QUARTERLY MARKET UPDATE

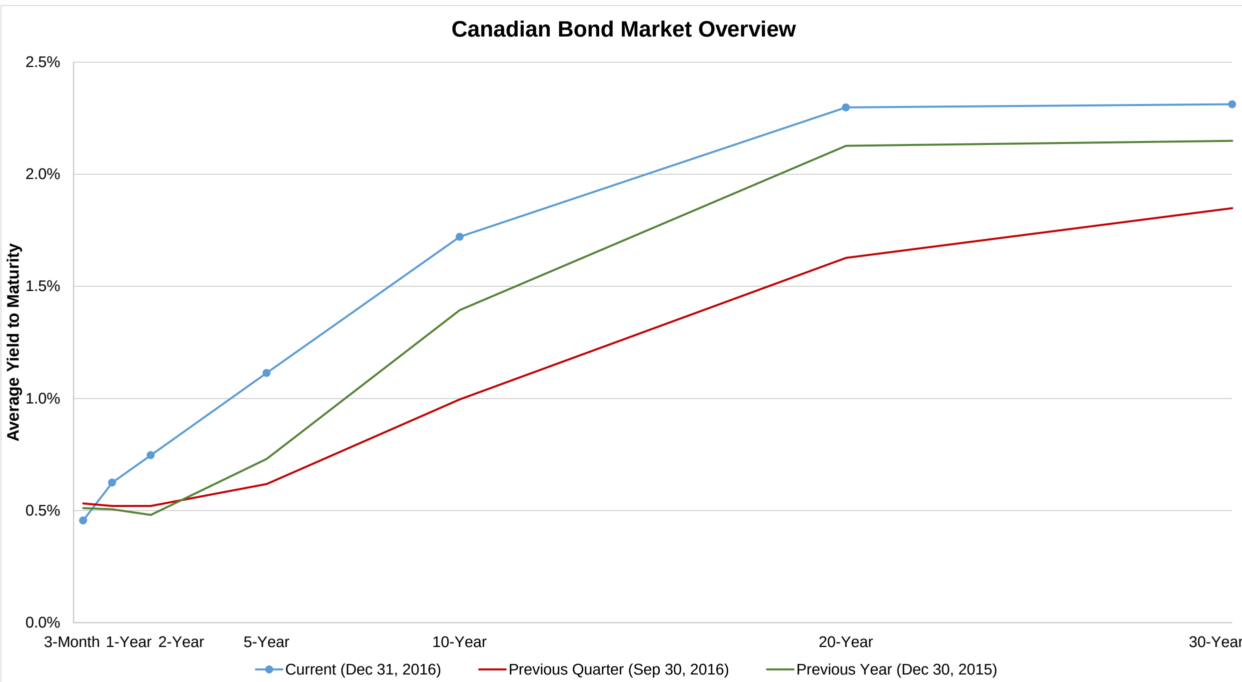
AS AT DECEMBER 31, 2016

SOCIÉTÉ DE GESTION DES PLACEMENTS VESTCOR INVESTMENT MANAGEMENT CORPORATION

Performance Overview

- Total returns in the most recent quarter were quite differentiated across the various asset classes, as fixed income reversed strongly on the back of yield increases, while equities proved strong in the weeks following the recent U.S. federal election.

- Bond yields reversed the long run declining trend and moved higher in the quarter, particularly in longer dated maturities, thus negatively effecting fixed income investors. Canadian sovereign 10-year yields finished the quarter approximately 75 basis points (bps) higher than at September 30:

