QUARTERLY MARKET UPDATE

AS AT JUNE 30, 2017

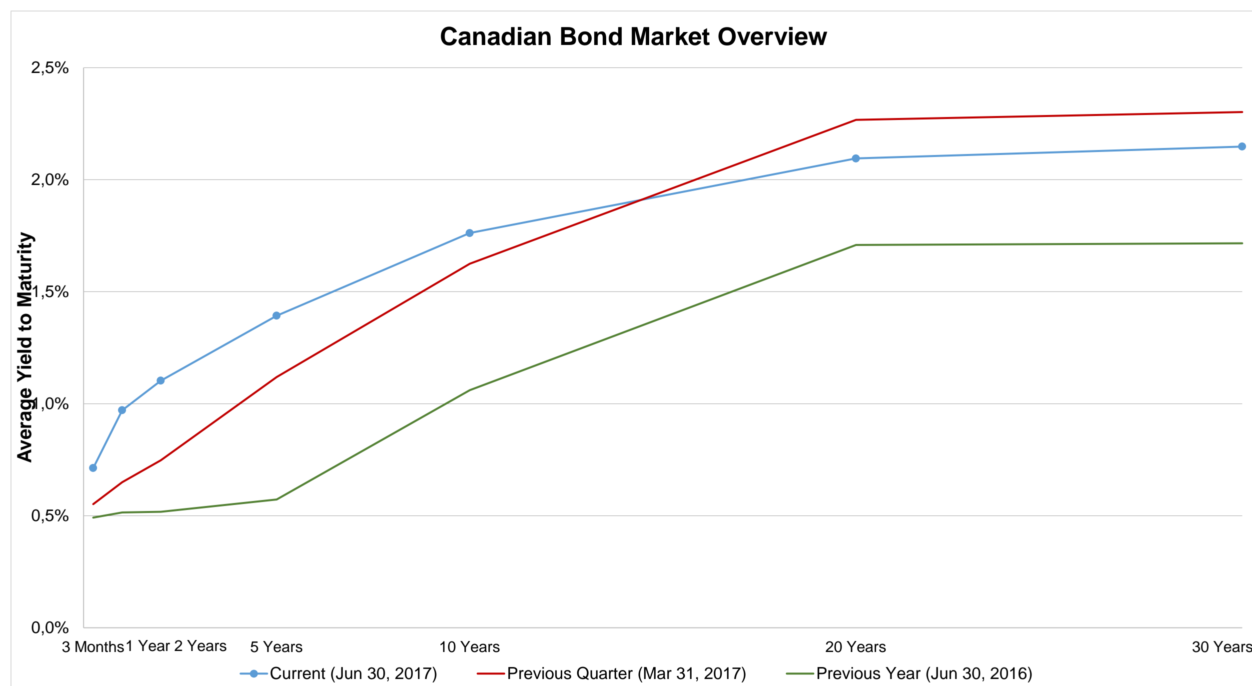
SOCIÉTÉ DE GESTION DES PLACEMENTS VESTCOR INVESTMENT MANAGEMENT CORPORATION

The following information is being provided as an overview of Vestcor Investment Management Corporation (VIMC) investment activities and the general financial market conditions experienced during the noted reporting period.

Please note that the following material is specific to VIMC activities, and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor with respect to their own specific financial matters.

Performance Overview

- Most asset classes were positive in the quarter, with particularly strong results from Private Equity. International equities outside North America, both low volatility and market capitalization weighted, also showed strong returns in the quarter.
- The Canadian yield curve rotated somewhat in the quarter on the sudden change in expectations to a hike in the short-term rate by the Bank of Canada (expectations that were realized after quarter-end with the rate announcement on July 12). Long-term rates, however, declined somewhat quarter-over-quarter, contributing to the strength observed in long bonds compared to universe mandates in the April-June period.

