QUARTERLY MARKET UPDATE

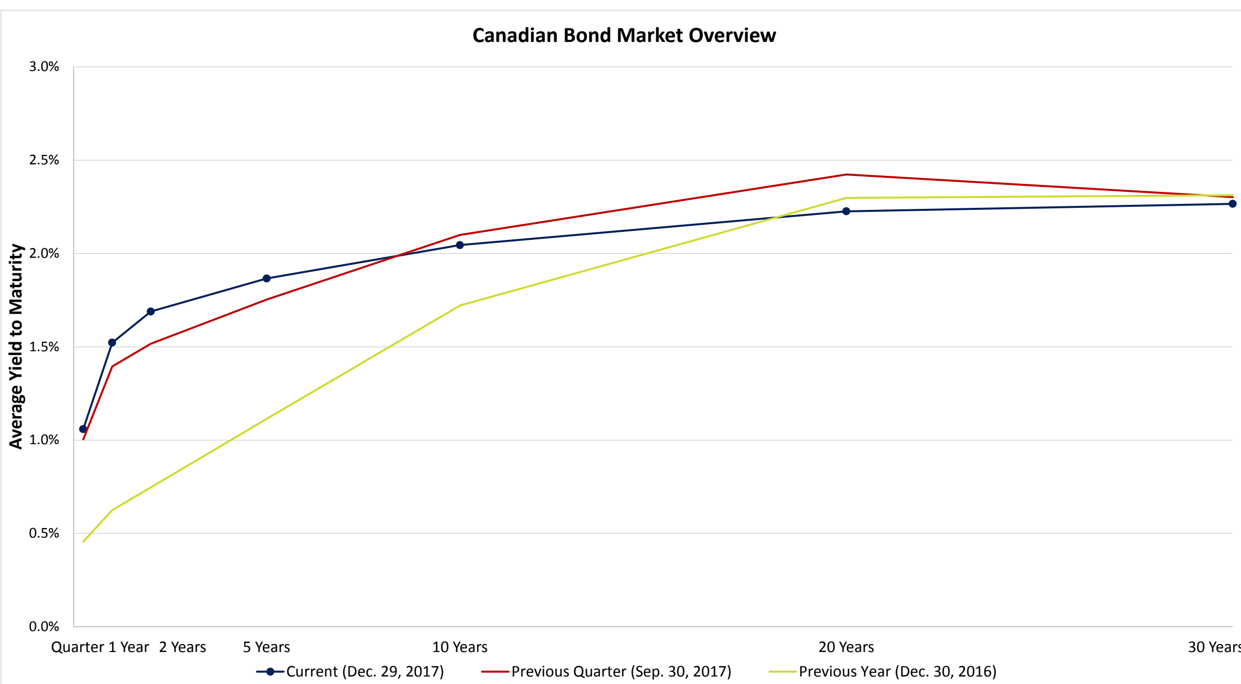
AS AT DECEMBER 31, 2017

The following information is being provided as an overview of Vestcor Inc.'s (Vestcor) investment activities and the general financial market conditions experienced during the noted reporting period.

Please note that the following material is specific to Vestcor 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

- All asset classes were positive in the quarter, with particularly strong contributions from most equity asset classes in addition to strong returns across alternative asset portfolios.
- Overall, active management activities were particularly strong in the quarter, with significant contributions from Alternative Investments (mainly, Private Real Estate, Private Equity and Absolute Return Strategies).
- The Canadian yield curve was broadly stable, with short rates increasing slightly quarter-over-quarter while longer term rates were unchanged to slightly lower at year-end. For the full calendar year, both the Government and Corporate bond universes were positive, with benchmark returns of 2.18% and 3.38%, respectively.

