QUARTERLY MARKET UPDATE

AS AT DECEMBER 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.

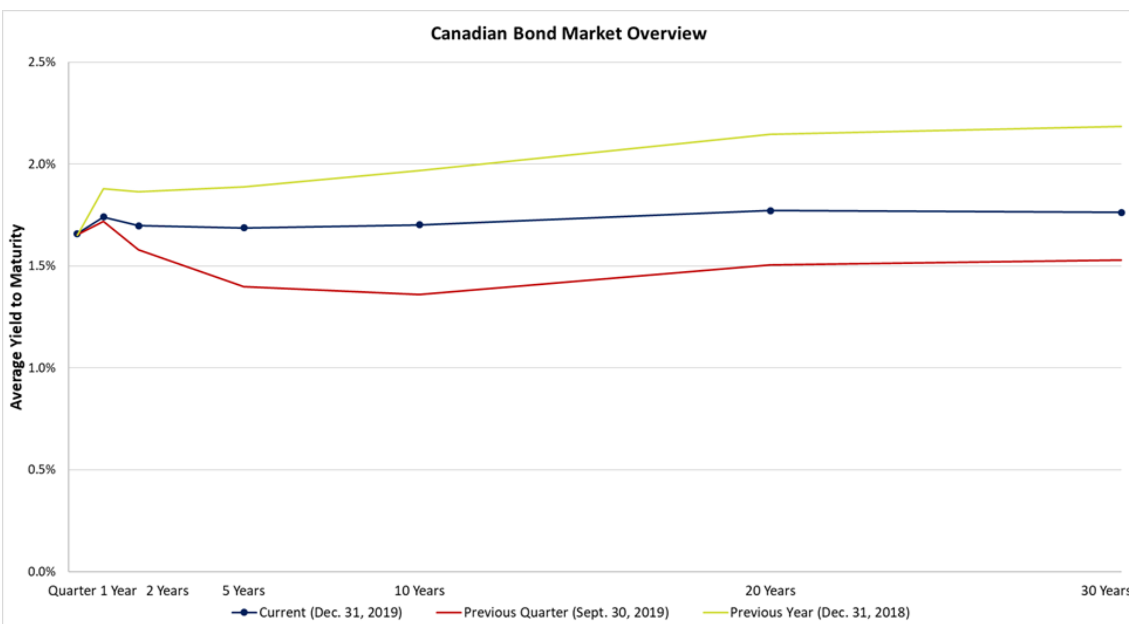
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

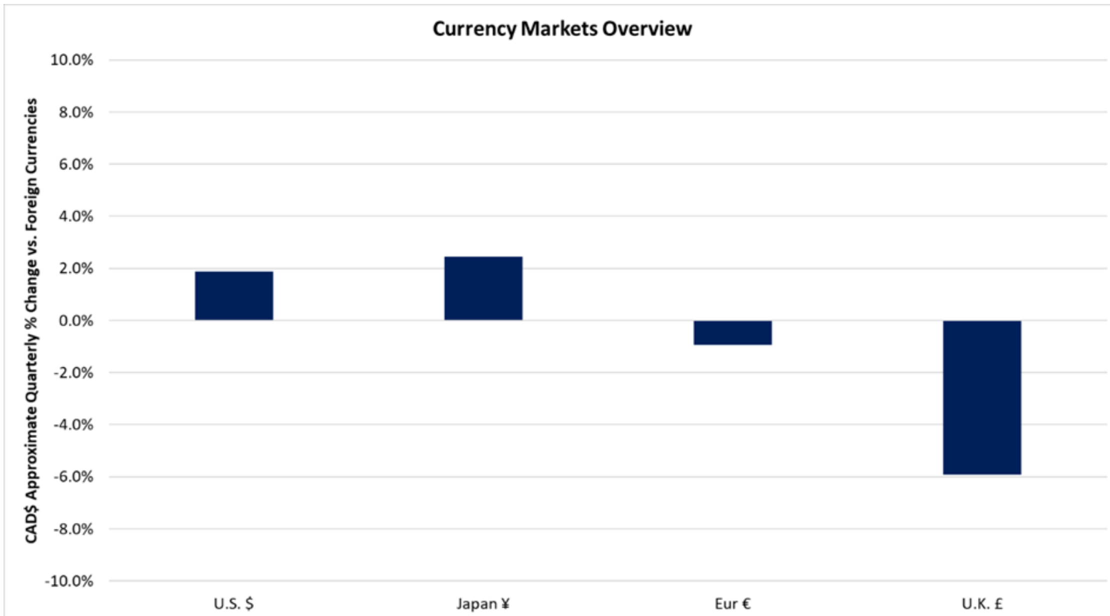
- The final quarter of 2019 provided positive returns with contributions from Equities and Alternatives. During this risk-on environment, marked by an improving global growth outlook, domestic government fixed income incurred negative returns and market-capitalization weighted equities outpaced Low Volatility strategies.

