities regulation requirements.

Vestcor also continues to be focused on being a responsible corporate partner by making sure our operations, and those of our clients, have access to environment, social, and governance best practice insights. During the year, our Board of Directors endorsed the Canadian Coalition of Good Governance (CCGG) Stewardship Principles alongside a number of other Canadian-based institutional investors. The CCGG Principles, available at ccgg.ca/policies are specifically meant to guide "institutions who invest in Canadian public equities be active and effective stewards of their investments and are directed to both asset owners and asset managers". While they make it very clear that our role as an investment manager is not to manage the public companies in which we invest, the Principles provide focus on ensuring that we fulfill our role as a fiduciary on behalf of our clients and beneficiaries through our responsibilities to exercise voting rights, monitor board oversight, and conduct other related engagements.

SPECIFIC 2020 GOVERNANCE ACTIVITIES

The Vestcor Board of Directors continued to provide input and oversight with respect to annual corporate business plan goals and objectives and their link to industry best practices. Updated human resource strategic and related succession plans were completed during the year. Our Board has also reviewed and updated our Board of Directors Skills Matrix and with the assistance of our Risk Manager and other members of the Management team have begun a review of our Enterprise Risk Management Framework.

The Board also undertook an important independently facilitated Board and peer Director self assessment process. The related feedback has been analyzed by the Board and has subsequently led to the development of a series of Board governance improvement objectives that will be worked on over the next two years.

As a follow-up to the update of our Strategic Plan conducted last year, the Board appointed an Ad-Hoc Compensation Review Committee to complete a review of our overall Compensation Principles, Philosophy, and related policies. The Committee retained the nationally recognized firm Willis Towers Watson, to assist with this review. In advance of the study proceeding, the Committee approved a peer comparison group that consisted of a combination of nationally based internal pension fund managers with similar sized assets under management and Atlantic Canadian professional service businesses of similar complexity. This work will ensure that our compensation policies will continue to allow us to attract and retain the professionals we require while meeting industry best practices. We expect this work to be completed in early 2021.

Vestcor Director appointments are set-out with staggered appointment terms to provide for the opportunity to annually refresh Director membership while also reducing the risk of having a concentration of term expirations. Two of our current Directors advised during the year that they were not offering to be reappointed upon the expiration of their current terms. Ms. Nancy Whipp's term expired in October 2020, and our long-serving Director Donna Bovolaneas advised that she would not be re-offering when her term expires in June of 2021. These vacancies, in addition to two other Director term expirations that occurred in October 2020, resulted in our Board forming an Ad-Hoc Nominating Committee to assist in filling these positions. I am pleased to report that our Shareholder, Vestcor Corp., reappointed Mr. Michel Allain and Mr. Tim Mawhinney to new three-year terms during the year, and the Ad-Hoc Committee plans to be in a position to nominate two additional candidates to fill the other two vacancies in June 2021. We look forward to providing an update in next year's Annual Report while thanking Ms. Whipp and Bovolaneas for their service.

OTHER ACTIVITIES

Our Board of Directors and its Governance, Audit, and Human Resources and Compensation Committees continued to be very active during the year as outlined in their respective sections later in this report. It also remains important to recognize the support and accountability oversight activities of our Vestcor Corp. Shareholder Board (vestcor.org/vestcor-corp) and to recognize and thank our employees for their continued achievements. It was particularly encouraging to see Vestcor was able to provide essential operations to our clients through the COVID-19 pandemic operating environment.

Finally, we feel that it is important for us to again address concerns that arose earlier this year in the Auditor General's 2020 Volume II Report. It is very important that we closely follow all legislation, regulation, and oversight we are subject to, and the *Vestcor Act* clearly states that Vestcor is not an agent of the Crown. Our Management team reports to our independent expert Board of Directors and provides services to clients based on specific contractual service agreements. We provide a significant amount of public disclosure including detailed investment performance, operational results, compensation analysis and disclosure, and annual financial reporting information that is externally audited by a national public accounting firm with access to specific pension fund and investment expertise. Our compensation arrangements are based on industry best practices and are subject to oversight by our Board of Directors. They are open and transparently detailed further in this Annual Report and other associated material that is available on our website.

The Board is very proud of the Management team and our employees for what they have accomplished in very difficult circumstances as the world navigated through the global pandemic. We remain focused on building on Vestcor's independent financial services platform right here in New Brunswick to bring increased value to our current clients while looking for strategic new opportunities.

I trust this report provides a thorough accounting of our corporate activities in 2020, however we continue to remain available to address any questions or provide further information by contacting us at comments@vestcor.org at your convenience. Please also note that a significant amount of other governance related material is available on our website at vestcor.org.

Sincerely,

[signed by]

Michael W. Walton, Chairperson
Vestcor Inc.

March 29, 2021
Fredericton, New Brunswick

REPORT FROM THE PRESIDENT AND CEO

I am pleased to report that even during a year that was significantly impacted by a global pandemic, Vestcor was once again able to accomplish solid long-term investment management performance and administration service results on behalf of our clients. We continue to provide services to nine investment clients, eleven pension plans, and four employee benefit plans. These clients now represent over \$19.4 billion of financial assets, and over 103,300 plan members.

We are particularly proud that we have been able to continue to provide essential pension and benefit service support, and uninterrupted global investment management services, to our client members throughout the COVID-19 pandemic period. Strong results from our fall 2020 biennial employee Workplace Environment Survey confirmed that our employees continue to remain motivated and engaged in our corporate activities. The intelligence we gained in the early stages of the pandemic from a number of our global relationships allowed us to efficiently leverage our Business Continuity Plan to disperse our staff between a socially distanced office setting, our separate business recovery facility, and work from home deployments well before governmental state of emergencies were declared. As evident from the continued strong results of our member service client feedback surveys, these actions have allowed us to continue to seamlessly meet the pension and benefit expectations of our client members.

Client communication became extremely important during the year. Our Communications team did an outstanding job in both assisting Vestcor Management to provide frequent operational updates and interactions with our client Trustees, while at the same time assisting the Trustees to continue to communicate with their membership. Our Vestcor website vestcor.org acts as an important resource for our client pension and employee benefit plans.

Risk management was again a significant focus during 2020 as our internal independent Risk Management team worked closely with both Management and our Board of Directors, in utilizing our Enterprise Risk Management Framework to ensure operations continued to work smoothly. Cybersecurity risk continues to be a main emphasis at Vestcor and our Information Technology team administers best practice software and hardware solutions for our various business units, while also acting as a related resource for our clients.

The Vestcor Board of Directors and our clients were able to conduct their various oversight obligations during the year. In February 2020, our securities regulator the Financial and Consumer Services Commission (FCNB) closed their initial compliance review file of Vestcor's investment operations. This was their first review since Vestcor became subject to FCNB oversight upon our formation in late 2016. This review primarily took place in late 2019 and included Vestcor providing numerous documents as well as actively participating in interviews with FCNB staff.

During the year Vestcor was able to take advantage of the upcoming lease expiration of our long serving office space to move to a new more efficiently designed facility. In partnering with a local commercial real estate developer and manager we were also able to co-invest directly on behalf of a number of our client groups in an attractive, local real estate opportunity in which they are also indirectly a significant tenant. It has allowed Vestcor to create more open workspaces and well thought out meeting rooms, while also providing the ability to employ a more enhanced technology and cybersecurity environment. The new office also provides for more efficient client meeting spaces and will allow room for additional growth in our business and the services we provide to our clients, while also providing for operational flexibility with current social distancing requirements.

INVESTMENT MANAGEMENT

At the time of writing this report last year, we were concerned by both the high valuation levels of most investment asset classes and the global economic growth uncertainty from the then recent outbreak of the COVID-19 virus. These concerns were well founded as most public and private investments were initially impacted by a significant drop in global economic demand followed quickly by a rebound from an unprecedented level of monetary and fiscal policy support.

Global risk markets were particularly negatively impacted from the outbreak in COVID-19 during the first quarter, however they began to quickly rebound based on government support and positive news later in the year on vaccine progress. Equity market index levels recovered quickly however these gains became very bifurcated. Strong gains were realized in most technology, remote consumer service, and logistics companies, while many traditionally less risky commercial real estate and public infrastructure businesses suffered significant demand declines.

Investment performance remained strong for those shared risk / target benefit plan clients to whom we provide investment policy advice. Their total fund returns ended the year ahead of their annual return objectives, while their low-risk focused portfolios also held up well during the significant financial market drop experienced during the first quarter of the year.

On a total funds under management basis, the gross return from overall Vestcor investment management activities was 6.96% or approximately \$1.2 billion for the year ended December 31, 2020. This return was achieved with a continued year over year decline in our low management expense ratio of approximately 0.11%. Overall Pension Fund clients' returns were 7.01% during the year.

More importantly our long-term investment performance continues to exceed the targets of our many shared risk / target benefit pension plan clients. Our four-year annualized overall pension client return of 7.13% per annum was achieved with much lower realized risk than traditional defined benefit pension plans in line with their legislated requirements. This long-term low risk performance confirms what our strategic advice brings to clients, by focusing on generating more consistent returns that protects client assets in more difficult market environments. Please note that specific client returns are reported to their members through their own communication process, and many of these reports are available through their specific sections of our website.

The challenging financial market environment presented difficulties for our Investment team in outperforming client investment policy benchmarks during the year. The stronger performance of technology company securities and other higher risk investments during the year did not fit well with our more diversified, risk adverse approach. Our pension fund specific performance outperformed client benchmarks by 0.01% during the year while our overall total funds' portfolio performance lagged client benchmarks by 0.06%. Over a longer four-year period, we have exceeded both the blended client investment policy benchmarks and our investment management costs by 0.57% per year. This performance has provided our clients with additional returns of approximately \$370 million of investment earnings over their investment policy benchmarks during the four-year period after covering our investment operating costs.

Total assets under management increased in 2020 to a new all-time high of \$19.4 billion from \$18.5 billion in the prior year. This increase in assets resulted from \$1,234 million in net investment earnings, net client payouts of \$(855.9) million and \$532.2 million of additional client capital contributions.

We are pleased to provide much more detailed information and attribution in the investment section later in this Annual Report.

PENSION AND BENEFITS OPERATIONS

The Pension and Benefits Administration team were very focused on the continued implementation of our new pension and benefits administration system during the year. As we noted last year, we expect that the new system will significantly reduce the operational risks of our older pre-Vestcor legacy system. It has also allowed us to take more control of our pension payroll process whereby we began successfully making direct pension payments to our client members at the beginning of the year.

Unfortunately, the onset of the COVID-19 pandemic impacted the many stakeholders who were critically involved in our system implementation. State of emergency orders and various confinement restrictions in different jurisdictions created unavoidable delays in our original implementation schedule. Our Operations and Member Services teams were however able to efficiently prioritize critical member requirements during this period to make sure that existing pensions were continued to be paid on-time, new pensioners were set-up and added to the payroll as required, and other critical employer associated services were completed in a timely fashion. While these challenges impacted our Key-Performance-Indicator (KPI) service standards in the earlier stages of the pandemic, I am pleased to note that our team was able to advance our KPIs closer to Client targets by the fall of the year. I am very proud of our team's efforts, as demonstrated by our continued strong member service scores, to ensure that members continue to receive critical services throughout this pandemic.

It is also important to note that our Board Support Services team continued to make a significant contribution in assisting a number of our client group Trustees. The team has been able to effectively help these Trustee groups pivot to a fully remote working environment while ensuring that they were able to continue to achieve their governance and other operational objectives.

Much more detail is provided on our pension and benefits administration activities later in this report.

OUTLOOK

While the well-coordinated government fiscal and monetary assistance has helped to support both economic growth and the financial market's performance in 2020, significant uncertainties remain. Central bank balance sheets have almost doubled over the year and developed country government debt levels have neared all time high debt to gross domestic product (GDP) levels. Most financial asset valuations remain very high as central banks continue to keep interest rates at historic lows.

Most economic forecasts expect a broad-based recovery in 2021 with strong GDP global growth due to successful vaccine roll outs and continued government spending and central bank monetary support. We continue to be concerned with a number of the challenges and risks that remain. The current high valuation levels indicate that forward looking returns should be more modest for global markets relative to long term averages.

As noted last year, we continue to advise our clients that a well-diversified portfolio strategy biased towards lower volatility equity assets, and our absolute return strategies, should continue to meet their long-term return objectives while minimizing volatility as many require through their shared risk / target benefit plan requirements. We also still expect that it will be even more important in the future to continue to be able to improve client returns via active portfolio management within their investment policy guidelines, while keeping investment management costs low.

In closing I would like to recognize the contribution of three long serving members of the Vestcor team. We unfortunately lost our colleague Jeff Carr to his heroic battle with cancer during the year. Jeff began his career as an Accountant with the NB Investment Management Corporation back when it was formed in 1996 and had successfully transitioned into the role of a Senior Portfolio Manager with our Fixed Income team. Our Chief Financial Officer Jan Imeson and our Money Market Portfolio Manager Brian Allen are both retiring on March 31, 2021. I would like to thank each of them on behalf of the Vestcor organization for their many years of dedicated service.

Vestcor looks forward to continuing to help our clients meet their challenges and questions and comments are always welcome at comments@vestcor.org or by telephone through our Reception team at 1-800-561-4012.

Sincerely,

[signed by]

John A. Sinclair, President and Chief Executive Officer
Vestcor Inc.

March 29, 2021
Fredericton, New Brunswick

MANAGEMENT'S DISCUSSION & ANALYSIS

Management's Discussion & Analysis (MD&A) is provided to enable the reader to interpret the material trends, the results and the financial condition of the organization. Key elements of the annual financial statements are explained, and this MD&A should be read in conjunction with these annual financial statements and related notes.

As well, this MD&A may contain forward-looking statements reflecting management's objectives, outlook and expectations which involve risks and uncertainties. Forward-looking statements are usually preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". We caution readers not to place undue reliance on these statements as a number of important factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements.

This Management's Discussion & Analysis provides an outline of the operations for Vestcor Inc. (Vestcor) for the year ended December 31, 2020. Our operations consist of two business lines: Administration Services and Investment Management Services. These lines of business are supported by three divisions – the administration division, investment division and corporate services division. Our website at vestcor.org also has available the audited financial statements for the various Vestcor Investment Entities for the year ended December 31, 2020. The Vestcor Investment Entities are pooled investment funds structured as either unit trust funds for which Vestcor serves as trustee or as limited partnerships for which a wholly owned subsidiary of Vestcor, Vestcor Investments General Partner, Inc., serves as general partner. These Vestcor Investment Entities have been created to facilitate the efficient investment of assets into separate investment strategies that deliver our clients' asset mix decisions.

This year was unlike any other. Vestcor, and everyone around the world, was faced with unprecedented disruption from the coronavirus sweeping the globe. This disruption manifested itself early in 2020 with fears of contagion that caused Vestcor to activate its business continuity plan in early March. We split our employees into separate groups, some working from the office, some working from our alternate business location and some working from home to minimize the risk of key functions suffering from COVID-19 exposure. The sudden and significant global market volatility at that time heightened the importance of ensuring appropriate cross-training and separation of duties as a key response to mitigate pandemic risk. As we have gradually emerged from the full business continuity plan activation, the reliance on technology and paperless workflow have become a new reality.

CLIENTS AND SERVICES

Vestcor provides both pension and benefits administration services as well as investment management services to a wide range of public sector clients. In total, Vestcor provides services to 19 clients at December 31, 2020. Administration activities cover over 103,300 plan members and investment assets under management (AUM) at December 31, 2020 were \$19.4 billion.

We continue to strive to realize on our corporate vision of being the public sector's provider of choice for pension and benefit administration services and investment management services by providing assistance in any or all of the following service offerings:

- Investment Management (Equity / Fixed Income / Inflation Linked / Alternatives)
- Investment Strategy Advice
- Compliance and Performance Measurement Services
- Pension Plan Administration
- Employee Benefits Plan Administration
- Client Trustee Governance Services and Support
- Financial Reporting
- Risk Management
- Communications

Clients are free to choose some, or all, of the services provided by Vestcor. Vestcor incurs expenses in connection with its services as investment manager and in connection with its services as a pension and benefits plan administrator. It is important to note however that the expenses for each of these service areas are allocated to the best of our ability only to the respective clients of those service areas.

Investment management expenses are allocated to investment clients based on their proportionate share of total assets under management on the day an invoice is paid. If a client requires a more specific investment service, the costs to provide that service are fully allocated to that client.

