QUARTERLY MARKET UPDATE

As at December 31, 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.

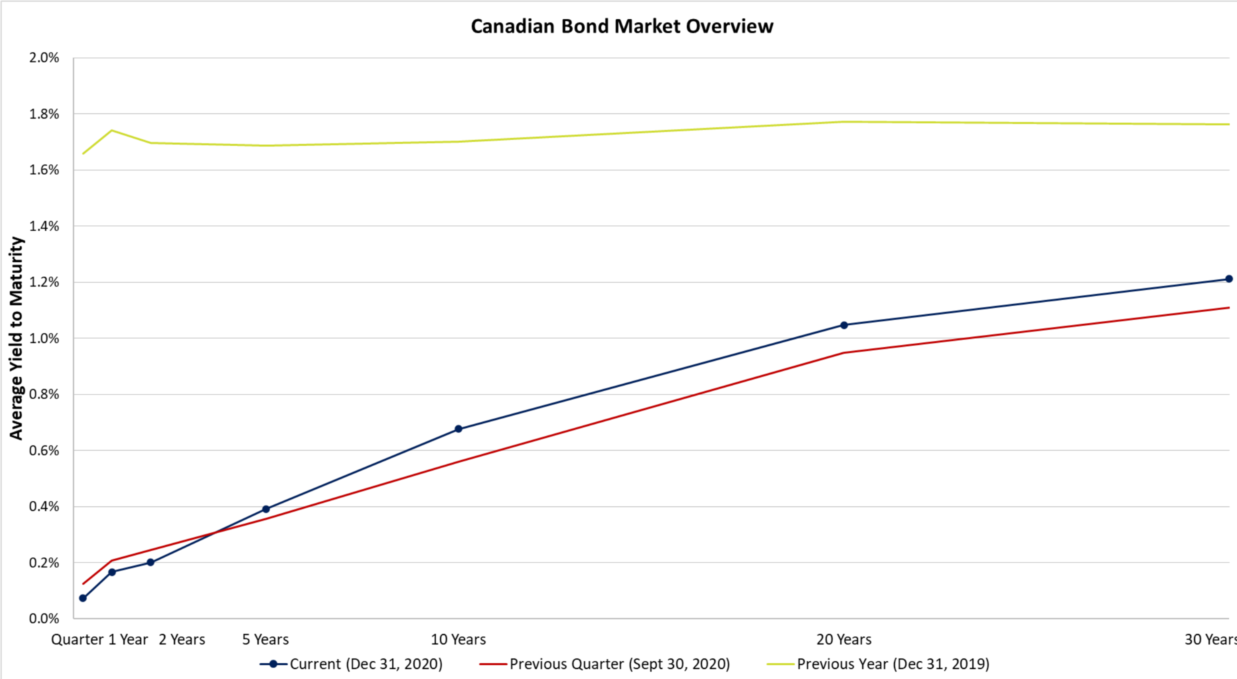
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

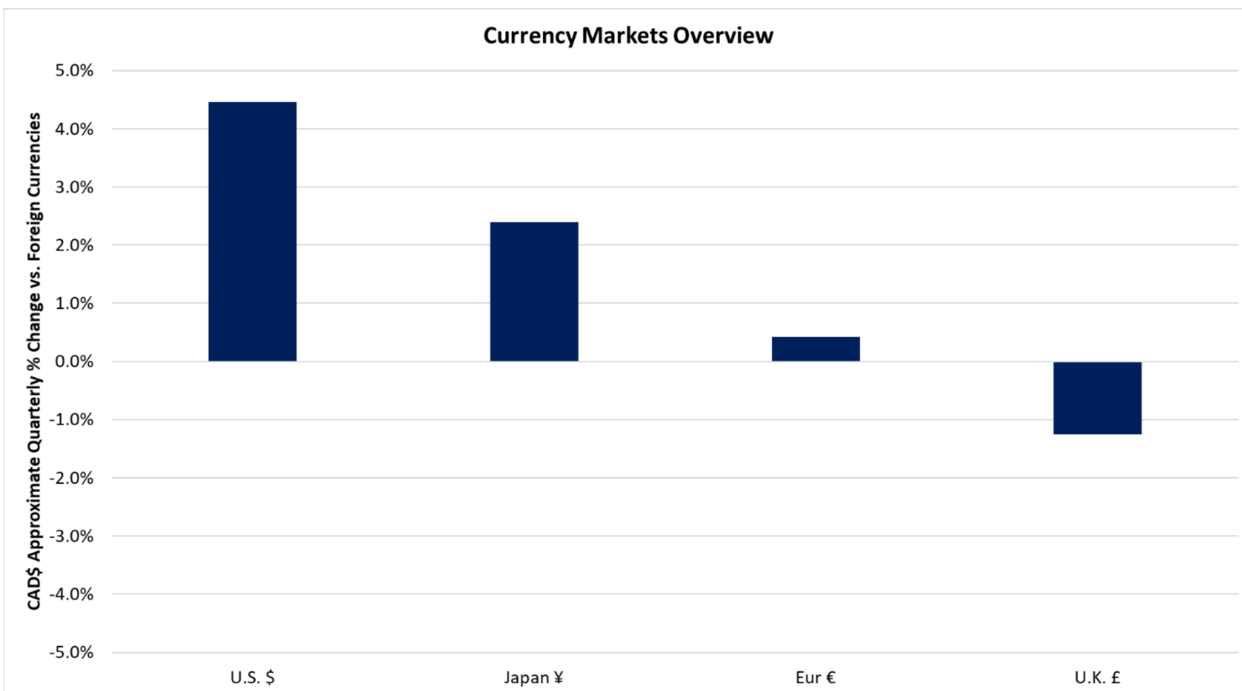
- The quarter provided positive returns with most asset classes contributing as various markets and strategies continued to advance after the volatility earlier in 2020. Equities had the strongest contribution during the period led by market capitalization weighted strategies and Private Equity. Other areas of strength include fixed income investments, led by Real Return Bonds, and Absolute Return Strategies.

