VESTCOR

Annual Report 2017

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

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Brent Henry, CPA, CA
Chief Compliance Officer

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WHO WE ARE

Vestcor consists of two private not-for-profit operating companies, Vestcor Investment Management Corporation and Vestcor Pension Services Corporation that combine to deliver a cost efficient, integrated investment management, pension and benefit service delivery platform to a number of public sector entities. On January 1, 2018 both companies were amalgamated to form Vestcor Inc.

Located in Fredericton, New Brunswick we are the largest investment manager in Atlantic Canada providing global investment management services to 8 different client groups representing approximately $16.6 billion in assets under management. We also provide administration services to 11 pension plans and 4 employee benefit plans.

2017 HIGHLIGHTS

- **Vestcor Investment Management Corporation:**
  - 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 remained strong versus other pension fund and diversified investment manager alternatives.
  - We continued to outperform client policy benchmarks for assets under discretionary management net of all investment management costs, by 0.89%. This represented approximately $143.1 million of additional return over client investment policy benchmarks.
  - Our annual Management Expense Ratio (MER) remained low at 0.12% of total funds under management. This was the fourth consecutive year that our clients have benefited from a declining MER.
  - Assets under discretionary management increased to $16.3 billion at year end, with a further $0.3 billion currently being transitioned to our management.

- **Vestcor Pension Services Corporation:**
  - Exceeded each of the team's Key Performance Targets.
  - Finalized the system implementation of the many specific client target-benefit plan rules which helped to significantly reduce our processing response times during the year.
  - Facilitated the development of a number of strategic planning and long-term communication plans for our client Trustees.
  - Expenses remained low versus other public sector peers.

CONTENTS

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 2017 Annual Report. This report provides an accounting of the operating activities that took place during the year for both Vestcor Investment Management Corporation (VIMC) and Vestcor Pension Services Corporation (VPSC).

It also provides an update on our corporate integration activities, which have resulted in both VIMC and VPSC now having been integrated into one entity named Vestcor Inc. This organization, now identified by our new logo, operates as one effectively aligned unit under the “Vestcor” brand name.

As outlined in detail in last year’s Annual Report, VIMC and VPSC were enacted through provincial government legislation on October 1, 2016. At that time we were given the mandate of providing an efficient integrated pension and benefit service delivery platform that provides cost effective investment management and administration services to a number of public sector pension and employee benefit plans and other pools of capital.

Transparency and accountability continues to be an important focus of our Board and this report is organized to provide detailed insight into how both our investment programs and administration activities continued to meet our mandate and the needs of our expanding client base.

Strategic Direction

One of the initial orders of business for our Board in early 2017 was to work with our management team to develop a new Strategic Plan for the organization. It quickly became evident that VIMC’s investment focus and VPSC’s plan administration emphasis were very complementary to each other and through integration could result in the creation of a formidable organization with a long-term vision where *“We are the public sector’s provider of choice for integrated investment and benefit administration services”.*

The Board directed management to focus immediately on efficiently integrating our two operating companies into one corporate entity while identifying the following longer-term strategic goals to assist Vestcor in continuing to exceed the requirements of our public sector based clients and support the continued growth of our business:

- To advance Vestcor’s governance, management and organizational effectiveness.
- To meet our clients’ pension and benefit administration needs through effective practices and prudent service advancements.
- To meet our clients’ specific long-term investment objectives through prudent advice and well executed, risk-managed investment strategies.
- To maintain, develop, and attract a highly skilled and experienced team of professionals.
- To strengthen and expand client and other stakeholder communications and relationships.
- To support effective and efficient information technology, data management, and client reporting solutions.

The Vestcor Board

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. In addition to our strategic planning activities, the Board has reviewed and revised all of Vestcor's governance documentation including an integration update to our firm-wide Enterprise Risk Management Framework. This framework remains a key tool in helping our Board and management respond to any changing risk environment.

With Vestcor now having passed our first anniversary, the Board looks forward to conducting a self-assessment process during the year ahead. It will be followed by a thorough analysis of the results and the establishment of a number of related governance enhancement objectives.

Appreciation of Dedicated Service

On behalf of the Board, I would like to thank our management team for their focus on our successful corporate integration and for another successful year in helping our clients meet their goals and objectives. I would also like to thank our Vestcor Corp. ownership Board for their support and oversight activities conducted throughout the year.

Finally as a strategically focused not-for-profit organization, Vestcor continues to remain well-aligned with the best interests of our various clients, and I would like to remind readers that a significant amount of governance related material is available on our website at **www.vestcor.org**.

I trust this report provides a thorough accounting of our corporate activities in 2017, however we remain available to address any questions or provide further information by contacting us at **comments@vestcor.org** at your convenience.

Sincerely,

Michael W. Walton, Chairperson
Vestcor Inc.

April 3, 2018
Fredericton, New Brunswick

REPORT FROM THE PRESIDENT AND CEO

I am pleased to report that Vestcor Investment Management Corporation (VIMC) and Vestcor Pension Services Corporation (VPSC) had a successful 2017 in meeting their respective client goals and objectives. Each organization was actively engaged in integrating our respective employee teams and activities into Vestcor Inc., and in initiating the execution of our new Strategic Plan. An integration related achievement of particular note was the successful transition of the VPSC team to a newly created information technology platform.

Our investment management program has continued to exceed the long-term risk and return goals of our clients, while our pension and benefits administration activities continued to improve upon a number of our client-based service delivery metrics during the year. We were also pleased to finalize an investment management agreement that will have us welcome a new shared risk pension plan client to our platform on January 1, 2018. Our growing base of assets under management has continued to reduce the management expense ratio (MER) for all of our investment clients as they benefit from the economies of scale brought about through our not-for-profit organizational structure.

Vestcor has also continued to assist many of our clients with their investment policy strategy development activities and in administering many of their important governance and organizational processes. Our extensive experience in managing a number of target benefit pension plans combined with our low cost structure continues to align well with our clients' needs and their best interests.

Investment Management

Vestcor's investment program continued to provide long-term rates of return that met the investment objectives of our clients with very low risk. Our investment program has been able to continue to exceed the specific risk and return requirements of our larger target benefit pension fund clients, while also remaining very competitive versus other types of pension and balanced fund managers on a cost-adjusted long-term basis.

We are pleased to describe further in this report that we continued to exceed **both our primary investment objective of exceeding the long-term investment returns** required by our clients, **and our secondary investment objective of producing value added returns** that exceed their investment policy benchmarks after covering all of our relatively low investment management expenses. Our long-term success in providing additional returns above client benchmarks at a low cost continues to provide excellent value to our clients

The gross return for the total funds under our management was 8.03% for the year ended December 31, 2017, with a management expense ratio of approximately 0.12%. Long-term gross annualized four year returns stand at 8.62% and our long-term gross annualized return since our inception in 1996 was 7.33%.

Our overall total funds' value added portfolio performance once again exceeded both the blended client investment policy benchmarks and our investment management costs by 0.89% during the year. This performance provided our clients with additional returns of approximately $161 million of investment earnings through active portfolio management activities versus their benchmarks, or approximately $143 million in additional net earnings after covering $18 million of our total investment management costs.

These active investment management results continued to show how our strategy of successful active management performance in combination with low expenses can add significant additional gains on behalf of our clients. This is a particularly attractive outcome in what is expected to be a challenging future low return investment environment.

Total assets under management increased to a new all-time high of $16.6 billion from $15.7 billion in the prior year. This increase in assets resulted from $1.2 billion in net investment earnings, net client payouts of $295.9 million and $12.2 million of new client assets.

Pension and Benefits Operations

Our pension and benefits administration teams have continued to make significant progress during the year against their strategic priority of supporting our client needs through effective and efficient information technology, data management, and client reporting solutions.

We are pleased to report that we have finalized the implementation of all of the detailed client Shared-Risk-Plan rules in our pension administration system during the year. The completion of this milestone has already improved our service delivery capabilities and our response time efficiency to our plan members. A longer-term pension system review project is now proceeding with the ultimate goal of providing continued member service efficiencies and reducing operating risk for our clients.

The pension board support services team has made significant progress in assisting the Trustees of a number of our client groups more effectively achieve their governance objectives. Our coordination of a number of client strategic planning sessions and communication activities continued to assist these groups with their many responsibilities. We also look forward to the launch of our new **www.vestcor.org** website in early 2018. This website has been designed to make our clients' pension and benefit program information much more easy to access and understand.

Improving the quality and timeliness of services to plan members continues to be an important focus for Vestcor and our client groups. Our member services team has made good progress in rolling out a comprehensive employer and employee education program for a number of the pension and benefit plans which we administer, and the feedback received to date from our member service follow-up survey program has been very helpful and encouraging.

Outlook

While we remain pleased that we continue to help our clients meet their objectives, we do however recognize that a number of risks remain in our business environment. Most investment markets are at historically high valuation levels, increased political uncertainty and protectionism has the potential to impact global economic growth, and information technology threats remain a concern to the business community.

In a similar capacity to last year's view, we remain cautiously biased in the short-term toward taking on limited investment risk in the form of equities and credit securities. It is important to note that global economic growth and corporate earnings have remained solid, however we do recognize that many central banks have begun to reduce their long-term monetary stimulus programs to various degrees and many countries continue to evaluate more protectionist trade measures such as NAFTA and Brexit.

Our longer term outlook continues to remain very modest in nature. Most Vestcor pension client investment portfolios remain biased towards lower volatility equity assets, and we expect that this approach, along with their exposure to our absolute return strategies, should continue to minimize volatility and improve returns versus a more traditional public equity and bond market mix. Opportunities to continue to improve returns via active management in a low cost fashion should remain a significant driver in our portfolio results.

As mentioned earlier, our administration team has begun a pension system review project and, with the oversight of our Information Technology Risk Management Committee, continue to invest time and resources in making sure our systems are both efficient and secure. Vestcor also continues to be a very active participant in a number of national industry associations and well engaged in many peer relationships to make sure we are providing best practice services to our many clients and stakeholders.

The Vestcor management team, with the assistance of our Board of Directors and our new Strategic Plan, looks forward to meeting these many challenges. We strongly feel that through our long-term focused, well-diversified investment and benefit administration programs we will continue to meet our clients' goals and objectives.

Sincerely,

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

April 3, 2018
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 combined annual financial statements are explained and this MD&A should be read in conjunction with these combined 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 Annual Report covers the first full year of combined operations of Vestcor Pension Services Corporation (VPSC) and Vestcor Investment Management Corporation (VIMC), known collectively as Vestcor. The combined financial statements for the comparative period are for the three month period following the transfer of ownership on October 1, 2016 of each entity from the Province of New Brunswick to Vestcor Corp., a non-share not-for-profit entity whose Member/Owners are the New Brunswick Public Service Pension Plan (NBPSPP) and New Brunswick Teachers' Pension Plan (NBTPP).

Our website at **www.vestcor.org** also has available the audited financial statements for the various Vestcor Investment Entities for the year ended December 31, 2017. The Vestcor Investment Entities are pooled investment funds structured as either unit trust funds for which VIMC serves as trustee or as limited partnerships for which a wholly-owned subsidiary of VIMC, Vestcor Investments General Partner, Inc., serves as general partner. These Vestcor Investment Entities have been created to facilitate the efficient investment of privately-held assets into separate investment strategies that deliver our clients' asset mix decisions.

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 18 clients at December 31, 2017. Administration activities cover over 96,000 plan members and investment assets under management (AUM) at December 31, 2017 were $16.6 billion.

We continue to look forward to realize on our corporate vision of being the public sector's provider of choice for pension and benefits 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 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 an historical analysis of transaction volumes and number of members in each plan.