For clients who use our plan administration services, the cost of our human resources to provide those services are allocated according to an annual evaluation of effort expended. Information systems and other general office and business costs are allocated based on a periodic historical analysis of transaction volumes and number of members in each plan.

ADMINISTRATION HIGHLIGHTS

The Vestcor Administration team is responsible for the day-to-day operations of 11 pension plans as well as 4 employee benefit programs. We provide service to approximately 65,800 active and 37,500 retired members. Our members include employees from the provincial public service sector, the education sector, provincial health authorities, crown corporations, and other quasi-public sector organizations.

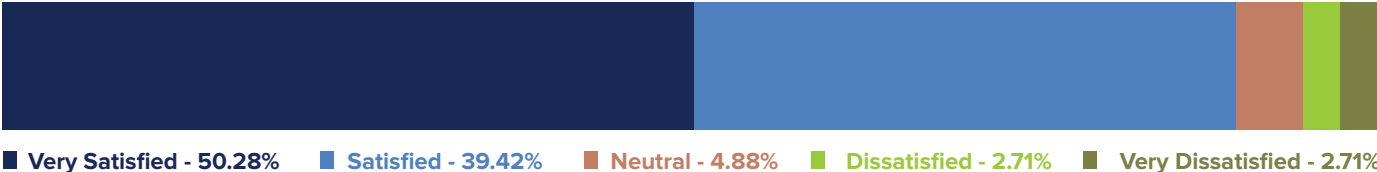
The Administration team is divided into four areas: Member Services, Plan Operations and Pension Policy, Communications, and Board and Committee Support Services. Highlights for 2020 from each of these areas are as follows:

MEMBER SERVICES

In 2020, the Member Services team had over 34,000 contacts with plans members through telephone calls, emails and pre-COVID-19 pandemic visits to our office, an increase of 3.84% as compared to 2019, where a 12.12% increase had been experienced.

To ensure that we continued to meet the needs of our clients, Vestcor administered client satisfaction surveys, as initially launched in 2017. The surveys were sent to members who received a specific service from Vestcor during the year relating to pension estimates, purchases of service, terminations or retirements. The overall satisfaction score from the surveys was 94.58%, slightly down from 95.14% in 2019.

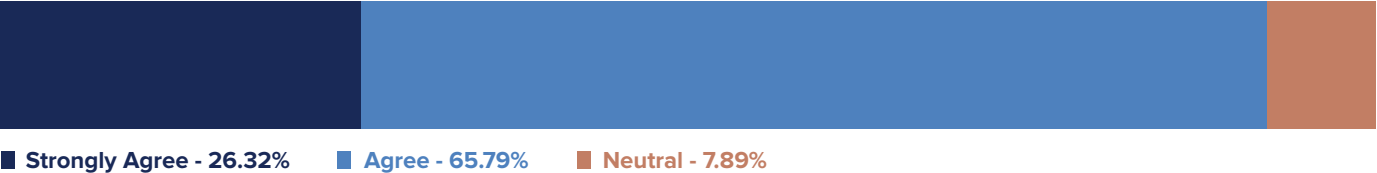
MEMBER SERVICES SATISFACTION SURVEY RESULTS



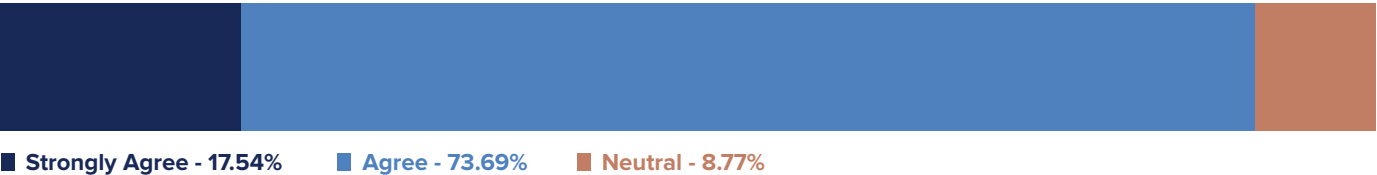
In addition to the services noted, Vestcor provided both member and employer education sessions. In 2020, despite COVID-19 restrictions for much of the year, 433 plan members attended these sessions. The member sessions provided them the opportunity to learn more about the provisions of their pension and employee benefit plans, while the employer sessions provided information to better service their employees who are members of the plans. Those who attended either type of session were very satisfied with the information they received, as outlined in the following tables.

MEMBER SERVICES EDUCATION SESSION SATISFACTION RESULTS

EMPLOYEES



EMPLOYERS



PLAN OPERATIONS AND PENSION POLICY

During 2020, the team continued to focus on implementation of our new modernized Administration system with the launch of a web-based employer portal module as well as operationalizing all pension payroll processing changes. The new system provides opportunity to further enhance services provided to members and employers and replaces our aging legacy pension and employee administration system. This work, including staff and employer training, was significantly impacted by the COVID-19 pandemic. During this time, internal administrative resources focused on successfully executing time sensitive/critical client services which include pension payroll processing for over 36,000 retirees, new retirement set-ups, employment terminations, and division of pension assets due to marriage breakdowns.

Unfortunately, the compounding impact of these events has had an interim impact on the Key Performance Indicators that Vestcor has established with each of its client boards. Below are the results for some of our key services.

Service	Target	2020 Number Processed	2020 Achieved	2019 Achieved
Purchase of Service Requests	60 days	587	42.8%	100.0%
Pension Estimates	60 days	1,317	63.7%	100.0%
Retirements	60 days	1,849	86.6%	100.0%
Terminations	30 days	1,304	87.9%	100.0%
Marriage Breakdowns	42 days	148	86.5%	100.0%

The results for Q4 2020 however have indicated that the Key Performance Indicators are on track to return to prior outstanding service levels.

MEMBER COMMUNICATIONS

The Member Communications team continued to refine and expand our efforts amid the challenges posed by the COVID-19 pandemic. These efforts included the transition of our two most significant annual events to an online format. The Annual Information Meeting offered to members of the New Brunswick Public Service Pension Plan (NBPSPP) was held exclusively online, and was moved from the evening to the lunch hour period. This resulted in the highest participation level thus far for an NBPSPP annual meeting, and members surveyed after the event responded positively to this new format. Likewise, Vestcor's annual Client Forum was transformed into an online Speaker Series facilitated by the Member Communications team, offering topics including Board Governance and Ethics, Cybersecurity Risk Mitigation, as well as Financial Market Updates.

In collaboration with the Member Services team, we also created two Employee Presentation Video Series. These videos provide plan members of the NBPSPP and New Brunswick Teachers' Plan (NBTPP) with on-demand access to online versions of the member education sessions conducted by the Member Services team. Individual videos are short-form and divided by topic, allowing members to choose the subject matter most relevant to them. This project resulted in 50 videos being posted on the clients' respective websites and to YouTube.

Continued enhancements were made to the newsletters provided to plan members. Members of the NBPSPP and NBTPP now have access to separate retiree and active member editions, and convenient interactive online versions of plan newsletters are now available on the Vestcor website, eliminating the need for members to download PDF versions of their newsletter.

BOARD SUPPORT SERVICES

Vestcor has successfully altered its board support services delivery model to enable remote and virtual service offerings during the pandemic. In this regard, the team was able to seamlessly continue to provide robust operational support to our various client boards and committees. In 2020, the Board Support Services team coordinated multiple educational opportunities via videoconference and research material to assist these groups in achieving their governance and fiduciary objectives. These activities included providing best practices to client boards related to topics such as Board effectiveness and risk management, support in regard to the drafting of internal board policies and coordinating the delivery of various externally facilitated sessions such as board triennial assessments, code of conduct and ethics, pension plan's regulatory and legal requirements.

ADMINISTRATION DIVISION COSTS

Vestcor administration clients continue to benefit from our cost-effective not-for-profit model and our focus on their specific needs and service requirements. Our overall Administration Division costs of \$9.9 million increased by approximately \$629 thousand, or 6.7% versus the prior year.

	Year ended December 31, 2020 (\$ thousands)		Year ended December 31, 2019 (\$ thousands)	
Salaries and benefits	\$	6,430	\$	6,388
Information systems		1,394		1,641
Client directed administration		467		418
Office rent		468		369
Office and business		305		293
Professional services		245		85
Amortization		615		101
	\$	9,924	\$	9,295

The Administration Division expenses include salaries and benefits for approximately 80 employees on a full-time, part-time, casual or contract basis. Salaries and benefits for the year ended December 31, 2020 were 0.7% higher than the costs in 2019. This reflects modest annual compensation increases partially offset by a number of vacant positions. Further information on Vestcor's compensation program can be found in the Compensation Discussion and Analysis section of this Annual Report (see page 35).

Information systems costs for the year ended December 31, 2020 decreased by 15.1% from the prior year. This decrease primarily reflects the substantial completion by the end of 2019 of our previously announced administration system replacement project. Roll-out of the final phase of the project, implementation of a new employer portal module, was delayed, however as both Vestcor and participating employers implemented their COVID-19 operational plans. These activities delayed the necessary system training for employer contacts until September 2020. Project implementation costs incurred in the year ended December 31, 2020 were approximately \$0.3 million. These intangible asset costs are capitalized on the Statement of Financial Position.

Professional services costs in the amount of \$0.25 million for the year ended December 31, 2020 were \$0.16 million more than the prior year reflecting the administration division's proportion of the costs of office design consulting, executive search consulting and an independent compensation review.

Amortization costs of \$0.6 million reflect the commencement of amortization of the administration system project costs of approximately \$4.5 million.

INVESTMENT HIGHLIGHTS

The following description of the investment management services covers the year ended December 31, 2020.

ASSETS UNDER MANAGEMENT

Assets under management (AUM) at December 31, 2020 were approximately \$19.4 billion consisting of the following client mandates:

Client	2020 (\$ millions)		2019 (\$ millions)	
New Brunswick Public Service Pension Plan (NBPSPP)	\$ 8,746.1	45.0%	\$ 8,333.9	45.0%
New Brunswick Teachers' Pension Plan (NBTPP)	6,518.2	33.5%	6,266.3	33.8%
Provincial Court Judges' Pension Plan (Judges)	57.5	0.3%	54.8	0.3%
New Brunswick Power Corporation (NBPC):				
Point Lepreau Decommissioning Fund	418.6	2.2%	396.2	2.1%
Point Lepreau Used Fuel Management Fund	225.8	1.2%	221.0	1.2%
Nuclear Fuel Waste Trust	204.3	1.0%	182.9	1.0%
Management Employees of New Brunswick School Districts Pension Plan (NBSD)	1.2	0.0%	2.5	0.0%
Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP)	411.3	2.1%	395.4	2.1%
University of New Brunswick Endowment Fund (UNBE)	58.1	0.3%	58.6	0.3%
Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (CBE)	2,561.4	13.2%	2,395.0	12.9%
Shared Risk Plan for City of Fredericton (CoF)	239.4	1.2%	230.1	1.3%
Total AUM	19,441.9	100.0%	18,536.7	100.0%

Each client mandate invests in a specific and unique combination of units of the Vestcor Investment Entities but may have also previously invested directly in an opportunity for which oversight is now provided by Vestcor portfolio managers.

INVESTMENT PERFORMANCE DEFINITIONS

Investment performance consists of any income and realized and unrealized capital gains or losses achieved on a portfolio(s) of assets over a defined length of time. Vestcor measures and reports returns in Canadian dollars using the aggregate return method on a daily basis. Daily returns are linked geometrically to calculate periodic returns.

Investment returns expressed on a gross basis are after the deduction of all trading and other directly associated expenses but before the deduction of Vestcor's investment management costs (see page 17). Investment returns expressed on a net basis are after the deduction of all investment management expenses charged for the assets under management.

In addition to investment performance, a significant consideration in portfolio management is the amount of investment risk. Investment risk is the probability or likelihood of an investment loss relative to the expected return.

TOTAL FUND PERFORMANCE OBJECTIVES

Vestcor's main investment performance objectives can be summarized as follows:

- a. The **primary investment performance objective** is to achieve the long-term return and risk performance that meet each client's specific return and risk targets, and
- b. The **secondary investment performance objective** is to exceed the investment performance benchmarks, over the long-term net of all investment management costs, by the value-added target(s) published in each client's respective Investment Policy Statement or other such directives / guidelines.

Vestcor has also developed a series of other investment-related key performance indicators (KPIs), as **continuous performance objectives**, that correspond to our 2019 - 2024 Strategic Plan. These KPIs are monitored on a quarterly basis.

CONTINUOUS PERFORMANCE EFFICIENCY OBJECTIVES

Objective	Target	Year ended December 31, 2020 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Regulatory 90% + 2.5%	97.1%	97.1%
Prime Broker #1	Regulatory 90% + 2.5%	95.5%	95.8%
Prime Broker #2	Regulatory 90% + 2.5%	96.9%	97.4%
Prime Broker #3	Regulatory 90% + 2.5%	97.9%	95.8%
Budget Efficiency (excluding performance incentives)	100%	91.6%	90.8%
Absenteeism (%)	<= 2%	1.1%	2.0%
Employee Engagement (maximum score of 6)	>= 4.98	5.01	n/a
IT Network Availability	99%	99.9%	99.7%
IT Applications Availability			
Administration system	99%	99.4%	n/a
Portfolio management system	99%	100.0%	99.9%

RELATIVE PERFORMANCE VERSUS BENCHMARKS

As noted above, our **second investment performance objective** is to add value (i.e. returns in excess of benchmarks) above our clients’ various asset class benchmarks through active management strategies. This value added is expected to first cover all investment management costs and subsequently targets an additional 42 basis points (0.42%) per annum. This is a key measure for our clients and accordingly is also a key measure considered in Vestcor’s variable performance compensation incentives.

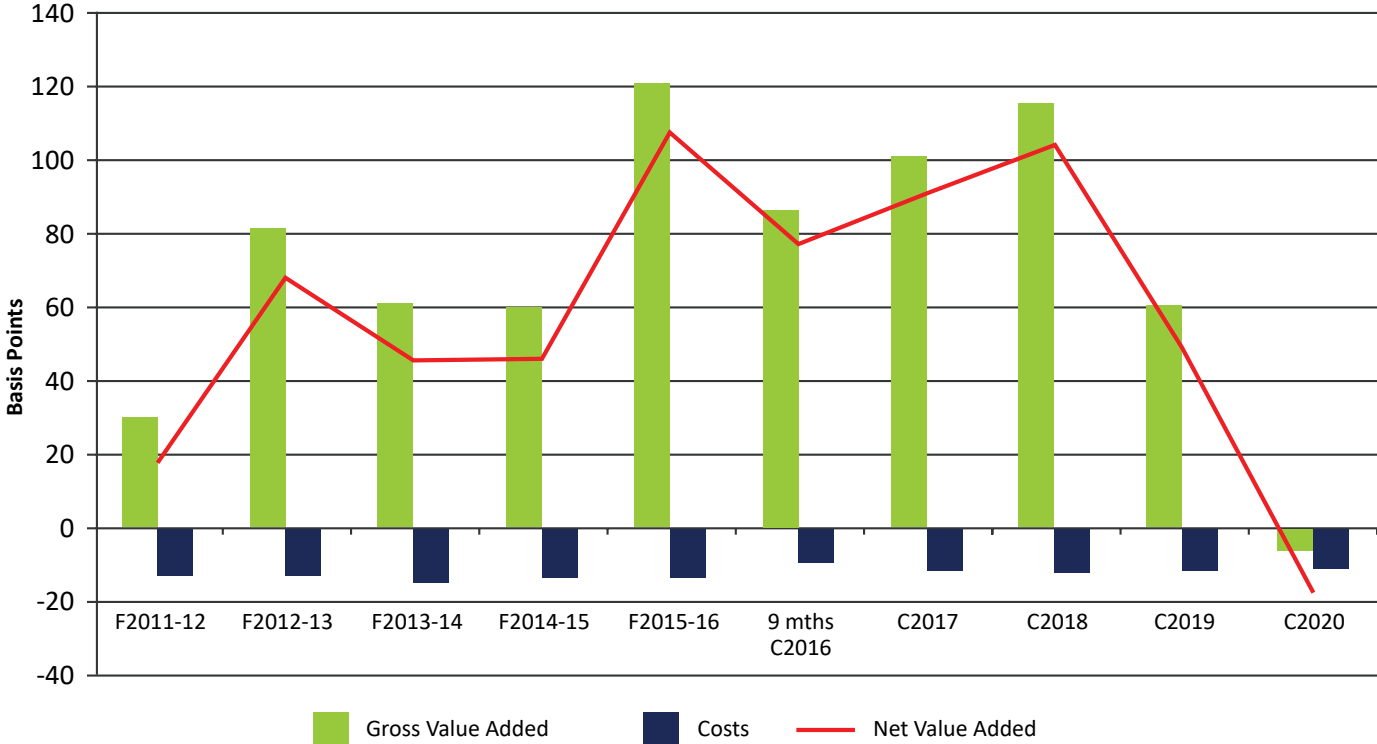
SECONDARY INVESTMENT PERFORMANCE OBJECTIVE

Objective	Long-Term Targets	Year ended December 31, 2020 Actual	4 Year Annualized	Annualized Since Inception (1996)
Net Relative Return (in basis points (bps) after all investment management expenses)	>= 42 bps per annum	(16.8)	56.9	17.5

The onset of the COVID-19 pandemic resulted in a very challenging year for active investment management due to the large swings in the global financial markets. Our overall active management activities for the year underperformed by 5.6 basis points of gross value and 16.8 basis points of net value, or approximately \$31.9 million, after covering all investment management costs.

