QUARTERLY MARKET UPDATE

AS AT JUNE 30, 2020

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.

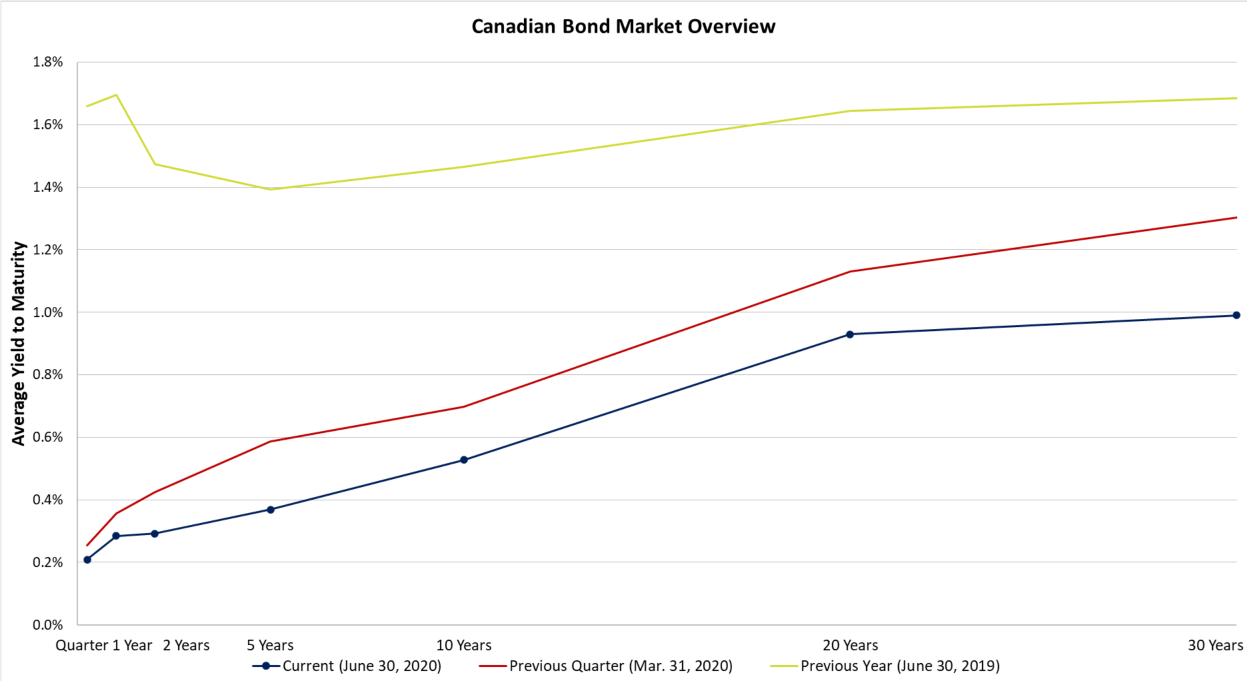
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

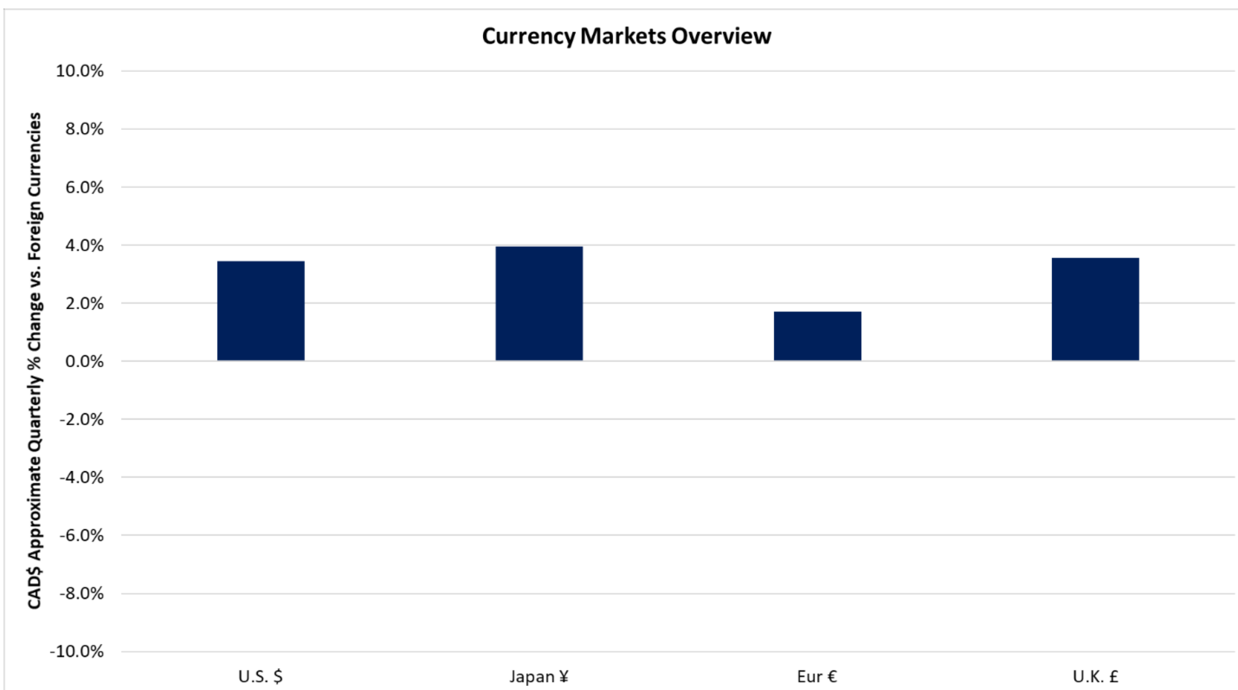
- The investment performance in the second quarter of 2020 reversed the trends of the first quarter with most asset classes contributing positive returns as various markets and strategies gained following losses during the previous quarter. Equities proved to be the strongest performers overall with improving sentiment lifting market capitalization weighted equities and to a lesser degree low volatility strategies.