Administration Highlights

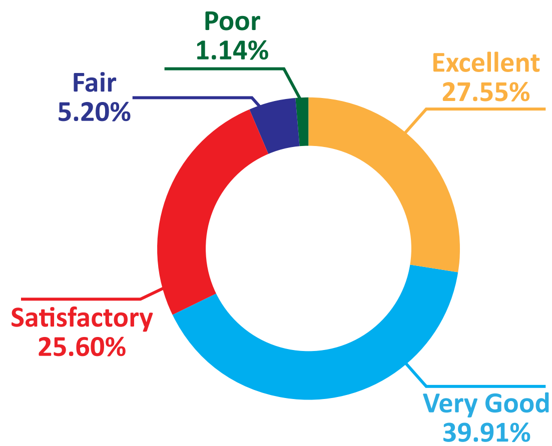
The Vestcor administration team is responsible for the day-to-day operations of 11 pension plans as well as 4 employee benefit programs. We provide service to approximately 60,000 active and 36,000 retired members. Our members include employees from the provincial public service sector, the education 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; member communications and board and committee support services. Highlights from each of these areas for 2017 are as follows:

Member Services

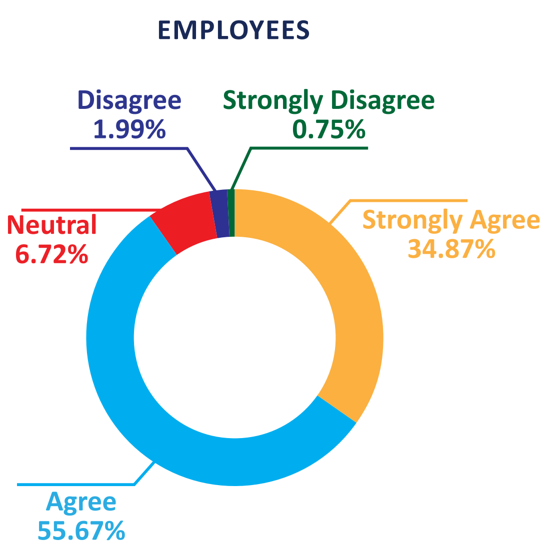
In 2017, the member services team had over 26,000 contacts with plan members through phone calls, emails and visits to our office. To ensure that we were meeting the needs of our clients, Vestcor launched a number of client satisfaction surveys. These surveys were sent to members who had received a specific service from Vestcor during the year.

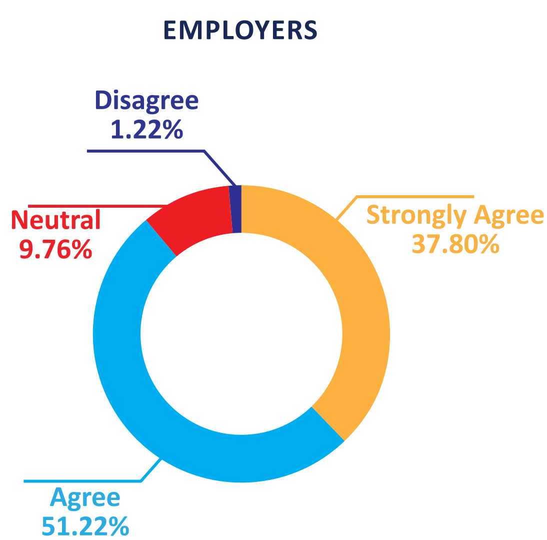
Member services satisfaction survey results



Vestcor also embarked on an initiative to increase both member and employer education. In 2017, over 1,150 plan members attended our information sessions. These sessions provide members the opportunity to learn more about the provisions of their pension and employee benefit plans in which they participate. Members who attended these sessions have been very satisfied with the information that was received.

Respondents who felt that they understood their pension better after attending an information session





Vestcor also held onsite pension and employee benefits information sessions with employers in all 7 school districts, as well as NB Liquor, Horizon Health, Vitalité Health, and Service NB Human Resources.

Plan Operations and Pension Policy

During 2017, the team processed over 5,100 pension related applications and over 700 employee benefit related applications.

Vestcor has key performance indicators that it has established with each of its client boards. These processing times significantly improved in 2017 compared to 2016:

Service	Target[1]	2017 Total Processed	2017 Achieved	2016 Achieved
Purchase of Service Requests	60 days	782	99.7%	99.0%
Pension Estimates	60 days	1,540	99.5%	99.5%
Retirements	60 days	1,743	99.9%	98.5%
Terminations	30 days	944	99.3%	90.8%
Marriage Breakdowns	42 days	128	97.7%	88.0%

[1] *Targets may vary slightly between clients. The above table illustrates the shortest target period.*

As part of our ongoing commitment to improving service to our members, Vestcor resolved to exceed our client service targets and reduce processing times for pension estimates and retirements to 45 days. As at the end of 2017, 97% of pension estimates and retirements were completed within 45 days.

The team also endeavored to make significant improvements to the online pension service calculator that members can use to prepare their own informal pension estimates. The new calculator was launched in December 2017.

Member Communications

The team spent considerable effort in 2017 in the planning and development of a new Vestcor member-centric website. This new website is scheduled for release in 2018.

Enhancing member communication also remained a priority for Vestcor in 2017. To accomplish this, comprehensive member communication strategies were developed with the Trustees for a number of our plans and they will be implemented in 2018.

Board Support Services

Vestcor continues to provide robust operational support to our various client boards and committees. In 2017, orientation programs were developed to assist new client trustees. In addition, we have also helped support Board and Committee decision making through planning sessions, effectiveness workshops, surveys, and questionnaires.

Administration Costs

Vestcor administration clients continue to benefit from our low cost not-for-profit model and our focus on their specific needs and service requirements. We are very pleased to outline below that, considering all of the successful achievements noted above that team made during the year, our overall administration costs on an annualized basis only increased by approximately 1.5% versus the prior year.

		Year ended December 31, 2017		Three months ended December 31, 2016
Salaries and benefits	$	5,561	$	1,249
Information systems		2,046		576
Client directed administration		464		147
Office rent		359		90
Office and business		283		82
Professional services		123		33
	$	8,836	$	2,177

The administration services expenses of Vestcor include salaries and benefits for approximately 80 employees on a full-time, part-time, casual or contract basis.

Investment Highlights

The following description of the investment management services covers the year ended December 31, 2017.

Assets Under Management

Assets under management (AUM) at December 31, 2017 were approximately $16.6 billion consisting of the following client mandates:

Client		December 31, 2017			December 31, 2016	
New Brunswick Public Service Pension Plan (NBPSPP)	$	7,638.1	45.9%	$	7,215.1	45.9%
New Brunswick Teachers' Pension Plan (NBTPP)		5,780.2	34.7%		5,484.1	34.9%
Provincial Court Judges' Pension Plan (Judges)		48.8	0.3%		45.3	0.3%
New Brunswick Power Corporation (NBPC):						
Point Lepreau Decommissioning Fund		351.6	2.1%		325.9	2.1%
Point Lepreau Used Fuel Management Fund		209.1	1.3%		228.2	1.5%
Nuclear Fuel Waste Trust		160.5	1.0%		152.0	1.0%
Management Employees of New Brunswick School Districts Pension Plan (NBSD)		4.7	0.0%		5.6	0.0%
Shared Risk Plan for Academic Employees of University of New Brunswick (AESRP)		339.3	2.0%		313.9	2.0%
University of New Brunswick Endowment Fund (UNBE)		47.4	0.3%		31.0	0.2%
Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals (CBE)		1,764.5	10.6%		908.0	5.7%
Total Discretionary Funds		16,344.2	98.2%		14,709.1	93.6%
Non-discretionary CBE funds in transition		301.2	1.8%		997.4	6.4%
Total AUM	$	16,645.4	100.0%	$	15,706.5	100.0%

One additional client, a New Brunswick-based municipal shared risk pension plan, with approximately $200 million of pension fund assets signed an investment management agreement with Vestcor effective January 1, 2018. We look forward to assisting the Board of Trustees for this client to meet their long-term investment goals and appreciate the confidence that they have placed in our team.

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 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, as **continuous performance objectives**, that correspond to our 2017 - 2022 Strategic Plan. These KPI's are monitored on a quarterly basis.

Primary Investment Performance Objectives

Objective	Average Client Long-Term Targets	Year ended December 31, 2017 Actual	4 Year Annualized	Annualized Since Inception
Total Funds Real Return (after inflation)	>= 4.00% per annum	6.33%	7.00%	5.40%
Total Funds Nominal Return	>= 6.25% per annum	8.03%	8.62%	7.33%

Secondary Investment Performance Objective

Objective	Long-Term Targets	Year ended December 31, 2017 Actual	4 Year Annualized	Annualized Since Inception
Net Relative Return (after all investment management expenses)	>= 42 bps per annum	89.3 bps	86.6 bps	13.1 bps

Continuous Performance Efficiency Objectives

Objective	Target	Year ended December 31, 2017 Actual	4 Year Annualized
Trade-Matching Efficiency:			
Securities Custodian	Regulatory 90% + 2.5%	98.2%	97.5%
Prime Broker #1	Regulatory 90% + 2.5%	95.8%	96.3%
Prime Broker #2	Regulatory 90% + 2.5%	97.2%	95.4%
Prime Broker #3	Regulatory 90% + 2.5%	95.9%	n/a
Budget Efficiency (excluding performance incentives)	100%	85.5%	90.5%
Absenteeism (%)	<= 2%	1.52%	1.54%
Employee Turnover (#)	<= 3/yr	1/yr	0.8/yr
IT System Availability	99%	99.1%	99.6%

Relative Performance Versus Benchmarks

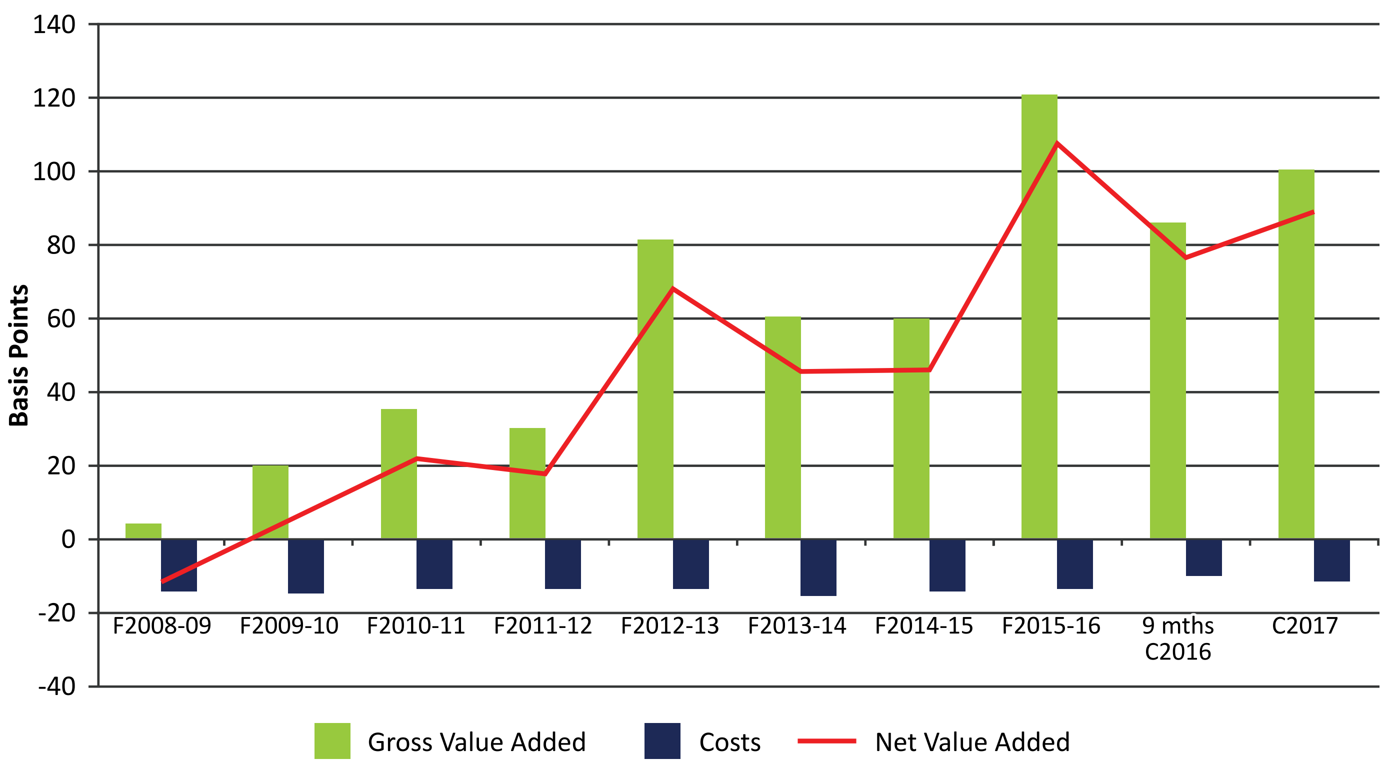
As noted above, our **second investment performance objective** is to add value above our clients' various asset class benchmarks through active management strategies. This value added, relative to benchmark, is expected to first cover all investment management costs, and subsequently targets an additional 42 basis points (0.42%) per annum.

