QUARTERLY MARKET UPDATE

AS AT MARCH 31, 2021

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.

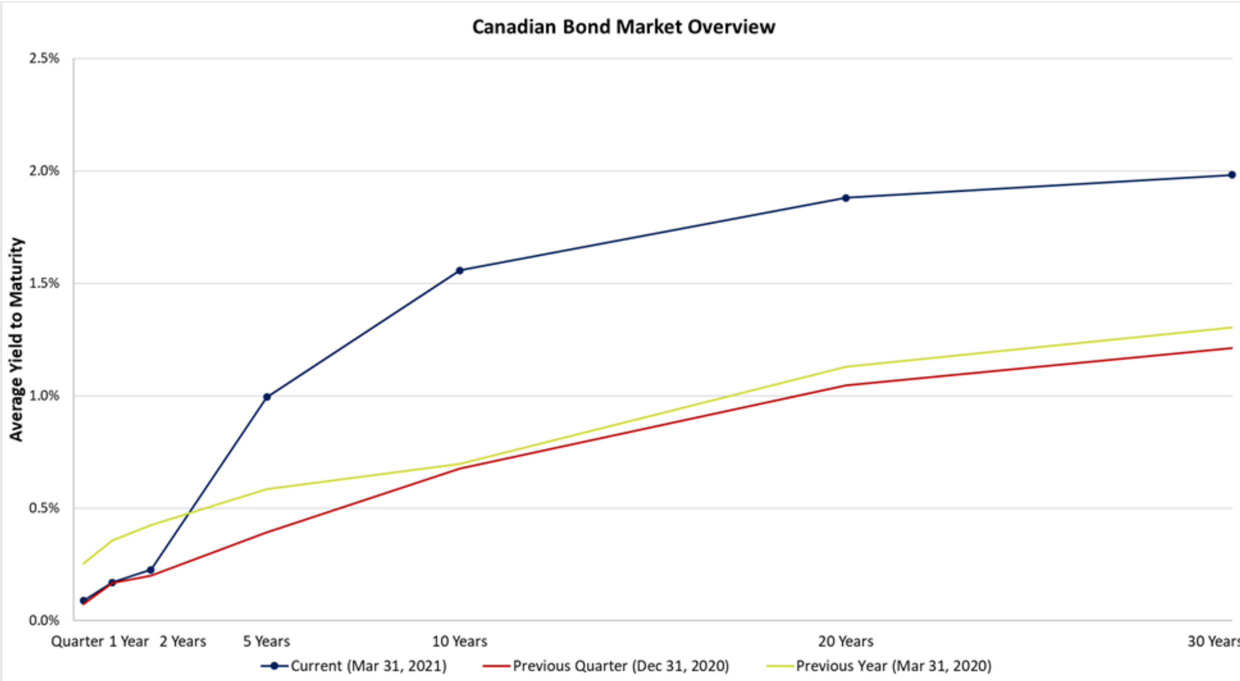
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

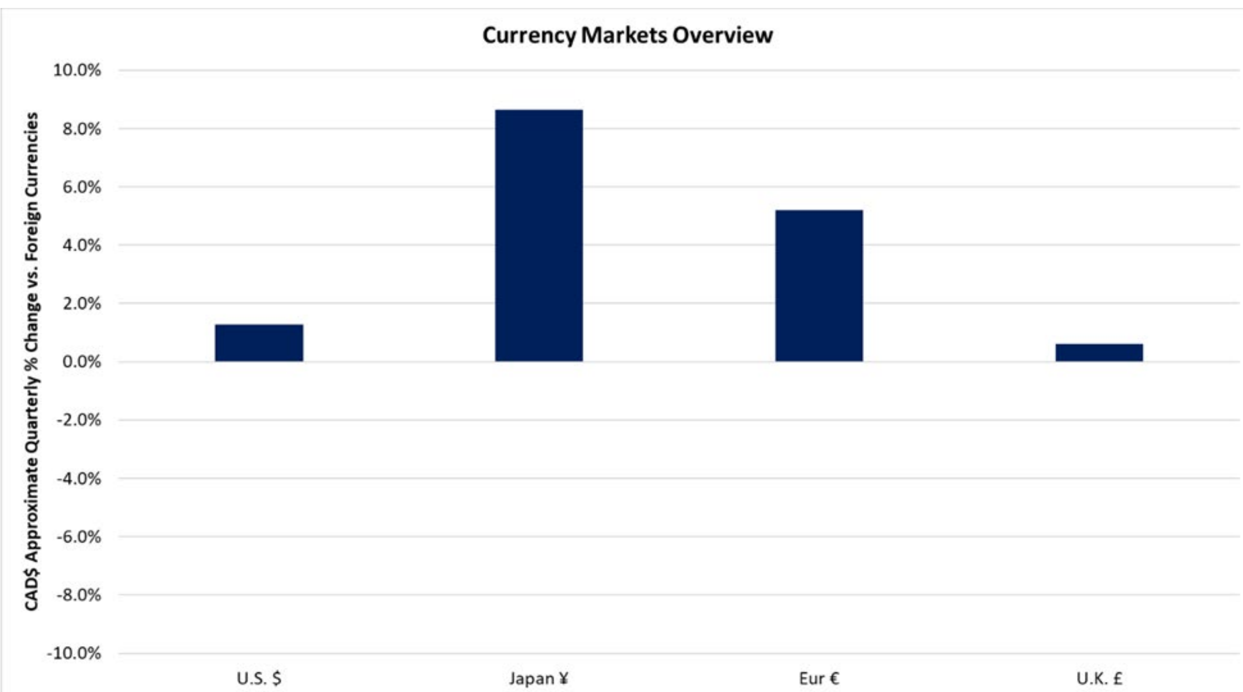
- Performance was mixed during the quarter with positive returns across Equities and Alternative Investments while Fixed Income had a more challenging period. All equity strategies had positive performance with domestic strategies having had the strongest contributions.