- Bond yields increased across most terms but remained anchored for short term debt as the Bank of Canada continued to leave interest rates unchanged leading to a flattening of the yield curve. The Canadian All Government Bond index fell 1.20% during the quarter on yield increases, while the index incurred strong gains of 6.42% over the 2019 calendar year. The Canadian Corporate Bond index outperformed Government bonds over the quarter with performance roughly flat at 0.06% due to both decreases in credit spreads and a lower sensitivity to rising yields.

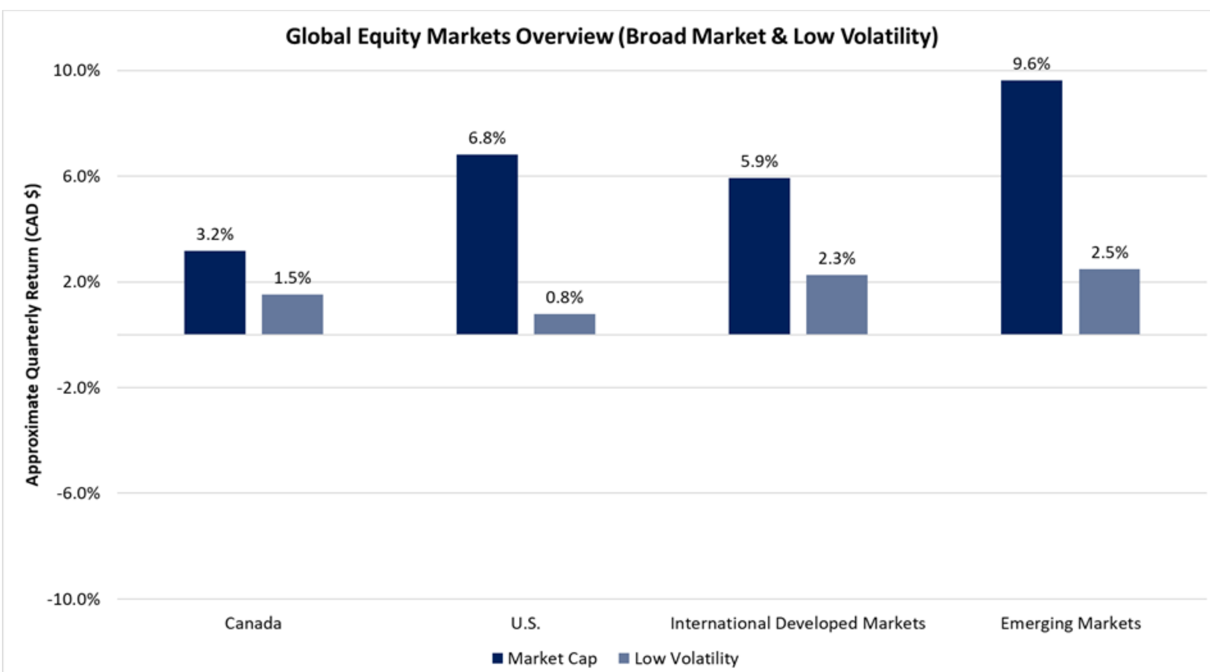
- The Real Return Bond Index fell 1.99% over the period, underperforming Canadian nominal bonds due to a higher sensitivity to rising yields.



- In currency markets, Canadian dollar performance was mixed, gaining versus the US Dollar and Japanese Yen while depreciating versus the Euro and U.K. Pound. On balance, these currency movements somewhat moderated foreign asset returns.



Equity market performance was positive in the quarter with Emerging Markets showing the greatest gain. During the period broad equity markets outperformed low volatility strategies across all regions as is typical during periods of positive risk sentiment.



