QUARTERLY MARKET UPDATE

AS AT SEPTEMBER 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.

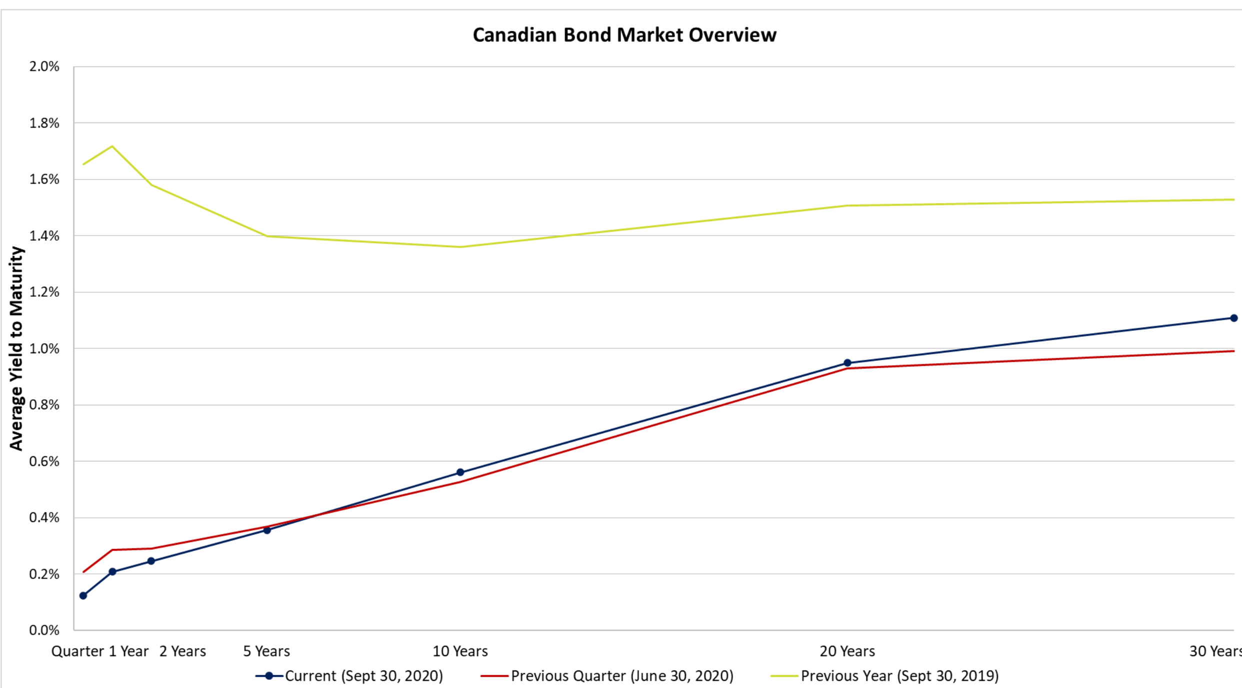
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

