QUARTERLY MARKET UPDATE

AS AT SEPTEMBER 30, 2017

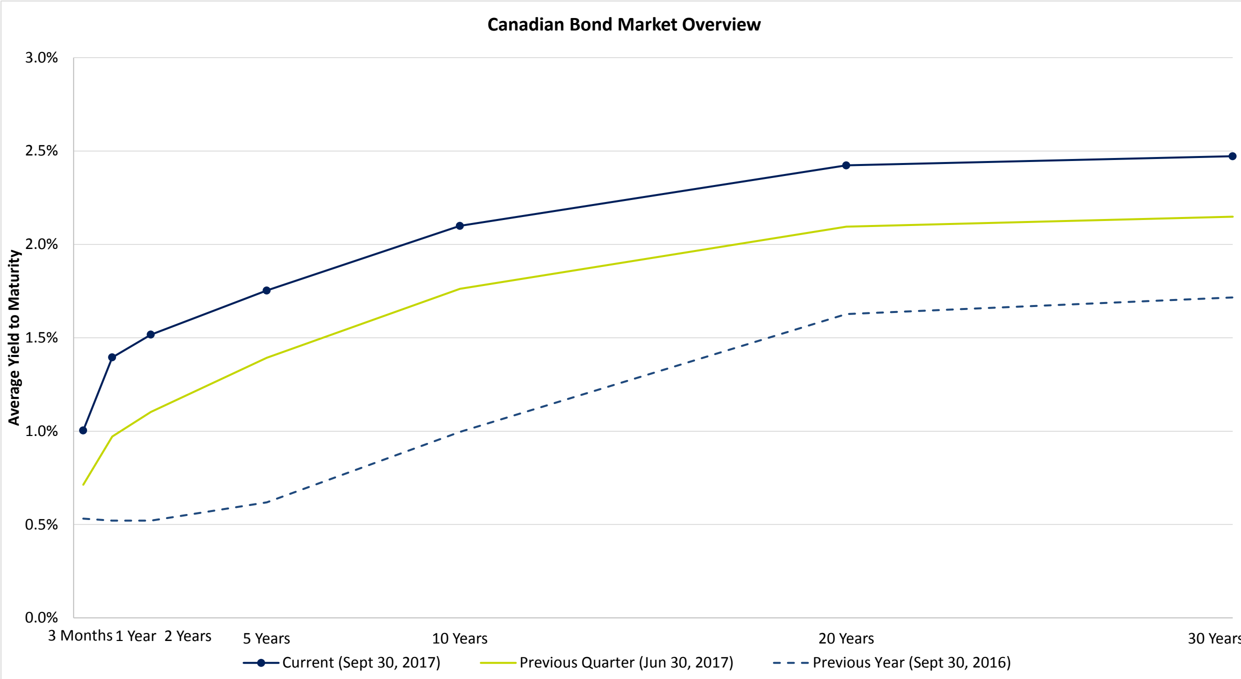
The following information is being provided as an overview of Vestcor Investment Management Corporation (VIMC) investment activities and the general financial market conditions experienced during the noted reporting period.

