

QUARTERLY MARKET UPDATE

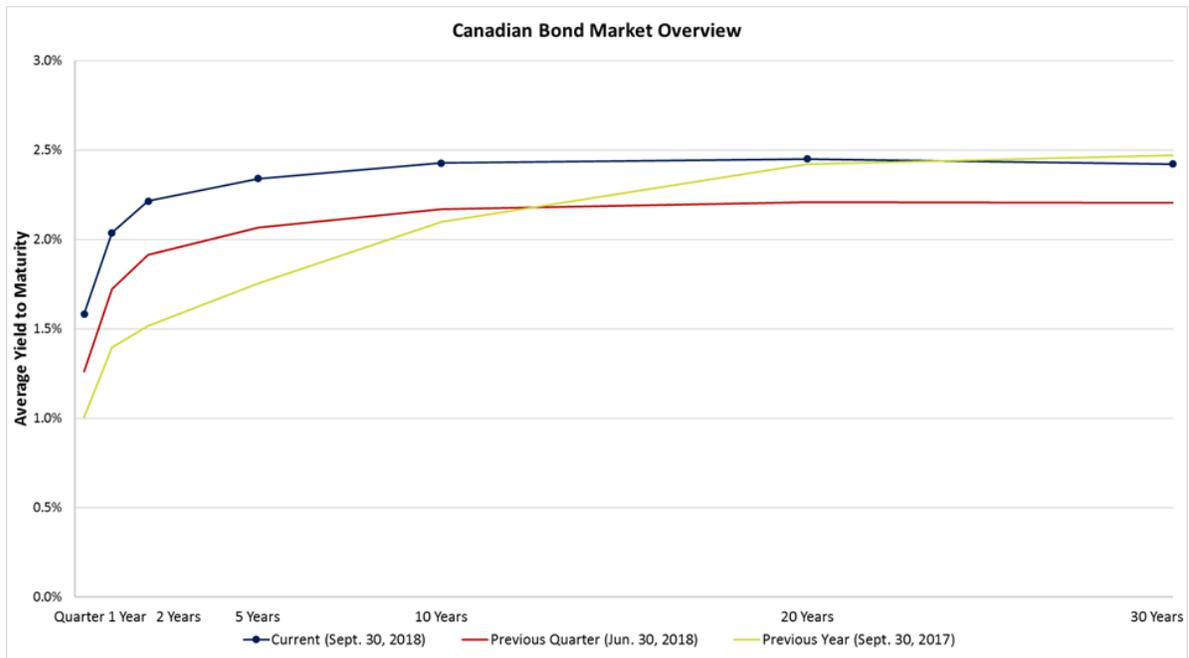
AS AT SEPTEMBER 30, 2018

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.

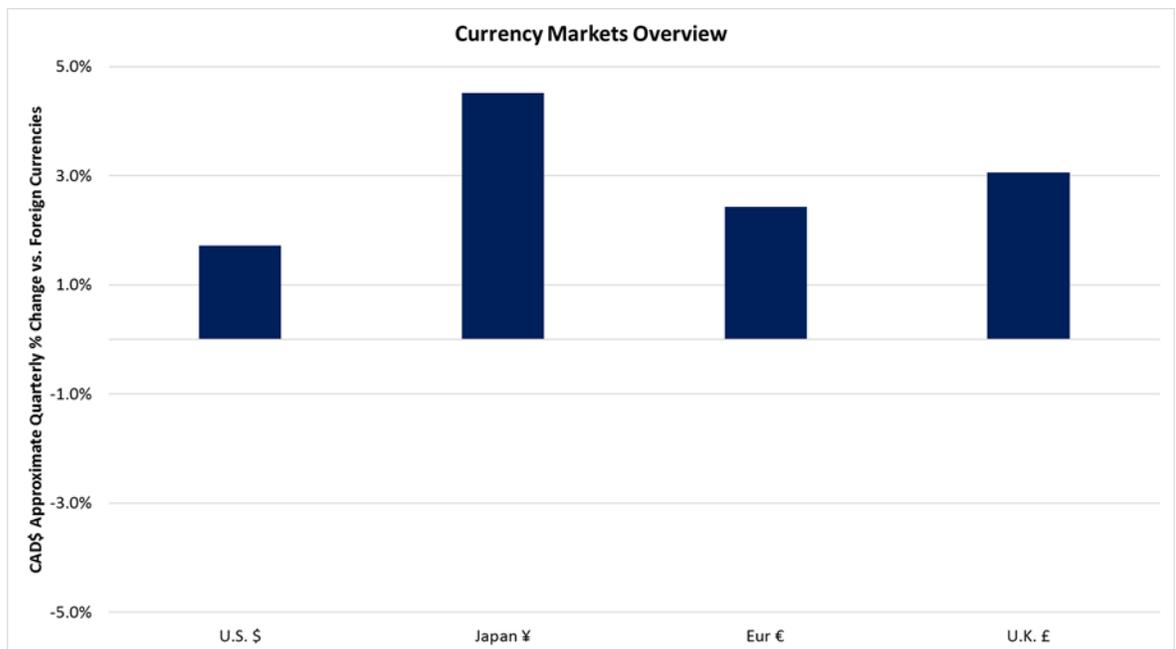
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

- Performance was mixed in the quarter both between and within asset classes. While most interest rate sensitive allocations fell, equity performance was differentiated and therefore did not provide levels of diversification witnessed in prior periods.
- During the quarter, active management activities were flat. The Absolute Return program, along with various fixed income and real estate portfolios outperformed their respective benchmarks while equity portfolios (both market capitalization-weighted and low volatility) had a more challenging environment.
- The Canadian yield curve shifted higher over the past quarter leading to negative returns for fixed income portfolios. Short-term yields increased as the Bank of Canada hiked interest rates another 25 bps in July. Yields for longer term bonds also rose in recent months with Canadian fixed income following the U.S., where the benchmark U.S. 10-year yield increased approx. 20 bps. The Corporate Bond Index outperformed due to its lower exposure to yield changes. Credit spreads were roughly flat over the quarter and therefore did not contribute to the outperformance.
- The Real Return Bond Index showed weaker performance than nominal bonds due to having a higher sensitivity to yield changes. Increases in yields were not explained by higher inflation expectations and therefore did not provide protection to bonds in this space.



- Total Real Estate performance was strongest among Canadian assets where Canadian Public Market Real Estate (REIT) outperformed other real estate categories while U.S Public Market Real Estate (REIT) lagged other categories.
- Total Infrastructure performance was flat in the most recent quarter.
- In currency markets, the Canadian dollar gained versus all major currencies, thus contributing to lower Canadian dollar returns for unhedged international equity investors when compared with local currency returns:



- Equity markets showed mixed performance in the quarter with the U.S. market advancing while other regions were either flat or slightly lower. Canadian dollar appreciation was a major contributor to the lagging performance of international equities. An allocation to low volatility emerging market equities, instead of weaker performing market-capitalization weighted emerging market exposure, kept returns within that market segment positive:

