QUARTERLY MARKET UPDATE

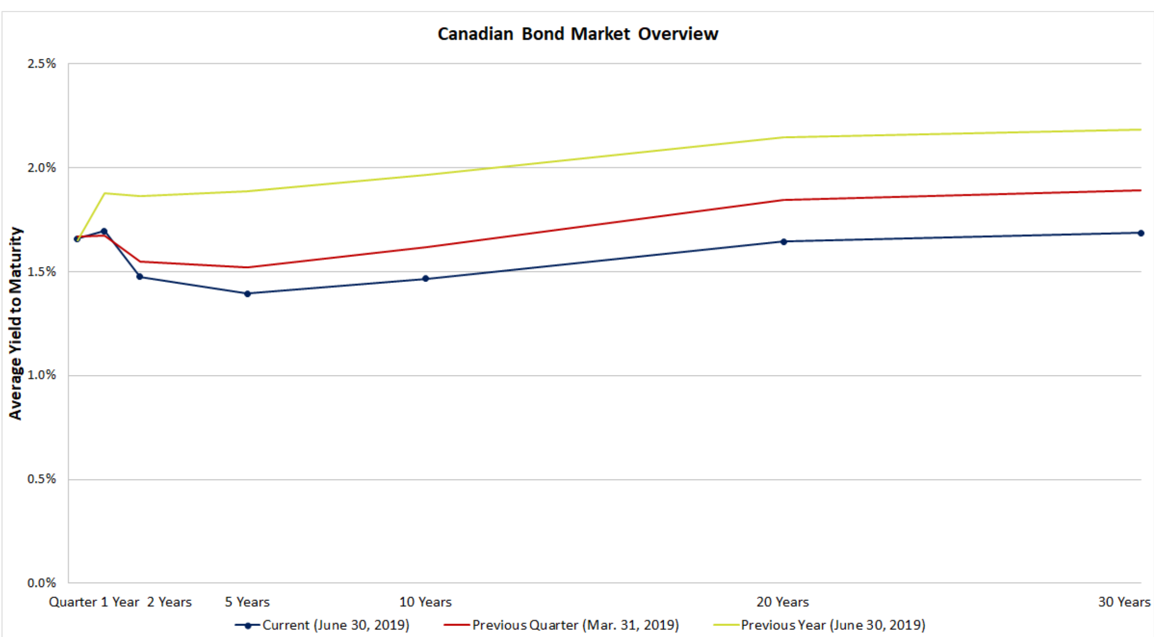
AS AT JUNE 30, 2019

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

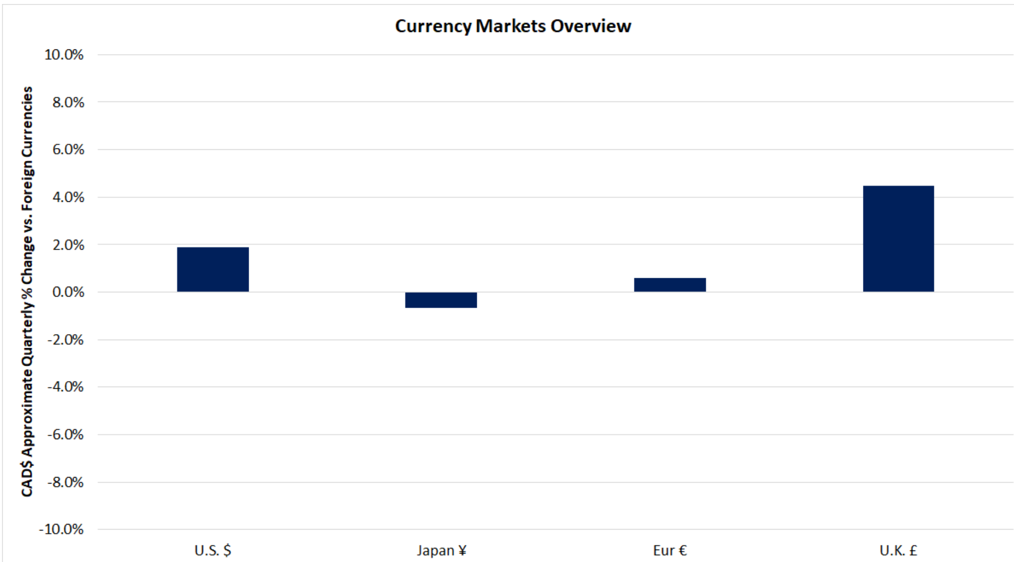
- Performance was broad-based in the quarter with most asset classes having positive results. Fixed Income was the strongest contributor while equities, both market capitalization-weighted and low volatility also provided meaningfully to total returns.
- In general, active management activities experienced challenges in the quarter while continuing to be a strong positive contributor over longer time periods. Recent underperformance has been driven by Real Estate, Infrastructure and Low Volatility Equity strategies.
- The Canadian yield curve continued to invert over the quarter with declining longer term yields while shorter term yields remained anchored as the Bank of Canada left interest rates unchanged. This environment was a continuation of that experienced in the previous quarter, leading to strong fixed income returns with the Canadian All Government Bond index advancing 2.44%. Corporate bonds outperformed, with the index gaining 2.68% as credit spreads further narrowed versus Government of Canada bonds.
- The Real Return Bond Index outperformed nominal bonds, gaining 3.50% due to having a higher sensitivity to falling yields.