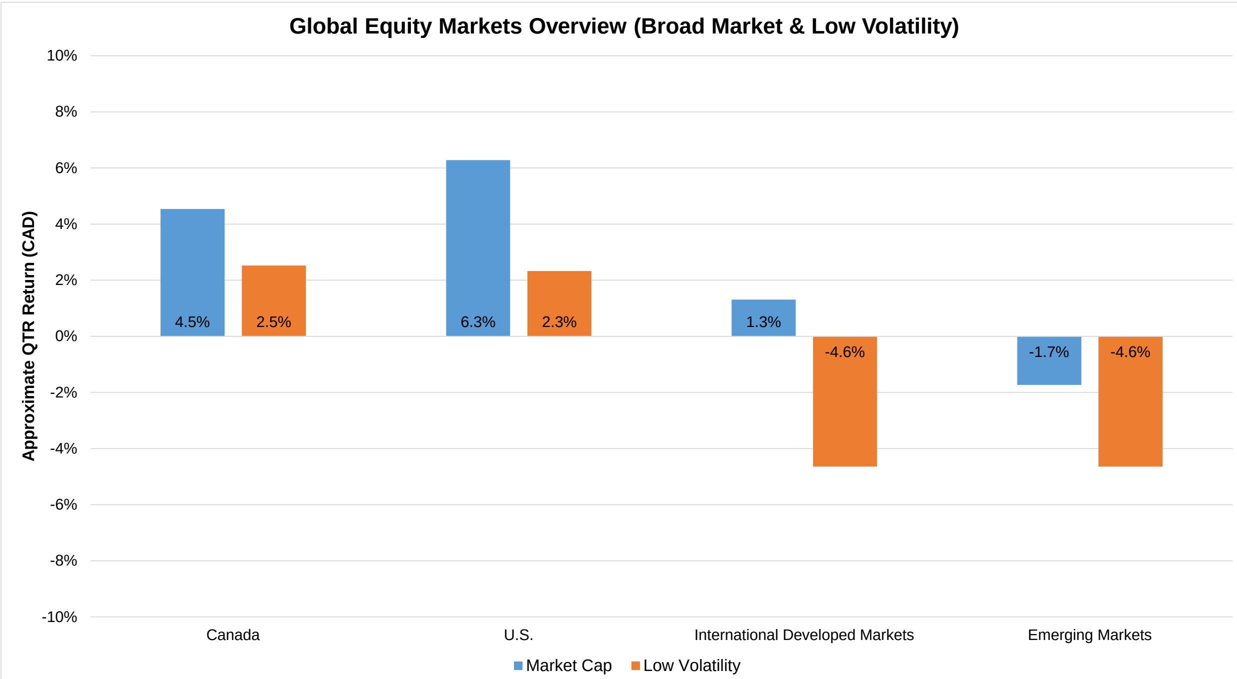


  - Despite the strong move higher in Canadian yields, U.S. yields in fact had a more dramatic response to the recent U.S. election, as U.S. 10-year yields actually gained 85bps from September 30 to December 30, to close the year at 2.44%.

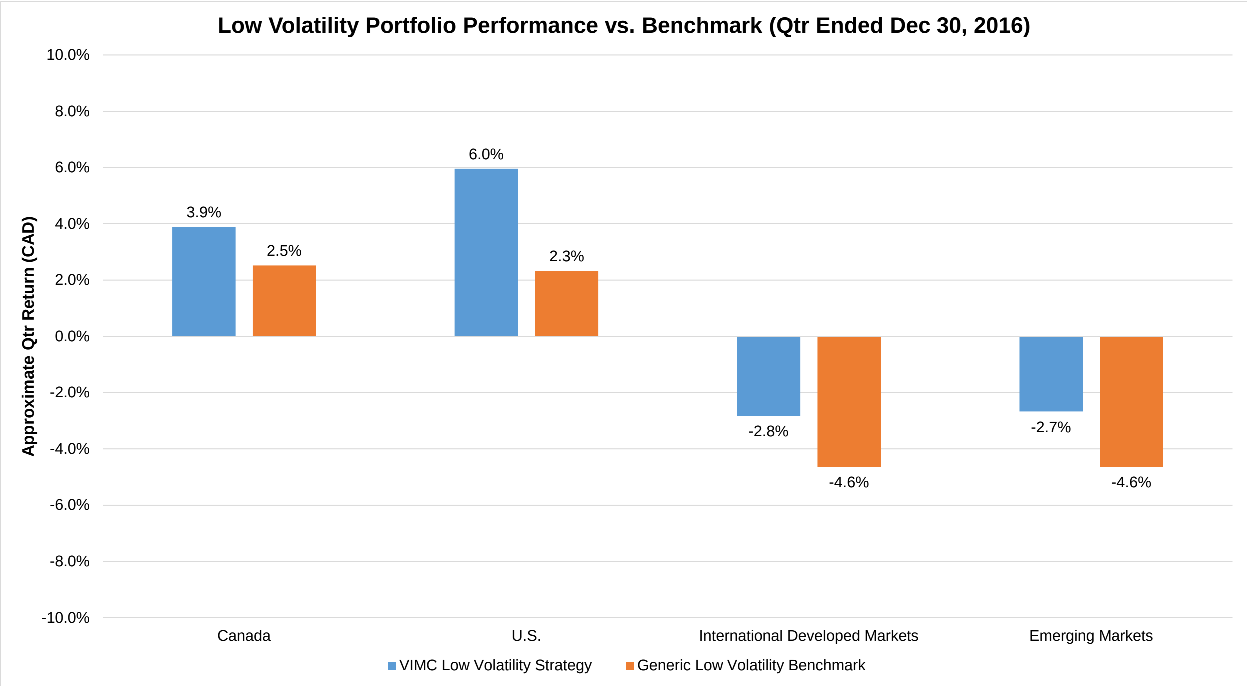
- Corporate bond investors outperformed government-focused portfolios significantly in the quarter, as the generally shorter duration exposure in those markets shielded prices from losses due to general curve moves, while corporate spreads in general were solid in the quarter and even narrowed somewhat in certain market segments in December.