Our longer-term four fiscal year annualized value-added return, net of costs, remained strong at approximately 56.9 basis points or approximately \$369.4 million in additional value over the four fiscal years. The four fiscal year term aligns well with our client’s long-term investment objectives and remains the most significant term used to measure our active management performance. The following chart shows the history of our value-added activities over our most recent ten fiscal reporting periods.

RESULTS OF ACTIVE MANAGEMENT



INVESTMENT MANAGEMENT COSTS

An important consideration in assessing investment performance is the cost incurred. Although the industry standard for investment performance is to report gross returns, it is the return net of costs that contributes to client asset growth. All else being equal, lower costs result in higher comparative net returns and help to maximize the assets available to fund client objectives.

Investment management costs are influenced by many factors. Industry cost comparisons prove that it is generally more efficient to manage assets internally than to outsource the investment process to third parties. Also, passive investment strategies, those strategies that are designed to replicate a market index, are less expensive than active strategies which depend on expert judgment to differentiate return opportunities from the benchmark.

Investment structure also impacts total costs. For example, private market investments can be made directly, through limited partnerships, co-investments or through fund of funds structures. These structures may incur management and carried interest fees, interest expenses, taxes, asset acquisition and or disposition expenses, and other related charges that get reflected in the net asset value of the investments. This complexity continues to make cost transparency and monitoring an ongoing challenge in the investment industry.

Vestcor Investment Entities incur transaction costs associated with the trading of securities in each portfolio. For portfolios holding publicly traded securities, these may include broker commissions and securities borrowing fees which are dependent upon the volume of trading activity undertaken. These costs are reflected in the net asset value of the investment pools rather than in the corporate financial statements. Lastly, an important factor for consideration is that Vestcor operates under a not-for-profit business model, compared to third party “for-profit” investment managers. This model not only results in considerable cost savings for our clients, but also provides for a better alignment in ensuring investment advice is truly in the best interests of specific client requirements.

Vestcor’s independently audited corporate financial statements (see pages 53 - 66) reflect the following investment management costs to manage the \$19.4 billion of AUM for the year ended December 31, 2020:

	2020 (\$ thousands)		2019 (\$ thousands)
Internal Operational Expenses	\$ 17,582.8	\$	17,717.6
Third Party Service Providers			
Investment counsel fees	3,711.5		3,351.9
Securities custody fees	21.8		24.1
Total Investment Management Costs	\$ 21,316.1	\$	21,093.6
Total AUM (in \$ millions)	\$ 19,441.9	\$	18,536.7

Using our technology systems for global trading activities, our investment management professionals internally manage the majority of the AUM from our location in Fredericton, New Brunswick. This permits a significant cost savings to the benefit of our clients. At December 31, 2020, Vestcor internally managed approximately \$16.9 billion or 87% of client AUM (2019 - \$16.2 billion and 88% respectively). The costs incurred to manage investment strategies **internally**, measured against average internally managed AUM for the year ended December 31, 2020, were 0.106% or 10.6 basis points (bps) (2019 – 11.4 bps).

Approximately \$2.6 billion, or 13% of investments, are **externally** managed as at December 31, 2020 (2019 - \$2.3 billion and 12% respectively). These mandates arise when access to a desired investment opportunity or specific strategy expertise is not available internally. Of this, \$1.8 billion of assets are related to externally managed private investments and \$0.8 billion are related to publicly traded mandates.

As mentioned above, the external costs to manage the private investments may include direct and indirect manager fees, carried interest, professional fees and other associated expenses. These costs are not included in the Vestcor investment management costs but instead have been deducted in reporting the investment performance of each pooled fund as per industry practice (see *Vestcor Investment Entities Performance on page 50*). The audited financial statements for each of the Vestcor Investment Entities are available under the Publications tab on our website at vestcor.org.

The costs of externally managed publicly traded investments are charged directly to Vestcor Inc. in its capacity as trustee of these pooled funds and are reflected in the Statement of Operations and Changes in Net Assets in Vestcor's audited financial statements on page 53. Measured on average externally managed AUM, these **external** costs, were 51.0 bps for the year ended December 31, 2020 (2019 – 52.1 bps).

In total, investment management costs reflected in Vestcor's audited financial statements for the year ended December 31, 2020 were approximately 11.2 bps of average AUM. This is lower than the investment management costs of 11.9 bps for the year ended December 31, 2019 due primarily to AUM growth and demonstrates the continuing cost efficiencies achieved by Vestcor for our clients.

We benchmark our investment management costs annually. We continue to compare favourably to publicly available information offered by other public sector peer funds. We also participate in an annual survey of defined benefit pension plans conducted by CEM Benchmarking Inc. Through this benchmarking activity, we conservatively believe that our costs continue to be approximately 25 bps lower than the average of our peers and 35 bps lower than private sector asset managers. This cost differential means that for the year ended December 31, 2020 our clients were able to retain approximately \$59.2 million (2019 - \$61.1 million) due to our lower cost advantage. This significant cost advantage has been a cornerstone of our service delivery value since our inception twenty-three years ago.

ANNUAL PERFORMANCE BY ASSET CLASS

The following discussion of annual investment performance is organized by each major Vestcor investment asset class, along with a more detailed breakdown by asset class sub-portfolio.

Vestcor offers a pooled fund structure consisting of unit trust funds, as well as limited partnership structures for private investments, through which clients can customize their specific investment allocations to achieve their unique investment objectives. For the investment performance by pooled fund, please refer to the Vestcor Investment Entities Performance (pages 50 - 52). The audited financial statements for the Vestcor Investment Entities for the year ended December 31, 2020 are available on our website at vestcor.org.

MARKET COMMENTARY

- 2020 demonstrated clearly both the potential for a roller-coaster experience for investors as well as the value of a diversified, low risk portfolio in weathering challenging market environments.
- While the COVID-19 pandemic and associated economic shutdowns proved challenging for financial markets and resulted in significant moves in equities, interest rates, and commodities, the underlying damage to the global economy is still being processed.
- With the major changes to office environments for most businesses as employees shifted to a primarily work-from-home status during the year, Real Estate investors experienced perhaps the most challenging year since the asset class became institutionalized.
- Overall, despite the strong finish to the year, investors should be prepared for challenges in terms of expected future long-term returns. Equity valuations in many markets currently sit at levels only exceeded during the 1999-2000 tech bubble, and interest rates in government bonds remain extremely low.

While it would have been reasonable to expect the 2020 news landscape to be dominated by geopolitical considerations (China-U.S. trade frictions, U.K.-Europe trade agreement negotiations, implications of the new Canada-U.S.-Mexico trade agreement, etc.), the COVID-19 pandemic rapidly put those concerns to the background. From mid-February, when global deaths from the virus reached 2,000 in total to late March when the U.S. reached a total of 50,000 coronavirus cases, the S&P 500 experienced a drawdown of approximately 35% from peak to trough. Over that same period, U.S. government 10-year treasury bond yields dropped from over 1.5% to as low as 0.5%. Market implied volatility spiked from 14% to over 80% over the same period.

Overall, the significant economic upheaval of 2020 created a difficult environment for active investment managers. Large and rapid increases in volatility are frequently challenging for active strategies to navigate, and 2020 was no exception. In general, active strategies across all asset classes experienced major drawdowns in Q1, and even with the significant equity market recovery later in the year, struggled to fully adapt to changing market conditions.

Given the current economic uncertainty and market conditions, the medium-term outlook remains cloudy for investors. Valuations remain at the high end of historical ranges, with equities are priced at levels not observed since the 1999-2000 tech bubble, and although bond yields have increased off the lows of mid-2020, forward looking returns for bond investors globally remain significantly below long-term averages. Standard 60% equity/40% fixed income allocated portfolios consequently appear unlikely to produce returns close to their long-term averages when measured from a starting point of early 2021, and for diversified investors, continuing to focus on diversified, low risk sources of enhanced returns while structuring portfolios that maximize diversification and minimize downside risk will remain essential to long run success.

FIXED INCOME PORTFOLIOS

OBJECTIVES

Vestcor provides a number of fixed income focused portfolios that allow clients to access a broad mix of both maturity term and credit quality exposures. These portfolios can be combined to represent standard industry benchmarks or used separately to provide more customized exposure to fit specific investment objectives or requirements.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2020

Portfolio	AUM ¹ (\$ millions)	2020 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Short Term Assets	\$ 1,493	1.07	0.84	1.52	1.11
Nominal Bonds	3,279	9.60	8.69	5.16	4.66
Corporate Bonds	3,372	8.52	8.74	5.08	5.27
International High Yield	200	2.98	4.13	n/a	n/a
Real Return Bonds	789	13.46	13.02	5.57	5.29

¹ Includes cross-fund ownership interests

² Start date March 1, 2018

OVERVIEW

Canadian 10-year bond yields, which started 2020 at an already low yield level of 1.70%, reacted strongly to the economic turmoil of the COVID-19 pandemic and plunged to as low as 0.43% in August. Despite the powerful response on the part of government policymakers worldwide that significantly impacted equity markets in a positive manner, the 10-year yield remained below its previous levels throughout the year and ended December at just 0.80%.

Global central banks reacted strongly to the pandemic by rapidly easing monetary policy, with the bank of Canada lowering their administered rate three times in March to the lower bound of 0.25%, while the U.S. Federal Reserve also lowered their Federal Funds rate to zero. Both the U.S. and Canadian monetary authorities also utilized policies of quantitative easing, with the Fed buying both Government and Corporate debt while the Bank of Canada purchased Government, Provincial and Corporate debt, the first such instance of quantitative easing in Canada.

Provincial and corporate bonds experienced challenges as credit spreads widened significantly in March and April during the equity market drawdown, with significant underperformance for less liquid, lower credit quality names. Despite that, spreads recovered sufficiently by year end that investment grade corporate bonds performed nearly on par with higher quality government issues.

PUBLIC EQUITY PORTFOLIOS

OBJECTIVES

We provide two main types of geographically diverse public equity investment portfolios: standard market capitalization-based portfolios, and low volatility equity portfolios. These portfolios are used to help clients gain exposure to the long-term economic growth in global regions on both an active and passively managed basis.

Vestcor has focused significant resources in developing internally managed low volatility portfolios across all the developed and emerging markets. We feel that these portfolios provide an effective public equity investment approach, particularly for our target benefit pension fund clients, in terms of providing similar long-term performance to traditional equity markets with significantly less risk.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2020

Portfolio	AUM ¹ (\$ millions)	2020 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Market Capitalization Weighted:					
Canadian Equity	\$ 1,124	6.08	5.60	6.74	6.57
Canadian Small Cap Equity ²	157	16.54	12.87	n/a	n/a
U.S. Equity	770	16.36	16.28	14.56	14.50
U.S. Small Cap Equity ²	5	17.77	17.40	n/a	n/a
International Equity	876	5.37	5.92	7.94	7.73
Low Volatility:					
Canadian Equity	897	(2.02)	(1.36)	5.70	5.29
U.S. Equity	1,191	(0.58)	3.25	8.15	10.92
International Equity	992	(2.75)	(1.64)	5.61	6.23
Emerging Markets Equity	793	0.35	5.90	5.58	7.32

¹ Includes cross-fund ownership interests

² Start date April 30, 2018

OVERVIEW

Equity markets experienced nearly unprecedented volatility throughout 2020, as the impacts of the COVID-19 pandemic and associated economic shutdowns resulted in nearly a 35% peak to trough drawdown for the S&P 500 in just 23 trading days from February 19 to March 23. Despite that significant move, with the strong response on the part of economic policymakers globally, investors largely looked through the underlying economic turmoil and generated a significant rally in risk assets from April to December. The year ended with global equity markets in solidly positive territory for the full year, with the U.S. and Emerging Markets particularly strong.

Low volatility portfolios struggled significantly throughout the year as markets became more dysfunctional and previously established relationships crumbled due to COVID-19 pandemic uncertainty. While these lower risk equities provided effective downside protection during the initial stages of the market drawdown in February, low volatility strategies actually underperformed previously more volatile names throughout the remainder of the year. With the significant risk on rally that occurred through year end with investors largely focused on higher volatility, higher growth names, this trend toward underperformance continued to December 31. Overall, low volatility strategies had a particularly challenging year in 2020, although improvements in valuations and reductions in strategy crowding may make this market segment slightly more attractive going forward.

ALTERNATIVE INVESTMENT PORTFOLIOS

OBJECTIVES

Vestcor offers many non-traditional alternative investment strategies which help provide clients with additional diversification benefits and exposure to investments which may help reduce their overall portfolio risk from the more traditional public equity and fixed income markets.

Our Absolute Return Strategies are internally managed portfolios that consist primarily of publicly traded securities designed to provide stable returns with a low correlation to standard public market equity index returns. The Private Equity portfolio provides investors with the opportunity to invest in more concentrated or control-based equity positions in companies which are at various growth stages and located in a number of different geographic regions.

Real Estate and Infrastructure investments provide clients with the ability to invest capital in a diverse portfolio of long-term assets that provide an ongoing yield that typically adjusts with inflation over the time horizon of the investment.

PERFORMANCE SUMMARY AS AT DECEMBER 31, 2020

Portfolio	AUM ¹ (\$ millions)	2020 Annual Return		Four-Year Annualized Return	
		Portfolio %	Benchmark %	Portfolio %	Benchmark %
Absolute Return Strategies	\$ 1,517	7.06	0.84	5.12	1.11
Private Equity	924	22.39	11.58	17.46	10.41
Real Estate	1,223	(0.80)	3.03	8.31	5.87
Infrastructure	1,161	4.04	5.62	8.38	5.76

¹ Includes cross-fund ownership interests

OVERVIEW

Our Absolute Return portfolio is designed to produce stable positive returns in all market environments while generating little to no correlation with traditional investment strategies thus providing attractive returns and enhanced diversification for client portfolios. To achieve this, we manage separate internal portfolios that provide exposure to a variety of securities, markets and strategies managed using both traditional and quantitative approaches. Meaningful allocations to these portfolios combined with a well-developed risk budgeting framework allow the strategy to achieve the goal of positive, low risk returns without taking on the unintended risk exposures that can often be found in traditional multi-strategy absolute return portfolios. While each strategy is managed in a diversified and prudent manner by a particular portfolio management team, we additionally employ a combined portfolio risk budgeting approach to ensure risk is efficiently managed and budgeted through all market environments by shifting capital and risk allocations to their most favorable locations where necessary. This results in a strategy that has produced significant positive returns with minimal correlation to traditional markets and approximately half the volatility of traditional hedge funds.

In 2020, the Absolute Return Strategy generated returns of 7.06%, largely due to strong returns from fundamental and event driven equities strategies. While also producing a positive return for the year, Vestcor's quantitatively driven factor portfolios experienced a more challenging period.

The private equity portfolio is diversified across geography, sector and currency, and investments are made through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. In 2020, the portfolio produced extremely positive returns of 22.39% and significantly outpaced its benchmark for the year. Over the longer-term four-year period, private equity returned 17.46%, outperforming the portfolio's benchmark by 7.05% per year.

The Real Estate portfolio has two components: North American Real Estate Investment Trust (REIT) securities, and private real estate in the form of limited partnership interests, direct co-investments and direct holdings. Canadian opportunities represent the largest component of the private portfolio, however we continue to seek high quality opportunities abroad. In 2020, the combined portfolio earned a return of -0.8% vs. a benchmark return of 3.03%, although the longer-term 4-year return remains strong and well in excess of benchmark at 8.31% per year.