Our overall active management activities for the year added 101.2 basis points of gross value and 89.3 basis points of net value, or approximately $143.1 million, after covering all investment management costs.

Our longer-term four-year average annual value added return, net of costs, was approximately 86.6 basis points per annum or approximately $451.3 million in additional value over the four-year period. The four-year term remains the most significant term used to measure our active management performance and is selected to represent a more consistent longer-term measure.

The following chart shows the history of our value added activities over our most recent ten reporting periods, including the period during the financial markets crisis where we temporarily reduced most of the active risk from the portfolio to help preserve assets.

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 available assets.

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.

The investment management costs to manage the approximately $16.3 billion of assets under discretionary management consist of the following:

(in millions of Canadian dollars)		Year ended December 31, 2017		Three months ended December 31, 2016
Internal Operational Expenses	$	15.6	$	4.7
Third Party Service Providers				
Investment counsel fees		2.8		0.7
Securities custody fees		0.1		0.1
Total Investment Management Costs	$	18.5		5.5
Total Assets Under Management	$	16,344.2		15,706.5

We internally manage the majority of assets under management (AUM) using our investment management professionals and technology systems that permit global trading activity from our location in Fredericton, New Brunswick. At December 31, 2017 Vestcor internally managed approximately 85% of client AUM, up from 81% at December 31, 2016 due to the transition of approximately $1.7 billion of AUM from the Shared Risk Plan for Certain Bargaining Employees of New Brunswick Hospitals to Vestcor's investment management by year end. The costs incurred to manage investment strategies **internally**, measured against average AUM for the period, were 0.116% or 11.6 basis points (bps) for the year ended December 31, 2017.

Approximately 15% of investments are externally managed at December 31, 2017. These external mandates result from either assets under transition, as is the case for the remaining CBE Hospitals plan assets, or access to the desired investment opportunities or specific strategy expertise is not available internally. The cost of managing investments through our **external** investment managers, also measured on average AUM, was 14.3 bps for the year ended December 31, 2017.

In total, investment management costs were approximately 12.0 bps of average AUM for the year ended December 31, 2017. This compares favourably with investment management costs of 12.8 bps for the twelve months ended December 31, 2016 and demonstrates the cost efficiencies that can be gained from increasing assets under management.

In addition to these investment management costs, the Vestcor Investment Entities incur transaction costs associated with the trading of securities in each portfolio. For publicly traded portfolios, these include broker commissions and borrowing fees which are dependent upon the volume of trading activity undertaken. Management fees and other fees paid to General Partners and advisors are also incurred on privately-traded investments, both on initial investment and over the holding period for the investment. These costs are not included in the investment management costs above 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 53)*. The audited financial statements for the Vestcor Investment Entities are available under the Publications tab on our website at **www.vestcor.org**.

We benchmark our investment management costs against other peer pension fund managers 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 are 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, 2017 our clients were able to retain approximately $38.8 million due to our lower cost advantage. This significant cost advantage has been a cornerstone of our service delivery value since our inception twenty-one 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 a limited partnership structure for private investments, through which clients can customize their specific investment allocations to achieve their unique investment objectives. For a description of investment performance by pooled fund, please refer to the Vestcor Investment Entities Performance (page 53).

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, 2017)

Portfolio	AUM[1] ($ millions)	2017 Annual Return		Four-Year Annualized Return	
		Portfolio	Benchmark	Portfolio	Benchmark
Short Term Assets	$ 1,356	1.11%	0.56%	1.11%	0.66%
Nominal Bonds	2,793	2.59%	2.18%	4.31%	4.00%
Corporate Bonds	2,828	2.93%	3.38%	4.38%	4.33%
Global Fixed Income	78	2.64%	2.60%	n/a	n/a
Long-Term Bonds[2]	37	9.80%	9.80%	6.84%	7.23%
Real Return Bonds	720	0.93%	0.72%	4.89%	4.78%

[1] Includes cross-fund ownership interests
[2] Special client restricted fund

Overview

Global fixed income markets were largely impacted by events in the U.S. during 2017. After having experienced a significant rise in yields to end 2016 following the change in administration in the U.S. election, yield movements were much tamer during the year. Yields generally remained stable to slightly lower during the first three quarters of 2017 as economic numbers disappointed, inflation stayed below most Central Bank targets and investors realized that quick action on the new U.S. Government's economically friendly agenda might not materialize. However, during the final quarter of 2017 yields drifted upwards as the Republican led government finally executed on their tax cut plan, which along with the elimination of burdensome regulations gave an extra boost to an already buoyant economy.

During 2017, the U.S. Federal Reserve raised their Federal Funds rate three times bringing the range up to 1.25-1.50%. After each rate hike, the U.S. Federal Reserve highlighted the moderate pace of economic expansion while also repeating that conditions will likely warrant additional gradual removal of monetary stimulus over time. Other significant events at the U.S. Federal Reserve during the year included the announcement of the replacement of Fed Chair Janet Yellen with Jerome Powell as well as the beginning of balance sheet tapering which began in October. Both announcements were well telegraphed in advance and surprisingly had minimal market impact as a result.

The Canadian economy performed adequately throughout 2017 approximately matching its U.S. neighbor. The first part of the year saw the Bank of Canada worrying about the housing market and the possibility of protectionist trade policies out of the U.S. However, by mid-year, the Bank of Canada flipped to being more hawkish as oil prices rebounded and employment improved; leading them to hike their administered rate twice in quick succession. This essentially reversed the two emergency rate cuts put in place in 2015. In the fourth quarter, the bank flipped back to a more dovish stance when they became concerned about the strong Canadian dollar and possible termination of NAFTA. Other headwinds to the Canadian economy at year end included more restrictive financing rules for housing being implemented, the record high level of Canadian household debt, as well as a the near record spread discount between WTI crude and Western Canadian select crude due to not enough pipeline transportation capacity constraints.

Credit markets had a very strong year, as one would expect during a period in which economies grew at a moderate pace with low inflation and no major setbacks. Corporate credit performed the best with spreads getting back to pre-crisis levels for many issuers. Provincial government credits also performed extremely well by getting back close to pre-2008 market crisis levels thanks to strong foreign investor demand.

Outside of North America, sovereign fixed Income yields generally stayed lower than those in Canada and the U.S. but with a gentle upward tilt throughout the year as most economies around the globe were in a synchronized, albeit moderate growth phase. Despite yields not really having moved very far during the year, many countries began to message that they may soon begin to reduce the amount of monetary stimulus in their system.

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 a number of global regions on both an active and passively managed basis.

Vestcor has focused significant resources in developing internally managed low volatility portfolios in the various geographic regions as outlined below. 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. With the launch of our Emerging Markets Equity low volatility strategy in 2015, we currently cover the entirety of the MSCI All Country World Index with our internally managed low volatility funds.

Performance Summary (as at December 31, 2017)

Portfolio	AUM[1] ($ millions)	2017 Annual Return		Four-Year Annualized Return	
		Portfolio	Benchmark	Portfolio	Benchmark
Market Capitalization Weighted:					
Canadian Equity	$ 1,461	9.29%	9.10%	7.83%	7.57%
U.S. Equity	914	13.74%	13.67%	16.70%	16.65%
International Equity	808	18.69%	16.83%	9.80%	8.87%
Low Volatility:					
Canadian Equity	791	10.08%	7.77%	10.60%	9.23%
U.S. Equity	941	6.65%	10.49%	17.17%	17.06%
International Equity	871	14.29%	13.63%	12.25%	10.68%
Emerging Markets Equity	448	17.85%	18.40%	n/a	n/a

[1] *Includes cross-fund ownership interests*

Overview

The 2017 calendar year was one of generally strong equity returns globally amid a backdrop of steady on-trend economic growth, solid corporate performance, largely accommodative economic policy and stable below target inflation. The MSCI All Country World Index produced net total returns of approximately 15.5% (in Canadian dollar terms) for the year, with particularly strong contributions from the U.S. and Emerging Markets segments of that index, while Canada in comparison lagged with a total return of about 9% for the year.

In addition to the strong equity market returns, 2017 was also notable for the apparent lack of market volatility. For example, the U.S. equity market normally experiences twenty to thirty days with price changes of greater than ±1% during a year. However, 2017 experienced just eight such moves, and many market volatility measures remained extremely low for the entire period.

As is typical during so-called “risk-on” periods of strong equity market returns, comparatively more stable Low Volatility portfolios underperformed somewhat during the year. Despite this, the longer-term four-year track record for Vestcor’s Low Volatility funds remains strong with both benchmark outperformance as well as returns in excess of broad market indices over the same period. These funds benefit from Vestcor’s active management, with particular emphasis on valuation and quality signals to allow the portfolios to further reduce risk relative to benchmarks while maintaining long-run return generating capacity.

Alternative Investment Portfolios

Objectives

Vestcor offers a number of 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 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, 2017)

Portfolio	AUM[1] ($ millions)	2017 Annual Return		Four-Year Annualized Return	
		Portfolio	Benchmark	Portfolio	Benchmark
Absolute Return Strategies	$ 1,248	5.27%	0.56%	4.40%	0.66%
Private Equity	642	18.28%	14.11%	17.46%	11.20%
Real Estate	856	11.27%	5.24%	13.41%	10.37%
Infrastructure	798	8.07%	5.46%	6.42%	5.42%

[1] *Includes cross-fund ownership interests*

Overview

Our Absolute Return portfolio seeks to produce stable, positive returns in all market environments while resulting in little to no correlation with traditional investment strategies, thus providing attractive returns and enhanced diversification for the combined portfolio. To achieve this, we manage three separate internal strategies that follow event-driven, fundamental, and quantitative investment approaches, respectively. Meaningful allocations to three strategies combined with a well-developed risk management and capital allocation framework allow the strategy to achieve the goal of positive, low risk returns without taking on unintended risk exposures as can often be the case in multi-strategy absolute return portfolios. While each strategy is managed in a diversified and prudent manner by a 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.

