QUARTERLY MARKET UPDATE

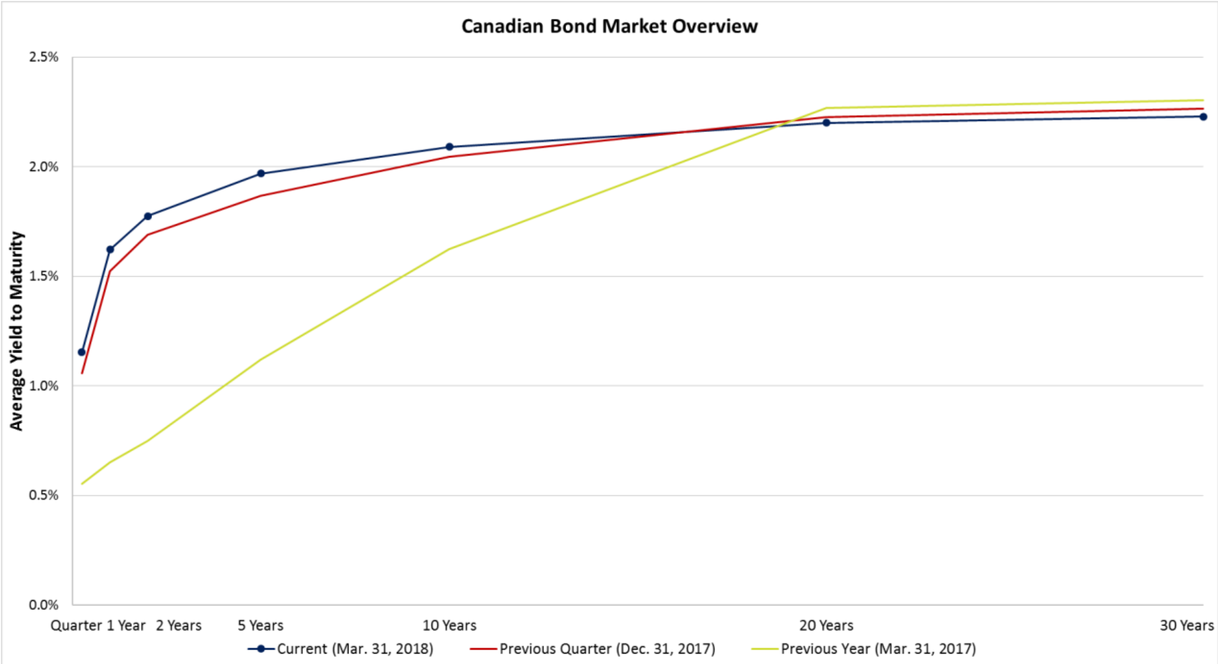
AS AT MARCH 31, 2018

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

- Market volatility reappeared over the quarter with the S&P 500 experiencing a drawdown of 10% from its high value of January 26th. As a result, asset class performance was quite varied with global low volatility equities, unhedged foreign currency exposure, and private investments providing an offset to weakness in Canadian equity and fixed income, along with underperforming public real estate and infrastructure.
- In general, active management results were positive during the quarter, with strong relative equity performance (both public and private) offsetting relatively weaker performance for Real Estate and Infrastructure.
- The Canadian yield curve flattened further during the quarter following another 0.25% interest rate hike by the Bank of Canada in January, although the impact on the All Government Bond Index was mitigated by stable long-term yields.
  - In a period of modest yield changes, Corporate bonds were among the strongest performers of Canadian bond sectors.