- Bond yields fell across all maturities as the Bank of Canada continues its asset purchasing program and provided forward guidance that short-term interest rates will remain at 0.25% for an extended period. Fixed income assets had a very strong quarter with the Canadian All Government Bond index advancing 5.08% due to lower yields and strong performance of provincial bonds. The Corporate Bond index gained 8.09% as credit spreads tightened due to improving sentiment for credit quality and increased market liquidity.

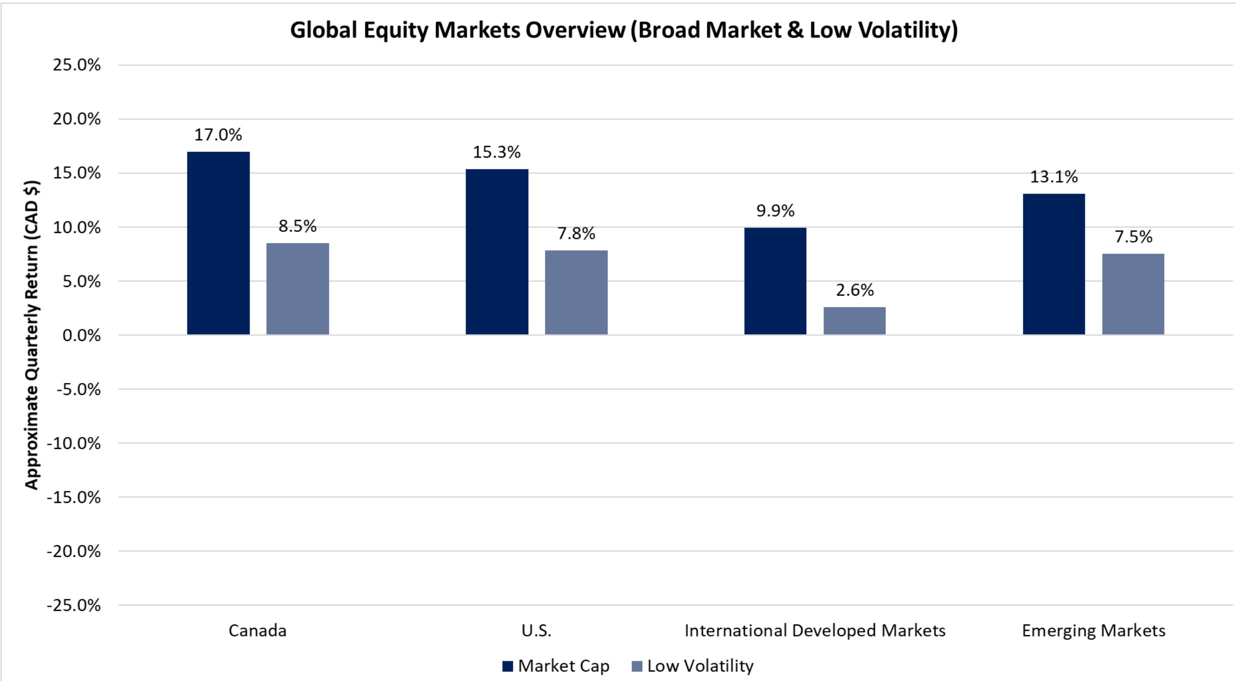
- Real Return Bond index performance was strong gaining 6.23%, outperforming Canadian nominal bonds due to rising, but still depressed inflation expectations. During the quarter crude oil prices rose increasing the demand for inflation hedged assets.