In 2017, each of the three sub-strategies once again produced positive and on-target returns in helping the combined portfolio achieve a total return of 5.27%. Vestcor uses a proactive risk management approach for these strategies, meaning that these positive returns were achieved with extremely low volatility and near zero correlation to traditional investment categories. On a four-year basis, the strategy has managed to navigate challenging investment environments to produce a positive 4.40% annualized return while maintaining net zero exposure to broad equity markets.

The private equity portfolio is diversified across several factors including geographies, industry sectors and currencies, and investments are made through a combination of commitments to external funds, co-investments alongside fund managers and direct internally managed investments. From a geographic perspective, European and Canadian private equity positions were the strongest contributors to performance during the year while U.S. positions, although positive, lagged the rest of the portfolio. From a strategy perspective, our co-investment and direct program produced the highest levels of returns.

The Real Estate portfolio has two broad components: North American Real Estate Investment Trust (REIT) securities, and private real estate in the form of limited partnership interests (in Canada and Europe), direct co-investments and direct holdings. Canada represents the largest component of the private portfolio however we continue to seek high quality opportunities abroad. The private portfolio continued to achieve strong returns in 2017 as a result of good fundamentals in supply and demand and continued low capitalization rates.

The Infrastructure portfolio has two broad components: first, private infrastructure in the form of co-investments diversified by geography, currency and by asset type and also fund commitments to two limited partnerships. Second, an internal public infrastructure portfolio that is designed to provide similar long-term return and risk characteristics as private infrastructure investments. Both portfolios produced positive returns in 2017, with particularly strong private portfolio returns stemming from a combination of solid growth in forecasted earnings and continued reductions in market discount rates.

RISK MANAGEMENT

Risk management is critical for ensuring that we are able to fulfill our various client mandates. Accordingly, a high priority for Vestcor this year was to review and refresh our Enterprise Risk Management Framework. A summary of this framework, available at **www.vestcor.org**, provides guidance and structure for ensuring that the organization can react 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 investment 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.

Risk Management – 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 specifically responsible for the oversight of investment risk. The Board is also responsible for oversight of fiduciary and business strategy risks.

Within the Board structure, the Audit Committee focuses specifically on oversight of financial risks and risks relating to the systems of internal controls and financial reporting as well as fraud risk. The Human Resources and Compensation Committee focuses on risks relating to our employees and work environment. This includes the leadership of the President and CEO, the ability to attract and retain qualified and motivated staff, leadership development and succession plans, and the overall prudence and sound business practices in Human Resource matters. The Governance Committee focuses on the leadership and effectiveness of the Board and the reputation and public image of Vestcor.

Risk Management – Internal Audit Function

For the past decade, the Audit Committee had engaged an independent internal audit service provider (a firm external to Vestcor) to conduct reviews and provide advice on the effectiveness of Vestcor's internal controls and processes to assist the Committee in fulfilling its risk management oversight responsibilities. In 2017, this outsourced function was augmented by adding a full-time internal resource. By moving to this co-sourced internal audit model, Vestcor expects a more comprehensive and holistic review of risks and internal controls.

Risk Management – Management Activities

Vestcor uses six 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:

Enterprise Risk Management Council (ERMC)	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 to the Board of Directors and advising the President and CEO of areas of emerging risk. In fulfilling this mandate, the ERMC reviews: • weekly Capital at Risk and Policy Asset Mix Capital at Risk analyses, including identification of risk proxies; • asset mix stress testing and back-testing results; • 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.
Investment Risk Management Committee (IRMC)	In accordance with its Terms of Reference, the IRMC: • monitors investment risk measures; • 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.
Trade Management Oversight Committee (TMOC)	In accordance with its Terms of Reference, the TMOC: • monitors trading policies and practices; • approves broker selection to ensure best trade execution possible; • manages exposure to broker counterparty risk.
Information Technology Risk Management Committee (ITRMC)	In accordance with its Terms of Reference, the ITRMC: • assists in the development of IT strategy and future direction; • approves new application risk assessments; • monitors adherence to IT policies and processes; • oversees cyber security risks.
Business Continuity Plan Team (BCP)	In accordance with its Terms of Reference, the BCP: • develops and implements the Business Continuity Plan including disaster recovery; • discusses possible disaster scenarios; • uses passive and active scenario testing to practice response protocols.
Occupational Health & Safety Committee	In accordance with its Terms of Reference, the Occupational Health & Safety Committee considers physical environment risks.

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	Investment and research staff, the President and CEO, Chief Financial Officer and certain management positions 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.	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 fiscal period	4 year (prorated)	4 year
Type of program	Cash	Cash	Cash
Performance metric(s)	Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark. Individual performance versus Board approved pre-determined Annual Business Plan Objectives.	Total fund return in excess of benchmark, net of investment management expenses. Investment team(s) active return in excess of benchmark.	Total fund return in excess of benchmark, net of investment management expenses.
Range: **Threshold** **Target** **Maximum**	 Full VIMC cost recovery 42 bps after costs 84 bps after costs	 Full VIMC cost recovery 42 bps after costs 84 bps after costs	 Full VIMC cost recovery 42 bps after costs 75 bps after costs

Indirect Compensation

	Membership in the New Brunswick Public Service Pension Plan	Employee benefits and post-retirement benefits	Prerequisites
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.

COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis explains the processes followed by Vestcor that have been applied in the current period and are expected to be applied to the amalgamated Vestcor entity 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 directors and employees, leadership succession planning, and setting of human resource policies and practices.

The Committee is composed of five 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 **www.vestcor.org**.

Key responsibilities include:

- Participation in an annual performance appraisal process for the President and CEO, including establishment of measureable 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 has retained the help of independent compensation advisors from time to time. The role of the advisor is to periodically review the Total Compensation components and levels offered to all employees within the context of Vestcor's Compensation Philosophy. This review typically uses a comparator group to represent the marketplace for employee positions. For Investment positions, the comparator group consists of pension funds of similar asset size and investment strategies. Finance and Administration positions are compared to similar positions in the Investment Comparator group, adjusted for regional differences, and to other Atlantic Canada organizations.

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

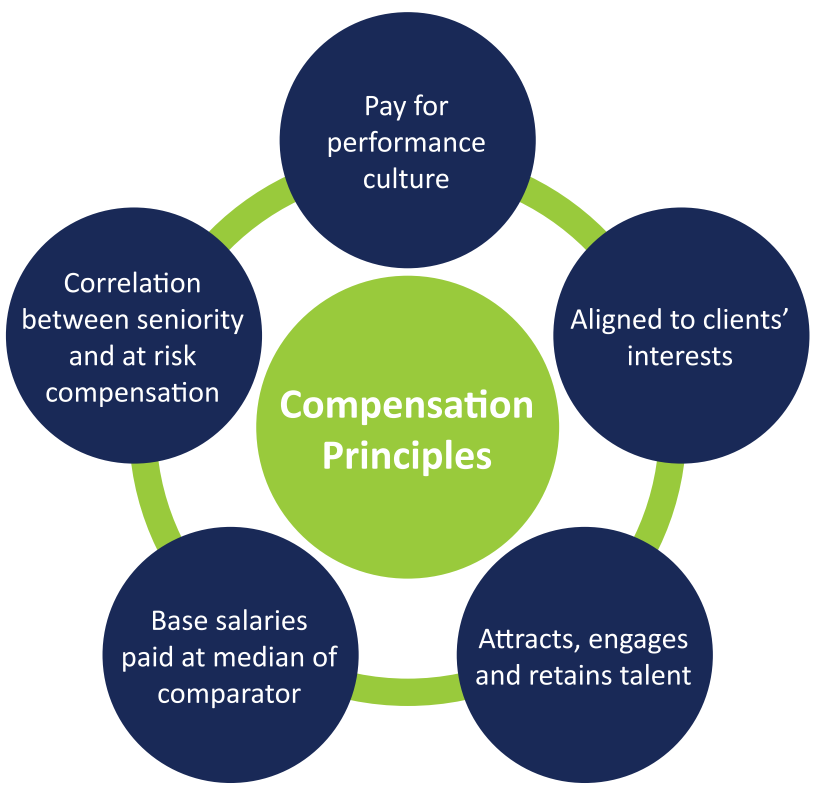
Corporate Compensation Philosophy

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

↓

Set target compensation mix and pay at-risk

↓

Establish performance objectives

↓

Evaluate performance against objectives

↓

Determine performance-based compensation awards

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 compensation and salary surveys is reviewed as it becomes available. An Independent Compensation Advisor is periodically asked to conduct a Total Compensation Review. Compensation information from public disclosures 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 and seniority, reflecting the opportunity to influence performance. In determining the mix, market practices are considered and Vestcor's compensation principles, including alignment with clients' interests. A significant portion of the 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. Real returns (i.e., after inflation), nominal investment returns 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 used 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. 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 26. The program takes the form of salary and benefits and for certain staff, an annual investment and individual performance-based incentive plan, 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 YMPE 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

Full-time Investment and Research employees, President and CEO and the Chief Financial Officer are eligible for an Annual Incentive Plan (AIP) once employed for a minimum of six months. In addition, three other management level positions were added as eligible employees for the individual component of the AIP commencing April 1, 2016.

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 includes components based on quantitative investment performance and individual achievement. 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. Employee payments accrue once benchmarks are exceeded up to a maximum threshold of two times target. Net value added investment returns represent the gross investment return in excess of the investment policy benchmark returns, after deducting all investment management 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.

Previously as a Crown corporation, NBIMC reported using a March 31 fiscal year end. Upon continuation of the Corporation as VIMC, the fiscal year end was changed to December 31. Accordingly for the comparative nine month period ended December 31, 2016, salaries were prorated to be 75% of annual base salary and investment returns were measured for the nine month period ended December 31, 2016 for purposes of calculating the short-term component of the AIP. The long-term component of the AIP was also adjusted to reflect the nine months ended December 31, 2016.

The AIP also includes a 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 or Private Markets. The remaining employees do not participate in the team award due to the overarching focus of their responsibilities.

On the recommendation of the HRCC, the Board also approves an individual incentive component determined by comparing achievement of business plan targets established annually as part of the corporate strategic planning process. The overall individual component is then allocated by management based on team and individual contributions to the business plan achievements. The three management level employees only participate in this component of the AIP.

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. Employee payments accrue once benchmarks are exceeded up to a maximum threshold of two times target.

Impact of Performance Results

Vestcor's investment program had another successful year as measured by a number of short-term and longer term investment performance metrics:

- The **total fund active nominal return**, where we have full management discretion, for the year ended December 31, 2017 was 8.03% and represents approximately $1.27 billion in gross earnings from the overall investment program. The longer-term annualized active return for the three years and nine months to December 31, 2017 was 7.81%, which represents approximately $3.92 billion of cumulative investment earnings.
- **Relative returns** were higher than the combined weighted average client Investment Policy benchmarks for the year ended December 31, 2017, adding 89.3 basis points of value after deducting all investment management costs. A basis point is equal to 1/100ths of a percent. These excess net investment returns resulted in approximately $143.1 million of additional actively-managed net investment earnings provided to our clients in 2017, and have resulted in over $451.3 million of net additional returns over the longer term four year period.

The following table shows the Compensation, excluding Directors' remuneration (see page 39), for the current year. The comparative column reflects the nine month period to December 31, 2016 for VIMC employees only as that is the period over which the performance incentives have been calculated.