Vestcor's Infrastructure portfolio has two components: first, private infrastructure in the form of both fund commitments into limited partnerships as well as co-investments (diversified by geography, currency and by asset type) and second, an internal public infrastructure portfolio that is designed to provide similar long-term return and risk characteristics as private. In 2020, the combined strategy earned 4.04%.

RISK MANAGEMENT

Vestcor faces a number of risks in fulfilling our various client mandates. A summary of our Enterprise Risk Management Framework, available at vestcor.org/framework, provides guidance and structure for ensuring that the organization can assess and adapt to emerging risks.

Risk management is a key element in helping provide stability to both pension plan contributions and benefits and making sure that our investment management activities do not bring undue risk to our clients' assets. All decisions are made in a risk context that not only focuses on the expected returns of our activities but also on the potential gains or losses that could be realized by those activities.

BOARD OVERSIGHT

Although management has the primary responsibility for managing risk, under its terms of reference, the Board of Directors is responsible for understanding the risks and the systems that management has put in place to mitigate and manage those risks. The Board is assisted in this responsibility through the efforts of its Committees to which certain risk oversight has been delegated. The Board maintains specific responsibility for the oversight of fiduciary, business strategy and investment risk however.

Within the Board structure, the Human Resources and Compensation Committee focuses on risks relating to our employees and work environment. These include the leadership of the President and CEO, the ability to attract and retain qualified and motivated staff, leadership development and succession plans, and our Human Resource policies and practices. The Governance Committee focuses on the leadership and effectiveness of the Board and the reputation and public image of Vestcor. The Audit Committee focuses on oversight of financial risks including risks relating to the systems of internal control and financial reporting as well as cybersecurity and fraud risk.

INTERNAL AUDIT FUNCTION

The Audit Committee of the Board uses an independent internal audit function, consisting of internal employees and external independent audit consultants, to assist the Committee in ensuring that the internal controls and information systems used by Vestcor are appropriate and effective. The internal audit function reports directly to the Audit Committee. Internal audit pursues a rotating, risk-focused examination of an audit universe that covers the expanse of Vestcor's corporate policies and processes.

MANAGEMENT ACTIVITIES

Vestcor has an independent Risk team overseen by the Risk Manager. The Risk Manager is responsible for development, communication and administration of Vestcor's Enterprise Risk Management Framework, leads the Enterprise Risk Management Council and has direct access to the Chair of the Audit Committee.

Vestcor uses various internal Risk Management Committees to monitor and address issues arising from the Enterprise Risk Management Framework. These committees have cross-functional membership, including management and non-management positions as well as some overlap among the committees, providing a rich opportunity for sharing perspectives and insights:

<p>Enterprise Risk Management Council (ERMC)</p>	<p>In accordance with its Terms of Reference, the ERMC is responsible for reviewing the status of the Enterprise Risk Management Framework on a quarterly basis in advance of presenting the quarterly risk matrix report and key risk indicators to the Audit Committee and advising the President and CEO of areas of emerging risk.</p> <p>In fulfilling this mandate, the ERMC reviews:</p> <ul style="list-style-type: none"> • a quarterly key risk indicators report; • weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies; • a quarterly client liquidity analysis; • monthly counterparty exposure reports; • quarterly securities lending compliance reports; • results from management’s annual fraud risk assessment; and • recommendations from internal audit reviews.
<p>Investment Risk Management Committee (IRMC)</p>	<p>In accordance with its Terms of Reference, the IRMC:</p> <ul style="list-style-type: none"> • monitors investment risk measures; • reviews the results of asset mix stress testing and back-testing; • considers risks associated with new investment strategies and products; • proposes procedures to measure and monitor investment risk, subject to the approval of the Chief Investment Officer and within the parameters established by the Board and our clients.
<p>Trade Management Oversight Committee (TMOC)</p>	<p>In accordance with its Terms of Reference, the TMOC:</p> <ul style="list-style-type: none"> • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; and • manages exposure to broker counterparty risk.
<p>Information Technology Risk Management Committee (ITRMC)</p>	<p>In accordance with its Terms of Reference, the ITRMC:</p> <ul style="list-style-type: none"> • assists in the development of IT strategy and future direction; • approves new application risk assessments; • monitors adherence to IT policies and processes; and • oversees cybersecurity risks.
<p>Business Continuity Plan Team (BCP)</p>	<p>In accordance with its Terms of Reference, the BCP:</p> <ul style="list-style-type: none"> • develops and implements the Business Continuity Plan including disaster recovery and pandemic preparedness; • discusses possible disaster scenarios; and • uses passive and active scenario testing to practice response protocols.
<p>Occupational Health & Safety Committee</p>	<p>In accordance with its Terms of Reference, the Occupational Health & Safety Committee considers physical environment risks.</p>

Privacy Committee
(new in 2020)

Under its Terms of Reference, the Privacy Committee:

- oversees all client / plan member privacy activities;
- develops policies, procedures and safeguards regarding privacy;
- ensures ongoing staff training and awareness;
- monitors policy compliance; and
- investigates and responds to incidents and complaints.

Valuation Committee

In accordance with its Terms of Reference, the Valuation Committee:

- reviews the valuations for all private local opportunity investments and spread-based fixed income securities;
- reviews the valuations for other non-publicly traded securities classified as Level 2 or Level 3 under International Financial Reporting Standards; and
- maintains the valuation procedures manual in accordance with sound business practices and effective internal controls.

CORPORATE GOVERNANCE

Vestcor was established under the *Vestcor Act* in 2016 as a not-for-profit corporation that is indirectly owned by its Members, currently the NBPSPP and NBTPP (“the Founding Members”) through a shareholder corporation, Vestcor Corp.

APPOINTMENT OF BOARD OF DIRECTORS

Vestcor’s Board of Directors is appointed by Vestcor Corp. based on recommendations from a Vestcor Inc. Ad-Hoc Nominating Committee. A skills matrix is developed by the Ad Hoc Nominating Committee to ensure an appropriate diversity of Board experience and skills. A professional executive search firm may be engaged to assist the Committee in the solicitation and evaluation of interested applicants against this skills matrix.

The *Vestcor Act*, a Members’ Agreement and the corporate by-laws set out the duties and responsibilities of the Board of Directors. Also, under a Director Independence Policy that seeks to minimize potential conflicts with respect to Board operations, the current Board operates with all of its nine directors declaring full independence.

A primary consideration of the Board is to oversee Vestcor’s activities as a pension and benefits administrator and investment manager for the funds under management. The Board ensures that, as required under the *Vestcor Act*, all Vestcor’s transactions are conducted on a purely commercial basis, and that decisions and actions are based on sound business practices in the best interest of our clients.

The Board is responsible for the stewardship and strategic direction of Vestcor. Its duties include establishment of the corporate mission, vision and values, maintaining an effective relationship with the President and CEO, and oversight of the business planning process, financial position and results, risk management, internal controls and information systems, human resources, communications and stakeholder relations. To ensure its ongoing effectiveness, the Board performs a self-assessment against these responsibilities.

The Board is assisted in its endeavors by the efforts of three Committees: the Audit Committee, the Human Resources and Compensation Committee and the Governance Committee, whose reports follow. Day-to-day management is delegated to the Chief Executive Officer, while investment-related matters are delegated to the Chief Investment Officer.

Additional information about our corporate governance practices is available on our website at vestcor.org. This includes: our governing statutes, Board composition, Board and Committee Terms of Reference, Nomination Guidelines, Director Orientation and Education Policy, and Code of Ethics and Business Conduct.

BOARD ATTENDANCE

Board members are expected to attend the Board meetings and meetings of committees of which they are a member. The following table provides the number of meetings held and attendance by each of the appointed directors.

Appointed Director	Board	Audit Committee	Governance Committee	Human Resources & Compensation Committee
Michael Walton	7/7	5/5	4/4	3/4
Michel Allain	7/7	n/a	n/a	4/4
Donna Bovolaneas	7/7	5/5	4/4	n/a
Tanya Chapman	7/7	n/a	n/a	4/4
David Losier	7/7	5/5	4/4	n/a
Eleanor Marshall	7/7	5/5	n/a	n/a
Tim Mawhinney	7/7	n/a	n/a	4/4
Daniel Murray	7/7	5/5	n/a	n/a
Cathy Rignanesi	7/7	5/5	4/4	n/a
Nancy Whipp ¹	6/6	n/a	3/3	3/3

¹ Term expired October 1, 2020

In addition, with three directors' terms expiring in 2020, an ad hoc Nominating Committee of four directors whose terms were not expiring had been formed in late 2019 to undertake a director search process. This Committee met five times during the year but its work was interrupted due to the COVID-19 pandemic. On resuming its activities, the membership and objectives of the Ad Hoc Nominating Committee were revised to also address the director term expiration of June 2021. The Committee then met an additional two times during the year and engaged an executive recruiting firm to assist with their search for qualified directors. The Board also approved an ad hoc Compensation Committee of four directors to oversee the Total Compensation Review performed by the independent compensation consultant, which met three times during the year.

A Director Orientation Program assists new directors in understanding the mandate and stakeholders of Vestcor. A significant focus of the initial new director orientation is to explain the roles and responsibilities of the Board and the Board committees. It also outlines Vestcor's organizational structure, introduces the senior leadership team, and provides a primer on the pension and benefits administration and investment management services and industries. Management has provided director orientation to each of the directors.

On-going director education includes exposure to relevant news and articles of interest as well as a program of educational sessions. In 2020, these sessions included a review of shared risk / target benefit plan regulations, presentations on Vestcor's absolute return and low volatility investment strategies, and investment risk management. Directors also attended the client educational webinars hosted by Vestcor in 2020 including cybersecurity, governance and ethics topics. Vestcor also has a corporate membership in the Institute of Corporate Directors to ensure that directors and management have ready access to evolving best governance practices.

All directors participated in a full review of Vestcor's Enterprise Risk Management Framework and Risk Appetite Statement during the year.

BOARD DECISIONS

Major decisions made by the Vestcor Board during the year ended December 31, 2020, in addition to the matters referred to it by the Board Committees (*see Committee reports following*) included:

- Approval of the appointment of D. Losier as Chair of the Human Resources and Compensation Committee and J. Noel-Thériault as Corporate Secretary;
- Approval of the Governance Committee's recommendation to endorse the Canadian Coalition for Good Governance's Stewardship Principles for recognizing the importance of good stewardship on the part of institutional investors;
- Approval of a proposal from the ad hoc Director Nomination Committee formed to address director term expirations in 2020 to recommend to the Vestcor Corp. shareholder, which was subsequently accepted, to renew the terms for two directors and, in light of the current status of COVID-19, to postpone further director search efforts until conditions improve. The Board will function with nine directors instead of ten until the director search can be resumed;
- Approval of the peer comparator group, reflecting a similar size and complexity as Vestcor, to be used for purposes of a Total Compensation Review by an independent compensation consultant;
- Approved the change of benchmark for the U.S. Real Estate Investment Trust strategy from the FTSE NAREIT All Equity Total Return Index, in \$C to the MSCI USA IMI Equity REITS Gross Total Return Index, in \$C;
- Approval of management's observations and proposed recommendations following receipt of the Total Compensation Review for employees and directors as presented by the independent compensation consultant;
- Approval of the 2020 Incentive Plan compensation payments including the individual award factor based on 2020 business plan accomplishments and with consideration of management's response to the ongoing COVID-19 crisis;
- Approval of a revision to the Investment Authorities including the daily blotter and settlement limits and trading transaction limits;
- Approval of revisions to the Vestcor Investment Entities Profiles dated February 10, 2020;
- Recommendation to the shareholder of the reappointment of KPMG as independent auditor for the Vestcor Group for a three-year term 2019-2021, which was approved;
- Approval of the 2021 Annual Corporate Business Plan and weightings for Incentive Plan purposes;
- Recommendation to the shareholder of the 2021 operating and capital expenditure budgets for Vestcor Inc., which were approved;
- Approval of the 2021 objectives for the President & CEO;
- Approval of the 2021 Board reporting calendar.

BOARD COMMITTEE REPORTS

The following highlights of the Board Committee Reports for the year ended December 31, 2020.

REPORT OF THE AUDIT COMMITTEE

Under its Terms of Reference, the Audit Committee is responsible for assisting the Board in its oversight of the integrity of Vestcor's financial reporting and disclosure processes. This oversight includes:

- monitoring the financial affairs of Vestcor and the Vestcor Investment Entities, including the selection of accounting policies to be followed in the preparation of financial statements and the transparency of financial disclosures,
- appointment of qualified and independent external auditors including an annual assessment of the quality of the external audit and a periodic review of the Committee's policies respecting audit partner rotation and pre-approval of the external auditor's audit and non-audit fees and their impact on the auditor's independence,
- performance of the internal audit function including completeness of the audit universe, approval of the annual audit plan and a regular assessment of the effectiveness of the internal audit function,
- adequacy and effectiveness of Vestcor's internal controls and management information systems used to produce accurate, appropriate and timely management and financial information,
- robustness of management's enterprise risk management program and strategies to identify and mitigate financial risks, and
- compliance with legal and regulatory matters.

Management is responsible for the preparation of the financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining appropriate accounting policies, processes, procedures and systems of internal control to ensure compliance with accounting standards and applicable laws and regulations. The external auditor is responsible for planning and carrying out an audit of the annual financial statements.

At the beginning of each year the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its own effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2020:

Financial Statements and Other Statements

- Following a review of changes to the Global Investment Performance Standards (GIPS®) introduced in 2020, reviewed certain client's Total Fund Reporting in accordance with the standards for the year ended December 31, 2020 for:
 - o NBPSPP Total Fund;
 - o NBTPP Total Fund;
 - o Provincial Court Judges' Total Fund;
 - o NBSD Total Fund;
 - o CBE Hospitals Total Fund;
 - o Shared Risk Plan for the City of Fredericton Total Fund;
 - o Low Volatility Global Equity Total Fund; andrecommended their approval by the Board;
- Reviewed the Schedule of Composite Performance in accordance with GIPS for the year ended March 31, 2020 for the NB Power Environmental Reclamation Composite and recommended its approval by the Board;
- Reviewed the Schedule of Composite Performance in accordance with GIPS for the year ended June 30, 2020 for the AESRP Composite and recommended its approval by the Board;
- Reviewed the audited financial statements for the Vestcor Investment Entities for the year ended December 31, 2020 and recommended approval by the Board;
- Reviewed the audited financial statements for Vestcor for the year ended December 31, 2020 and recommended approval by the Board;
- Reviewed the draft Vestcor Annual Report material for the year ended December 31, 2020 and recommended approval by the Board subject to the review and approval by each of the Governance and Human Resources and Compensation Committees of material relating to those committees;
- Reviewed the draft press release announcing the publication of the Vestcor Annual Report for the year ended December 31, 2020 and recommended approval by the Board;
- Reviewed quarterly unaudited financial statements for the Vestcor Investment Entities and Vestcor together with management's certifications regarding changes in accounting policies, significant accounting estimates, adequacy of internal controls over financial reporting, and subsequent events;
- Received the audited financial statements for the year ended December 31, 2019 for a wholly owned subsidiary of the NBIMC Canadian Real Estate Fund;
- Monitored the completion of corporate and client financial reporting activities; and
- Approved the Valuation Policies for investment securities.

Internal Control and Information Systems

- Monitored the status of management's efforts to address internal control findings from previous external audits;
- Received a monthly status report concerning the continuing progress of the Pension and Benefits Administration System implementation;
- Reviewed the 2020 Internal Control Report prepared by management outlining Vestcor's major processes, risks and key controls and approved its release to clients and their auditors; and
- Received an update to the Vestcor Five-Year IT Strategic Plan.

Risk Management

- Completed the annual review of the Fraud Risk Management Policy and recommended to the Board for approval;
- Reviewed findings from management's 2020 fraud risk assessment;
- Reviewed an annual listing of Vestcor's major suppliers;
- Reviewed and approved management's recommendations regarding the Corporate Insurance Program and recommended renewal to the shareholder; and
- Reviewed management's annual cybersecurity self-assessment.