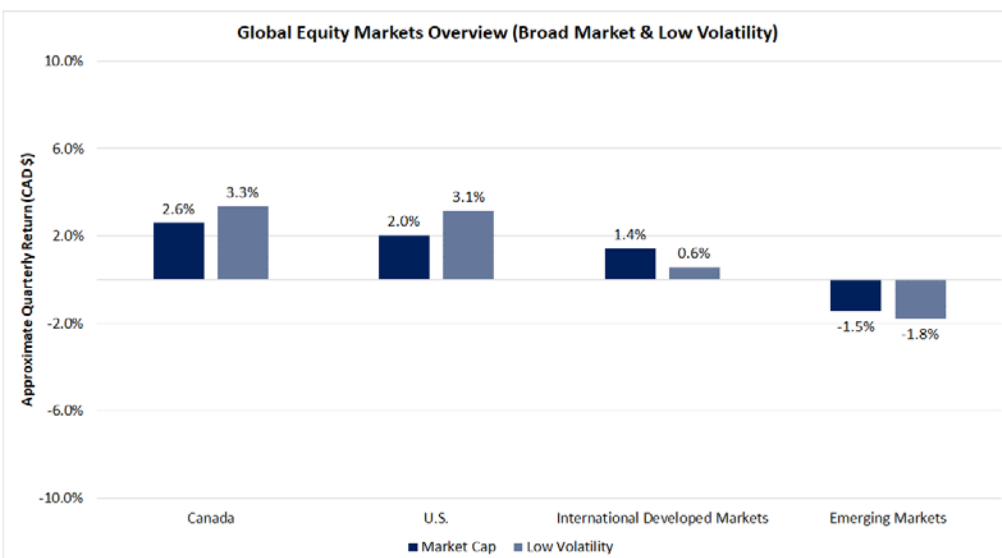
- Total Real Estate produced positive overall returns during the quarter. Private Real Estate generated positive results with Canadian Real Estate outperforming international components, while Public Real Estate performance was approximately flat.

- Total Infrastructure performance was flat as Public Infrastructure were offset by underperforming Private Infrastructure.