(in thousands of Canadian dollars)		Year ended December 31, 2017		Three months ended December 31, 2016
Salaries and benefits	$	10,759.1	$	4,686.4
Performance incentives:				
AIP – net investment relative performance	$	909.3	$	589.3
AIP – individual performance		1,037.2		710.2
Total AIP		1,946.5		1,299.5
LTIP		2,353.3		1,919.3
Total performance incentives	$	4,299.8	$	3,218.8

Base Salaries and Benefits

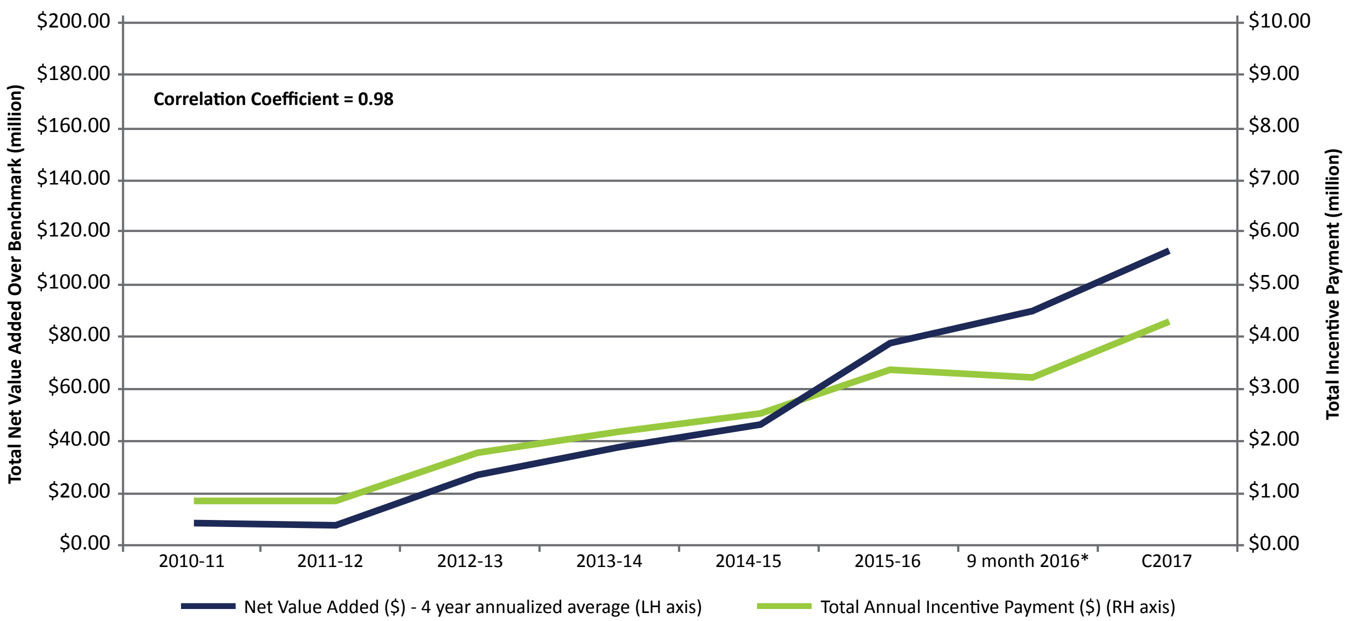
For the year ended December 31, 2017, and after consideration of the continuing competitive talent retention environment, the Board approved a 2.5% overall base salary increase.

The Board also approved six new full-time positions during the year, a Manager of Internal Audit as discussed previously, Investment Accountant, Corporate Controller, two Investment Analysts, and a Portfolio Manager for the Quantitative Investing & Applied Research Team. This latter position was created in recognition of the increased emphasis on quantitative investment strategies in clients' target asset mixes.

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 and 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	2017	327,779	334,335	491,669	108,638	2,269	1,264,690
	2016	327,779	238,831	421,396	113,431	2,314	1,103,752
	2015	327,779	308,624	440,048	93,889	2,445	1,172,785
Jonathan Spinney Chief Investment Officer, VP, Quantitative Investing & Applied Research	2017	233,750	201,076	232,750	27,933	1,980	697,489
	2016	208,923	121,088	169,701	20,598	1,935	522,244
	2015	175,133	113,602	140,964	17,024	1,802	448,524
Mark Holleran VP, Equities	2017	214,000	158,937	192,600	25,820	1,915	593,272
	2016	204,281	104,674	161,987	20,101	1,910	492,953
	2015	194,735	113,800	158,685	19,121	1,869	488,210
James Scott VP, Fixed Income	2017	225,000	145,515	202,500	26,997	1,950	601,962
	2016	218,769	114,959	169,701	21,652	2,124	527,205
	2015	213,808	150,363	173,184	21,162	1,931	560,448
Jan Imeson CFO	2017	220,000	132,000	132,000	26,462	713	511,175
	2016	213,769	93,748	110,563	21,117	755	439,952
	2015	208,808	118,832	112,771	20,627	906	461,944

[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 NBPSPP 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 $1,946.5 (thousand) consists of both an investment performance component and a business plan achievement component.

The **AIP related to the investment performance** component was $909.3 (thousand). One quarter of this component is based on the current year's net value added result and the remainder is based on the longer term four year annualized net value added. The current year net value added result was 89.3 basis points (bps), and the long-term annualized net value added result was 86.6 bps.

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

	Net Value Added (bps)	Percentage of Target (%)
Year ended March 31, 2015	45.6	108.6
Year ended March 31, 2016	107.5	255.8
Nine Months ended December 31, 2016	76.8	243.8
Year ended December 31, 2017	89.3	212.7
Annualized Long-Term (Four Fiscal Periods)	86.6	206.2*

** as permitted under the Incentive Plan, maximum is capped at two times target.*

The **AIP related to business plan achievements** is $1,037.2 (thousand) for the year ended December 31, 2017. This component is based on an achievement factor of 1.75 times overall target approved by the Board of Directors, compared to the achievement factor of 1.71 for the nine months ended December 31, 2016.

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 six key goals in the Corporate Mission. 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.

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 2017 and accounts for the largest weighting proportion. The overall total fund active return for all clients combined was 8.03% gross for the year ended December 31, 2017, an annualized 7.81% gross on a long-term three years and nine months basis, and most importantly 7.33% gross per annum since Vestcor's inception in 1996.

Key Goals	2017 Weighting	Achievement
To advance Vestcor's governance, management and organizational effectiveness.	15%	Exceeds
To meet our clients' pension and benefit administration needs through efficient practices and prudent advancements.	15%	Exceeds
To meet our clients' specific long-term objectives through prudent advice and well-executed risk managed investment strategies.	40%	Exceeds
To maintain, develop and attract a highly skilled and experienced team of professionals.	15%	Exceeds
To strengthen and expand client and other stakeholder communications and relationships.	5%	Exceeds
To support effective and efficient information technology, data management and client reporting solutions.	10%	Exceeds

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

Key Goals	Business Plan Accomplishments Year ended December 31, 2017
To advance Vestcor's governance, management and organizational effectiveness.	
	• As part of the development of a Strategic Plan for the operating companies, the Board decided to legally amalgamate VIMC and VPSC effective January 1, 2018. This decision was implemented by the development of a legal amalgamation plan, including applicable notices to all business partners and an amended and restated Members' Agreement. • Assisted the Governance Committee to develop a Board self-assessment process to be used in 2018 and future. • Announced an integrated Senior Management Team and subsequently determined the organizational structure for an integrated Finance, Administration and Information Technology team. • Prepared and published the first consolidated Annual Report for Vestcor for the period ended December 31, 2016. • Developed an integrated Enterprise Risk Management Framework that was presented at the September Board Education Day and subsequently approved by the Board. • Completed an assessment of the physical space requirements for the integrated organization and identified an appropriate new office location in conjunction with a private real estate co-investment opportunity. • Exceeded long-term peer client service, investment performance and cost effectiveness benchmarks. • Proactively met with each client's governing body to explain the Board's strategic plan, including the decision to amalgamate the operating companies, and the expected impacts on client service. • Completed registration as an Investment Fund Manager and Portfolio Manager under the *New Brunswick Securities Act*, subject to certain exemptive relief. This included creation of a Securities Policy Compliance Manual that was also presented to the Board at the Education Day. • Executed an investment management agreement with one additional new client to be effective January 1, 2018.
To meet our clients' pension and benefits administration needs through efficient practices and prudent advancements.	
	• Supported decision-making processes and governance best practices for clients' governing bodies including organizing Board effectiveness workshops and completion of a trustee compensation study by an independent consultant. • Developed a comprehensive trustee orientation program to prepare new trustees for their fiduciary roles, as well as a multi-year educational program. • Implemented several plan member satisfaction surveys to measure quality of services provided and prioritize future improvement opportunities.

<table>
<tr><th>Key Goals</th><th>Business Plan Accomplishments
Year ended December 31, 2017</th></tr>
<tr><td></td><td>
• Developed a template for a plan member communications strategy that can be adapted for all pension plan boards.
• Presented 11 employer education sessions.
• Presented 52 employee pre-retirement planning sessions covering over 1,150 plan members.
• Completed an enhanced self-service pension estimate calculator and implemented on the Vestcor website.
• Developed and implemented a new Vestcor website for the integrated organization.
• Reduced the processing times for formal pension estimates and retirements to 45 days.
• Presented an overview of the federal Canada Pension Plan enhancements and their expected impacts on the provincial plans for pension board consideration prior to its 2019 implementation date.
</td></tr>
<tr><td colspan="2">To meet our clients’ specific long-term investment objectives through prudent advice and well-executed risk managed investment strategies.</td></tr>
<tr><td></td><td>
• Exceeded the respective nominal or real (after inflation) long-term investment return targets for those clients where we provide investment policy advice.
• Maintained lower portfolio risk than clients’ shared risk plan targets and significantly lower than typical Canadian defined benefit pension plans.
• Continued to enhance asset liability modelling capabilities.
</td></tr>
<tr><td colspan="2">To maintain, develop, and attract a highly-skilled and experienced team of professionals.</td></tr>
<tr><td></td><td>
• Updated all job descriptions and related skills requirements in advance of completion of an independent Compensation Review for the Administration team and certain officer positions.
• Implemented an integrated Human Resources Strategic Plan and integrated succession plan for all senior leadership positions.
• Completed planning for an integrated workplace environment survey process to be conducted in early 2018.
</td></tr>
<tr><td colspan="2">To strengthen and expand client and other stakeholder communications and relationships.</td></tr>
<tr><td></td><td>
• Finalized a new Vestcor corporate logo and branding initiative.
• Created an integrated Vestcor Corporate Communications Plan.
• Provided notice to affected clients and prepared a corporate response to proposed changes to New Brunswick’s shared risk pension plan regulations.
</td></tr>
<tr><td colspan="2">To support effective and efficient information technology, data management and client reporting solutions.</td></tr>
<tr><td></td><td>
• Created an integrated Information Technology Strategic Plan, including project management, change management and incident response protocols.
</td></tr>
</table>

Key Goals	Business Plan Accomplishments Year ended December 31, 2017
	• Implemented a common domain to support amalgamated entity infrastructure. • Implemented remaining valuation rule changes for shared risk plans, enabling more efficient costing processes. • Evaluated long-term direction for pension and benefit administration system, including demonstrations of possible replacement systems capable of delivering enhanced processing. • Began research into available financial reporting tools that would work in conjunction with the administration and portfolio management systems to deliver timely and accurate client reporting. • Exceeded systems availability performance targets.

Long-Term Incentive Plan (LTIP) Overview

The LTIP component is $2,353.3 (thousand) for the year ended December 31, 2017. This component is based on long-term annualized net investment results in excess of the total fund performance benchmark.

