QUARTERLY MARKET UPDATE

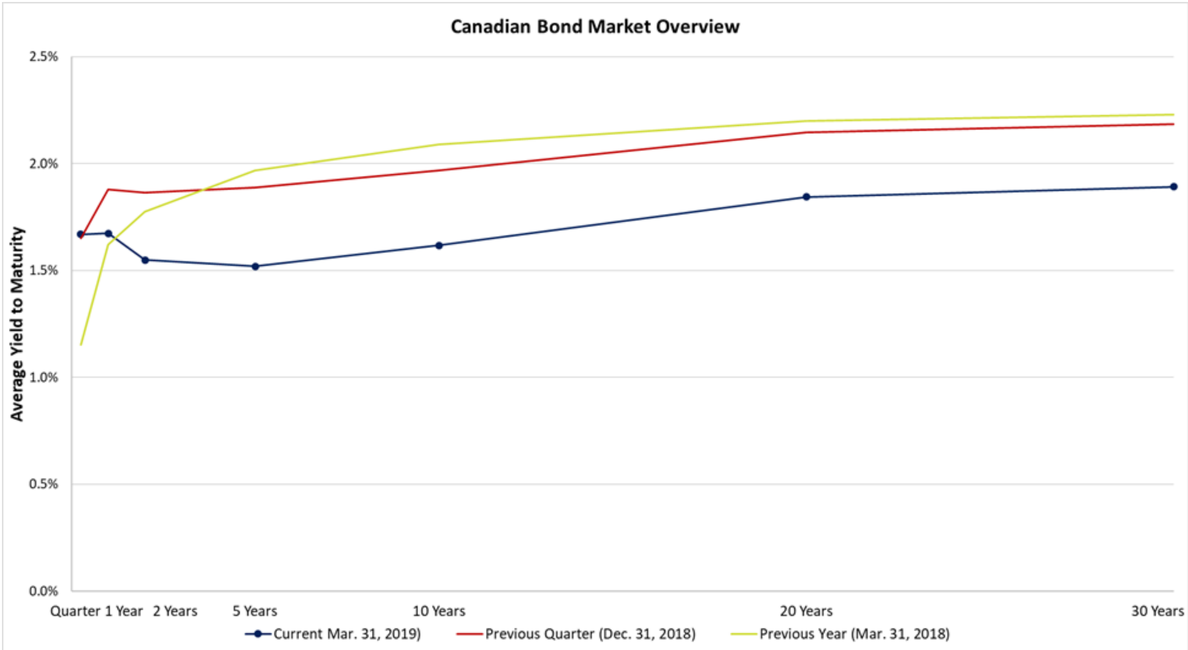
AS AT MARCH 31, 2019

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

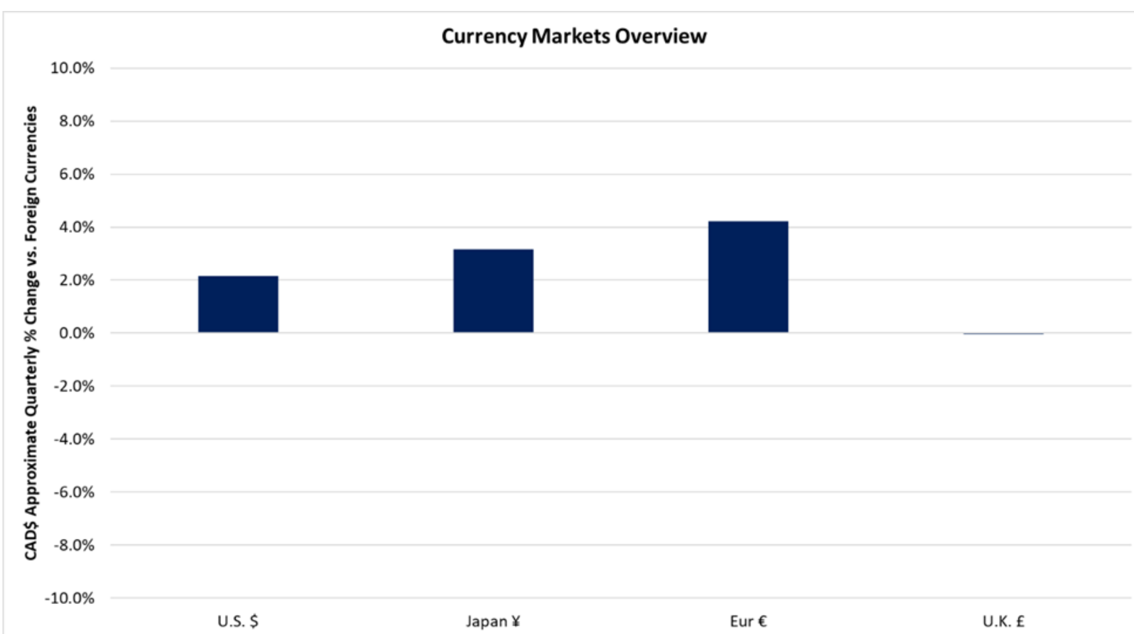
- Performance was broad-based in the quarter with most asset classes having positive results. Public Equities, both market capitalization weighted and Low Volatility strategies, were the strongest contributors to the positive overall returns earned.
- Many active management activities generated positive value-add in the quarter. Weak Private Equity performance led to mixed overall active management results across clients.
- The Canadian yield curve partially inverted over the quarter with many bond yields below short-term interest rates. With the Bank of Canada leaving rates on hold during the period, falling bond yields across most tenors led to the inversion. This environment led to strong fixed income returns with the Canadian All Government Bond index advancing 3.87%. Corporate bonds outperformed, with the index gaining 4.03% as credit spreads narrowed versus Government of Canada bonds.
- The Real Return Bond Index outperformed nominal bonds as higher inflation expectations led to gains for bonds which provide inflation protection along with the index having a higher sensitivity to falling yields.