Market Environment and Outlook

Summary:

- 2019 proved to be an extremely strong year for equity markets, with most global markets marching steadily upward with only occasional turbulence along the way. The S&P 500 gained over 31% for the year in $USD, leading the way amongst global equity markets.

- In general, developed markets proved stronger than emerging markets, as global trade concerns weighed on the more export driven markets more heavily than the more diversified economies such as the U.S.

- Low Volatility strategies, after outperforming market capitalized strategies solidly through the first three quarters of 2019, underperformed significantly in Q4 due to both indiscriminate buying by investors of higher risk securities as well as a return drag caused by the move higher in interest rates in the final few months of the year.

Equity markets looked through underlying sources of uncertainty to post extremely strong returns for the 2019 calendar year. In the U.S., the benchmark S&P 500 Index posted a 9% return in the 4th quarter to bring the full year return to in excess of 31% in $USD terms (25% in $CAD). While other markets were not able to match the S&P's performance, global equities were strong as well, with the S&P/TSX Composite Index and MSCI EAFE Indexes returning over 22% and 16% respectively in Canadian dollar terms. In contrast, emerging markets as represented by the MSCI Emerging Markets Index, was a relative laggard, earning "just" under 13% for the year.

As would be expected in such a strong year for equity market returns, Low Volatility strategies underperformed most conventional equity markets during the year . For the U.S., EAFE and Emerging Markets, Low Vol Indexes underperformed by 3%, 5% and 9%, respectively, with the entirety of the underperformance coming in the 4th quarter during a period of almost indiscriminate buying of lower quality, higher risk securities and a fairly significant reversal in interest rates. In contrast, the Canadian Market proved more resilient in the low volatility segment, with the MSCI Canada Minimum Volatility Index outperforming the broad market benchmark by just over 1% for 2019, with gains coming from both sectoral allocations and security selection within sectors.

Interest rates experienced significant volatility throughout the year, which directly impacted fixed income portfolios as well as having secondary effects on other asset classes. In the first three quarters of 2019, yields moved steadily lower – the U.S. 10-year government bond yield began the year at over 2.6% and reached a low of under 1.5% in September before moving back up to about 1.9% at year end. Yields in other markets such as Canada followed similar paths through the year, with significant implications for bond portfolio returns. Additionally, the secondary effects of these bond yield moves can have significant impacts on other areas of the markets, including low volatility equities, real estate, and infrastructure, where falling yields are generally a positive contributor and rising yields often pose a drag on returns.

Underlying economic fundamentals remain solid if unspectacular, the corporate sector and labour markets (particularly in the U.S.) have proven to have been healthy with low unemployment and steady growth in total payrolls, albeit with muted wage growth. Looking forward, GDP growth remains solidly positive in most developed markets, while year-over-year earnings growth in the corporate sector is expected to also maintain positive growth, albeit at somewhat reduced levels in the near term. In terms of economic policy, global central banks appear to be following their data-driven frameworks – reacting with stimulus in the face of economic uncertainty or negative policy surprises, providing a continued volatility reducing backstop to markets.

If we date the beginning of the current bull market at the bottom of the 2008-09 financial crisis in March of 2009, the rally has now exceeded a decade in length and has shrugged off a European Debt Crisis in 2011-12, an oil price crash from $100 to $30 in the 2014-16 period, and the apparent threat of a global trade war in 2019 with little more than a transient increase in volatility and short term return drawdown in each case, and with no meaningful follow-through to speak of for the real economy globally. In general, the equity market has significantly benefited from a leaner and more efficient corporate sector coming out of the financial crisis, continued supportive policy on the part of central banks and governments, and steadily falling long term interest rates that helped boost asset values. Current valuations however indicate that forward looking returns will be more modest for global markets.

Although forecasting market returns with any precision is effectively impossible and any estimate should be interpreted to have a wide margin for error, the current situation warrants caution. With current bond yields in the 1.5%-2% range, and equity market valuations (proxied by the Shiller Cyclically Adjusted P/E Ratio) likely implying forward looking returns in the neighborhood of 5-6%, a passively managed diversified portfolio appears to be priced for a weighted average return of about 3-4% as of year-end 2019. As such, a significant focus on diversification (both in the traditional sense and into alternative strategies) to reduce risk as well as effective deployment of active risk to produce above-benchmark returns will be essential for achieving the pension promise in future years.