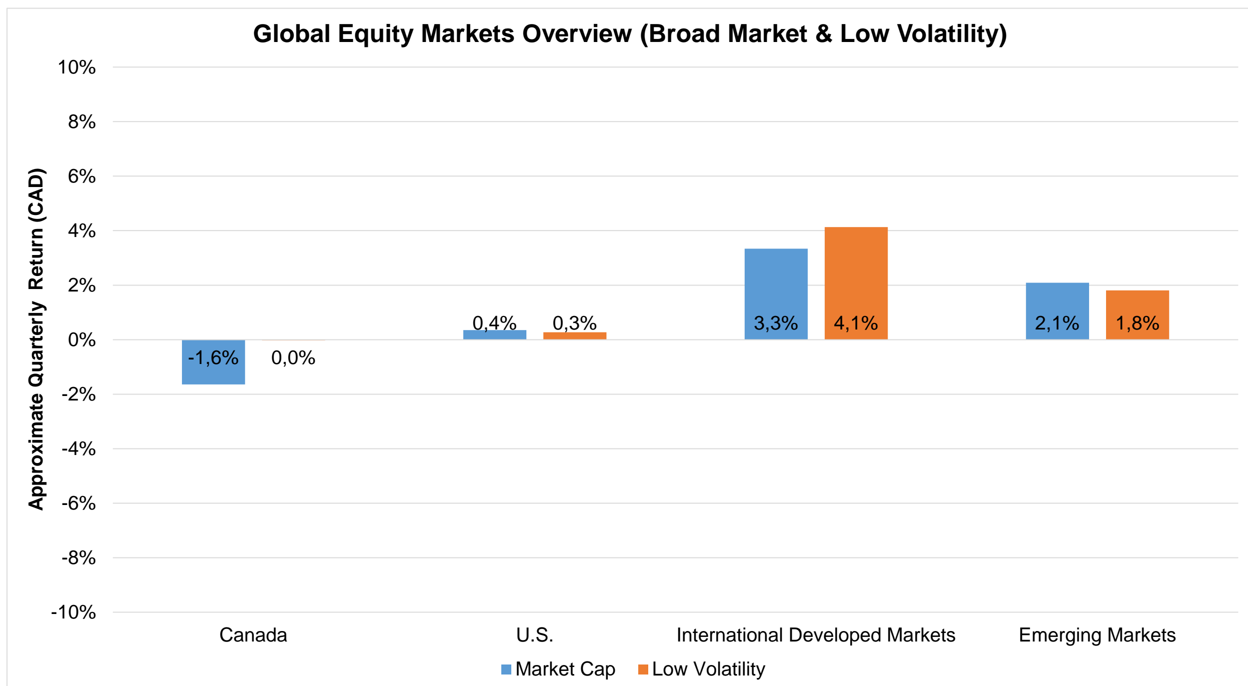


- For specific bond indices, most "universe" portfolios were roughly on par in the quarter, with the Universe, All Government, and Corporate universes producing similar returns of between 1% and 1.1% each.

- Total Real Estate produced a combined return of about 1.3%, with private real estate contributing significantly positive returns somewhat offset by approximately zero net performance from public market real estate (REIT) portfolios in Canada and the U.S.

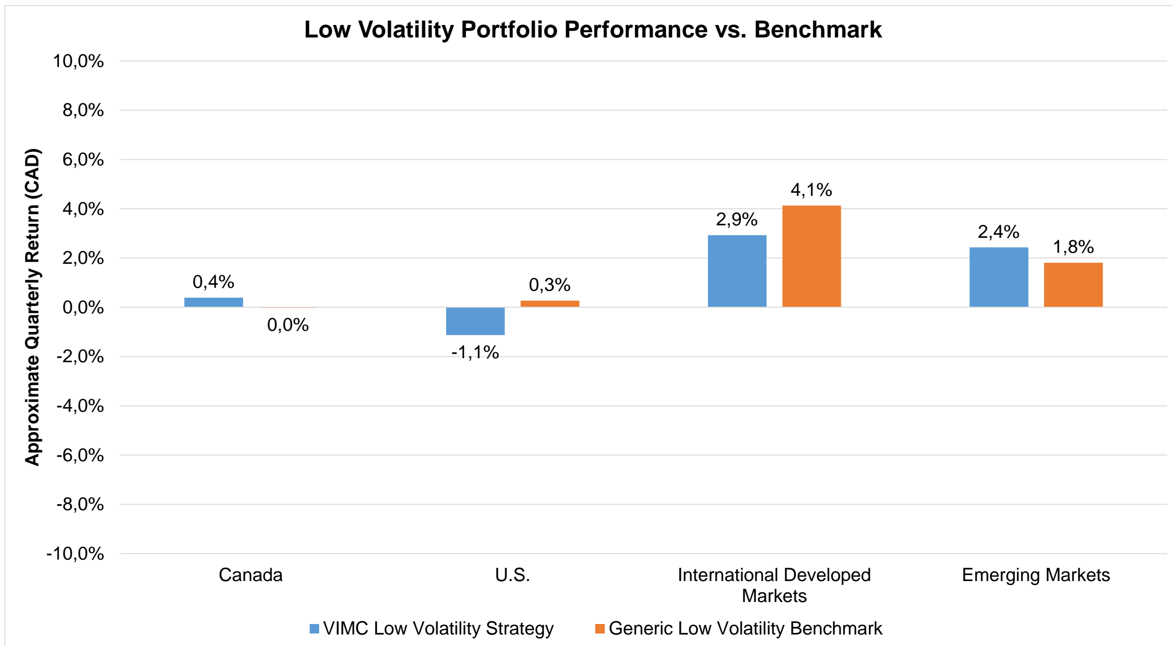
- Similar to the experience with Real Estate, the Infrastructure portfolio also experienced stronger returns in private markets (~3%), while the Public Infrastructure strategy was approximately flat, leading to a combined total infrastructure return of 1.2% in the quarter.

- Equity markets were mixed overall, with North American equities lagging behind international (Developed Markets and Emerging Markets):

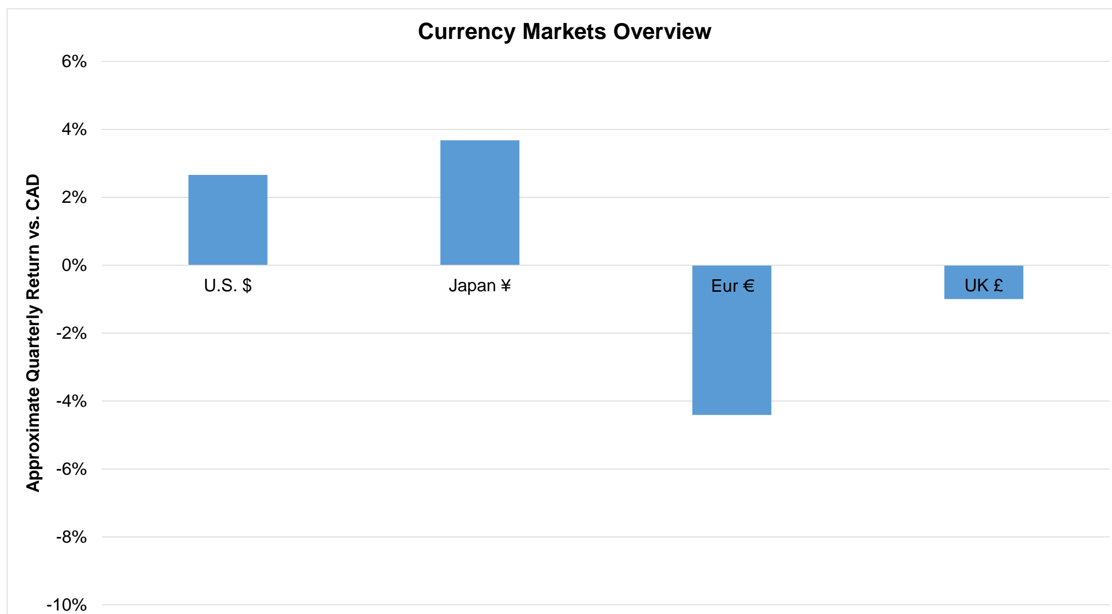


  - Some of the differences observed, particularly in the U.S., reflect the impact of currency movements during the quarter, which reduced U.S. equity market returns in Canadian dollar terms.

  - Considering's VIMC's low volatility strategies, both Canadian and Emerging Markets portfolios outperformed their benchmarks, while the U.S. and EAFE portfolios lagged in the quarter.