Internal Audit

- Reviewed and approved a framework for use in the annual evaluation of the Internal Audit function
- Received quarterly Internal Audit Reports outlining work conducted by the Internal Audit function including recommendations and management's responses;
- Reviewed and approved revisions to the Internal Auditors' Terms of Reference;
- Approved the 2021 Internal Audit Plan including projects, budget, updated audit universe and a five-year professional development plan for the Manager, Internal Audit;
- Reviewed a Follow-Up Report from the Internal Auditor reporting on management's progress in responding to previous internal audit recommendations; and
- Met *in camera* quarterly with the Internal Auditor.

External Auditor

- Reviewed and recommended for approval by the Board the External Auditor's engagement, audit plan, timing, staffing and fees for the Vestcor financial statements for the year ended December 31, 2020, and the Vestcor Investment Entities' financial statements for the year ended December 31, 2020;
- Pre-approved all non-audit, tax and other services to be performed by the External Auditor in accordance with the Audit Committee's Pre-Approval Policy for Audit and Non-Audit Services;
- Reviewed the findings of an independent audit of the accuracy and completeness of data conversion relating to the implementation of the new Pension and Benefits Administration System;
- Reviewed the External Auditor's Audit Findings Report for the year ended December 31, 2020 and obtained confirmation of the External Auditor's independence;
- Met *in camera* quarterly with the External Auditor;
- Received management's feedback concerning the effectiveness and quality of the External Audit;
- Completed an External Auditor Assessment resulting in: (i) a recommendation to the shareholder for the re-appointment of the External Auditor for a period of three years; and (ii) a memorandum outlining Committee expectations and recommendations for improvements in the audit process provided to the External Auditor; and
- Reviewed and reconfirmed the Hiring Policy respecting Employees and Partners of the External Auditor as originally approved to ensure appropriate independence of the External Audit is maintained.

Committee Objectives

- Received the results of an evaluation conducted by each director after each Audit Committee meeting to assist in identification of improvements to meeting content and efficiency; and
- Reviewed the Audit Committee's accomplishments for the year ending December 31, 2020 and discussed objectives for enhancing its effectiveness in 2021.

Other

- Received a summary of recent changes to privacy legislation;
- Reviewed the findings related to a regulatory audit by the Financial and Consumer Services Commission of New Brunswick together with management's response and remediation plans;
- Received quarterly reporting of legal and regulatory compliance; and
- Received a quarterly status report of class action litigation in which Vestcor has participated as a claimant pursuant to Vestcor's Responsible Investment Guidelines.

This report has been approved by the members of the Audit Committee.

D. Bovolaneas (Chair), D. Losier, E. Marshall, D. Murray, C. Rignanesi, M. Walton (ex officio).

REPORT OF THE GOVERNANCE COMMITTEE

Under its Terms of Reference, the Governance Committee is responsible for assisting the Board of Directors in fulfilling its obligations by providing a focus on governance and public policy to enhance Vestcor's performance and ensure that its governance and communications policies and practices meet evolving best practices. To accomplish this, the Committee annually reviews the terms of reference for the Board and each Board committee, all Board policies and the Nomination Guidelines for new directors, oversees the Corporate Communications Policy, Director Orientation and Education programs and the Code of Ethics and Business Conduct. A Board and director self-assessment process is facilitated by the Governance Committee.

At the beginning of each year the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its own effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ending December 31, 2020:

Governance Documents and Initiatives

- Conducted a review and recommended to the Board for approval revisions to the Terms of Reference for the Board of Directors for Vestcor and for each of the Governance, Audit and Human Resources and Compensation Committees; and
- Completed a review of the Director Orientation and Education Policy, Board Compensation Policy, Travel Policy, Code of Ethics and Business Conduct, Director Nomination Guidelines, Director Independence Policy and Directors' Terms and Skills Competency Matrix and recommended their approvals by the Board; and Reviewed the draft Corporate Governance disclosure for the 2020 Annual Report and recommended its approval by the Board.

Ethics

- Reviewed the annual compliance by staff and directors with the Code of Ethics and Business Conduct; and
- Received each quarter a status report of compliance by staff with the Code of Ethics and Business Conduct.

Director Nominations

- Received a letter from the Ad Hoc Nominating Committee that advised our Vestcor Corp. shareholder that two of the three directors whose terms were expiring in 2020 were interested in renewing their terms and that one director had declined due to other commitments and requested input to the nomination process from the shareholder;
- Received a status report from the Ad Hoc Nominating Committee to the shareholder regarding its decision to pause its director search due to the COVID-19 pandemic. The Committee also recommended to the shareholder the re-appointment of the two directors who were seeking to renew their terms;
- Reorganized the Ad Hoc Nominating Committee to consider the director terms expiring in June 2021. That Committee then relaunched their director recruitment process including a review of the director skills matrix, determination of a search strategy including a decision to engage external director recruitment consultants to assist with the search, drafting of the candidate profile and engagement of the shareholder in the process; and
- Recommended changes to the Committee Chairs' positions effective April 1, 2021 for director growth and succession planning.

Directors' Compensation

- Reviewed a proposal for an independent review of directors' compensation by an external Compensation Consultant;
- Reviewed and approved a Directors' Compensation Philosophy to provide to the Compensation Consultant for completing their review;
- Received the final report from the Compensation Consultant regarding the Directors' Compensation Review;
- Approved a Report of Directors' Compensation and Expenses for the year ended December 31, 2020; and
- Approved a Report of the President & CEO's travel expense claims for the year ended December 31, 2020.

Director Orientation and Education

- Reviewed a Post-Orientation Survey for New Directors and recommended its approval by the Board to provide feedback and opportunity to improve the director orientation process; and
- Renewed a corporate membership in the Institute of Corporate Directors to provide valuable training and resource material for both management and directors.

Board Effectiveness

- Received the results of an evaluation conducted by each director after each Board meeting to assist in identification of improvements to meeting content and efficiency;
- Received a report of Board Improvement Objectives identified as part of a facilitated 2020 Board evaluation process;
- Reviewed the Board Operations Policy and recommended its approval by the Board; and
- Reviewed the Board's accomplishments for the year ended December 31, 2020 and discussed objectives for enhancing Board effectiveness in 2021.

Communications and Public Policy

- Reviewed and recommended to the Board for approval a revised Strategic Communications Plan; and
- Received a quarterly Media Monitoring Report from the Communications team.

Committee Objectives

- Received the results of an evaluation conducted by each director after each Governance Committee meeting to assist in identification of improvements to meeting content and efficiency; and
- Reviewed the Governance Committee's accomplishments for the year ending December 31, 2020 and discussed objectives for enhancing its effectiveness in 2021.

Other

- Received a quarterly update on potential new client mandates;
- Reviewed and recommended approval by the Board an endorsement of the Canadian Coalition for Good Governance Stewardship Principles;
- Received a summary of the process for registering and maintaining each director's status as a Permitted Individual pursuant to provincial securities regulation; and
- Received an overview of the items discussed at each shareholder Board meeting held in 2020.

This report has been approved by the members of the Governance Committee.

C. Rignanesi (Chair), D. Bovolaneas, D. Losier, M. Walton (ex officio)

REPORT OF THE HUMAN RESOURCES & COMPENSATION COMMITTEE

Under its Terms of Reference, the Human Resources and Compensation Committee (HRCC) is responsible for assisting the Board of Directors to fulfill its obligations relating to the compensation of employees, leadership succession, and human resources policies and practices. In doing so, the HRCC conducts an annual performance appraisal for the President and CEO, oversees changes to the Compensation Philosophy, compensation, employee benefits and incentive plans, organizational structure, leadership development and succession, monitors management’s compliance with employment-related regulatory and legislative matters and oversees risk management systems related to Vestcor’s human resources

At the beginning of each year, the Committee establishes its objectives under these Terms of Reference for the upcoming year and reports on its success at meeting those objectives annually as part of an assessment of its effectiveness. At each meeting, the Committee evaluates its meeting agenda against its Terms of Reference to ensure that it has fulfilled its responsibilities.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2020:

Evaluation of the CEO	<ul style="list-style-type: none"> • Conducted the annual performance review for the President and CEO; and • Reviewed and approved the performance of the President and CEO against the business plan targets for the year ended December 31, 2020.
Compensation and Employee Benefits	<ul style="list-style-type: none"> • Reviewed proposed additions to the Incentive Plan to reflect the position of Chief Pensions and Benefits Officer and provide additional clarity regarding leave of absence provisions, and recommended its approval to the Board; • Undertook a competitive Request for Proposal process for a qualified, independent compensation consultant to conduct a Compensation Review for all positions; subsequently reviewed the results of this review and recommended their approval to the Board; • Reviewed the individual business plan success weightings of the Business Plan for the year ended December 31, 2020 and recommended their approval by the Board; • Reviewed corporate results for the year ended December 31, 2020 versus the Business Plan and recommended approval by the Board of the individual incentive performance award; and • Reviewed and recommended to the Board the overall Incentive Compensation Pool for the year ended December 31, 2020.
Severance	<ul style="list-style-type: none"> • N/A – No severances in 2020.
Code of Business Conduct and Ethics	<ul style="list-style-type: none"> • N/A – No concerns referred by the Governance Committee occurred in 2020.
Organizational Structure	<ul style="list-style-type: none"> • Recommended for approval by the Board the creation of three new full-time positions to address additional business growth; • Discussed the human resource impact of the COVID-19 Operating Plan on continuing efforts to attract, retain, motivate and train personnel including the results of a business continuity pulse survey of employees conducted following the first wave; • Received a proposed organizational structure in conjunction with the development of the 2021 budget. The proposed structure included three additional positions for private real estate investment and accounting to ensure appropriate human resource capacity and resiliency to achieve the growth objectives in the 2019 – 2024 Corporate Strategic Plan; and • Received updated integrated organizational charts for Vestcor.

Leadership Development and Succession

- Reviewed the Succession Plans for the President and CEO and senior management positions and recommended approval by the Board;
- Reviewed management’s leadership development plans for identified succession candidates;
- Conducted a competitive Request for Proposal process to launch an executive search for a new Chief Financial Officer due to the planned retirement of the incumbent; and
- Received regular updates on management’s recruiting efforts.

Human Resources Planning and Policies

- Reviewed the 2020 Human Resources Strategic Plan, including short, medium and long-term objectives to build Vestcor’s infrastructure to support prudent client growth while reducing enterprise risk exposure and ensuring organizational sustainability, and recommended its approval by the Board.

Compliance Monitoring

- Received quarterly certification from management as to regulatory compliance with various legislative requirements.

Risk Management

- Conducted the 2020 Biennial Workplace Environment Survey to measure employee satisfaction;
- Conducted the 2020 Biennial Leadership Survey;
- Monitored quarterly key performance indicators related to human resource matters including position vacancies, absenteeism, retention and training; and
- Reviewed the risk management areas for which the Committee had been delegated oversight responsibilities including the President and CEO’s leadership effectiveness, performance integrity, and ability to attract and retain qualified personnel.

Annual Committee Objectives

- Reviewed the Committee’s Terms of Reference to enhance clarity and ensure responsibilities remain appropriate and recommended approval by the Board; and
- Established the Committee’s objectives for the year ended December 31, 2020 in the form of a Committee dashboard and reviewed subsequent achievements throughout the year.

Other

- Each quarter, conducted and reviewed a meeting evaluation to assess the efficiency and effectiveness of the Committee function; and
- Reviewed the draft Compensation Discussion and Analysis section of the Vestcor 2020 Annual Report and recommended its approval by the Board

This report has been approved by the members of the Human Resources & Compensation Committee.

D. Losier (Chair), M. Allain, T. Chapman, T. Mawhinney, M. Walton (ex officio)

COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis explains the processes followed by Vestcor that have been applied in the current year and are expected to be applied to Vestcor in future.

COMPENSATION GOVERNANCE

The Board of Directors is responsible for the oversight of Vestcor's compensation principles, policies and programs. The Board approves the compensation program and awards, including the compensation of the President and CEO, based on recommendations made by the Human Resources and Compensation Committee (HRCC).

HRCC MANDATE

The HRCC assists the Board in fulfilling its obligations relating to the establishment of policies for compensation of employees, leadership succession planning, and setting of human resource policies and practices.

The Committee is composed of four directors and the Chairperson who acts on the Committee in an *ex officio* capacity. The Committee meets a minimum of three times each year. External human resources consultants may be used to assist the Committee with fulfilling its mandate.

The HRCC's Terms of Reference are available at vestcor.org/governance, under "Board Committees" and "The Human Resources and Compensation Committee".

Key responsibilities include:

- Participation in an annual performance appraisal process for the President and CEO, including establishment of measurable goals and objectives, and recommendations for compensation arrangements including performance incentive awards;
- Development of a Compensation Philosophy that articulates principles to follow in approaching compensation decisions that will align with Vestcor's business objectives, operations and risks;
- Oversight of adjustments to competitive compensation ranges, incentive compensation plans, employee benefit plans and operational travel and expense policies;
- Recommendation of changes to the organization's structure, appointment of officers, and amendments to job descriptions as well as any management severance arrangements;
- Consideration of leadership development initiatives and succession plans for key employees;
- Approval of a long-range Human Resources Strategic Plan that includes appropriate strategies and policies to attract and retain talented employees; and
- Review of the year-end incentive compensation pool for eligible employees and recommendation to the Board for approval.

INDEPENDENT ADVICE

The HRCC retained the help of Willis Towers Watson, an independent expert compensation advisor, during the year to provide advice with respect to a Total Compensation Review for all Vestcor positions within the context of Vestcor's Compensation Philosophy. This review utilized comparator groups to represent the marketplace for employee positions. For investment and pension administration positions, the comparator group consisted of pension funds of similar asset size and investment strategy complexity. Corporate services positions were compared to similar general industry positions, adjusted for regional differences, and to other Atlantic Canada organizations. The results and implications of this review are expected to be finalized in early 2021.

Vestcor also regularly participates in and uses compensation surveys conducted by various compensation consultants to ensure that compensation trends are regularly monitored, and trends are identified and reported to the HRCC.

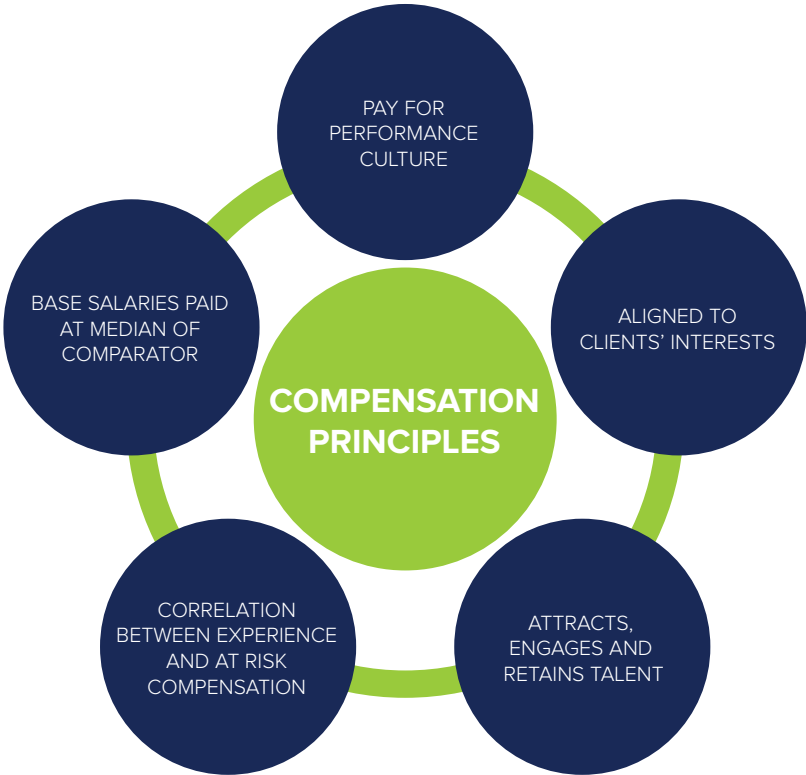
CORPORATE COMPENSATION PHILOSOPHY

Vestcor believes that employees are key to its performance and is committed to providing a positive working environment and competitive compensation. Vestcor also believes that the achievement of its mission will be facilitated by having meaningful alignment between employees' interests and the interests of its clients.

Accordingly, a Compensation Philosophy has been developed to address the following objectives:

- Provide competitive, performance-based compensation based upon market practices;
- Attract and retain high-quality people;
- Reinforce the strategy, culture and policies of Vestcor;
- Promote awareness and attainment of individual, team and corporate strategic objectives;
- Enhance Vestcor's reputation as an employer of choice; and
- Treat employees fairly.