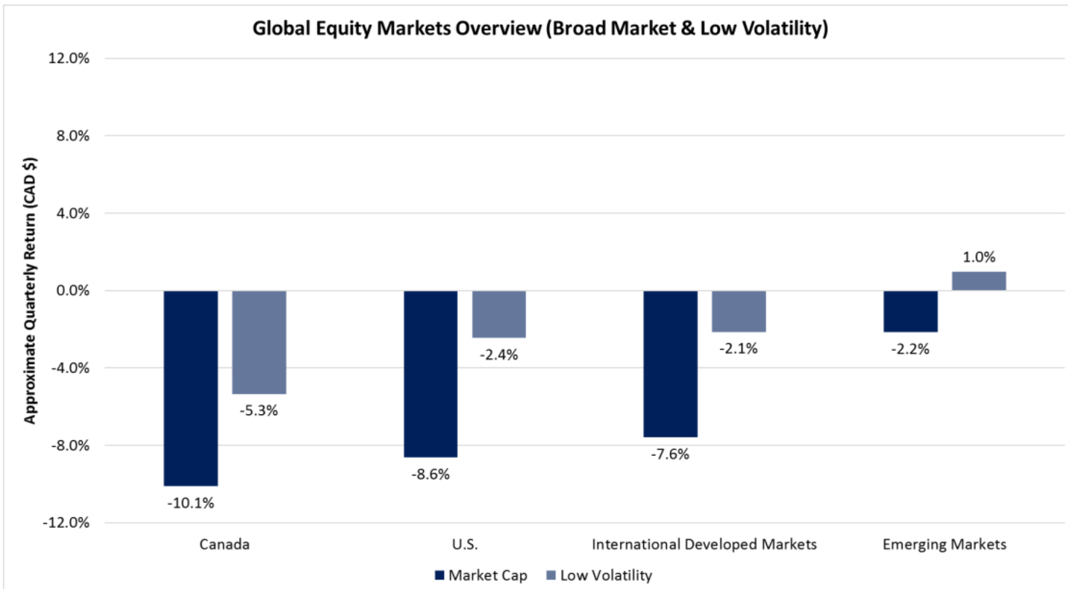
- Total Real Estate generally produced positive returns during the quarter. Public Real Estate was particularly strong with contributions from both Canadian and international components.

- Similar to the experience with Real Estate, Infrastructure programs also experienced stronger returns in public markets versus Private Infrastructure. In aggregate, overall Infrastructure generated positive results during the quarter.