Performance Overview

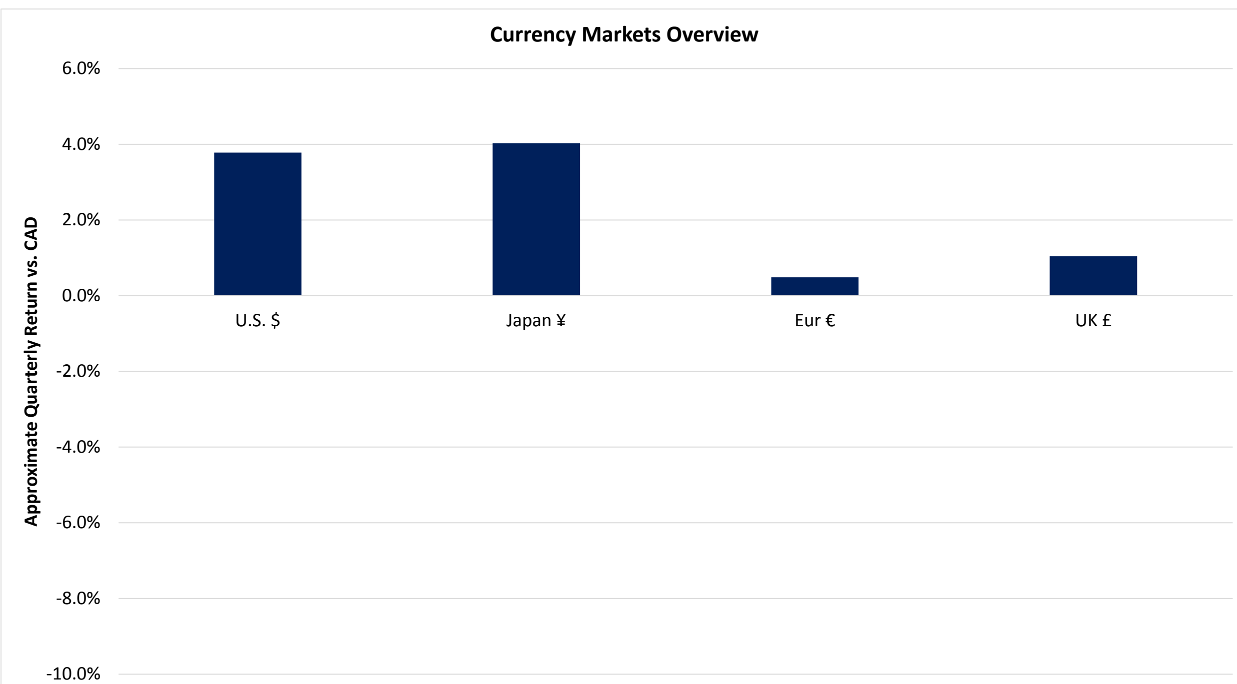
- Asset Class performance was differentiated in the quarter with positive contributions from risk seeking assets offsetting losses in fixed income. As is typically the case in risk-on environments, Low Volatility equities underperformed broad Market Cap indices. Alternative investments such as Absolute Return Strategies continue to operate in accordance to their objectives providing volatility reducing benefits and positive returns.

- Overall, active management was positive in the quarter with Alternative Investments (mainly Absolute Returns Strategies, Private Real Estate, and Private Equity) the primary contributer to overall value-add.

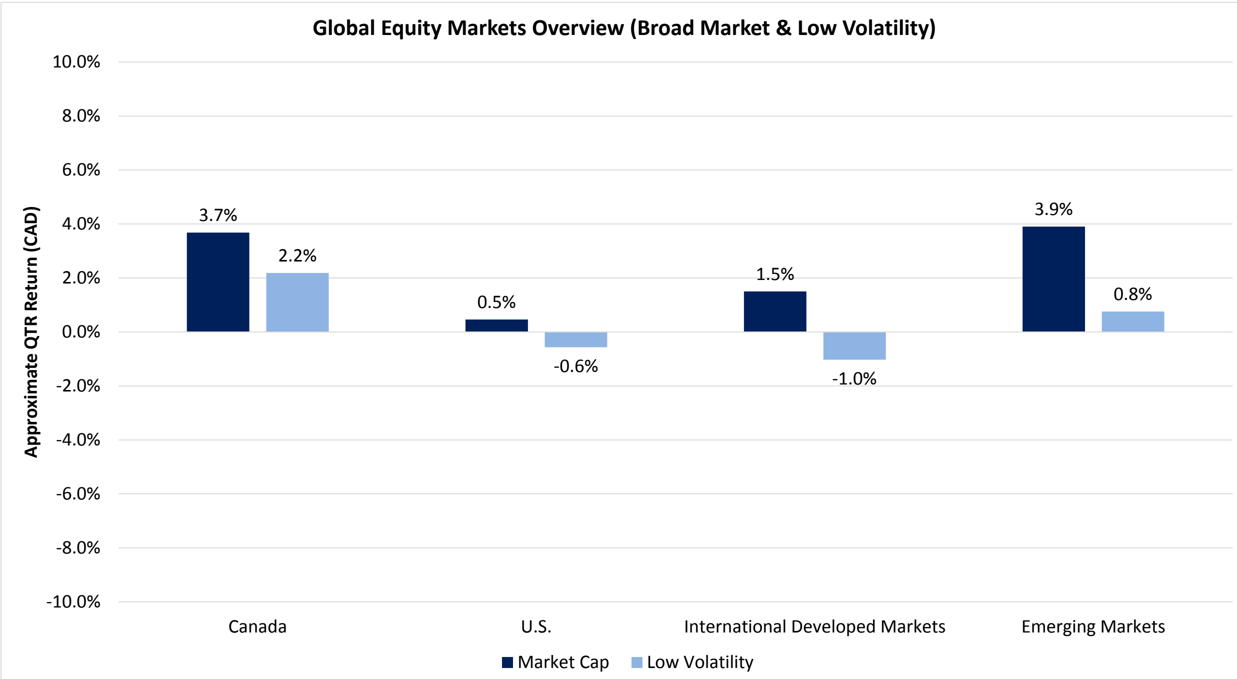
- The Canadian yield curve shifted upwards during the quarter as the Bank of Canada provided two consecutive 25 bps rate hikes with the second increase on September 6th. Renewed confidence in the Canadian economy following the release of strong second-quarter GDP also lifted yields along the curve. The Canadian 10-year yield increased +30 bps over the quarter while the similar U.S. rate showed little change.