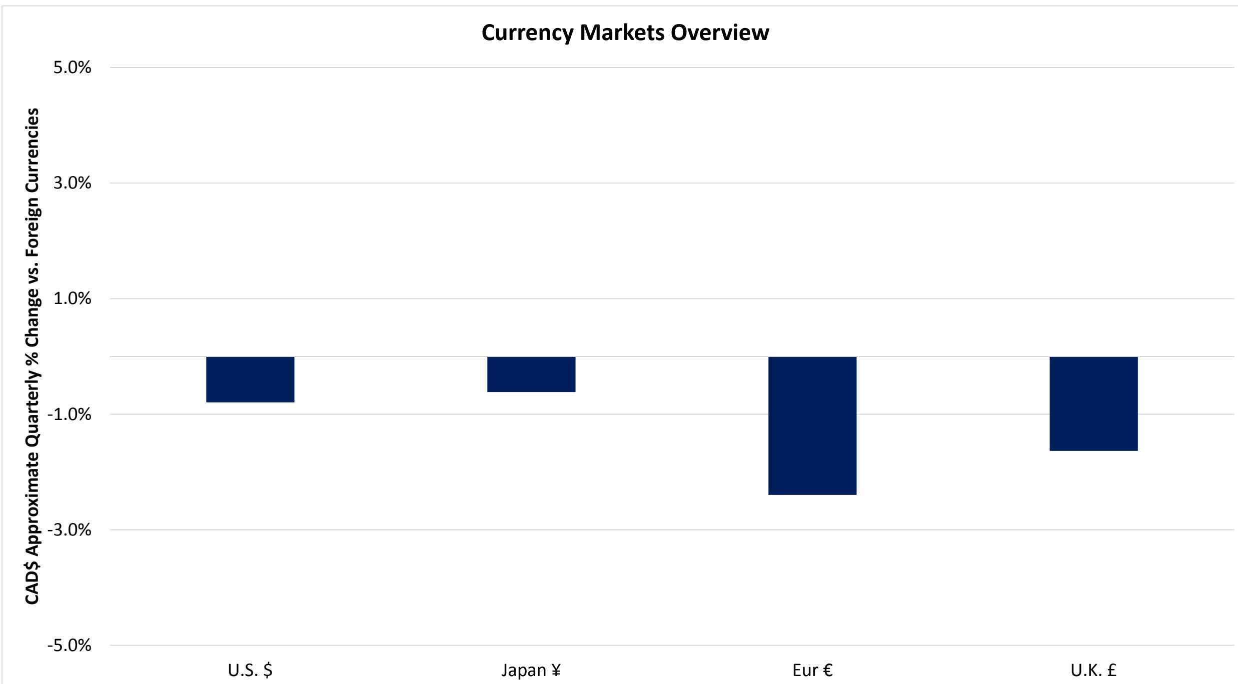


- Our combined Absolute Return Strategy was positive in the quarter and over the full year. All three Absolute Return sub-strategies were significant contributors to our value-add returns during the year.

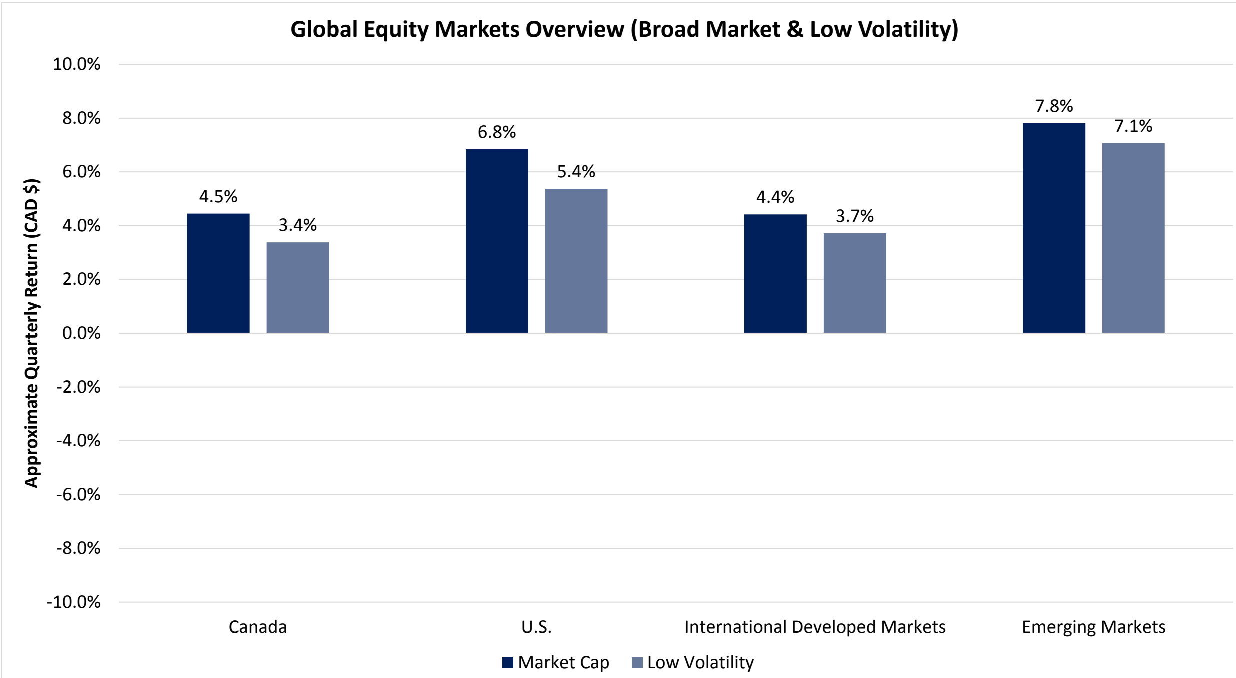
- Real Estate strategies were significantly positive in the quarter with particularly strong returns from both private market strategies as well as Canadian public Real Estate Investment Trusts (REITs).