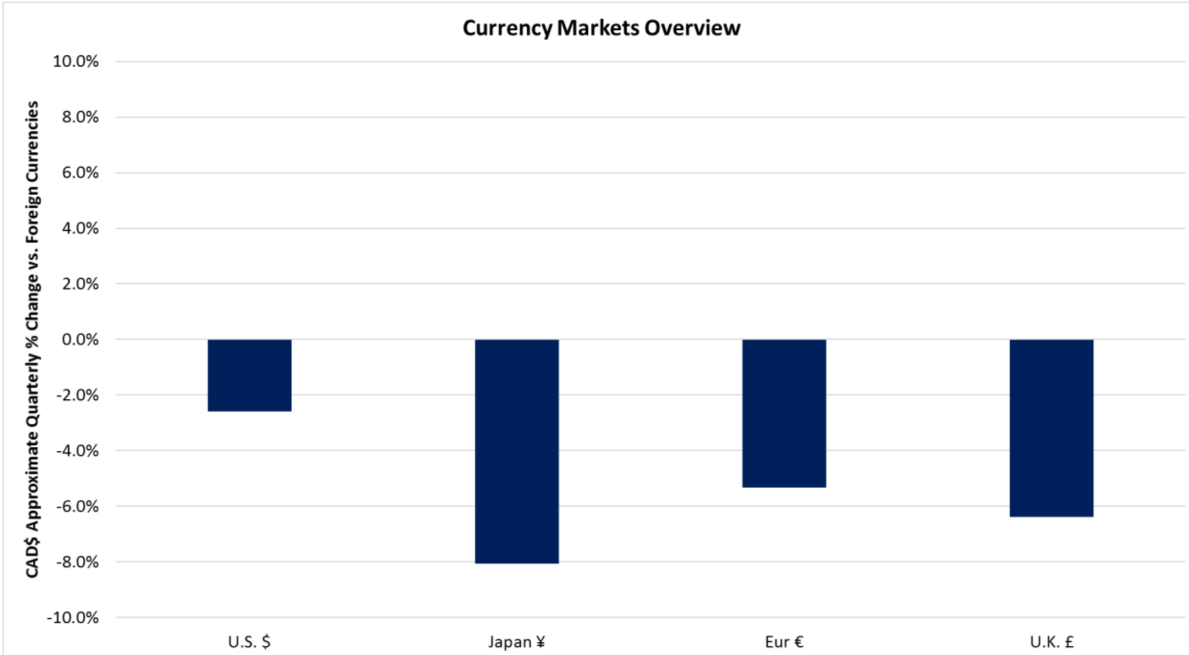


- Total Real Estate produced varied results during the quarter as private real estate outperformed public market REITs. In general, Canadian real estate strategies outperformed international real estate portfolios.

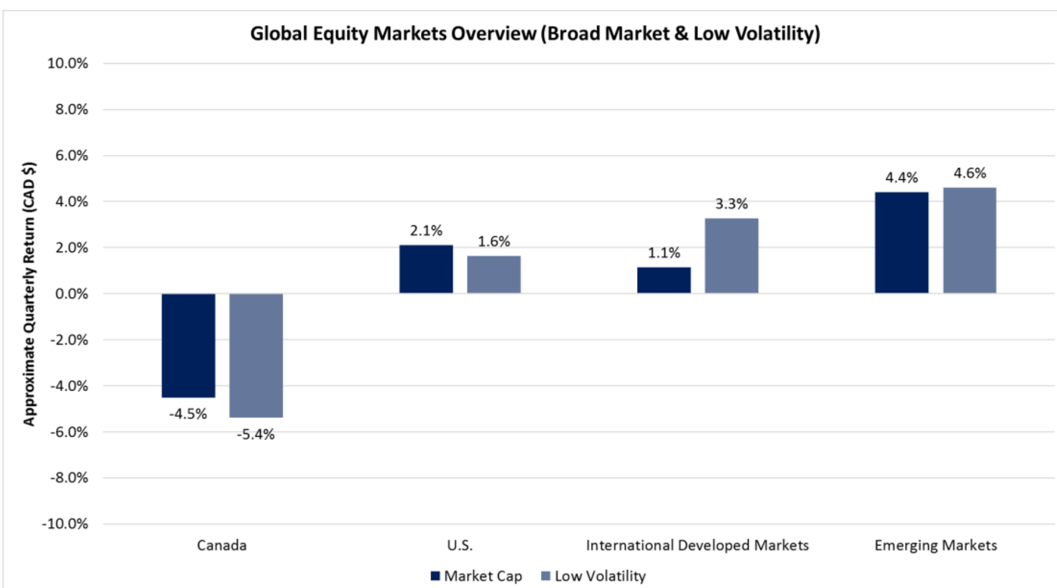
- Similar to the experience in real estate, private infrastructure portfolios outperformed public infrastructure in the most recent quarter with total combined performance for the two strategies broadly flat.

- Private equity performance was strong during the period and outperformed public markets.

- In currency markets, the Canadian dollar was materially weaker versus all major currencies:



- Overall, global equity markets showed mixed performance in local currency terms, while foreign equities produced positive returns largely due to a depreciating Canadian dollar. Generic Low Volatility equity underperformed in North America while maintaining stronger performance internationally when compared against broad market capitalization-weighted equities:



Market Environment and Outlook

While equity markets would appear stable if you observed only the opening and closing values for the first quarter, in the interim – particularly in February – investors experienced a significant amount of volatility. While markets continued their extremely strong performance in January with a gain of nearly 6% for the S&P 500 in the month, February saw a significant reversal in fortunes. The U.S. employment report for January (released on Friday Feb. 2, 2018) indicated that wage growth was running higher than anticipated, thus increasing the potential for the Federal Reserve to move more quickly in tightening policy to keep inflation under control, particularly in the context of recent U.S. tax reform which was widely expected to further increase economic activity in 2018.