- Bond yields rose somewhat for later maturities while yields for the shortest-term instruments were roughly unchanged leading to a steepening of the yield curve. The Bank of Canada left interest rates unchanged over the period at 0.25% and continues its program of quantitative easing. Fixed income index performance varied with the Canadian All Government Bond index moderately positive at 0.21% and the Corporate Bond index gaining 1.80%, outperforming government bonds due to credit spreads continuing to tighten and a lower sensitivity to rising long term yields.

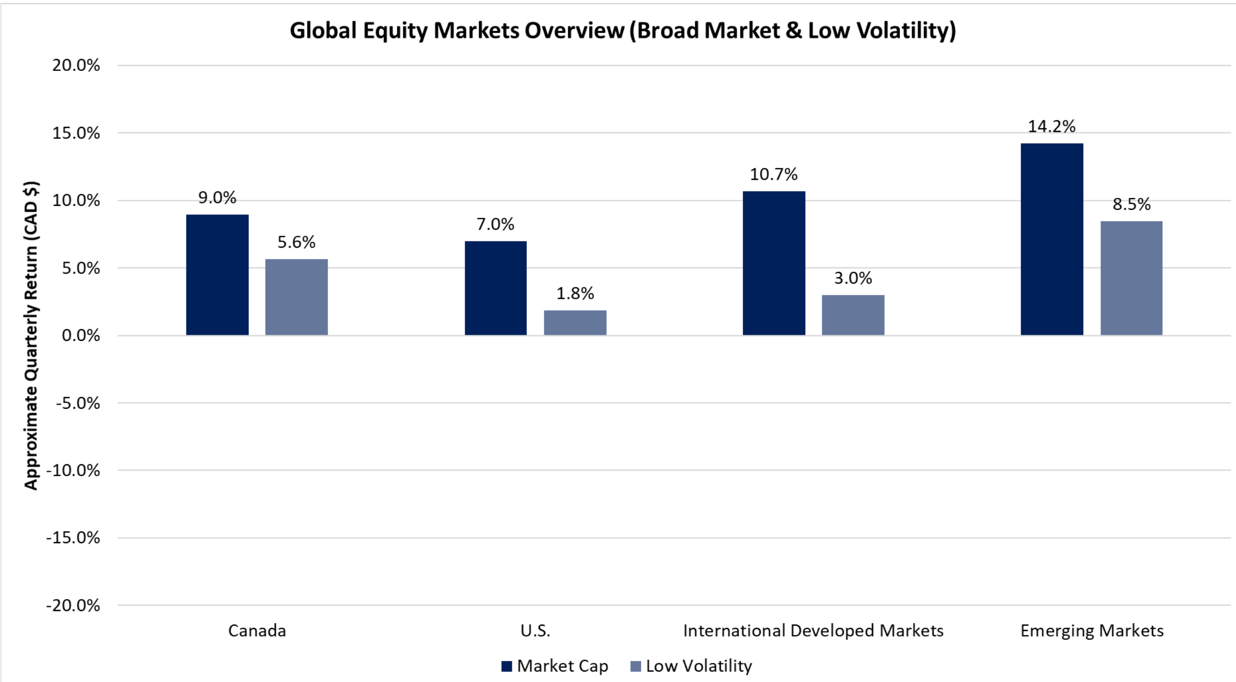
- The Real Return Bond index performance was strong gaining 1.84%, outperforming Canadian nominal bonds due to rising inflation expectations increasing the demand for inflation hedged assets.