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 value added results used to determine the four-year annualized LTIP result is as follows:

	Net Value Added (bps)	Percentage of Target (%)
Year ended March 31, 2015	45.6	111.0
Year ended March 31, 2016	107.5	298.4
Nine Months ended December 31, 2016	76.8	282.9
Year ended December 31, 2017	89.3	243.4
Annualized Long-Term (Four Fiscal Periods)	86.6	250.7*

** as permitted under the Incentive Plan, maximum is capped at two times target.*

Directors' Remuneration

Directors' remuneration is established in Vestcor's By-Laws. 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, travel, and other out-of-pocket expenses.

Director	Annual Retainer $	Board and Committee Meeting Per Diems $	Total Remuneration $	Travel Reimbursement $
Michael Walton, Chair of Board of Directors	25,000	15,000	40,000	6,221
Michel Allain	10,000	7,700	17,700	1,945
Wiktor Askanas, Vice Chair of Board of Directors, Chair of Human Resources & Compensation Committee	15,000	8,400	23,400	—
Donna Bovolaneas, Chair of Governance Committee	15,000	17,600	32,600	3,434
David Losier	10,000	11,200	21,200	2,944
Eleanor Marshall	10,000	7,350	17,350	1,200
Tim Mawhinney	10,000	6,300	16,300	741
Daniel Murray	10,000	6,650	16,650	22
Cathy Rignanesi, Chair of Audit Committee	15,000	12,000	27,000	1,949
Nancy Whipp	10,000	9,800	19,800	2,675

The total cost of the combined Vestcor Board function for VIMC and VSPC meetings, including per diems, director orientation and Board education, for the year ended December 31, 2017 was $253.3 thousand (December 31, 2016 – $104.9 thousand) plus travel and accommodation reimbursements of $21.1 thousand (December 31, 2016 – $12.8 thousand). Note that the comparative period ending December 31, 2016 consists of a nine month period for VIMC and a three month period for VPSC.

CORPORATE GOVERNANCE

Under the *Vestcor Act* each Vestcor operating entity (VIMC and VPSC) was established 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 named Vestcor Corp. Each entity operates on a commercial basis using sound business practices and, as was noted earlier, each was amalgamated into Vestcor Inc. on January 1, 2018.

The inaugural Board of Directors for each operating entity was appointed by Vestcor Corp, after a skills matrix was developed by an Ad Hoc Nominating Committee formed to ensure an appropriate diversity of Board experience and skills. A professional executive search firm was engaged to assist the Committee in the solicitation and evaluation of interested applicants against this skills matrix. Upon the final recommendation of the Committee, ten highly qualified independent directors were appointed to serve on the Board. It is also important to note that the Board for each operating company comprised the same directors, each of who now serve as Directors in the newly integrated Vestcor Inc.

The *Act*, a Members' Agreement and the corporate by-laws set out the duties and responsibilities of the Board of Directors.

A primary consideration of the Board is to oversee Vestcor's activities as a pension and benefits administrator and as investment manager for the funds under management. The Board ensures that all of 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 **www.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	6/7	3/4	5/5	4/5
Michel Allain	7/7	n/a	n/a	5/5
Wiktor Askanas	7/7	n/a	n/a	5/5
Donna Bovolaneas	7/7	4/4	5/5	5/5
David Losier	7/7	4/4	5/5	n/a
Eleanor Marshall	7/7	4/4	n/a	n/a
Tim Mawhinney	7/7	n/a	n/a	5/5
Daniel Murray	7/7	4/4	n/a	n/a
Cathy Rignanesi	7/7	4/4	5/5	n/a
Nancy Whipp	7/7	n/a	4/5	4/5

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.

Board Decisions

Major decisions made by the Vestcor Board during the year ended December 31, 2017, in addition to the matters referred to it by the Board Committees *(see Committee reports following)* included:

- Recommended to the shareholder the reappointment of M. Allain, T. Mawhinney and N. Whipp as directors of Vestcor Inc. for an additional term of three years, which was approved;
- Approval of appointment of J. Sinclair as President and Chief Executive Officer of VIMC and VPSC;
- Approval of the Communication Plan regarding the President and CEO appointment;
- Approval of the Position Description for the role of Vestcor President and CEO;
- Approval of the creation of an Ad-Hoc Committee to review the President and CEO's employment contract that expires in June 2018;
- Approval of the appointment of J. Spinney as Chief Investment Officer of VIMC;
- Approval of the appointment of T. Mann as Chief Pensions and Benefits Operations Officer of VPSC;
- Pursuant to New Brunswick Securities Act regulations, approved the initial appointment of M. Hawker as Chief Compliance Officer for VIMC and, upon her retirement, approval of the appointment of B. Henry as Chief Compliance Officer;
- Approval of a new Vestcor Strategic Plan for 2017 – 2022 with specific emphasis on corporate integration and future amalgamation;
- Approval of the 2017 Annual Business Plan and weightings for Incentive Plan purposes;
- Approval of a name change for eight of the Vestcor Investment Entities;
- Approval of the creation of nine new Unit Trust Funds pursuant to the Trust Declaration;

- Facilitation of the future Vestcor integration and succession planning strategy, approval of a new Portfolio Manager position as part of the Quantitative Investing and Applied Research Team;
- Approval of an amendment to the investment profile for the Vestcor Investments Private Real Estate, L.P.;
- Approval of the creation of a new limited partnership, the Vestcor Investments Private Real Estate 2, L.P.;
- Approval of new banking authorities for VPSC and VIMC and management's recommendation to open a new Pound Sterling bank account to facilitate private market investments in that currency;
- Review of the 2018 Budget for operating expenses and capital expenditures and recommendation for approval by the shareholder;
- Approval of revisions to the Investment Authorities including the daily blotter and settlement limits and trading transaction limits;
- Received a report on future office space requirements for the integrated organization and approved the concept of moving forward with a project plan;
- Approval of the decision to amalgamate VIMC and VPSC and continue business as Vestcor Inc. effective January 1, 2018; and
- Approval of a Restated and Amended Members Agreement between the NBPSPP, NBTPP, Vestcor Corp. and Vestcor Inc. effective January 1, 2018.

Board Committee Reports

The following highlights of the Board Committee Reports include the combined activities of VIMC and VPSC for the year ended December 31, 2017.

Report of the Audit Committee

The Audit Committee oversees the financial affairs of VPSC, VIMC and the funds under management, including the selection of accounting policies to be followed in the preparation of financial statements, the systems of internal control, information systems used to produce accurate, appropriate and timely management and financial information, strategies to identify and mitigate financial risks, and the relationships with the external and internal auditors.

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.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2017:

Financial Statements and Other Statements	• Reviewed the Schedules of Composite Performance in accordance with Global Investment Performance Standards for the year ended December 31, 2017 for the: o NBPSPP Composite; o NBTPP Composite o Provincial Court Judges' Composite; o NBSD Composite; o CBE Hospitals Composite; o Low Volatility Global Equity Composite; and recommended their approval by the Board; • Reviewed the Schedule of Composite Performance in accordance with Global Investment Performance Standards for the year ended March 31, 2017 for the Environmental Reclamation Fund Composite and recommended its approval by the VIMC Board; • Reviewed the Schedule of Composite Performance in accordance with Global Investment Performance Standards for the year ended June 30, 2017 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, 2017 and recommended their approval by the Board; • Reviewed the audited combined financial statements for VIMC and VPSC for the year ended December 31, 2017 and recommended their approval by the Board; • Reviewed the draft Vestcor (combined) Annual Report material for the year ended December 31, 2017 and recommended its approval by the Board; • Reviewed the draft press release announcing the publication of the Vestcor (combined) Annual Report for the year ended December 31, 2017; • Reviewed quarterly unaudited financial statements for the Vestcor Investment Entities, VIMC and VPSC together with management's certifications regarding changes in accounting policies, significant accounting estimates, errors if any, material weaknesses in internal controls over financial reporting if any, fraud or illegal acts if any and subsequent events; • Received the audited financial statements for the nine months ended December 31, 2016 for a wholly-owned subsidiary of the NBIMC Canadian Real Estate Fund; • Received a quarterly memorandum concerning future financial reporting matters to be considered by the Committee; • Completed the annual review of the Valuation Policies for investment securities; • Reviewed and approved management's recommendation for private market investment valuation procedures.

Internal Control and Information Systems	• Monitored the status of management's remediation efforts to address internal control findings from external auditors. • Reviewed a Project Scope Statement for a review of VPSC's Administration System and recommended it to the Board for approval; • Monitored management's key performance indicators related to timely resolution of all external and internal audit recommendations; • Reviewed the 2017 Internal Control Report prepared by management outlining VIMC's major processes, risks and key controls and approved its release to clients and client auditors; • Received an update to the Vestcor Five-Year IT Strategic Plan.
Risk Management	• Completed an annual review of the Enterprise Risk Management Framework and recommended for approval by the Board revisions to integrate VPSC's operations into this framework; • Reviewed a quarterly risk coverage chart highlighting independent reviews of risk areas in order to ensure appropriate focus on key risks; • Reviewed a quarterly risk matrix showing trends in key risk areas; • Reviewed management's findings from VIMC's 2017 fraud risk assessment; • Reviewed a listing of the major suppliers for each of VIMC and VPSC; • Considered and recommended for approval staffing changes, including hiring of an additional Investment Accountant and an Internal Audit Manager
Internal Audit	• Approved the outsourced Internal Auditor's plan, engagement letter and budget for 2018; • Received the Internal Auditor's recommendations and management's responses for the following internal audits: (i) Expenses and Disbursements; (ii) External Client Reporting; and (iii) VPSC's processes for GST/HST; • Approved the Internal Auditor's plan for a financial reporting software review; • Reviewed the September 2017 Follow-Up Report from the Internal Auditor concerning management's responses to previous internal audit recommendations; • 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 VIMC and VPSC combined financial statements for the year ended December 31, 2017, and the Vestcor Investment Entities' financial statements for the year ended December 31, 2017; • Pre-approved all non-audit, tax or 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 External Auditor's Audit Findings Report for the year ended December 31, 2017 and obtained confirmation of the External Auditor's independence; • Met in camera quarterly with the External Auditor.

Committee Objectives	• Completed a review of the Committee's terms of reference, accomplishments for the year ended December 31, 2017 and set objectives for 2018.
Other	• Reviewed revisions to the Committee's Terms of Reference for VIMC and VPSC and recommended them for approval by the Governance Committee and the Board; • Received quarterly reporting of legal and regulatory compliance; • Received a quarterly status report of class action litigation in which VIMC has participated as a claimant pursuant to their Responsible Investment Guidelines; • Reviewed and approved the insurance coverage of significant business risks and uncertainties.

This report has been approved by the members of the Audit Committee.
C. Rignanesi (Chair), E. Marshall, D. Murray, D. Bovolaneas, D. Losier, M. Walton (ex officio).