- In currency markets, the Canadian dollar advanced versus most major currencies, somewhat moderating foreign equity returns.



- Equity markets had strong overall results with advances in all regions while individual stock performance within each market varied. Strong overall risk sentiment led to large deviations between market capitalization weighted indexes and underperforming low volatility strategies.



Market Environment and Outlook

Summary:

- After significant drawdowns in Q1, global equities have recovered significantly through the end of the first half, although certain segments of the market remain depressed relative to prior levels.

- Volatility remains elevated relative to recent average levels, indicating increased activity (both speculation and hedging) in option markets as a result of increased uncertainty of the true value of equity markets.

- While the market reaction has been violent in terms of volatility, the impact on the underlying economy has been even more severe, and it will take several more quarters of economic data before we know the full extent of the damage in all segments of the economy.

After the significant volatility in the first quarter of 2020, most equity markets recovered rapidly to close the first half of the year just slightly below the levels of the end of 2019. The S&P 500 Index ended 2019 at 3230, reached a low of 2237 (-31% return) in late March, but rallied 39% from the lows to close the month of June at 3100. Overall, including dividends, investors saw local currency returns of -3% on U.S.

broad market equities for the first half of 2020, albeit with significant volatility. Outside of the U.S., global equity markets have also recovered significantly, although remain somewhat lower relative to previous peak values when compared to the U.S. market.

While equity markets have recovered in general terms, certain segments remain depressed. In Canada, for example, while the overall market dropped about 7.5% in the first half, Real Estate Investment Trusts on average lost about 20% of their market values while Energy stocks dropped 30%, reflecting the significant challenges to business models in those market segments caused by the COVID-19 pandemic. In general, while overall equity market levels are not severely impaired relative to the end of 2019, the valuation gaps between certain market segments has grown much wider due to the significant impact of the economic disruption felt thus far in 2020.

Commodity markets have also experienced significant volatility as a result of severe supply-demand imbalances as the economy readjusted to economic shutdowns. The “first month expiry” of the WTI crude oil futures contract briefly traded to negative prices around the contract’s expiry in April (meaning that investors willing to take delivery of physical oil could have been paid to do so for at least one day). Despite a recovery, Crude prices remain well below the levels at the end of 2019. In contrast, precious metals such as gold and silver have traded significantly higher throughout much of 2020.

Overall, while market volatility has been significant in 2020, the impact of the COVID-19 pandemic and associated economic shutdowns has had an even larger impact on the underlying economy. U.S. initial jobless claims (after averaging fewer than 300,000 claims per week in the months leading up to March 2020) have averaged nearly 3 million claims per week over the past 18 weeks, for a total of in excess of 50 million new claims for unemployment insurance benefits. Prior to 2020, the highest recorded value for this statistic was 695,000 (during the early 1980s U.S. recession), while in March and April of 2020, two consecutive weeks saw more than 6 million people submit claims for jobless benefits. The impact on the economy has therefore been severe, and near-term forecasts of economic growth suggest that the U.S. economy may have been contracting at approximately a 10% rate per quarter during the May/June period of 2020.

While setting near term expectations is nearly impossible even during normal market environments, the short-term outlook remains particularly cloudy in mid-2020. While equity markets have recovered significant amounts of their earlier losses (implying that investors expect a minimal level of earnings impairment relative to 2019), bond markets remain in a bearish position, with low yields implying reduced growth and inflation expectations going forward. While central banks globally have capacity for further stimulus with inflation broadly below target in most economies, the capacity of fiscal policy makers to provide additional stimulus will be heavily dependent on both financial position/borrowing constraints as well as political challenges. It is unlikely that both equity and bond markets will be correct about their implied forecasts of future economic performance.

Coming in to 2020, geopolitical risk was at the forefront of investor thinking, and while the COVID-19 pandemic, energy price shocks, and global partial economic shutdowns have distracted from that, it is obvious that the longer term outlook remains challenged. U.S.-China relations continue to deteriorate on many fronts, while little progress has apparently been made as to the nature of a U.K.-Europe trade agreement in a post-BREXIT world. Overall, geopolitical risk and trade concerns are likely to remain a drag on growth and a contributor to market volatility for the foreseeable future.

Finally, as has been the case in previous updates, market valuations remain a problem for long term investors. With the equity market recovery, stock prices remain elevated relative to their historical levels (even more so when considering the economic damage of COVID-19), while bond yields remain at or near all time lows. In this environment, passively managed stock & bond portfolios remain unlikely to generate returns above 4% over the medium term outlook, and investors must continue to rely on enhanced diversification and active management to both enhance long run returns and protect downside risks going forward.