The market reaction was significant, with the S&P 500 down more than 6% over the Friday to Monday trading period, with an associated spike in market volatility which required potentially significant rebalancing for certain market participants, thereby spreading risk from equity markets to other multi-asset class strategies as well. While markets have stabilized, equity markets remain significantly below their January 26th peak (the S&P 500 is about 7% lower), and market implied volatility currently sits at levels approximately 50% higher than the average of the September 2017 to January 2018 period. Overall however, the quarter was typified by a strong beginning, weak middle, and stabilizing finish, where most global equity markets were not significantly changed from December to March.

Canadian equities continued the 2017 trend of lagging behind U.S. and global markets in Q1 2018. While each of the U.S. S&P 500, MSCI EAFE (global developed markets) and MSCI Emerging Markets were positive in the quarter (at least when translated into Canadian dollars), the Canadian benchmark S&P/TSX Composite Index returned -4.5% from Jan 1 to March 31. Trade concerns, a significant index weighting in the energy sector, and a much smaller Information Technology sector each contributed once again to the lagging performance in the Canadian market in the first quarter.

While global equity indexes were positive in Canadian dollar terms, this at least in part reflects the weakness in the Canadian dollar during the quarter, as the Canadian dollar weakened from $1.2571 to $1.29 (about a 2.6% decline), thus adding to the outperformance of international equity markets over the Canadian market. It is interesting to note that during the market volatility in February, a Canadian investor in the S&P 500 that hedged currency risk would have observed a loss of about -3.7% from beginning to the end of the month, while investors that left the exposure unhedged from a currency perspective would have experienced a gain of about 0.3%. In general, the Canadian dollar continues to demonstrate weakness during volatile market periods, meaning that unhedged FX on investments that are sensitive to the business cycle (equities) continues to produce lower risk outcomes for investors.

For interest rates, benchmark U.S. 10-year government yields gained about 0.55% in the quarter (rising closer to 3%), while the Canadian 10-year benchmark remains lower at a yield of about 2.2%, reflecting more modest expectations among bond investors as to the future course of interest rate policies in the two countries.

In general, economic performance remains solid in most markets. In the U.S., the unemployment rate remains historically low at 3.9%, while GDP growth has also continued essentially on trend in recent quarters. The somewhat tighter labour market coincides with inflation rates that are expected to remain at (or perhaps slightly above) the Federal Reserve's target, with market surveys forecasting a rate of 2.5% for the April release. Consequently, market prices currently suggest expectations of continued interest rate increases in the U.S., with the Federal Reserve forecasted to increase the Fed Funds Rate target perhaps 2 to 3 more times during 2018 (from its current target level of 1.75%), with the next hike expected to occur at the June meeting. In Canada, with slightly more uncertain economic performance and potentially greater slack in economic conditions, expectations are somewhat more modest. Expectations of 1 to 2 policy rate increases are currently priced in, as the central bank continues to normalize policy and therefore increase the cost of mortgage finance at a gradual pace.

Oil markets continued to increase, with the benchmark 1st month futures contract for WTI crude reaching nearly $65 at quarter end. Despite the rising price for the underlying commodity, energy equities however continued to perform poorly in the quarter. The benchmark price for Western Canadian Select relative to WTI widened in late 2017 with almost no convergence by the end of Q1. While the broad Canadian equity market was down 4.5% in the quarter, the Energy Sector was down over 9%, mainly reflecting the transportation difficulties in the sector.

Considering the outlook, global geopolitical conditions remain somewhat murky. Trade policy in North America remains ambiguous, with the status of NAFTA remaining in limbo, although negotiations are ongoing. Other regions globally remain a mixture of positive and negative outcomes, with apparent progress (albeit early stage) in stabilizing the Korean peninsula, but the Britain-E.U. negotiations on Brexit remain apparently no closer to providing stability, and the U.S. Government appears to be ready to aggressively take on trade sanctions versus China.

Overall, market valuations remain high, although for certain classes (U.S. Government bonds), recent yield increases make for slightly improved expectations going forward even if total (expected) returns remain quite low across the spectrum of assets. Consequently, we continue to believe that a broadly diversified portfolio with reduced equity volatility and absolute return strategy exposure remains prudent.