- In currency markets, the Canadian dollar was stronger versus both the U.S. dollar and Japanese Yen while weakening somewhat compared to both the Euro and Great Britain Pound, thus contributing to the differential noted in total returns between various international equity indices:



Market Environment and Outlook

On July 12, the Bank of Canada raised the overnight rate target to 0.75%, an increase of 0.25%, and the first such increase in the short-term rate since 2010. The Bank cited general global economic strength as well as the gradual elimination of the perceived output gap for the Canadian economy as motivations for the move, despite real GDP growth and inflation expected to remain moderately low in the coming quarters. Concerns for certain segments of the Canadian housing market likely also played a role in influencing the Bank's decision to tighten despite the lack of material evidence of increasing inflation economy-wide. The move thus puts the Bank of Canada on a similar trajectory to the U.S. Federal Reserve, which has raised rates twice in 2017 thus far.

Overall, economic performance remains solid if unspectacular globally. Growth in the developed markets remains positive but below the pre-2008 long-term trend, while Euro-zone growth appears to be recovering somewhat in recent periods. Emerging market growth remains mostly higher than the developed markets, although most emerging markets countries also appear to be on a lower growth trend than the pre-2008 experience. Additionally, global inflation remains mostly at or below the targets of the respective central banks in most currency zones, allowing policy makers in most regions to pursue gradual tightening cycles to begin the process of normalizing short-term rates.

Equity market performance has remained strong to date, pushing valuations higher in many markets. In local currency terms, the S&P 500 earned a total return of more than 3% in the second calendar quarter, leaving the forward-looking P/E ratio of that index at approximately 18.5x earnings. U.S. equities, in particular, have benefited from above normal levels of corporate profitability over the past 5+ years, with corporate profits after tax for the U.S. economy at or near highs since the 1950s as a percentage of GDP. In contrast, after a strong 2016, the Canadian market has resumed its underperformance relative to most developed market peers, partially as a result of further oil price weakness in the quarter. The Canadian market lagged the U.S. significantly with approximately a -1.5% return, with about -1.8% contribution coming from the energy GICS sector alone.

With the recent twist in the Canadian yield curve, long bond investors benefitted in the quarter, partially reversing recent results where shorter duration debt generally outperformed longer duration. Currently, the Ten minus Two Year Yield Spread for the Canadian sovereign yield curve sits at less than 70 basis points (meaning that the level has been lower over the past 25 years only about 25% of the time). Going forward, compensation for duration risk in sovereign bonds appears likely to be below historical averages.

Despite solid economic and market performance thus far in 2017, the U.S. political climate remains somewhat unpredictable, with frequent stops and starts for many of the elements of the current administration's reform agenda. The recent failure of U.S. healthcare reform leaves the potential for permanent tax reform of a significant nature also somewhat in doubt. Additionally, potential for increased economic uncertainty from a trade perspective has increased, as evidenced by the recent publication of a schedule for NAFTA renegotiation meetings, with the first meeting to take place in mid-August.

Globally, Brexit negotiations have begun to show early tensions in the form of disagreements over the amount of the so-called "divorce bill" in addition to early indications of a variety of multinational firms announcing post-Brexit hubs away from London in continental Europe & Ireland. Although the result in terms of the final impact on global trade and financial market performance will be felt over the long term, early uncertainty will still have an impact on investment decisions of firms and investors in the near term, leading to potentially increased market volatility in certain asset classes and regions.

Looking forward, Vestcor's longer term view remains intact. Expensive assets across most market segments should lead investors to prioritize quality of portfolios, while seeking to minimize exposure to risk factors that are unlikely to be well compensated by the market in the medium to longer term. Consequently, for fixed income investors, a focus on relatively shorter duration (while potentially offsetting the slightly lower yields for shorter term bonds through selection of high quality credits to enhance expected returns) will likely be an efficiency boost for diversified portfolios, as will a bias to lower volatility, higher quality equities in markets such as the U.S. where valuations seem reasonably high relative to their historical levels and also relative to the underlying uncertainties in the markets. In the short term, so long as investor sentiment remains positive and underlying economic fundamentals remain on their recent trend, our cautious bias toward risk-on assets will remain in place.