The principles on which this philosophy is based are summarized as follows:



COMPENSATION RISK MANAGEMENT

COMPENSATION DECISION-MAKING

The annual process for determining compensation includes the following steps:



Establish target compensation levels

The HRCC annually reviews the compensation program design and pay levels of its comparator groups to ensure that Vestcor’s programs remain competitive. Market information received from various industry specific compensation and salary surveys is reviewed as it becomes available. An Independent Expert Compensation Advisor is utilized to conduct a Total Compensation Review at a minimum of every four years. Compensation information from public disclosures of other similar peer organizations is also considered.

The HRCC also annually considers whether changes may be required to the Incentive Plan.

Set target compensation mix and pay at-risk

Total compensation is a mix of base salary, benefits and, for eligible employees, performance incentives. The mix varies by role, reflecting the opportunity to influence performance. In determining the mix, market practices are considered as well as Vestcor’s compensation principles, including alignment with clients’ interests. A significant portion of the investment related performance incentives are earned over a four-year cycle to discourage short-term risk-taking.

Establish performance objectives

Each year, the Board approves an annual business plan designed to support achievement of Vestcor’s five-year Strategic Plan. This annual business plan contains a balanced mix of financial, investment strategy, administration and operational performance objectives and key initiatives. Each of these performance objectives and key initiatives is then weighted according to its level of importance to the overall Strategic Plan. The President and CEO delegates the key initiatives among the various functional teams based on their specific roles and responsibilities.

Evaluate performance against objectives

Vestcor's actual performance is then assessed against these performance and annual business plan objectives. Investment returns versus client Investment Policy Benchmarks, nominal investment returns versus long-term client investment objectives, and other financial key performance indicators are assessed quantitatively against objectives, while achievement of key business plan initiatives are assessed both quantitatively and qualitatively. The President and CEO recommends to the HRCC the factors to be considered in assessing achievement of each element of the annual business plan.

Determine performance-based awards

The HRCC is responsible for recommending for board approval the amount of performance incentive compensation to be awarded to the President and CEO and the overall weighted factor based on the evaluations noted above and in using discretion when warranted. The President and CEO does not participate in this discussion. The President and CEO in turn reviews performance evaluations for each member of the Incentive Plan and allocates the individual awards based on individual contribution.

COMPENSATION PROGRAM

The Compensation Program is outlined in Exhibit A on page 47. The program takes the form of salary and benefits as well as individual performance-based incentive awards for all staff and for certain staff, an annual and a long-term investment-based incentive plan.

The compensation program has been developed by the HRCC with the help of an independent compensation consultant to align with the above Compensation Philosophy. Total compensation levels are periodically benchmarked using independent compensation consultants and against external peer institutional funds or other relevant compensation surveys.

Salary and benefits

Base salary is determined as a range of pay for each job position, after giving recognition to specific job responsibilities. Vestcor provides full-time employees with benefits that include vacation and sick leave entitlement, life and disability insurance, health and dental benefits, and an employee assistance plan.

Effective January 1, 2014, all full-time employees participate in and contribute to the New Brunswick Public Service Pension Plan (NBPSPP). The NBPSPP provides a pension upon retirement equal to 1.4% of pensionable earnings up to the Yearly Maximum Pensionable Earnings (YMPE) for each year or part thereof plus 2% of earnings in excess of YMPE. The Plan is subject to an early retirement reduction factor if retirement is prior to age 65. Indexing is contingent on NBPSPP performance as outlined in the NBPSPP Funding Policy. Employees who earn in excess of the earnings required to earn the Maximum Pension (Canada) as defined in the NBPSPP Plan Text in the year also participate in a retirement compensation arrangement sponsored by the Province of New Brunswick.

Prior to January 1, 2014, all full-time employees were members of the Public Service Superannuation Act (PSSA) pension plan. The PSSA provided for a pension upon retirement equal to 1.3% of the annual average of the best five consecutive years of earnings up to the annual average YMPE for the year of retirement and the two preceding years plus 2% of the excess of the annual average of the best five consecutive years of earnings over the annual average YMPE for the year of retirement and two preceding years, multiplied by the years of pensionable service. Base pre-indexed benefits earned under the PSSA up to January 1, 2014 have been provincially guaranteed.

Annual incentive plan

All full-time permanent employees are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months.

Each position includes an individual achievement award and eligible investment positions include a component based on quantitative investment performance. Investment performance is measured quantitatively as **total fund** net value added investment returns on both a one-year and four-year cumulative basis, compared against an annual target set by the Board. Net value-added investment returns represent the gross investment return in excess of the investment policy benchmark returns, after deducting all investment management costs. Quantitative awards are limited to a maximum of two times target (84 bps) after costs. The one-year investment results have a lower weighting relative

to four-year results to reinforce the importance of consistency over a longer period and to encourage employee retention. The individual component of the AIP is calculated as a percentage of salary, weighted to reflect the role and impact that each eligible employee has on achievement of Corporate Business Plan objectives.

The AIP also includes an investment team award for asset class value added returns of actively managed portfolios to promote teamwork within these asset classes. Investment employees only are organized into one of five teams eligible for the team award by asset class: Fixed Income, Quantitative Investments, Equities, Traders and Private Markets. The remaining employees do not participate in the team award due to the overarching focus of their responsibilities.

Long-term incentive plan

Vestcor also has a long-term incentive plan (LTIP) for Investment and Research staff, President and CEO and the Chief Financial Officer provided they have been employed a minimum of four years. The LTIP is designed to reinforce the alignment of employee interests with long-term investment performance objectives and corporate strategy and assist in attracting and retaining key personnel. The LTIP is based on total fund investment performance in excess of Board-approved investment policy benchmark returns and investment management costs measured over a retroactive period of four consecutive fiscal periods. LTIP awards are limited to a maximum target level of 75 bps after costs.

IMPACT OF PERFORMANCE RESULTS

The summary of Vestcor’s investment program, as measured by pre-selected short-term and longer-term investment performance metrics, is as follows:

- The total fund **active nominal return** for investment mandates where we have full management discretion for the year ended December 31, 2020 was 6.96% and represents approximately \$1.3 billion in gross earnings from the overall investment program. The annualized active return for the past four years ending December 31, 2020 was 7.15%, which represents approximately \$5.0 billion of cumulative gross investment earnings.
- The challenging 2020 investment environment resulted in total fund **relative returns** being lower than the combined weighted average client Investment Policy benchmarks for the year ended December 31, 2020, detracting 16.8 basis points of value after deducting all investment management costs. A basis point is equal to 1/100ths of a percent. This resulted in net investment income below target by approximately \$31.9 million in 2020. Over the longer more important four-year period to December 31, 2020 however, the investment program has provided a positive return of 56.9 basis points of value annually over client benchmarks or over \$369.4 million of net investment returns.

The following table shows compensation, excluding Directors’ remuneration (see page 46), for the year ended December 31, 2020.

		2020 (\$ thousands)		2019 (\$ thousands)
Salaries and benefits, excluding performance incentives	\$	13,391.1	\$	12,818.1
Performance incentives:				
AIP – net investment relative performance	\$	774.2	\$	946.7
AIP – individual performance		1,700.5		1,840.8
Total AIP		2,474.7		2,787.5
LTIP		1,951.8		2,513.4
Total performance incentives	\$	4,426.5	\$	5,300.9

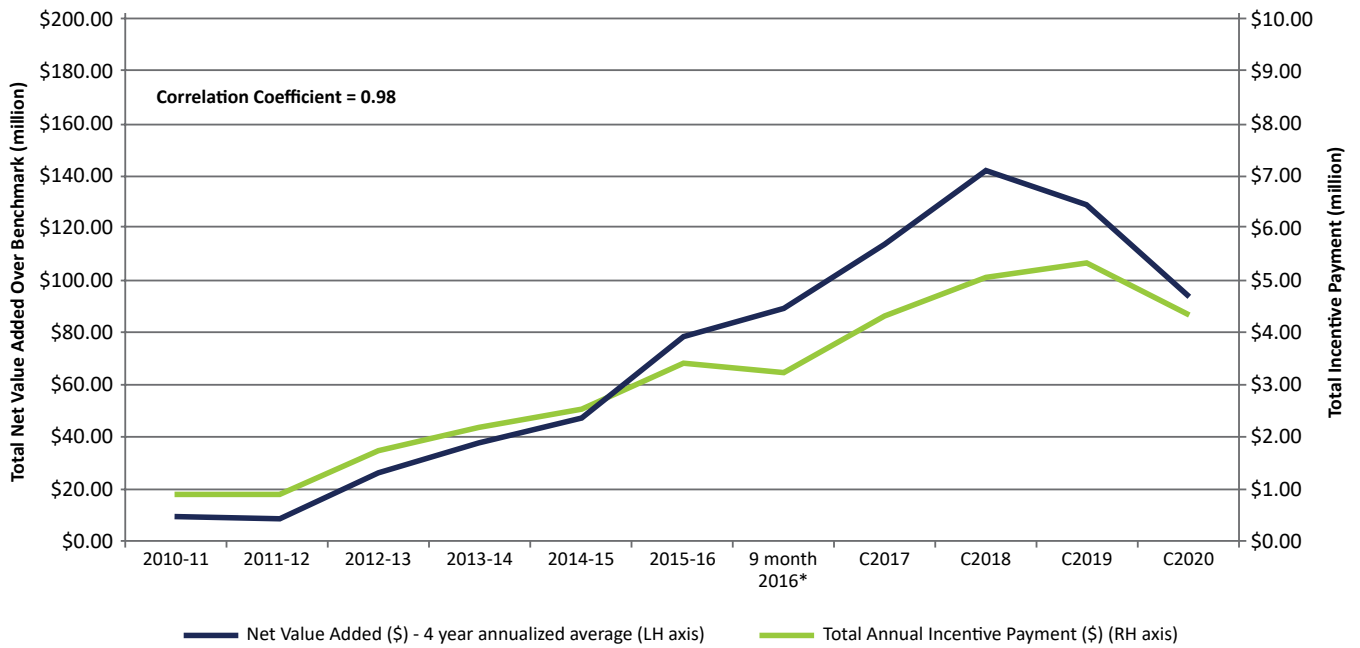
For the year ended December 31, 2020, and after consideration of the continuing competitive talent retention environment, the Board approved a modest cost of living salary increase and merit pool. The Board also approved three new full-time positions in 2020 that enabled Vestcor to build our operational capacity in line with our continued growth. These impacts are shown in the table above as “salaries and benefits, excluding performance incentives”.

The net decrease in performance incentives reflects, for eligible investment staff, the results of the negative one year and positive four-year active management value added after costs discussed in the section above partially offset by, for all staff, three additional positions added in the year, the changes to base salaries and the business plan accomplishments for the year (see pages 43 - 44).

COMPENSATION LINKED TO INVESTMENT PERFORMANCE

The objective of performance-based compensation is to encourage alignment of employee interests with those of clients, including an appropriate balance between maximizing long-term returns and minimizing risks. Investment performance with respect to incentive compensation can be summarized into two categories: (i) long-term net relative investment returns versus benchmarks, and (ii) long-term nominal total fund portfolio returns and other business plan achievements.

The following chart compares the total incentive compensation payments awarded over time to the long-term annualized net investment returns in excess of policy benchmarks. The resulting graphical correlation indicates a relatively strong relationship between actual incentive compensation, which is subject to a maximum cap, and long-term investment performance as is intended in the design of the incentive plan.



*Note: 9 month 2016 annualized for calculation and comparison purposes.

SUMMARY COMPENSATION TABLE

The following summary compensation table discloses information on compensation for the President and CEO, CFO and the next three highest paid key management personnel (each a Named Executive or NEO) for the past three years. This disclosure is based on **annual periods** and expressed in dollars.

Name and Position	Year	Salary \$	AIP ¹ \$	LTIP ¹ \$	Pension Contribution ² \$	All Other ³ \$	Total Compensation \$
John Sinclair President and CEO	2020	375,050	355,096	326,316	136,815	2,394	1,195,671
	2019	375,047	432,721	450,000	136,584	2,225	1,396,578
	2018	351,389	452,438	450,000	128,933	2,333	1,385,093
Jonathan Spinney Chief Investment Officer, VP, Quantitative Investing & Applied Research	2020	274,896	152,064	219,357	31,647	2,251	680,215
	2019	255,008	230,518	280,500	29,471	2,132	797,630
	2018	245,829	197,128	269,500	29,167	2,000	743,624
James Scott VP, Fixed Income	2020	251,958	143,651	164,463	29,193	2,178	591,443
	2019	240,008	147,263	216,000	27,866	2,087	633,224
	2018	230,000	121,891	207,000	27,562	1,958	588,411
Mark Holleran VP, Equities	2020	229,996	158,216	150,105	26,843	2,111	567,271
	2019	223,035	142,723	200,700	26,050	2,034	594,543
	2018	221,105	126,560	198,000	26,492	1,928	574,085
Jan Imeson CFO	2020	233,015	91,309	101,375	27,166	739	453,604
	2019	228,510	122,509	137,088	26,636	718	515,460
	2018	224,000	131,680	134,400	26,920	702	517,702

¹ AIP and LTIP earned in the year are paid in the year following the award.

² The pension contribution column shows the employer contribution made in the year to the combination of the New Brunswick Public Service Pension Plan and the related Retirement Compensation Arrangement (RCA). Corresponding employee contributions are required as set out in the Plan. As set out in his employment contract, Mr. Sinclair's performance incentive payouts are pensionable for purposes of the employer and employee contribution to the pension plan and RCA. Performance incentive payouts for all other eligible employees are non-pensionable.

³ Amounts shown in the All Other column above include the cost of employer-paid enrolment in a post-retirement private health plan, group life insurance, accidental death and dismemberment insurance and a parking benefit.

ANNUAL INCENTIVE PLAN (AIP) OVERVIEW

The AIP component of \$2,474.7 (thousand) consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was \$774.2 (thousand) for the year ended December 31, 2020 (2019 - \$946.7). One quarter of this component is based on the current year's net value added result and the remainder is based on the annualized net value added over benchmarks for the most recent four years ended December 31, 2020. The 2020 net value added result was (16.8) basis points (bps) (2019 - 48.7 bps), and the long-term annualized net value added result was 56.9 bps (2019 - 85.9 bps).

A summary table of prior period value added results used to determine the long-term cumulative net value added AIP result is as follows:

	Net Value Added (bps)	Percentage of Target (%)
Year ended December 31, 2017	89.3	212.7
Year ended December 31, 2018	103.4	246.2
Year ended December 31, 2019	48.7	115.9
Year ended December 31, 2020	(16.8)	(39.3)
Annualized Long-Term (Four Fiscal Periods)	56.9	135.6

The **AIP related to business plan achievements** is \$1,700.5 (thousand) for the year ended December 31, 2020. This component is based on an achievement factor of 1.37 times overall target approved by the Board of Directors, compared to the achievement factor of 1.57 for the year ended December 31, 2019.

The individual component of the AIP is based on business plan accomplishments. The annual business plan includes both key performance indicators and specific action plans and initiatives focused on the five key goals in the Corporate Strategic Plan as set out in the following table. A specific weighting for each key goal is determined by the Board at the beginning of each year. The weighting reflects the Board's direction to management for prioritization of its efforts to implement the business plan.

The COVID-19 pandemic, and the resulting cross Canada governmental state of emergency orders, resulted in many unavoidable challenges for management in meeting time sensitive annual business plan targets during the year. This resulted in the Board, in consultation with the HRCC, exercising discretion in assessing the performance of four of our thirty-four specific Business Plan Key Performance Indicators. It was determined that these specific time sensitive business plan components were impacted by COVID-19 related circumstances that were outside of management's control. In particular the Board considered the time period in which only essential service businesses were permitted to operate within the province New Brunswick (i.e. March 17th to May 8th) in conjunction with management's actions to mitigate the challenges these types of restrictions presented and determined that a target award would be appropriate for the four specific business plan objectives. No further adjustments to the remaining thirty other objectives were considered.

Achievement of the long-term investment returns required by each pension and non-pension client in a risk-controlled fashion was Vestcor's primary investment performance objective for 2020 and accounts for the largest weighting proportion. The overall total fund active return for all clients combined was 6.96% gross for the year ended December 31, 2020, an annualized 7.15% gross for the most recent four-year period ended December 31, 2020, and most importantly 7.27% gross per annum since Vestcor's inception in 1996.

