

Compensation Backgrounder Frequently Asked Questions

Below are responses to frequently asked questions relating to our corporate compensation program.

For more detailed information, refer to the Compensation section at vestcor.org/corporate (under “Committees”, “Human Resource and Compensation Committee”), and within our annual reports at vestcor.org/annualreports. Additional questions? Email us at info@vestcor.org.

Who oversees compensation at Vestcor?

Our independent Board of Directors. Vestcor’s compensation program is led by the Board of Directors, specifically the Human Resources and Compensation Committee (HRCC) of the Board. The HRCC reviews the program annually, and from time to time, is assisted by a third-party compensation consulting expert. The expert conducts an in-depth review, comparing Vestcor with similar organization. This review ensures that we remain competitive and fair in the compensation provided to employees compared to peer organizations in the industry and is necessary for us to continue attracting and retaining the experienced specialized human resources requirements needed to best serve clients.

The current Incentive Compensation Program was updated on January 1, 2021 after the HRCC sought the services of the nationally recognized HR consultant Willis Towers Watson to complete an extensive Total Compensation Review for all Vestcor employee positions. The review compared employee positions to similar ones in other investment and pension administration positions, in companies of similar size to Vestcor. Corporate services positions were compared to similar general industry positions and adjusted for regional differences, and to other Atlantic Canada organizations of similar size.

Who pays for Vestcor’s compensation?

Employee compensation forms part of our client’s expenses. These expenses are charged to clients under mutually agreed upon contract terms based on services provided to each. For example, investment client expenses are charged to clients based on the size of their fund vs Vestcor’s total assets under management. For administration services clients, it varies by client and can be based on the number of members we serve on their behalf, or the scope of services we provide to each client. The parameters for how the operational expenses are divided among clients are also based on industry best practice.

Vestcor prides itself on our not-for-profit structure, which results in much lower costs for our clients than they would find with other, for-profit institutions. These lower costs provide for significant additional long-term asset growth for our clients.

Why does Vestcor have an incentive compensation structure?

As one of the largest investment managers in Atlantic Canada, it’s important that we recruit and retain the experienced professionals required to prudently manage such a significant responsibility. That means that we must compete with both national and international firms for that talent. Our independent Board of Directors recently (2020) worked with expert HR consultant Willis Towers Watson to complete an extensive compensation review for all Vestcor employee positions. The review compared employee positions to similar ones in other investment and pension administration positions for companies of similar size to Vestcor. Corporate services positions were compared to similar general industry positions adjusted for regional differences, and to other Atlantic Canada organizations of similar size.

At our core, we are a partner with our clients in creating and delivering sustainable financial security. In doing so, we:

- Invest over \$21 billion in assets on behalf of clients to support their long-term financial goals and needs. For a number of clients, this includes the retirement of their current and future members; and,
- Administer complex pension plans within the regulatory parameters of the *Pension Benefits Act* and *Teachers’ Pension Plan Act*, under the supervision of the Superintendent of Pensions.

How do incentive payments align with performance?

Vestcor's Incentive Compensation Program is **based on the achievement of well-defined quantitative and qualitative performance targets toward Vestcor's corporate business plan objectives and investment performance**, which are in turn based on our clients' goals and objectives. Our independent Board of Directors annually reviews and approves the performance targets for the upcoming year, as well as the achievements and financial incentives provided to employees upon completion of each fiscal year.

For investment management employees incentives are mainly based on investment performance. This includes significant focus on what is known as Active Management. Active Management is the value-added returns above and beyond expected benchmark returns resulting from the expertise of our employees. In 2021 the added value we provided to our clients was approximately \$425.7 million after covering all investment management costs.

It is worth noting Vestcor specializes in administering Shared Risk Pension Plans. These plans have significant risk management included in their design. The risk management element is every bit as important as the investment returns, and places the focus on steady, long-term results for our clients. Compared to more traditional defined benefit plans, shared risk plans tend to experience lower returns when markets are strong, and higher returns when markets are in a weaker position. When we look at the longer term, the shared risk plans administered by Vestcor performed as well or better than defined benefit plans. This focus on the long term is reflected in our incentive programs, and a significant portion of the Incentive Compensation Program is tied to longer-term investment results.

Incentives for pension administration staff are mainly based on a number of key performance indicators (KPIs) that are tied to Vestcor's, and ultimately our clients' objectives.

Are all employees eligible to participate in the Vestcor incentive plan?

Yes. All employees who are employed in a full-time permanent role for a minimum of 6 months are eligible. Which portions of the Incentive Compensation Program they are eligible for varies based on their role and level of responsibility. These are further described in the annual report (vestcor.org/annualreports). We pride ourselves on our transparency and provide far more public disclosure than the typical investment manager when it comes to our incentive program.

Why can the Vestcor executives receive incentive payments that are greater than their base salary?

As mentioned above, the compensation program is designed for Vestcor to attract and retain the expertise needed to invest and administer pension plans on behalf of clients effectively and efficiently. **It is common practice within our industry** for there to be a direct correlation between the level of employee responsibility and their level of at-risk variable compensation. This ensures that executives stay focused on advancing the goals of our clients. Senior executives at Vestcor possess decades of specialized experience and are recognized broadly within their field as thought leaders.