- The Infrastructure portfolio also continued to produce positive returns in the quarter, ultimately providing an annual high single digit return contribution through both our public and private markets exposure.

- In currency markets, the Canadian dollar was slightly weaker compared to most major currencies in the quarter:



- Equity markets were positive overall, with U.S. and Emerging Markets equities producing the strongest results when measured in Canadian dollar terms. In general, as would be expected in a strong risk-on environment, low volatility strategies underperformed broad equity markets, although in general, performance was quite similar across most markets:



  - Vestcor's low volatility strategies were broadly on target with their benchmarks in the quarter, with slight outperformance in the U.S. and EAFE offset against slight underperformance in the Canadian and Emerging Markets strategies.

Market Environment and Outlook

Themes:

- The U.S. S&P 500 equity index closed out 2017 at 2,673.61, ending the year with a total return of 21.8% in USD terms, with investors incorporating updated earnings expectations due to meaningful progress on tax reform efforts.
- Canadian financial market performance was also positive, although not as strong, as the S&P/TSX Composite Index increased just 9%.
- Economic fundamentals remained supportive through year-end, with growth on trend matched with generally stable and on-target inflation in most markets.
- Asset prices remain high relative to historical averages, and the medium- to long-term outlook remains focused on the potential for below average returns going forward.

With supportive economic fundamentals, suppressed volatility was one of the dominant themes of 2017. During the calendar year, the S&P 500 had only 10 days with a move of greater than 1%, with just four of those days being to the downside. This compares with a longer term average of experiencing about one such move every 5 days. The benchmark VIX index (a measure of market-implied volatility from options on U.S. equities) averaged just over 10 for the quarter, and barely more than 11 for the full year, compared to a long-term average of closer to 20 over its nearly 25-year history.

Globally, most equity indices had positive returns in their local currencies, including in Canada with the S&P/TSX Composite Index up 9.1% for the year. Only the Energy GICS sector contributing to the downside in Canada, as energy companies underperformed the U.S. sector somewhat during the year. Emerging markets were particularly strong in 2017, with the benchmark MSCI Emerging Markets Index up nearly 28% in Canadian dollar terms.

In commodity markets, the ongoing efforts of OPEC to reign in supply appeared to finally have an impact on global prices in the second half of the year, with WTI Crude strengthening to a price of just over $60/ barrel at year–end. This was up over 40% from the lows reached in June, potentially providing incentive for additional production increases from suppliers with flexibility to increase activity.

Considering foreign exchange markets, the U.S. dollar was broadly weaker during 2017, ending the year down nearly 10% on a trade-weighted basis, including weakening by 7%, 14% and 9% compared to the Canadian Dollar, Euro and British Pound, respectively, thereby providing a modest drag on U.S.$ portfolios held in client funds when measured in Canadian dollars. Increased currency volatility could continue into 2018 as central banks continue their policy normalization efforts at potentially different rates, perhaps resulting in significant divergences in interest rates and foreign exchange crosses as policy stances differentiate across economies.

Our previous updates have noted that valuations remain stretched across most markets, and with the continuing gains in equity prices, this remains true as of this report. While certainly an imperfect measure, the Cyclically Adjusted Price Earnings Ratio ("CAPE Ratio") for the U.S. Equity market stood at 33.3 as of year-end, levels that have only been exceeded during the 2000 tech run-up. While current conditions (with low inflation and low interest rates combined with high profitability and better modern accounting standards) suggest that long-term comparisons are difficult, it is nevertheless likely that long-term forward-looking returns on most broad equity indices will be lower than long-run averages in the future. This, combined with still-low interest rates, leaves the conclusion that expected returns for diversified asset mixes will be somewhat modest, relative to history.

Finally, global trade policy, as it relates to geopolitical concerns such as the ongoing Brexit and NAFTA negotiations remains uncertain. Market participants are looking at the recent Montreal round of NAFTA negotiations for clarity on the major issues that remain to be negotiated, including measures related to the auto industry and the mechanisms by which trade disputes are resolved when setting expectations for prices and risk in more heavily trade sensitive sectors of the market.

Overall, most of our client portfolios remain biased toward equity assets, and we expect that our longer term approach to substitute alternative strategies (absolute return, and low volatility equity) for traditional bonds should continue to reduce volatility and improve returns. Looking forward, opportunities to enhance diversification and improve returns via active management and alternative strategies will remain a significant driver in portfolio results.