Key Goals	2020 Weighting	Achievement
Advance Vestcor's governance, management and organizational effectiveness to support growth and sustainability.	20%	Exceeded
Advance our clients' pension and benefit administration, and long-term investment management service needs through prudent risk focused practices and well executed service advancements.	50%	Met
Define the optimal "client experience" and create systems to enable the consistent replication of this experience through growth cycles.	5%	Exceeded
Strengthen stakeholder relationships with shareholders, client trustees, plan members, employer groups and policy-setters.	12.5%	Met
Continue to invest in technology improvements aimed at enhancing our clients' experience, providing more automated processing and reporting capabilities, expanding our data management strategy (investment & administration), all while also protecting privacy and minimizing cybersecurity risks.	12.5%	Exceeded

In establishing the achievement factor, the Board considered the achievement of key performance indicators associated with each of the key goals as well as the following accomplishments:

KEY GOALS BUSINESS PLAN ACCOMPLISHMENTS (Year ended December 31, 2020)

Advance Vestcor's governance, management and organizational effectiveness to support growth and sustainability.

- Reviewed our Enterprise Risk Management Framework to consider risks to growth and sustainability and risk appetite.
- Publicly endorsed the Canadian Coalition for Good Governance's Stewardship Principles.
- Formulated 2021 dynamic operating and capital budgets with additional granular analysis by business lines, divisions and teams.
- Evolved our annual Client Forum, post the COVID-19 pandemic outbreak, to a virtual Speaker Series to safely offer relevant topics of interest for clients.
- Chairperson attendance at semi-annual shareholder meetings to ensure effective relationship and timely communication between Vestcor's shareholder and corporate Boards of Directors.
- Conducted and analyzed our biennial Workplace Environment Survey to measure employee satisfaction and the 360^o Leadership Survey to provide effective feedback and enhance leadership skills.
- Expanded leadership succession plans to encompass all management levels.
- Commenced executive recruiting effort for Chief Financial Officer position due to a planned retirement.
- Updated human resource key performance indicators that provide effective oversight of employee engagement.
- With the assistance of independent experts, completed a Total Compensation Review against peers, including consideration of evolving trends in Incentive Plan design to encourage alignment with client interests.
- In advance of the expiration of our office lease, planned new office space fit-ups and coordinated new office move, completed in early January 2021.
- Refreshed corporate Privacy Statement, including establishment of Privacy Committee, detailed response plan and employee awareness training.

Advance our clients' pension and benefit administration, and long-term investment management service needs through prudent risk focused practices and well executed service advancements.

- Completed implementation and training for web-based employer portal, the remaining module in the new Administration system.
- Long-term investment performance continuing to exceed annualized long-term total fund client targets at very low risk levels.
- Successfully re-directed administration resources to address COVID-19 pandemic operational challenges and new Administration system implementation impacts by prioritizing internal resources on executing time sensitive / critical client services.
- Commenced creation of an open-ended private real estate investment pool to meet growing client interest in this asset class and completed transfers of certain directly owned properties.

Define the optimal "client experience" and create systems to enable the consistent replication of this experience through growth cycles.

- Continued to assess client service delivery capabilities against peers.
- Developed comprehensive client onboarding package and protocols.

Strengthen stakeholder relationships with shareholders, client trustees, plan members, employer groups and policy-setters.

- Added a new Investment Client Relationship Manager to ensure consistent and timely service delivery to investment clients.
- Created educational Vestcor website-based videos for clients and plan members. Also included an employer web-based educational video on the Administration system employer portal.
- Led client updates to their Plan Member Communication Strategies.
- Responded to Requests for Information on Vestcor services from several potentially interested parties.

Continue to invest in technology improvements aimed at enhancing our clients' experience, providing more automated processing and reporting capabilities, expanding our data management strategy (investment & administration), all while also protecting privacy and minimizing cybersecurity risks.

- Upgraded all network equipment and infrastructure to provide improved backup capabilities and system resiliency.
- Added additional cybersecurity tools including additional software to monitor for unauthorized devices attempting to access Vestcor's network.
- Configured a new, fully equipped and connected disaster recovery site to provide a safe and secure alternate location for operations in the event of a disaster. This site was used in our initial COVID-19 Response Plan for segregating critical roles to maintain essential services.
- Upgraded facilities and equipment for our secondary data centre used for system redundancy purposes.
- Completed initial scoping for implementation of a Trade Order Management System to provide pre-and post-trade compliance and end to end trade processing capabilities.

LONG-TERM INCENTIVE PLAN (LTIP) OVERVIEW

The LTIP component is \$1,951.8 (thousand) for the year ended December 31, 2020. This component is based on the annualized net investment results in excess of the total fund performance benchmark for the most recent four years.

The impact of the LTIP results differ from the long-term component of the AIP results because the LTIP plan has a maximum target level of 75 bps after costs versus a maximum of 84 bps after costs under the AIP.

A summary table of the net value-added results used to determine the annualized LTIP result is as follows:

	Net Value Added (bps)	Percentage of Target (%)
Year ended December 31, 2017	89.3	243.4
Year ended December 31, 2018	103.4	286.0
Year ended December 31, 2019	48.7	120.2
Year ended December 31, 2020	(16.8)	(40.0)
Annualized Long-Term	56.9	145.0

DIRECTORS' REMUNERATION

Directors' remuneration is established in Vestcor's By-Laws as approved by the Board of Vestcor Corp. Directors are paid an annual retainer and 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.

Director	Annual Retainer (\$ dollars)	Board and Committee Meeting Per Diems (\$ dollars)	Total Remuneration ¹ (\$ dollars)	Travel Reimbursement (\$ dollars)
Michael Walton ²	25,000	20,000	47,284	303
Michel Allain	10,000	5,250	15,909	425
Donna Bovolaneas ³	15,000	10,400	25,463	324
Tanya Chapman	10,000	4,900	15,541	—
David Losier ⁴	15,000	13,900	30,296	1,045
Eleanor Marshall	10,000	6,300	17,014	290
Tim Mawhinney	10,000	5,250	15,909	331
Daniel Murray	10,000	5,600	16,314	42
Cathy Rignanesi ⁵	15,000	11,950	28,244	34
Nancy Whipp ⁶	15,000	6,550	15,445	853

¹ includes costs of employer-paid statutory deductions

² Chair of Board of Directors

³ Chair of the Audit Committee

⁴ Vice Chair of Board of Directors, Chair of Human Resources & Compensation Committee from February 10, 2020 to December 31, 2020

⁵ Chair of the Governance Committee

⁶ Chair of Human Resources & Compensation Committee to February 10, 2020

The total cost of the Vestcor Board function, including per diems, director orientation and Board education, for the year ended December 31, 2020 was \$227.4 thousand (December 31, 2019 – \$224.5 (thousand)) plus travel and accommodation reimbursements of \$4.0 thousand (December 31, 2019 – \$27.0 thousand).

COMPENSATION PROGRAM

EXHIBIT A

BASE SALARY

Eligibility	All Staff
Objectives	Reward level of responsibility, expertise, competency and relevant experience

VARIABLE COMPENSATION PROGRAM

	Annual Incentive (targets 15% -55% of base salary)		Long-Term Incentive (targets 15% -75% of base salary)
	Short-term	Long-term	Deferred
Eligibility	Short-term plan - Investment and research staff, the President and CEO, Chief Financial Officer subject to a minimum of six months employment. Individual component only – Full-time permanent employees subject to a minimum of six months employment.	Investment and research staff, President and CEO and the Chief Financial Officer subject to a minimum of six months employment.	Investment and research staff, President and CEO and the Chief Financial Officer subject to a minimum of four years employment.
Objectives	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation. Reward individual performance with respect to achievement of Annual Business Plan objectives.	Align eligible employee compensation to team and total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation.	Align eligible employee compensation to total fund investment performance with an incentive to achieve sustained asset growth. Strengthen team cooperation.
Time horizon	Current year	4 fiscal periods	4 fiscal periods
Type of program	Cash	Cash	Cash
Performance metric(s)	Total fund returns in excess of benchmark, net of investment management expenses. Investment team(s) active returns in excess of benchmarks. Individual performance versus Board approved pre-determined Annual Business Plan Objectives.	Total fund returns in excess of benchmark, net of investment management expenses. Investment team(s) active returns in excess of benchmarks.	Total fund returns in excess of benchmark, net of investment management expenses.
Range:			
Threshold	Full cost recovery	Full cost recovery	Full cost recovery
Target	42 bps after costs	42 bps after costs	42 bps after costs
Maximum	84 bps after costs	84 bps after costs	75 bps after costs

INDIRECT COMPENSATION

	Membership in the NBSPSP	Employee benefits and post-retirement benefits	Perquisites
Eligibility	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.	Full-time staff and term employees under contract for one year or longer.
Objectives	Encourage long-term retention by rewarding continued service and contributing to post-retirement income.	Provide staff and their families with assistance and security so that they can focus on their professional responsibilities and achieving the corporate mission.	Offers a limited number of benefits to complement total compensation including parking and a health spending account allowance.

RESPONSIBLE INVESTING GUIDELINES

The responsible investment actions of investment managers are an important focus of investors, governments, regulators, and various third-party interest groups. Vestcor presented its updated Responsible Investment Guidelines at our inaugural Client Forum in June 2019, to ensure clients are fully aware of our efforts to incorporate environmental, social and governance metrics into our investment decisions. We have also provided subsequent updates on our related activities in 2020 to a number of clients at their request.

While our fiduciary responsibilities and relatively limited organizational footprint continue to restrict our ability to provide exclusionary screens or divestment options, we have proactively included responsible investment considerations as part of our active portfolio management process. Vestcor also continues to be a very active long-term member / partner in various organizations that support best practice environmental, social, and governance-related investment actions. For example, Vestcor has been an active long serving member in organizations such as the Pension Investment Association of Canada (piacweb.org) and the Canadian Coalition for Good Governance (ccgg.ca). Each of these organizations continue to have successful active industry engagement programs that are focused on responsible investment related issues.

Our active involvement with these groups helps to develop and promote best practice guidelines in this area which benefits both investors and society in general. Additional details can be found in our Responsible Investment Guidelines under the Investments tab on our website at vestcor.org.

INDUSTRY RELATIONSHIPS

Vestcor's professionals are recognized nationally as a constructive resource with respect to investment industry-related Board or Executive Committee participation. The following list outlines the relationships in which management has actively donated their time in this type of capacity during 2020:

- Buy-Side Investment Management Association (BIMA)
- Canadian Bond Investors' Association
- Canadian Coalition for Good Governance (CCGG)
- Canadian Investment Performance Council
- Canadian Pension & Benefits Institute (CPBI)
- CFA Society Atlantic Canada
- Fredericton Community Foundation Investment Committee
- Institutional Limited Partner Association (ILPA)
- Pension Investment Association of Canada (PIAC)
- S&P/TSX Canada Index Committee
- Université de Moncton – Comité de placements
- University of New Brunswick Investment Committee
- St. Thomas' University Investment Committee

EMPLOYEE ACTIVITY IN OUR COMMUNITY

Vestcor management and employees continued to be very active with a number of important causes in both our local and the larger national community. These efforts can vary from volunteering time, sharing professional expertise, or the donation of personal financial resources.

Vestcor employees once again very generously contributed to the annual corporate United Way campaign. Staff also continued to organize various successful fundraising activities for local charities. Vestcor is proud to continue to recognize these employee volunteer activities.

VESTCOR INVESTMENT ENTITIES PERFORMANCE

The specific performance of each Vestcor Investment Entity and its respective benchmark return for the period indicated to December 31, 2020 is outlined in the table below.

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
NBIMC Nominal Bond Fund	9.61	8.24	6.03	5.16	4.41	4.65	5.49
Benchmark	8.69	7.55	5.51	4.66	3.90	4.30	5.26
NBIMC Corporate Bond Fund	8.52	8.28	5.80	5.08	4.84		4.72
Benchmark	8.74	8.39	5.90	5.27	4.96		4.66
NBIMC International High Yield Fixed Income Fund	2.98	8.60					6.17
Benchmark	4.13	8.09					5.31
NBIMC New Brunswick and Atlantic Canada Fixed Income Opportunity Fund	5.54	4.95	4.15	3.98	3.61	4.48	6.09
Benchmark	8.69	7.55	5.51	4.66	3.90	4.30	5.26
NBIMC Money Market Fund	1.07	1.59	1.66	1.52	1.43	1.36	2.58
Benchmark	0.84	1.25	1.29	1.11	0.99	0.95	2.24
NBIMC Student Investment Fund	9.15	11.61	6.57	6.58	7.32	5.49	6.97
Benchmark	8.40	11.06	6.17	6.11	7.06	5.42	6.75
NBIMC Canadian Equity Index Fund	5.78	14.14	5.92	6.77	9.62	6.30	6.83
Benchmark	5.60	13.91	5.74	6.57	9.33	5.76	6.44
NBIMC Canadian Small Cap Equity Fund	16.54	17.56					5.34
Benchmark	12.87	14.34					3.77
NBIMC Low Volatility Canadian Equity Fund	(2.02)	10.65	4.27	5.70	7.82		8.74
Benchmark ²	(1.36)	10.64	4.48	5.29	7.64		7.43
NBIMC External Canadian Equity Fund	6.77	14.48	6.21	6.95	9.06	6.60	9.87
Benchmark	5.60	13.91	5.74	6.57	9.33	5.76	8.92
NBIMC External International Equity Fund	4.71	10.43	3.98	8.01	5.77	9.54	6.18
Benchmark	5.92	10.77	4.86	7.73	5.61	8.16	5.05
NBIMC EAFE Equity Index Fund	6.15	11.03	5.11	8.03	5.86		8.14
Benchmark	5.92	10.77	4.86	7.73	5.61		7.90
NBIMC EAFE Equity Index Fund – Class N	6.08	11.00	5.11	7.99	5.87	8.39	5.36
Benchmark	5.92	10.77	4.86	7.73	5.61	8.16	5.05
NBIMC Low Volatility International Equity Fund	(2.75)	4.10	2.87	5.61	4.06		7.71
Benchmark ²	(1.64)	4.42	3.87	6.23	3.84		7.73
NBIMC Low Volatility International Equity Fund – Class N	(2.73)	4.05	2.81	5.58	4.00		10.43
Benchmark ²	(1.64)	4.42	3.87	6.23	3.84		10.51

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
NBIMC Low Volatility Emerging Markets Equity Fund – Class N	0.35	3.19	1.78	5.58	5.33		3.67
Benchmark	5.90	4.44	3.86	7.32	5.88		4.21
NBIMC U.S. Equity Index (2017) Fund	16.38	20.51	14.84				12.94
Benchmark	16.32	20.51	14.81				12.91
NBIMC U.S. Equity Index Fund – Class N	16.16	20.41	14.77	14.50	13.30	16.72	12.65
Benchmark	15.69	19.82	14.15	13.94	12.85	16.50	12.54
NBIMC U.S. Small Cap Equity Fund	17.77	18.43					11.28
Benchmark	17.40	18.04					10.52
NBIMC Low Volatility U.S. Equity (2017) Fund	(0.59)	9.16	8.65				6.79
Benchmark	3.25	11.62	11.06				9.06
NBIMC Low Volatility U.S. Equity Fund – Class N	(0.41)	9.29	8.75	8.22	8.38		15.44
Benchmark ²	3.25	11.62	11.06	10.92	10.03		16.72
NBIMC Inflation Linked Securities Fund	13.46	10.85	7.16	5.57	5.03	4.67	7.05
Benchmark	13.02	10.49	6.86	5.29	4.80	4.52	6.86
NBIMC Canadian Real Estate Fund	1.83	6.46	9.27	10.72	10.64	11.09	11.48
Benchmark	5.62	5.86	5.86	5.76	5.67	5.60	5.72
NBIMC Canadian Real Estate Investment Trust Fund	(13.01)	3.53	4.57	5.91	8.19		6.54
Benchmark	(13.08)	3.31	4.30	5.66	7.95		6.31
NBIMC Non-Canadian Private Real Estate Fund	(20.23)	(7.76)	(1.21)	3.92	3.06		1.66
Benchmark	5.62	5.86	5.86	5.76	5.67		5.62
Vestcor Investments Private Real Estate, L.P.	(0.04)	5.40	4.49				4.47
Benchmark	5.62	5.86	5.86				5.77
Vestcor Investments Private Real Estate 2, L.P.	4.55	2.15					4.65
Benchmark	5.62	5.86					5.71
Vestcor Real Estate Fund Limited Partnership	0.59						(0.25)
Benchmark	5.62						5.66
NBIMC International Real Estate (2017) Fund	(8.76)	5.96	5.24				3.26
Benchmark	(6.79)	6.71	6.00				3.84
NBIMC International Real Estate Fund – Class N	(7.16)	6.80	5.80	4.40	4.56	11.95	9.02
Benchmark	(7.60)	5.63	4.86	3.75	4.07	11.54	8.71
NBIMC Public Infrastructure (2017) Fund	(0.56)	5.95	4.22				2.64
Benchmark	5.62	5.86	5.86				5.66
NBIMC Public Infrastructure Fund – Class N	(2.00)	4.93	3.43	3.48	4.20		3.16
Benchmark	5.62	5.86	5.86	5.76	5.67		5.65
NBIMC Infrastructure Fund	3.55	9.58	9.81	11.02	10.55		8.95
Benchmark	5.62	5.86	5.86	5.76	5.67		5.68