Report of the Governance Committee

The Governance Committee reviews the terms of reference for the VPSC and VIMC Board and each Board committee, all Board policies and the Nomination Guidelines for new directors to ensure that they continue to meet evolving corporate governance best practices. They also oversee the Director Orientation and Education programs and the Code of Ethics and Business Conduct. A Board self-assessment process is facilitated by the Governance Committee.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ending December 31, 2017:

Governance Documents and Initiatives	• Conducted a review and recommended to the Board for approval revisions to: o Terms of Reference for the Board of Directors for VIMC and VPSC and for each of the Governance, Audit and Human Resources and Compensation Committees, o Nomination Guidelines, o Orientation and Education Policy, o Board Operations Policy, o Corporate Information Confidentiality Policy, and o Travel Policy; • Received a document comparing the decision-making authorities for Vestcor, its shareholder Vestcor Corp., the shareholder's Members and Vestcor's clients to be used to ensure appropriate approvals are followed; • Recommended for approval by the Board revisions to the Terms of Reference for the Board and each of its Committees to reflect the pending amalgamation of VIMC and VPSC effective January 1, 2018; • Reviewed the draft Corporate Governance disclosure for the 2017 Vestcor 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; • Reviewed and recommended to the Board for approval the Private Markets Restricted Security Protocol and revisions to the restricted securities section of the Code of Ethics and Business Conduct; • Received each quarter a status report of compliance by staff with the Code of Ethics and Business Conduct; • Recommended for approval by the Board revisions to the Code of Ethics and Business Conduct to reflect the pending amalgamation of VIMC and VPSC effective January 1, 2018.
Board and Committee Meetings	• Reviewed a proposal to use a Consent Agenda to improve Board and Committee meeting efficiency;

Board and Committee Meetings	• Recommended for approval by the Board an annual work plan for the Board and Committees.
Director Nominations	• Conducted a review of the director skills assessment matrix; • Recommended to the Board, subject to approval by the shareholder, the reappointment of M. Allain, T. Mawhinney and N. Whipp as directors of VIMC and VPSC for an additional term of three years.
Directors' Compensation	• Reviewed the Directors Compensation Policy and made a recommendation to the Board for approval that attendance at joint VIMC / VPSC Board and Committee meetings be compensated as one meeting with the exception, due to the amount of effort and meeting material, two meeting per diems be paid for joint Audit Committee meetings and that one day travel per diem be paid if any overnight accommodation is utilized to attend a meeting; • Reviewed a Report of Directors' Compensation and Expenses for the year ended December 31, 2017.
Director Orientation and Education	• Developed a list of educational topics of interest to directors that could be presented in advance of Board meetings.
Board Effectiveness	• Reviewed the Board's accomplishments for the year ended December 31, 2017 and discussed objectives for 2018.
Committee Appointments	• Reviewed Committee membership and recommended appointments to each Committee.
Board Independence	• Reviewed Board independence.
By-laws and Board Policies	• Reviewed and recommended to the Board for approval Board Policies as noted under Governance Documents above.
Communications and Public Policy	• Reviewed and recommended to the Board for approval a new Vestcor Strategic Communications Plan.
Risk Management	• Received quarterly updates on the status of outstanding litigation.
Committee Objectives	• Reviewed the Governance Committee's accomplishments for the year ending December 31, 2017 and discussed objectives for 2018.
Other	• Received an update on the status of integration of the VIMC and VPSC senior management teams, and the shared services of the Finance, Administration and Information Technology teams.

This report has been approved by the members of the Governance Committee.
D. Bovolaneas (Chair), D. Losier, N. Whipp, C. Rignanesi, M. Walton (ex officio).

Report of the Human Resources & Compensation Committee

The Human Resources and Compensation Committee conducts an annual performance appraisal for the President and CEO. It also oversees changes to the Compensation Philosophy, compensation and benefits, incentive plans and organizational structure as well as monitors management's compliance with employment-related regulatory and legislative matters.

The Committee assesses its effectiveness annually to ensure that it has fulfilled its responsibilities as set out in its Terms of Reference.

In accordance with its Terms of Reference, the Committee accomplished, among other things, the following in or relating to the year ended December 31, 2017:

Evaluation of the CEO	• Conducted the annual performance review for the President and CEO; • Reviewed and approved the performance of the President and CEO against the business plan targets for the year ended December 31, 2017.
Compensation and Employee Benefits	• Reviewed and approved a recommendation for a salary adjustment for the Acting CEO of VPSC; • Recommended for approval by the Board a decision to undertake an executive compensation review for certain officers and subsequently, reviewed and approved a salary range adjustment to be phased in over the next two years; • Recommended for approval by the Board a decision to conduct a complete Compensation Review for the administration positions of the combined organization in 2017; • Reviewed and approved revisions to the Vestcor Compensation Philosophy; • Reviewed and approved the recommendations from the Administration Position Compensation Review including revisions to the Incentive Plan to extend the annual incentive award program for individual achievement to all employees commencing in the 2018 fiscal year; • Reviewed the individual business plan success weightings of the Business Plan for the year ended December 31, 2017 and recommended their approval by the Board; • Reviewed a comparison of Value Added Targets against peers; • Reviewed corporate results for the year ended December 31, 2017 versus the Business Plan and recommended approval by the Board of the individual incentive performance award; • Reviewed and recommended to the Board the overall Incentive Compensation Pool for the year ended December 31, 2017.
Severance	• N/A – No severances in 2017
Code of Business Conduct and Ethics	• N/A – No concerns referred by the Governance Committee occurred in 2017.

Organizational Structure	• Recommended for approval by the Board the addition of a full-time equivalent position for Investment Accountant, Corporate Controller, Private Markets Analyst, and Quantitative Investing and Applied Research Analyst. • Discussed management's recommendation to implement a co-op work term program. It is expected that this program will create rotating positions for co-op students in the Finance and IT areas equivalent to four full-time positions; • Received updated integrated organizational charts for combined entity.
Leadership Development and Succession	• Reviewed the Succession Plans for the President and CEO and senior management positions and recommended approval by the Board.
Human Resources Planning and Policies	• Reviewed the 2017-2018 Human Resources Strategic Plan and recommended its approval by the Board.
Compliance Monitoring	• Received quarterly certification from management as to regulatory compliance with various legislative requirements.
Risk Management	• 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 Business and recommended changes to the Governance Committee and Board for approval; • Set the Committee's objectives for the year ended December 31, 2017 and reviewed subsequent achievements.
Other	• Reviewed the draft Compensation Discussion and Analysis section of the Vestcor 2017 Annual Report and recommended its approval by the Board.

This report has been approved by the members of the Human Resources & Compensation Committee.
W. Askanas (Chair), M. Allain, T. Mawhinney, N. Whipp, D. Bovolaneas, M. Walton (ex officio).

RESPONSIBLE INVESTING GUIDELINES

The responsible investment actions of investment managers continue to increasingly be a focus of investors, governments, regulators, and various third party interest groups.

While our fiduciary responsibilities and relatively limited organizational footprint restrict our ability to provide exclusionary screens or divestment options, Vestcor has been a very active long-term member / partner in a number of 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 (**https://www.piacweb.org**) and the Canadian Coalition for Good Governance (**http://www.ccgg.ca**). Each of these organizations has successful active 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 detail can be found in our Responsible Investment Guidelines under the Investments tab on our website at **www.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 a number of relationships in which management has actively participated in this type of capacity during the fiscal year:

- Association of Canadian Pension Management (ACPM)
- Beaverbrook Art Gallery Investment Committee
- 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
- Pension Investment Association of Canada (PIAC)
- S&P/TSX Canada Index Committee
- Université de Moncton – Comité de placements
- University of New Brunswick Investment Committee

EMPLOYEE ACTIVITY IN OUR COMMUNITY

Vestcor management and staff 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 staff once again exceeded their target contribution level for the annual corporate United Way campaign. Staff also continued to organize a number of successful fundraising activities for local charities, and 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, 2017 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	2.59	2.02	2.58	4.31	3.08	4.69	5.40
Benchmark	2.18	1.54	2.30	4.00	2.77	4.34	5.22
NBIMC Corporate Bond Fund	2.93	3.42	3.22	4.38	3.63		4.19
Benchmark	3.38	3.55	3.27	4.33	3.63		4.05
NBIMC Global Fixed Income Fund	2.64						2.24[2]
Benchmark	2.60						1.64
NBP Canadian Long-Term Bond Fund	9.80	6.19	5.20	6.84			6.97
Benchmark	9.80	6.19	5.37	7.23			7.37
NBIMC New Brunswick Fixed Income Opportunity Fund	3.46	2.81	3.56	5.09	3.67	5.17	6.39
Benchmark	2.18	1.54	2.30	4.00	2.77	4.34	5.22
NBIMC Money Market Fund	1.11	1.08	1.04	1.11	1.17	1.46	2.72
Benchmark	0.56	0.54	0.57	0.66	0.73	1.01	2.38
NBIMC Student Investment Fund	6.59	8.46	4.72	6.10	6.13	5.07	7.03
Benchmark	5.93	8.40	4.83	6.23	6.10	4.69	6.84
NBIMC Canadian Equity Index Fund	9.37	15.42	6.97	8.27	9.33	5.07	6.97
Benchmark	9.10	14.93	6.59	7.57	8.63	4.65	6.55
NBIMC Low Volatility Canadian Equity Fund	10.08	13.36	7.30	10.60	11.52		11.52
Benchmark[3]	7.77	12.56	6.91	9.23	9.25		9.25
NBIMC External Canadian Equity Fund	9.18	13.47	7.27	8.20	9.76	5.73	10.63
Benchmark	9.10	14.93	6.59	7.57	8.63	4.65	9.58
NBIMC Canadian Equity Active Long Strategy Fund	9.24	13.21	4.67	6.58	7.93	4.04	3.86
Benchmark	9.10	14.93	6.59	7.57	8.63	4.65	4.42
NBIMC External International Equity Fund	21.03	8.50	13.34	11.71	16.26	5.30	6.87
Benchmark	16.82	6.73	10.66	8.87	12.97	3.41	5.10

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
NBIMC EAFE Equity Index Fund	17.29	6.98	11.25				11.25
Benchmark	16.82	6.73	11.03				11.03
NBIMC EAFE Equity Index Fund – Class N	17.10	7.01	10.94	9.12	13.18		5.44
Benchmark	16.82	6.73	10.66	8.87	12.97		5.10
NBIMC Low Volatility International Equity Fund	14.29	5.87	12.79				12.79
Benchmark[3]	13.63	3.79	11.72				11.72
NBIMC Low Volatility International Equity Fund – Class N	14.32	5.80	12.68	12.20	14.75		14.50
Benchmark[3]	13.63	3.79	11.72	10.68	14.48		14.03
NBIMC Low Volatility Emerging Markets Equity Fund – Class N	17.85	10.89					5.64
Benchmark	18.40	8.98					4.57
NBIMC U.S. Equity Index (2017) Fund							4.22[2]
Benchmark							4.19
NBIMC U.S. Equity Index Fund – Class N	13.69	11.14	14.35	16.64	21.20		12.00
Benchmark	13.30	10.92	14.18	16.56	21.17		12.05
NBIMC Low Volatility U.S. Equity (2017) Fund							(0.25)[2]
Benchmark							1.05
NBIMC Low Volatility U.S. Equity Fund – Class N	6.63	7.83	13.74	17.17	20.62		18.94
Benchmark[3]	10.49	8.51	13.80	17.06	21.59		19.66
NBIMC Inflation Linked Securities Fund	0.93	1.92	2.29	4.89	1.08	5.15	7.04
Benchmark	0.72	1.79	2.12	4.78	0.94	5.00	6.86
NBIMC Canadian Real Estate Fund	15.18	12.73	11.92	11.15	9.70	8.70	11.95
Benchmark	5.46	5.38	5.46	5.42	4.27	5.50	5.69
NBIMC Canadian Real Estate Investment Trust Fund	10.83	13.86	7.40	8.18			8.18
Benchmark	9.85	13.67	7.21	7.98			7.98
NBIMC Non-Canadian Private Real Estate Fund	20.96	9.81					5.34
Benchmark	5.46	5.38					5.31