- Absolute return strategies experienced another strong quarter with a return of 1.81% as a result of a significant rebound in quantitative strategies and continued strength in VIMC's fundamental market neutral portfolio. Year-to-date returns for the combined Absolute Return Strategy now stand at 5.16%.

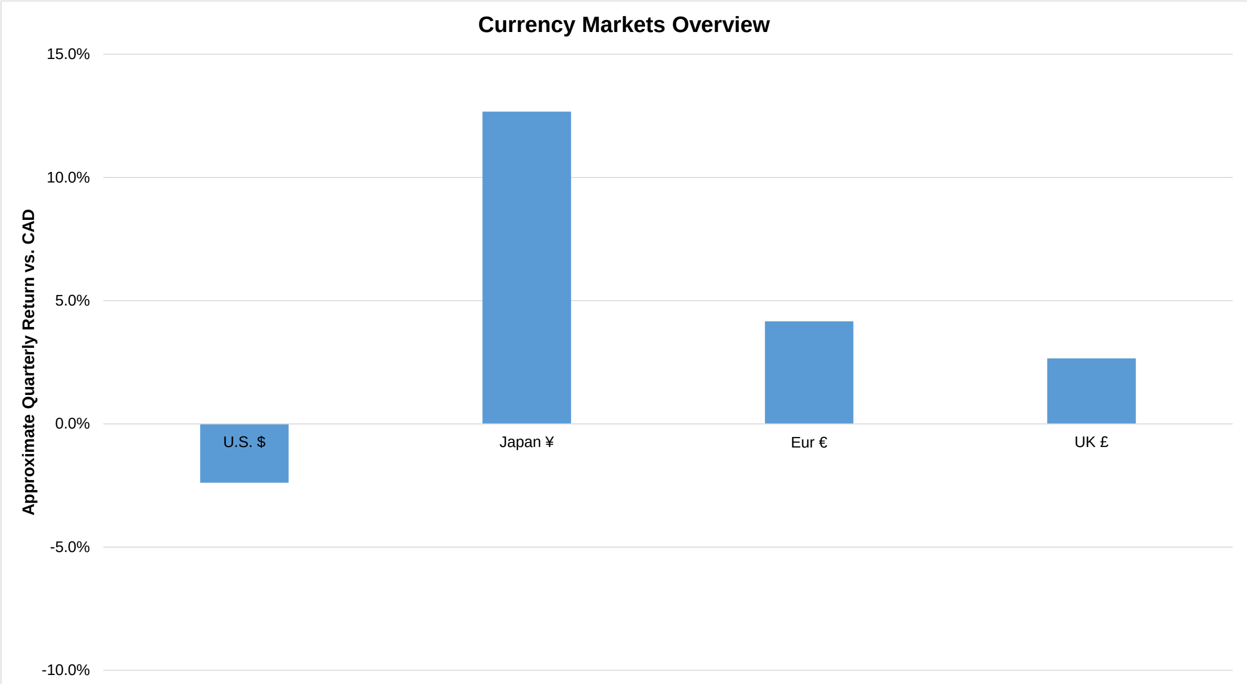
- Equity markets were also strong in the quarter, with a significant rally globally following the U.S. election leading to market cap weighted indices broadly outperforming low volatility strategies.



- While the above chart presents benchmark performance, VIMC's Low Volatility portfolios significantly outperformed their benchmarks in the quarter:



- In currency markets, the Canadian dollar (CAD) gained significantly versus the Yen, along with more modest gains versus the British Pound (GBP) and the Euro (EUR). The U.S. dollar (USD), conversely, strengthened by 2.5% against the CAD by quarter end:



Market Environment and Outlook

While expectations leading in to the fourth quarter of 2016 appeared to be coalescing around a continuing Democratic Party regime in the U.S. leading to continued relative economic stability, results were not so straightforward. However, despite the continued unexpected geopolitical results (at least on the part of pollsters and betting markets), markets once again proved very resilient, and for the most part shrugged off short-term volatility to continue providing strong returns (on the part of equity markets) or to somewhat normalize yields (in the case of U.S. government debt markets).

The U.S. election day provided ample volatility for markets, and provides an interesting case study in short-term market reactions causing difficulty for investors attempting to enter/exit trades and hedges. At the time of the market close on November 8 (4:00 p.m. Eastern), U.S. Equity Futures had completed a strong day to finish at a level of 2130. By 9:30 p.m., with early election returns showing surprisingly strong returns for the Republican candidate, the markets turned over with the futures contract trading down to about 2022 just after midnight (a 5% drop in just a few hours). Investor sentiment quickly reversed however, and by the market open on November 9, U.S. Equities had nearly recovered to the previous closing level, and would go on to finish the day at 2154, thus closing up about 1.1%. Despite experiencing an overnight drop of more than 5%, investors who look only at daily data would see effectively no reaction – thus demonstrating the difficulty in timing short-term hedges and trades. From that point, the S&P began a significant 4 week rally to reach a high of 2271 in December before closing out the quarter 2238, finishing out 2016 up about 12% in U.S. dollar (USD), or 9% in Canadian dollar (CAD) terms.