- In currency markets, the Canadian dollar continued to advance versus most major currencies, somewhat moderating foreign equity returns:



- Equity market performance was generally positive in the quarter with developed market strategies advancing while emerging markets incurred negative returns. International equities underperformed domestic as the Canadian dollar appreciated leading to negative foreign currency translation. During the quarter low volatility strategies outperformed broad equity markets in North American as falling bond yields in the region benefited the strategy:



Market Environment and Outlook

Summary

- While elevated trade tensions and geopolitical risk now appear to be the main drivers of both global economic performance and market risk, central banks including the U.S. Federal Reserve and the European Central Bank have adjusted their policy framework to a more accommodating position in an attempt to mitigate downside risk and prolong the current economic cycle.
- The strong rebound in prices of risk-seeking assets, combined with continued low bond yields has resulted in strong year-to-date returns; however, it leaves investors exposed to underperforming policy targets in the medium term and elevates downside risk in the short term with greater reliance on accommodative central bank policy and continued gains in corporate profitability for equity investors to maintain price levels.
- A volatile, decreasing rate environment likely favors lower volatility equities and higher quality credit exposures and necessitates a continued diversified portfolio approach.

Equities rebounded significantly in the first half of 2019, with the S&P 500 Index rising 18.5% in U.S. dollar terms, setting new record highs with index levels in excess of 3000 in early July. U.S. equities remain the star of the global equity landscape, although most developed markets have rallied, with emerging markets lagging somewhat (up 10.7% thus far in 2019 in USD terms). In Canada, equities rallied as well, gaining over 16% through mid-year, with gains across all sectors of the markets.

Despite strong equity markets, bond yields have remained low and even declined thus far in 2019. The benchmark U.S. 10-year yield closed the first half at 2.0%, while the Canadian 10-year yield fell to 1.46% at the same time. Additionally, the compensation for investors to assume additional risk in the form of lengthening bond duration remains extremely low, with certain segments of global yield curves inverting (with shorter-dated yields higher than longer-dated yields in certain parts of the market). Globally, over 25% of government debt issued now carries negative yields, and over 75% of bonds outstanding now feature a yield of less than 2%. The bond market has been consistent in recent months in looking through equity market strength to forecast increasing risk of central banks lowering rates in the face of economic and geopolitical uncertainty, with investors accepting lower yields for the diversification potential and downside protection of bonds.

In China, growth continues to slow as the effects of an ongoing trade stalemate with the U.S. appear to be having non-trivial effects. Economic softness in what has been one of the global economy's major growth drivers has left many to speculate about a rising probability of stimulus in the form of easing monetary policy and infrastructure spending. However, despite the need to offset trade restrictions, an overall priority of maintaining financial stability would preclude significant currency devaluations, while the generally high level of indebtedness in certain sectors of the Chinese economy may limit capacity or willingness to borrow significantly to fund large projects as in the past. Overall, the global growth outlook remains somewhat muted.

Markets have reacted to increasing uncertainty by rationally bidding up the prices of higher quality and downside protected assets. The valuation spread (the premium one must pay in terms of price-earnings ratios) for generic minimum volatility equities compared to the broad market has increased, as has the valuation spread for so-called “high quality” equities, an additional indication that investors are willing to pay higher prices for assets that hedge their portfolio risk in a downside market event.

Geopolitical risk will likely remain in focus for investors throughout 2019 and leading into a new election cycle in the U.S. in 2020. With campaigning now in full force, increasing rhetoric around the U.S. role in the global economy both from a trade and security perspective will likely result in a continual series of minor geopolitical events for markets to navigate. The increased likelihood of a noisy news cycle combined with elevated valuations and potentially slowing global growth will likely result in somewhat outsized effects on markets in many cases. While the cost of directly hedging all forms of downside risk remains cost-prohibitive in terms of its effect on the long run health of a portfolio, remaining diversified and focused on owning high quality assets will be of paramount importance for investors.

Overall, 2019 appears to be a challenging point for global investors. Asset prices are high and geopolitical risk remains elevated, while central banks appear willing to act to maintain economic performance where appropriate in the context of inflation targeting regimes. If central banks can engineer a “soft landing” – offsetting trade declines and slowing growth with accommodative policy that maintains inflation near target – then exposure to risk-seeking assets will remain essential for earning returns. In a less favorable outcome, diversification and maximizing exposure to higher quality assets – despite their elevated valuations currently – will provide the best positioning for investors to navigate the market volatility. Consequently, for Vestcor clients, it is likely that existing defensively tilted portfolio allocations remain appropriate.