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception ¹ %
Vestcor Investments Infrastructure, L. P.	5.77	6.04	10.40				10.86
Benchmark	5.62	5.86	5.86				5.66
NBIMC Quantitative Strategies (2017) Fund	12.86	8.71	6.01				6.51
Benchmark	0.84	1.25	1.29				1.18
NBIMC Quantitative Strategies Fund – Class N	13.55	8.92	5.79	5.88	5.79	5.35	4.71
Benchmark	0.84	1.25	1.29	1.11	0.99	0.95	1.00
NBIMC Quantitative Strategic Beta (2017) Fund	2.04	4.47	4.60				4.83
Benchmark	0.84	1.25	1.29				1.18
NBIMC Quantitative Strategic Beta Fund – Class N	1.33	4.30	4.50	4.58			4.86
Benchmark	0.84	1.25	1.29	1.11			1.03
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	23.95	16.57	10.84	14.72	12.92	22.07	10.53
Benchmark	5.62	5.86	5.86	5.76	5.67	5.72	6.77
NBIMC Private Equity Fund	23.62	14.62	18.86	18.72	16.16	17.60	12.28
Benchmark	10.29	15.14	8.91	10.32	9.01	11.43	8.27
Vestcor Investments Private Equity, L. P.	19.01	9.64	11.11				2.25
Benchmark	13.23	15.95	8.80				9.21

¹ On April 1, 2008, Vestcor implemented Canadian dollar benchmarks for international exposures. Prior to that date, the benchmarks for international exposures were reflected in the local currencies. To ensure comparative information is presented for performance and benchmarks, the Since Inception column above reflects the returns from the later of the first day of trading in the entity or, if an international entity, April 1, 2008.

² Effective October 14, 2014 minimum volatility benchmarks replaced the market cap indices for Canadian, U.S., and EAFE Low Volatility public equity funds.

VESTCOR

FINANCIAL STATEMENTS
DECEMBER 31, 2020

MANAGEMENT’S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The following annual financial statements report the financial position and results of operations of Vestcor Inc. (“Vestcor”) for the year ended December 31, 2020. They have been prepared by Management and approved by the Board of Directors.

Management prepared Vestcor’s financial statements in accordance with CPA Handbook Part III - *Accounting Standards for Not-for-Profit Organizations*. The 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 financial statements, including amounts based on best estimates and judgments. Vestcor 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 financial statements rests with the Board of Directors. The Board is assisted in its responsibilities by the Audit Committee, consisting of six independent Board members. The Audit Committee reviews the financial statements and recommends them for approval by the Board. The Audit Committee also reviews matters related to accounting, auditing, internal control systems, financial risk management and the scope, planning and audit findings of the internal and external auditors.

KPMG LLP, the external auditors of the financial statements, are directly accountable to the Audit Committee. They have conducted an independent examination of the 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.

[signed by]

John A. Sinclair
President and Chief Executive Officer

[signed by]

Brent Henry, CPA, CA
Chief Financial Officer



KPMG LLP
Frederick Square
77 Westmorland Street, Suite 700
Fredericton NB E3B 6Z3
Canada
Tel 506-452-8000
Fax 506-450-0072

INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vestcor Inc.

Opinion

We have audited the financial statements of Vestcor Inc. (the Entity) which comprise:

- the statement of financial position as at end of December 31, 2020
- the statement of operations and changes in net assets for the year then ended
- the statement of cash flow for the year then ended
- and notes to the 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, 2020, 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.

Other Information

Management is responsible for the other information. Other information comprises:

- the information, other than the financial statements and the auditors' report thereon, included in the annual report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.



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In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information, other than the financial statements and the auditors' report thereon, included in the annual report as at the date of this auditors' report.

If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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.



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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.

A handwritten signature in black ink that reads 'KPMG LLP' in a cursive, slanted font. A horizontal line is drawn underneath the signature.

Chartered Professional Accountants

Fredericton, Canada

March 29, 2021

VESTCOR INC.**Statement of Financial Position**

As at December 31

(in thousands of Canadian dollars)

	2020		2019
ASSETS			
Current			
Cash	\$ 2,716	\$	1,983
Accounts receivable <i>(note 10)</i>	6,566		9,231
Accounts receivable – Vestcor Corp. <i>(note 10)</i>	822		—
Other receivables	32		65
Prepaid expenses	1,434		628
Total current assets	11,570		11,907
Long-term accounts recoverable for supplemental pension	362		344
Capital assets <i>(note 3)</i>	3,713		512
Intangible assets <i>(note 4)</i>	4,041		4,172
	\$ 19,686	\$	16,935
LIABILITIES AND NET ASSETS			
Current			
Accounts payable and accrued liabilities <i>(note 5)</i>	\$ 11,541	\$	11,879
Current portion of term loan <i>(note 10)</i>	117		—
Current portion of supplemental pension <i>(note 6)</i>	27		26
Total current liabilities	11,685		11,905
Supplemental pension <i>(note 6)</i>	362		344
Term loan payable <i>(note 10)</i>	2,618		—
Deferred contributions related to capital and intangible assets <i>(note 7)</i>	5,019		4,684
Total liabilities	19,684		16,933
Unrestricted net assets	2		2
	\$ 19,686	\$	16,935

*See accompanying notes to financial statements*Contractual obligations and contingencies *(note 9)*

Approved on behalf of the Board:

[signed by]
Michael W. Walton
Chairman of the Board[signed by]
Donna Bovolaneas
Chair of the Audit Committee

VESTCOR INC.**Statement of Operations and Change in Net Assets**

For the year ended December 31

(in thousands of Canadian dollars)

	2020		2019
REVENUE			
Investment management fees <i>(note 10)</i>	\$ 21,107	\$	20,918
Pension administration fees <i>(note 10)</i>	7,760		7,755
Benefits administration fees	1,434		1,423
Amortization of deferred contributions related to capital assets	824		271
Other	117		21
Total revenue	31,242		30,388
EXPENSES			
Salaries and benefits	18,217		18,568
Information systems	4,527		4,507
External investment management	3,711		3,352
Securities custody	1,219		1,386
Office and business	1,158		1,276
Professional services	729		467
Office rent	857		561
Amortization of capital assets	824		271
Total expenses	31,242		30,388
Excess of revenue over expenses	—		—
Unrestricted net assets, beginning of year	2		2
Unrestricted net assets, end of year	\$ 2	\$	2

See accompanying notes to financial statements

VESTCOR INC.**Statement of Cash Flow**

For the year ended December 31

(in thousands of Canadian dollars)

	2020	2019
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ —	\$ —
Non-cash items:		
Amortization of capital and intangible assets	824	271
Amortization of deferred contributions related to capital and intangible assets	(824)	(271)
Loss on disposal of capital assets	51	—
Writedown of deferred contributions related to capital and intangible assets	(51)	—
Supplemental pension	46	39
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	2,647	(501)
Increase in Vestcor Corp accounts receivable	(822)	—
Decrease in other receivables	33	7
Increase in prepaid expenses	(806)	(255)
(Decrease) increase in accounts payable and accrued liabilities	(338)	2,645
Net cash provided by operating activities	760	1,935
INVESTING ACTIVITIES		
Purchases of capital and intangible assets	(3,945)	(2,413)
Deferred contributions related to capital and intangible assets	1,210	2,413
Net cash used in investing activities	(2,735)	—
FINANCING ACTIVITY		
Payment of supplemental pension	(27)	(26)
Proceeds from Vestcor Corp loan	2,735	—
Net cash provided by (used in) financing activity	2,708	(26)
INCREASE IN CASH DURING YEAR	733	1,909
Cash, beginning of year	1,983	74
CASH, END OF YEAR	\$ 2,716	\$ 1,983

See accompanying notes to financial statements

VESTCOR INC.

Notes to Financial Statements

Year ended December 31, 2020

(in thousands of Canadian dollars)

1. Nature of Operations

Vestcor Inc. (“Vestcor”) was created on January 1, 2018 upon the amalgamation of Vestcor Investment Management Corporation (“VIMC”) and Vestcor Pension Services Corporation (“VPSC”), both wholly-owned entities of Vestcor Corp. Vestcor Corp. 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”). The Vestcor operating entities were transferred to Vestcor Corp. from the Province of New Brunswick on October 1, 2016.

Vestcor’s mandate is to provide pension and benefits administration, and investment management and advisory services to pension, trust, endowment or similar funds within the public sector.

Vestcor recovers all operating expenses and capital expenditures on a cost recovery basis. Vestcor 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 financial statements present the operations of Vestcor for the year ended December 31, 2020 with comparative figures for the year ended December 31, 2019. They 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. Vestcor 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 and 5 years
Furniture and equipment	- 12.5 years
Leasehold improvements	- over the remaining lease term

2. Significant Accounting Policies (continued)

(d) Intangible assets

Intangible assets are related to consulting costs incurred for implementation of a third-party pension and benefits administration system. System development costs are recognized as an intangible asset when the capitalization criteria have been met. This includes: the ability to demonstrate technical feasibility; the company's intention to complete the implementation; the availability of adequate technical and financial resources to complete the development; the use of the system once implemented; and the ability to demonstrate that the asset will generate future economic benefits. Development costs that do not meet the capitalization criteria are expensed as incurred. Intangible assets are amortized on a straight-line basis over their estimated useful life of 10 years. Amortization of intangible assets commenced upon implementation of the system on January 1, 2020.

(e) Employee future benefits

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

(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. Vestcor 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, Vestcor 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 Vestcor 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 3*) and deferred contributions (*note 6*) and the estimated actuarial liability for supplemental pension (*note 6*).

VESTCOR INC.
Notes to Financial Statements
Year ended December 31, 2020
(in thousands of Canadian dollars)

3. Capital Assets

	Computer equipment	Furniture and equipment	Leasehold improvements	2020 Total
Cost				
Opening balance	\$ 2,213	\$ 538	\$ 541	\$ 3,292
Purchases	1,039	411	2,206	3,656
Disposals	(1,425)	(354)	(373)	(2,152)
Closing balance	1,827	595	2,374	4,796
Accumulated amortization				
Opening balance	1,914	417	449	2,780
Amortization expense	367	15	22	404
Disposals	(1,425)	(354)	(322)	(2,101)
Closing balance	856	78	149	1,083
Net book value	\$ 971	517	2,225	3,713

	Computer equipment	Furniture and equipment	Leasehold improvements	2019 Total
Cost				
Opening balance	\$ 2,035	\$ 530	\$ 501	\$ 3,066
Purchases	206	8	40	254
Disposals	(28)	—	—	(28)
Closing balance	2,213	538	541	3,292
Accumulated amortization				
Opening balance	1,711	403	423	2,537
Amortization expense	231	14	26	271
Disposals	(28)	—	—	(28)
Closing balance	1,914	417	449	2,780
Net book value	\$ 299	\$ 121	\$ 92	\$ 512

4. Intangible assets

	2020 Total	2019 Total
Cost		
Opening balance	\$ 4,172	\$ 2,015
Purchases	289	2,157
Closing balance	4,461	4,172
Accumulated amortization		
Opening balance	—	—
Amortization expense	420	—
Closing balance	420	—
Net book value	\$ 4,041	\$ 4,172

VESTCOR INC.**Notes to Financial Statements**

Year ended December 31, 2020

*(in thousands of Canadian dollars)***4. Intangible assets (continued)**

Development costs incurred during the year in connection with the implementation of a new pension and benefits administration system were \$289 (2019 - \$2,157). Amortization commenced in January 2020.

5. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2020 of \$57 (2019 - \$287) which include amounts payable for GST/HST.

6. Supplemental Pension

Vestcor has an estimated liability of \$389 (2019 - \$370) 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 December 31, 2020. The accrued liability is equivalent to the present value of the expected future payments. The ultimate cost to Vestcor 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.

7. Deferred Contributions Related to Capital and Intangible Assets

The balance of unamortized deferred contributions consists of the following:

	2020	2019
Balance, beginning of period	\$ 4,684	\$ 2,544
Additional contributions received, net	1,210	2,411
Less amounts amortized to revenue	(824)	(271)
Less writedown related to disposal of capital assets	(51)	—
Balance, end of period	\$ 5,019	\$ 4,684

8. Employee Future Benefits

Vestcor is a participating employer in the NBPSPP. For the year ended December 31, 2020, Vestcor expensed contributions of \$1,190 (2019 - \$1,165) under the terms of the NBPSPP pension plan. Vestcor is also a participating employer in a retirement compensation arrangement (“RCA”). For the year ended December 31, 2020, Vestcor expensed contributions of \$154 (2019 - \$151) under the terms of the RCA.

VESTCOR INC.

Notes to Financial Statements

Year ended December 31, 2020

(in thousands of Canadian dollars)

9. Contractual Obligations and Contingencies

Vestcor leases certain of its premises under an operating lease which expires on January 31, 2022. The future minimum lease payments for the lease are \$256 per annum. Upon signing this lease, Vestcor 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 certain of Vestcor's leasehold improvements, furniture and equipment has been pledged to the landlord as collateral for the lease inducement. Vestcor has provided notice of early termination of this lease effective January 31, 2021.

Vestcor also occupies certain office space leased by the Province of New Brunswick under a ten year operating lease which expired on October 31, 2020. Vestcor paid a rental charge in the amount of \$30 per month to the Province of New Brunswick.

On November 1, 2020, Vestcor entered into a Temporary Tenancy Agreement for certain of its premises which expires on January 31, 2021. Vestcor pays a monthly gross lease amount of \$25 per month.

Vestcor leases certain of its premises under an operating lease for an initial term of twenty years commencing on September 1, 2020. The future minimum lease payments are \$805 annually for the first ten years and thereafter adjusted annually by the Consumer Price Index All-Canada Index.

10. Related Party Transactions and Balances

Vestcor offers investment management and pension administration services to the NBPSPP and NBTPP. Investment management and pension administration 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 investment management services and according to the effort involved to administer their plans for pension administration services. For the year ended December 31, 2020, Vestcor billed \$12,341 and \$8,564 to the NBPSPP and NBTPP respectively (2019 - \$12,110 and \$8,351 respectively) for these services, which are included in investment management and pension administration fees in the Statement of Operations. At December 31, 2020, NBPSPP and NBTPP owed Vestcor \$2,655 and \$1,949 (2019 - \$3,887 and \$2,680) respectively for such fees. These amounts are included in accounts receivable.

Under an unsecured Term Loan agreement with its shareholder, Vestcor Corp. Vestcor may draw advances up to a maximum amount of \$3,000 for certain capital expenditures including leasehold improvements, furniture and equipment. During the year, Vestcor was advanced \$2,735. The loan is repayable in equal monthly installments consisting of principal and interest at a rate of 1.597% per annum and matures on December 31, 2040. Expected loan repayments over the next five years are approximately \$170 per year.

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

11. Indemnifications

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

VESTCOR INC.

Notes to Financial Statements

Year ended December 31, 2020

(in thousands of Canadian dollars)

12. Financial Risk

Vestcor has exposure to credit and liquidity risk. Credit risk arises from the potential that a counterparty will fail to perform its obligations. Vestcor is exposed to the carrying value of its accounts receivable, all of which have been collected subsequent to the date of the financial statements. Liquidity risk is the risk that Vestcor will not be able to fund its obligations when they become due. Vestcor operates on a cash recovery basis and is dependent on the revenue received from its clients. Management continuously monitors the impact that the COVID-19 pandemic has on client portfolios. In management's opinion, Vestcor is not exposed to any other financial risks.