- Corporate Bonds provided partial protection due to their relatively shorter duration.
- In currency markets, the Canadian dollar was stronger versus all major currencies following Bank of Canada interest rate increases, negatively impacting foreign denominated assets:



- Equity markets were positive overall, with Canadian equities outperforming U.S. and international markets due solely on negative currency contributions. Market Cap indices outperformed Low Volatility equities during the period as the market rewarded increased exposure to the growing global economy.



Market Environment and Outlook

Themes:

- Global growth continues to be on trend globally with the U.S. projected to grow at 2.4% in 2018 according to Bloomberg composite data.
- Monetary policy normalization has continued, with the Bank of Canada raising rates for a second time in 2017, and the U.S. Fed beginning the balance sheet reduction process in October with modest reductions in holdings of U.S. Treasury Bonds and Mortgage Backed Securities.
- Despite political divisiveness in the U.S. and ongoing tensions in the Korean Peninsula, global equity markets remained resilient, with the S&P 500 ending the quarter at 2,519.36 (total return of 4.5% in USD for the quarter and 14.2% year-to-date in USD terms).
- With the global rally in risk assets well into its 9th year of recovery following the Global Financial Crisis of 2008-09, asset prices are high relative to historical norms, indicating modest potential future returns for most asset classes over the medium-term forecast horizon.

Global growth continues to perform roughly on par with the post 2008 trend in most markets, with broad stability of economic performance across Developed and Emerging economies. Reflecting this stability, central banks in North America continued their tightening bias, with the Bank of Canada raising rates in September and the U.S. Federal Reserve initiating the balance sheet normalization with small monthly reductions in holdings of government bonds and mortgage backed securities.

In Canada, bond yields continued to move higher from the end of the previous quarter, with the benchmark 10 year constant maturity yield closing the quarter at approximately 2.1%, up from the 2017 low of 1.4% in June of this year. With the move higher, bond returns were impacted negatively, with the benchmark All Government and Corporate Indexes down 2% and 1.34%, respectively, while long-term universe investors realized returns of -4.1% in the quarter, reflecting the move higher in long-term rates as well.

Equity markets and risk-seeking assets in general continue to march higher in the quarter at a steady rate. The S&P 500 ended the quarter at a level of 2,519.36, a year-to-date total return in USD terms of approximately 14%. At the same time as returns have continued to be strong, equity market volatility levels have been extremely low thus far in 2017. As of quarter end, the benchmark VIX Index of option implied volatility stood at 9.51, well below the long run average value of closer to 20. During the twelve months leading up to 2017, the S&P 500 has experienced only about 5 days with daily total losses greater than -1%, compared to an average count of approximately 30 such days per year in the previous decade. Overall, equity market volatility remains well below the long run average, and returns have continued to be much stronger than long run averages, particularly in the U.S.

In general, valuations remain high across most asset classes with equities globally priced to reflect strong underlying corporate profitability and expectations of continued progress on fiscal agendas in major countries such as the U.S. Despite the move higher in some interest rates, yields remain low, and compensation for duration risk in the form of the spread between mid-term 10-year bonds and shorter term 2-year bonds remains low.

The underlying economic uncertainty noted in previous reports remains in place, with little progress toward meaningful resolutions of significant policy issues thus far in 2017. NAFTA negotiations are in progress, with a likely extension to the talks reflecting the difficulty the parties will have in reaching a mutually acceptable result. Current indications suggest that U.S. negotiators continue to take a hardline stance on several issues across a variety of sectors, which could impact the ability of negotiators to reach agreement in a timely manner. Other sources of geopolitical risk, including trade and economic concerns on U.S. Tax Policy and the ongoing Brexit negotiations as well as continued military uncertainty related to North Korea continue to require ongoing monitoring from a risk management perspective.

Vestcor client portfolios remain slightly biased toward risk-seeking assets, albeit with a strong risk management overlay. Solid global economic fundamentals offset by expensive asset values and continued geopolitical uncertainty require prudence in risk positioning. Active deviations toward riskier assets have been maintained at smaller than usual risk budgets, and asset mix policy development work remains in progress for many clients in order to optimize risk taking in higher quality segments of markets while avoiding areas in which compensation for risk has been reduced to unfavourable levels.