- In currency markets, the Canadian dollar advanced versus most major currencies which somewhat moderated strong foreign equity returns:



- Equity market performance was broad-based during the quarter with all strategies producing positive results. International equities underperformed domestic as the Canadian dollar advanced leading to negative foreign currency translation. 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:



Market Environment and Outlook

Highlights:

- Q1 2019 saw a significant positive rebound in the return from risk-seeking assets, with the S&P 500 index up 13.65% in the quarter, effectively reversing nearly all the previous quarter's 13.5% loss and leaving the index just about 2% below its level at the end of September.
- Bond yields, however, did not rebound, and the U.S. 10-year government yield finished Q1 at a level of just 2.4%, down nearly 30 bps.
- Global Central Bank monetary policy is generally accommodative, and inflation remains stable.
- The Canadian dollar has experienced a volatile path thus far in 2019, strengthening in January before reversing those gains in the ensuing months.
- Despite the strong equity market environment, Low Volatility indexes generally underperformed higher risk market capitalization weighted equity indexes only slightly in the developed markets, while in emerging markets, outperformance from Q4 was fully undone by underperformance in Q1.
- WTI crude oil rebounded strongly in Q1, increasing over 32% from year end to March 31.
- Essentially all risky assets experienced strong rebounds in the quarter, thus putting average valuations back into higher territory.

The first quarter was a nearly perfect rebound for generic 60/40 stock/bond portfolios, with equity markets rebounding significantly while at the same time bond yields remained stable or lower in the quarter, thus protecting the value of fixed income investor portfolios. Initial performance reports suggest that generic public market balanced fund portfolios experienced gains of approximately 8% in the quarter. While stronger equity market performance is often associated with positive economic growth (typically placing upward pressure on interest rates), bond yields actually remained subdued due to the uncertain outlook for central bank action going forward, with market expectations currently pricing in as much as a 50% probability of a rate cut by the U.S. Federal Reserve during 2019.

While economic data releases have continued to appear positive, deeper analysis suggests headwinds remain in place. U.S. GDP growth for Q1 2019 came in at a surprising 3.2% annualized rate (with typical analyst forecasts having been in the vicinity of 2%), but ongoing issues related to data quality during the first quarter of calendar years along with some uncertainty about inventory buildups to protect against perceived trade concerns suggest this may be front-loading of growth, thereby placing additional pressure on any economic and fundamental support for markets during the remainder of the year. Corporate earnings growth, while somewhat better than analyst expectations for the quarter, has continued to slow, with ongoing expectations of declining growth due to effects of tax reform in prior quarters combined with generally declining final sales figures overall.

For Canadian dollar investors, the rebound in the Canadian dollar earlier in the quarter resulted in a slight return drag for foreign currency denominated investments. While the S&P 500 was up 13.5% in U.S. dollar terms, when translated to Canadian dollars, that gain was reduced to just about 11%. Overall, foreign exchange was likely a small net drag on returns in the quarter for a typical (currency unhedged) Canadian investor. Also, of importance for the local economy is the strengthening oil market and the outperformance of certain healthcare sector stocks, which allowed the S&P/TSX Composite Index to outpace global markets in the quarter when translated into Canadian dollar terms.

As noted, Low Volatility strategies underperformed market capitalization weighted indexes in Q1, an expected outcome in a strong equity market environment. However, when combined with the experience of Q4 2018, these strategies continued to outperform, with downside hedging in turbulent markets more than offsetting the return drag experienced during market increases in all segments outside of emerging markets. Despite broad investor consensus as to the relatively expensive nature of low volatility portfolios (that is, with high price/earnings ratios relative to historical experiences), these strategies continue to provide effective downside risk hedging characteristics when properly deployed.

Ultimately, recent market conditions remain indicative of the late cycle, stretched-valuation environment faced by investors, with heightened volatility in response to evolving fundamentals and geopolitical events. The divergence in performance of equity and bond markets (rising stocks without associated bond yield increases) suggest a disconnect in expectations between certain classes of investors. This, combined with the rapid shift over the past year from market concerns of a too-quick tightening of monetary policy to that of a fairly significant possibility of short term interest rate cuts as implied by market prices suggests that further volatility is very likely should we observe unexpected data releases or unfavourable developments in global geopolitical negotiations (Brexit, U.S.-China trade, etc.).

From today, market prices and a survey of analyst forecasts suggest that a generic 60/40 stock/bond portfolio has a long term expected return of perhaps 4% - 5% assuming economic growth continues as forecast. Consequently, a focus on enhanced diversification, prudent allocation to high quality alternative strategies, and risk-aware active management will remain a priority going forward to continue to achieve required returns for Vestcor clients.