Considering economic policy, broad continuation of solid economic performance in the U.S. led to the long expected second rate increase from the Federal Reserve in the December meeting, increasing the target band for the overnight rate to 0.5%-0.75%. Most market participants now appear to expect 2-3 further increases during 2017 assuming U.S. economic stability continues. In Canada and elsewhere globally, however, more modest economic growth and inflation numbers (despite a slight improvement in Canada in recent releases) suggests that the beginning of 2017 will continue to be a period of economic and central bank policy divergence between the U.S. and the rest of the world.

This increasing divergence in economic performance and policy frameworks is readily apparent in its effect on foreign exchange markets. While the CAD was somewhat stronger versus its major trading counterpart the USD in 2016, there were two distinct trends during the year. Early 2016 found the CAD recovering from its 2015 swoon to reach a high of about $1.25 versus the USD in early May. The remainder of the year, however, found the CAD (and many other currencies) grinding steadily weaker versus the USD, with the CAD closing the year at just slightly stronger than $1.35. On a trade-weighted basis, it gained about 10% compared to its peers from early May to the end of 2016, with the British Pound (GBP) contributing significantly to that move, falling from a pre-Brexit vote level of about 1.45 USD to a year end value of just 1.23 USD.

In Canada, the close of 2016 had the TSX/Composite Index as the best performing equity market among the development markets, with a return of 21%, compared to just under 5% for the benchmark MSCI (Developed Markets) World Index in CAD, although the 2016 outperformance for Canada still leaves that market trailing significantly behind other developed markets over the 3 and 5-year periods.

The equity rally following the U.S. election brought with it significant reversal in fixed income markets, particularly in the U.S., with benchmark 10 year yields (already up to 1.8% in November from the lows of 1.4% earlier in the year) rising significantly to approximately 2.6% in December, before fading somewhat to close out the year at about 2.4%, up 40 basis points (bps) from the levels at the end of the prior year. Canadian 10-year yields also increased during the same period, but closed the year at a much lower level of 1.6%.

The fast paced move in yields, combined with continued talk of rate rises in the U.S., leaves many market observers questioning whether we have reached the end of the 35-year bond bull market, with expectations of both rate increases combined with steepening yield curves a potential risk for bond investors. Considering only the recent move in Canadian yields since September 30 shows the potential for fixed income to make significant contributions to investors' portfolios; in the final quarter of 2016, Canadian bond investors in a Long Bond strategy would have experienced a drawdown of about 7.5%, compared to under 2% for Corporate Bond Universe strategies. Clearly, managing duration and credit exposure carefully will be of significant importance to investors.

While commodity markets have been a source of continued volatility for investors in recent years, the fourth quarter saw oil trade in a range of about plus/minus $3, while opening and closing the quarter above $50, providing additional support for the strong performance in the resource sensitive Canadian market, thus fueling the previously noted partial catchup (relative to peers) for the Canadian market during the year. Precious metals, however, declined fairly significantly through year-end before a moderate recovery in the early days of 2017.

From a short-term perspective, we remain cautiously biased toward taking on investment risk in the form of equities and credit, as policy makers appear cautious in their approach and most measures of investor sentiment appear to show strong outlooks, thus contributing to the significant market resiliency we have observed in recent years. Risks to the short-term view include potential uncertainty about the true ability of the incoming U.S. administration to achieve its tax and regulatory reform objectives, in addition to continuing geopolitical risks such as (but not limited to), the increasing probability of the U.K. seeking a "hard Brexit" option, potentially providing for years of economic uncertainty in Europe going forward.

Despite the short-term bias, our longer term outlook remains modest in nature. While valuations are far from an actionable timing tool for asset allocation in the short run, evidence shows that long-run returns are significantly negatively related to starting valuations in most markets. For equities, the so-called "Cyclically Adjusted Price-Earnings (CAPE) Ratio" for the U.S. market now sits at a level of 28.5, well above average and indicative of a high probability of low long-run returns going forward. For bonds, while U.S. yields have increased (thus improving expectations for some investors going forward), Canadian and many other G7 sovereign nation yields remain extremely low across the entire maturity spectrum, leaving investors facing low returns and asymmetrical risk profiles. Finally, while strong opportunities appear to remain in investment grade corporate debt and sub-sovereign government bonds, high-yield spreads have declined to levels that – although not all-time lows – distinctly imply unattractive results for investors going forward relative to the risk undertaken.