- 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. Emerging Markets had the strongest return in the period while U.S. equities underperformed due to negative foreign currency translation. In general, as would be expected in a strong risk-on environment, low volatility strategies underperformed broad equity markets.



Market Environment and Outlook

Summary:

- 2020 demonstrated clearly both the potential for a roller-coaster experience for investors as well as the value of a diversified, low risk portfolio in weathering challenging market environments.

- While the COVID-19 pandemic and associated economic shutdowns proved challenging for financial markets and resulted in significant moves in equities, interest rates, and commodities, the underlying damage to the global economy is still being processed.

- With the major changes to office environments for most businesses, as employees shifted to a primarily work-from-home status during the year, Real Estate investors experienced perhaps the most challenging year since the asset class became institutionalized.

- Overall, despite the strong finish to the year, investors should be prepared for challenges in terms of expected returns. Equity valuations in many markets currently sit at levels only exceeded during the 1999-2000 tech bubble, and interest rates in government bonds remain extremely low.

While it would have been reasonable to expect the 2020 news landscape to be dominated by geopolitical considerations (China-U.S. trade frictions, U.K.-Europe trade agreement negotiations, implications of the new Canada-U.S.-Mexico trade agreement, etc.), the COVID-19 pandemic rapidly put those concerns to the background. From mid-February, when global deaths from the virus reached 2000 in total to late March when the U.S. reached a total of 50,000 coronavirus cases, the S&P 500 experienced a drawdown of approximately 35% from peak to trough. Over that same period, U.S. government 10-year yields dropped from over 1.5% to as low as 0.5%. Market implied volatility spiked from 14% to over 80% over the same period.

Overall, Q1 was a period of unprecedented volatility and challenges for investors, as the rapid shift from an economy that was considered by some to be running at near total capacity to one that experienced millions in new unemployment claims per week, decimated equity market values. Despite the significant and ongoing economic upheaval, equity markets began their recovery in late March, and the recovery continued through to year end. By December 31, despite at one point experiencing a year-to-date position of -30%, the S&P 500 had generated returns for investors of over 18% in USD terms.

While the U.S. equity market demonstrated significant strength by year end, globally, there was significant dispersion in equity market returns. While the U.S. market and Emerging Markets produced strong returns of about 18% each in USD terms, Canadian and Global (ex North America) developed markets produced returns closer to 7-8% for the year in $USD. Digging deeper, while broad markets indices were strong, certain sub-categories experienced significant return divergences as well. In the U.S., high-flying growth stocks (proxied by the Nasdaq 100) gained nearly 50% for the year, while more traditional value stocks gained just 5% during the same 12-month period. Finally, after a lengthy period of underperformance, small-cap stocks outperformed larger stocks during the market recovery period.

While equity markets experienced a drawdown and subsequent recovery, interest rates remain significantly depressed relative to pre-2020 levels. From the beginning to the end of 2020, the Canadian 10-year government bond yield dropped from 1.7% to 0.7%, reaching a low of less than 0.5% during the year. Investors in fixed income securities face the prospect of low total returns in 2021 forward.

Commodity markets as well featured serious divergences during 2020, with oil markets feeling significant pressure from falling demand for travel related activities, while other commodities, including precious and industrial metals as well as some agricultural contracts, all benefited from significant strength during the middle and later parts of the year.

Perhaps the most challenging environment was felt by investors in the real estate sector. While broad equity markets recovered significantly by year end, publicly traded Real Estate Investment Trusts remained in general below their levels from a year prior. With significant short-term impacts on the office space and brick and mortar retail industries leading investors to reassess the long-term future of those industry groups, in general, real estate investors face tough challenges in navigating an uncertain future going forward.

Overall, the significant economic upheaval of 2020 caused a challenging environment for active strategies in general. Large, rapid, increases in volatility are frequently challenging for active managers, and 2020 was no exception. Hedge funds, systematic active strategies, volatility arbitrage funds, and other active managers all experienced major drawdowns in Q1, and even with the significant equity market recovery later in the year, many active managers reported challenged results for the full calendar year. The Société Générale Multi Alternative Risk Premia Index, an average of several of the largest systematic market neutral funds, declined nearly 15% for the full calendar year, experiencing a drawdown in Q1 but failing to participate in the market recovery due to significant challenges in short volatility, equity factors, and commodity trend following strategies.

Given the current economic situation and market status, the outlook remains cloudy for investors. As has been the case with previous updates, valuations remain at the high end of historical ranges – equities are priced at levels not observed since the 1999-2000 tech bubble, and although bond yields have increased off the lows of 2020, forward looking returns for bond investors globally remain significantly below long-term averages. Standard 60/40 portfolios appear unlikely to produce returns close to their long-term averages when measured from a starting point of January 2021. For diversified investors, continuing to focus on diversified, low risk sources of enhanced returns while structuring portfolios that maximize diversification and minimize downside risk will remain essential to long run success.