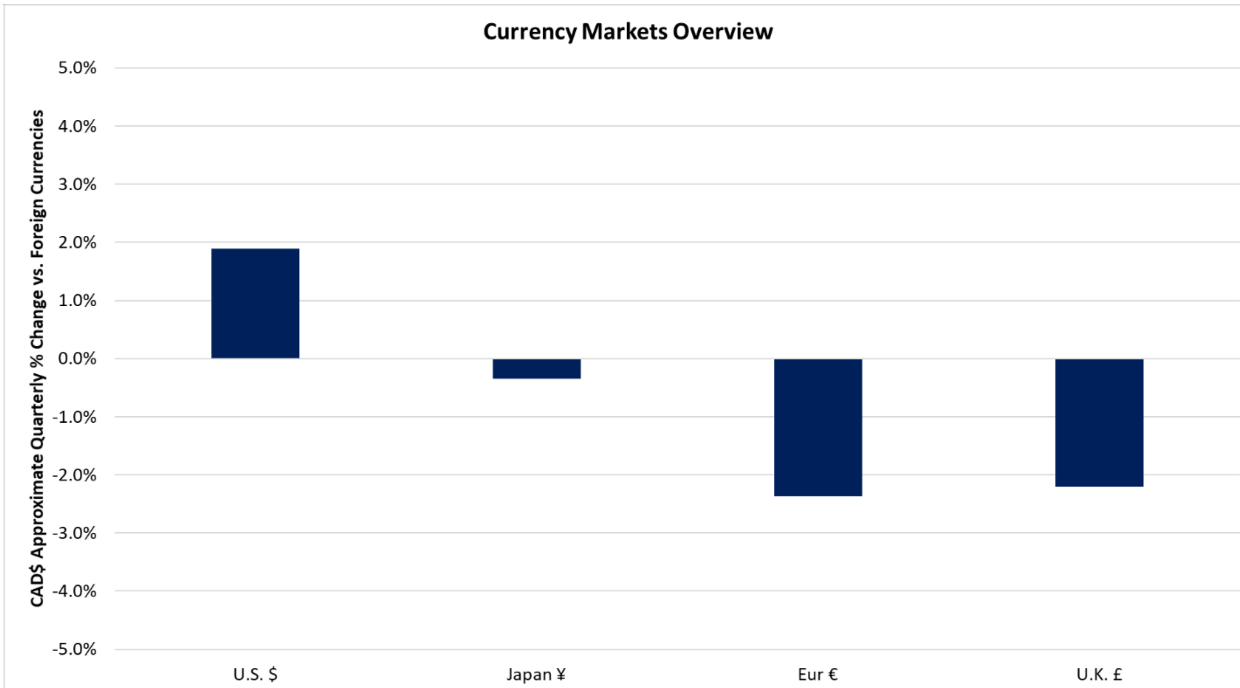
- The quarter provided positive returns with most asset classes contributing as various markets and strategies continued to advance following volatility earlier in CY 2020. Equities provided the largest contribution across public market strategies, both market capitalization weighted and low volatility. Other areas of strength include fixed income investments, led by Real Return Bonds, and Absolute Return Strategies.

- Bond yields across most maturities were unchanged over the quarter while long term yields rose slightly and yields for the shortest-term instruments fell somewhat. The Bank of Canada left interest rates unchanged over the period at 0.25% and continues its program of quantitative easing which provided stability to the market. Fixed income index performance varied with the Canadian All Government Bond index flat at 0.11% and the Corporate Bond index gaining 1.34%, outperforming government bonds as credit spreads continued to tighten.

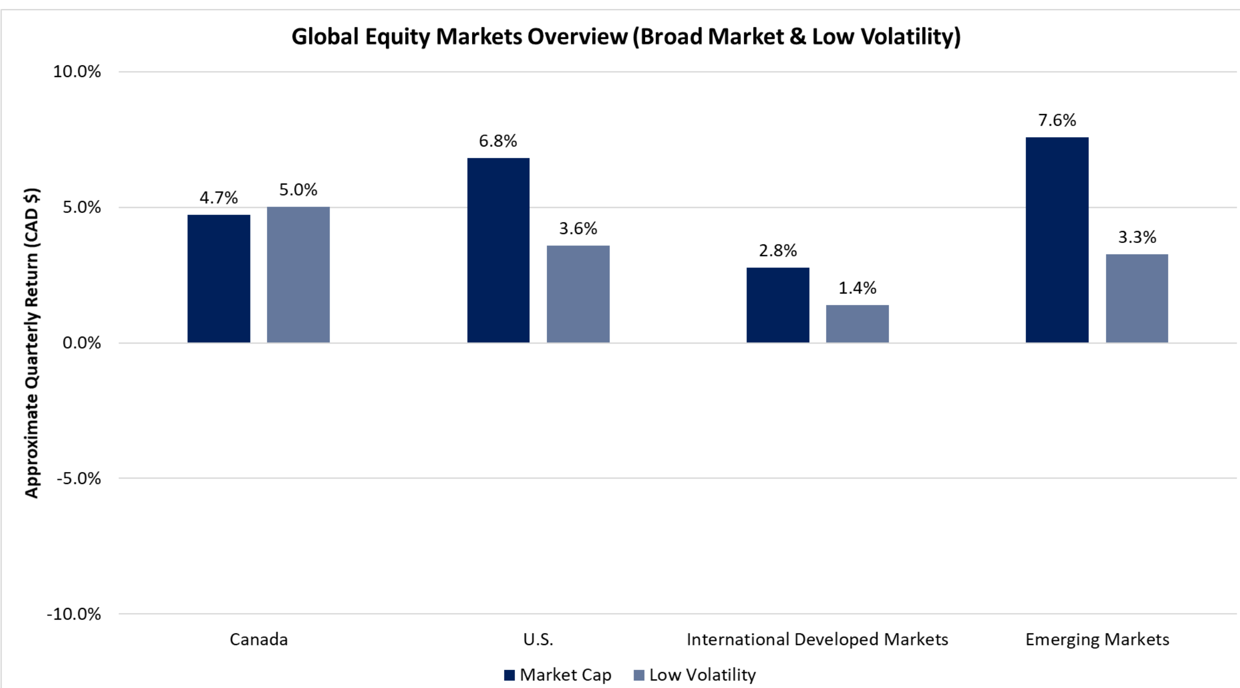
- Real Return Bond index performance was strong, gaining 4.43%, outperforming Canadian nominal bonds due to rising inflation expectations increasing the demand with inflation hedged assets.