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
Vestcor Investments Private Real Estate, L.P.							3.65[2]
Benchmark							4.52
NBIMC International Real Estate (2017) Fund							(3.24)[2]
Benchmark							(3.31)
NBIMC International Real Estate Fund – Class N	0.32	2.72	9.07	16.53	15.03	10.03	10.03
Benchmark	0.49	2.91	9.11	16.06	14.81	9.82	9.93
NBIMC Public Infrastructure (2017) Fund							(2.80)[2]
Benchmark							3.15
NBIMC Public Infrastructure Fund – Class N	3.60	5.35					2.86
Benchmark	5.46	5.38					5.41
NBIMC Infrastructure Fund	14.72	11.67	10.56	9.07	8.01		8.58
Benchmark	5.46	5.38	5.46	5.42	5.36		5.60
Vestcor Investments Infrastructure, L. P.							10.41[2]
Benchmark							4.08
NBIMC North American Market Neutral (2017) Fund							0.80[2]
Benchmark							0.37
NBIMC North American Market Neutral Fund – Class N	4.27	4.01	2.69	1.64	2.72	0.39	2.17
Benchmark	0.56	0.54	0.57	0.66	0.73	1.01	1.72
NBIMC Quantitative Strategies (2017) Fund							5.21[2]
Benchmark							0.37
NBIMC Quantitative Strategies Fund – Class N	6.16	5.80	5.50	6.04	6.13		4.38
Benchmark	0.56	0.54	0.57	0.66	0.73		0.91
NBIMC Quantitative Strategic Beta (2017) Fund							3.44[2]
Benchmark							0.37
NBIMC Quantitative Strategic Beta Fund – Class N[2]	4.81						5.57
Benchmark	0.56						0.53

Entity	1 Yr %	2 Yrs %	3 Yrs %	4 Yrs %	5 Yrs %	10 Yrs %	Since Inception[1] %
NBIMC New Brunswick and Atlantic Canada Equity Opportunity Fund	27.18	16.11	11.91	8.11	8.24	21.84	10.48
Benchmark	5.46	5.38	5.46	5.42	5.36	5.62	6.91
NBIMC Private Equity Fund	18.32	12.23	17.75	18.29	18.47	10.07	10.32
Benchmark	14.66	9.17	11.65	11.59	15.77	6.54	8.08
Vestcor Investments Private Equity, L. P.							(21.64)[2]
Benchmark							3.40

[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] *These entities were implemented during the current fiscal year.*

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

VESTCOR COMBINED FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The following annual combined financial statements report the financial position and results of operations of the combined operations of Vestcor Investment Management Corporation and Vestcor Pension Services Corporation (collectively "Vestcor") for the year ended December 31, 2017. They have been prepared by management and approved by the Board of Directors.

Management prepared Vestcor's combined financial statements in accordance with CPA Handbook Part III - *Accounting Standards for Not-for-Profit Organizations*. The combined 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 combined 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 combined 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 combined 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 combined financial statements, are directly accountable to the Audit Committee. They have conducted an independent examination of the combined financial statements in accordance with Canadian generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express an opinion to the Board of Directors.

John A. Sinclair
President and Chief Executive Officer

Jan Imeson, CPA, CA
Chief Financial Officer

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INDEPENDENT AUDITORS' REPORT

To the Shareholder of Vestcor Investment Management Corporation and Vestcor Pension Services Corporation

We have audited the accompanying combined financial statements of Vestcor Investment Management Corporation and Vestcor Pension Services Corporation (Vestcor), which comprise the combined statement of financial position as at December 31, 2017, the combined statements of operations and changes in net assets and cash flow for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the combined financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of Vestcor as at December 31, 2017 and its combined results of operations and its combined cash flow for the year then ended, in accordance with Canadian accounting standards for not-for-profit organizations.

Comparative information

The combined financial statements of Vestcor as at and for the period ended December 31, 2016 are unaudited. Accordingly, we do not express an opinion on them.

KPMG LLP

Chartered Professional Accountants
Fredericton, Canada
April 3, 2018

VESTCOR
Combined Statement of Financial Position
(in thousands of Canadian dollars)

		December 31, 2017		December 31, 2016 *(unaudited)*
ASSETS				
Current				
Cash	$	666	$	687
Accounts receivable *(note 9)*		6,660		6,633
Other receivables		16		162
Prepaid expenses		359		738
Total current assets		7,701		8,220
Long-term accounts recoverable		349		358
Capital assets *(note 3)*		663		380
	$	8,713	$	8,958
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities *(note 4)*	$	7,673		8,192
Current portion of supplemental pension *(note 5)*		26	$	26
Total current liabilities		7,699		8,218
Supplemental pension *(note 5)*		349		358
Deferred contributions related to capital assets *(note 6)*		663		380
Total liabilities		8,711		8,956
Unrestricted net assets		2		2
	$	8,713	$	8,958

See accompanying notes to financial statements
Contractual obligations and contingencies *(note 8)*
Subsequent event *(note 12)*

Approved on behalf of the Board:

Michael W. Walton
Chairman of the Board

Cathy Rignanesi
Chair of the Audit Committee

VESTCOR
Combined Statement of Operations and Change in Net Assets
(in thousands of Canadian dollars)

		December 31, 2017		October 1, to December 31, 2016 *(unaudited)*
REVENUE				
Investment management fees *(note 9)*	$	18,306	$	5,397
Pension administration fees *(note 9)*		7,481		1,828
Benefits administration fees		1,307		349
Amortization of deferred contributions related to capital assets		242		53
Other		11		—
Total revenue		27,347		7,627
EXPENSES				
Salaries and benefits		16,321		4,830
Information systems		4,291		1,120
External investment management		2,770		718
Securities custody		1,331		289
Office and business		1,151		330
Professional services		568		120
Office rent		673		167
Amortization of capital assets		242		53
Total expenses		27,347		7,627
Excess of revenue over expenses		—		—
Unrestricted net assets, beginning of period		2		2
UNRESTRICTED NET ASSETS, end of period	$	2	$	2

See accompanying notes to financial statements

VESTCOR
Combined Statement of Cash Flow
(in thousands of Canadian dollars)

		December 31, 2017		October 1, to December 31, 2016 *(unaudited)*
OPERATING ACTIVITIES				
Excess of revenue over expenses	$	—	$	—
Non-cash items:				
Amortization of capital assets		242		53
Amortization of deferred contributions related to capital assets		(242)		(53)
Supplemental pension		17		4
Changes in non-cash operating working capital:				
Increase in accounts receivable		(18)		(4,970)
Decrease (increase)in other receivables		146		(159)
Increase (decrease) in prepaid expenses		379		(379)
(Decrease) increase in accounts payable and accrued liabilities		(519)		6,077
Net cash provided by operating activities		5		573
INVESTING ACTIVITIES				
Purchases of capital assets		(525)		(11)
Deferred contributions related to capital assets		525		11
Net cash provided by investing activities		—		—
FINANCING ACTIVITY				
Payment of supplemental pension		(26)		(6)
Net cash used in financing activity		(26)		(6)
(DECREASE) INCREASE IN CASH DURING PERIOD		(21)		567
Cash, beginning of period		687		120
CASH, END OF PERIOD	$	666	$	687

See accompanying notes to financial statements

1. Nature of Operations

The *Vestcor Act,* which was proclaimed on July 8, 2016, created Vestcor Corp. to serve as a shareholder for two not-for-profit operating entities, Vestcor Investment Management Corporation ("VIMC") and Vestcor Pension Services Corporation ("VPSC") (combined, "Vestcor"). 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 combined financial statements present the combined operations of VIMC and VPSC for the year ended December 31, 2017 with unaudited comparative figures for the period from October 1, 2016, the date ownership was transferred to Vestcor Corp., to December 31, 2016. 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) Principles of combination

These combined financial statements include the accounts of VIMC and VPSC. All intercompany transactions have been eliminated on combination.

(c) 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.

(d) 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 it's carrying amount is written down to its residual value. Capital assets are amortized over their estimated useful lives, calculated on a straight-line basis, using the following rates:

Computer equipment	- 3 years
Furniture and equipment	- 12.5 years
Leasehold improvements	- over the remaining lease term

2. Significant Accounting Policies *(continued)*

(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 combined 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 combined 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 5).*

(in thousands of Canadian dollars)

3. Capital Assets

	Computer equipment	Furniture and equipment	Leasehold improvements	2017 Total
Cost				
Opening balance	$ 1,479	$ 472	$ 447	$ 2,398
Purchases	433	49	43	525
Closing balance	1,912	521	490	2,923
Accumulated amortization				
Opening balance	1,269	374	375	2,018
Amortization expense	209	14	19	242
Closing balance	1,478	388	394	2,260
Net book value	$ 434	$ 133	$ 96	$ 663

	Computer equipment	Furniture and equipment	Leasehold improvements	2016 Total *(unaudited)*
Cost				
Opening balance	$ 1,471	$ 470	$ 446	$ 2,387
Purchases	8	2	1	11
Closing balance	1,479	472	447	2,398
Accumulated amortization				
Opening balance	1,222	371	372	1,965
Amortization expense	47	3	3	53
Closing balance	1,269	374	375	2,018
Net book value	$ 210	$ 98	$ 72	$ 380

4. Government Remittances

Included in accounts payable and accrued liabilities in the Statement of Financial Position are government remittances at December 31, 2017 of $269 (2016 – $396 *(unaudited)*) which include amounts payable for GST/HST and payroll-related taxes.

5. Supplemental Pension

Vestcor has an estimated liability of $375 (2016 - $384 *(unaudited)*) 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 March 31, 2015 and extrapolated to December 31, 2016 and December 31, 2017. 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.

(in thousands of Canadian dollars)

6. Deferred Contributions Related to Capital Assets

The balance of unamortized deferred contributions consists of the following:

		2017		2016 *(unaudited)*
Balance, beginning of period	$	380	$	422
Additional contributions received, net		525		11
Less amounts amortized to revenue		(242)		(53)
Balance, end of period	$	663	$	380

7. Employee Future Benefits

Vestcor is a participating employer in the NBPSPP. For the year ended December 31, 2017, Vestcor expensed contributions of $1,104 (three months to December 31, 2016 – $266 *(unaudited)*) 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, 2017, Vestcor expensed contributions of $120 (three months ended December 31, 2016 – $35 *(unaudited)*) under the terms of the RCA.

8. 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.

The lease contains two possible early termination clauses which would result in a retroactive increase to the minimum lease payments made to reflect the shorter lease term. Early termination would also trigger repayment of the unamortized balance of the lease inducement.

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

9. 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, 2017, Vestcor billed $11,670 and $8,080 to the NBPSPP and NBTPP respectively (three months to December 31, 2016 – $3,365 *(unaudited)* and $2,282 *(unaudited)* respectively) for these services, which are included in investment management and pension administration fees in the Statement of Operations. At December 31, 2017, NBPSPP and NBTPP owed Vestcor $3,112 and $2,230 (2016 - $2,888 *(unaudited)* and $2,075 *(unaudited)*) respectively for such fees. These amounts are included in accounts receivable.

9. Related Party Transactions and Balances *(continued)*

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

10. 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.

On January 20, 2016 Vestcor was served notice that a notice of action and statement of claim was filed in the New Brunswick Court of Queen's Bench on December 30, 2015 naming Vestcor and the Province of New Brunswick, the New Brunswick Union of Public And Private Employees, the New Brunswick Nurses Union, Local 37 of the International Brotherhood of Electrical Workers and the Board of Trustees of the NBPSPP, as defendants. The claim arises out of the restructuring of the NBPSPP as a shared risk plan. Vestcor had only a limited role in that restructuring and did so pursuant to a direction and indemnity provided by the Province of New Brunswick. The Province is defending Vestcor in this matter pursuant to its obligation under that indemnity.

11. Financial Risk

Vestcor has exposure to credit 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.

12. Subsequent Event

On January 1, 2018 VIMC and VPSC were amalgamated and carry on business as Vestcor Inc.