- In currency markets, the Canadian dollar gained relative to the USD while depreciating versus other major currencies. On balance these currency movements provided a slightly negative contribution to total plan returns over the quarter.



- Equity markets had positive overall results with advances in all regions led by Emerging Markets. In most regions the positive risk sentiment led to low volatility strategies underperforming market capitalization weighted indexes.



Market Environment and Outlook

Summary:

- Equity markets have rebounded overall, although the strength on average hides the significant divergences within the market, as high-flying technology / growth companies have continued to dominate, while much of the traditional economy has stagnated.

- Bond yields remain low and expected returns for bond investors across most segments of the market remain at all time low levels.

- While COVID-19 has rightly dominated headlines in 2020, geopolitical risk has returned, with increased media coverage of Brexit / trade negotiations and issues around foreign policy under consideration due to the U.S. Federal election in November.

Equity markets continued their rebound in the third quarter, with the S&P 500 gaining nearly 9% (6.5% in $CAD), albeit with some volatility along the way. Globally, most equity indexes were strong in the quarter, with Canada, Global Developed Markets, and Emerging Markets Indexes up 4.7%, 5.5%, and 7.1% respectively in Canadian dollar terms. For the year to date, despite the significant drawdown in Q1, the S&P 500 has gained 5.5%.

However, the market strength on average potentially overlooks the significant shifts that have taken place throughout the COVID-19 period. While the broad market S&P 500 has earned a small positive return year to date, this comes with significant sectoral divergences. While the technology sector gained 30%, energy, financial, industrial, real estate and utility companies all remain below the levels of late 2019. High flying NASDAQ stocks have continued to perform well throughout 2020, while a significant portion of the market continues to struggle with COVID-19 related challenges.

Despite the recovery in equity markets, many other areas of the financial markets have undergone significant shifts in 2020. For bonds, the benchmark Canadian 10-year federal government bond yield fell from 1.7% at year end to just 0.7% at the end of Q1 and remained at a depressed level of 0.56% as of the end of Q3. U.S. yields followed a similar pattern, falling from 1.9% to about 0.65% during the first quarter, and remaining at those levels through the following six months.

For corporate bond investors, the combination of lower underlying risk-free rates as well as a general recovery in credit spreads from the March highs means that investors are facing uncertain economic times going forward. High yield spreads reached a high of nearly 11% on average in March, before declining to a 5% average level at the end of Q3. While spreads remain somewhat higher than the levels of 2019 (reflecting ongoing concern in the creditworthiness of certain segments of the market, such as traditional energy companies), the tighter spreads combined with lower underlying government yields means that the all-in expected return for a high yield investor is approaching all time lows.

Commodity markets have also experienced significant volatility, although some contracts have performed better than others. While WTI crude oil prices have been extremely volatile and remain about 30% below the levels at the end of 2019, gold, silver, and industrial metals such as copper have experienced significant price gains in the middle portion of 2020, leaving them significantly above their levels at the end of 2019. In general, the traditional energy segment of the market remains challenged.

Finally, geopolitical risk is once again of interest to investors. In addition to increased coverage of U.K.-EU trade negotiations, the U.S. federal election on November 3 will potentially have a significant impact on markets, particularly given the potential implications around any additional fiscal stimulus measures under consideration. Current market expectations appear to suggest that a Democrat victory would imply the potential for larger stimulus measures, with potential implications for rising bond yields. Currently, the average of national polls suggests a material lead for Biden, although as demonstrated several times in recent years, a complete understanding of voter intentions will have to wait until the votes are cast. Overall, investors should expect political news to dominate the headlines and potentially move markets going into year end.

As has been the case recently, Vestcor's focus remains on ensuring high quality, low risk positioning within portfolios. With high equity valuations, low bond yields, and significant economic uncertainty (both as to the path of corporate profits as well as geopolitical risk contributions), market risk will likely remain elevated relative to the pre-2020 levels in the coming months.