- Long-term bond yields rose substantially over the period while yields for the shortest-term instruments remained anchored as the Bank of Canada left interest rates unchanged. Canadian 10-year yields increased from 0.68% to 1.56% in the quarter. The movement follows the U.S. market where similar termed yields increased from 0.91% to 1.74% in part on inflationary concerns prompted by continued fiscal and monetary stimulus. Fixed income indexes experienced heavy losses in the quarter with the Canadian All Government Bond index down 5.59%. The Corporate Bond index outperformed government bonds, losing 3.5% in the period due to a lower sensitivity to rising long term yields with credit spreads roughly unchanged.

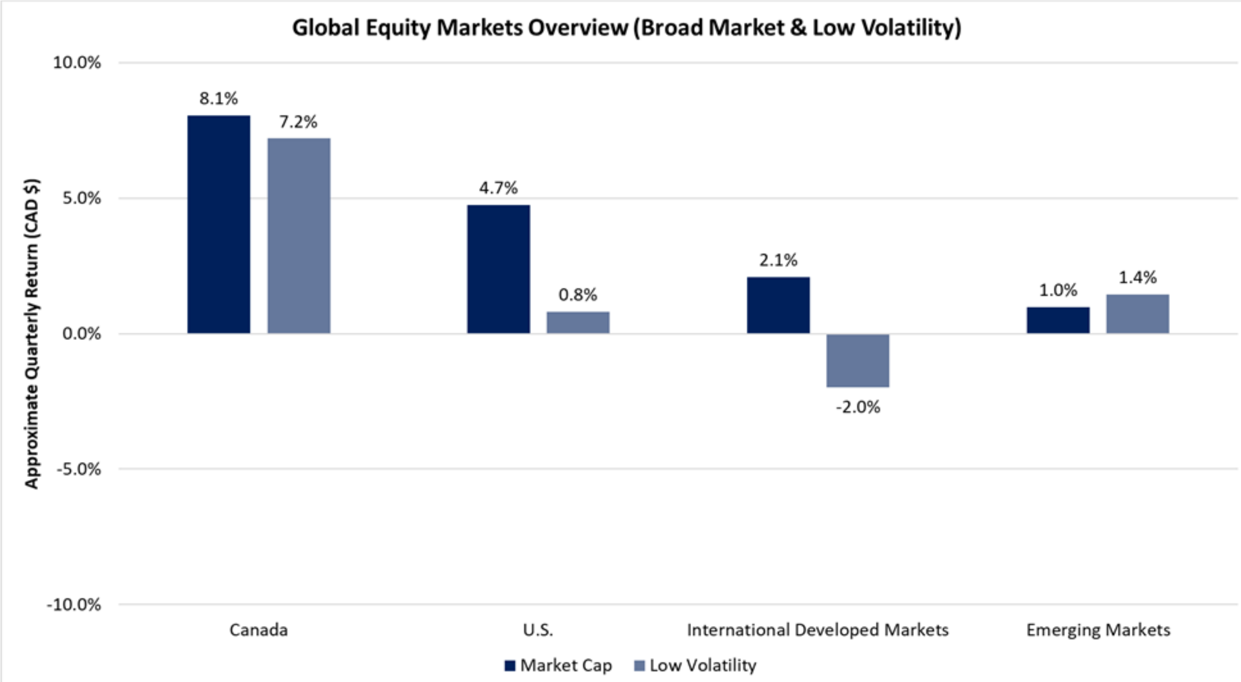
- Real Return bonds had a challenging quarter as yield increases outstripped rising inflation expectations. In this environment, the Real Return Bond index incurred significant losses, down 7.3% and underperformed Canadian nominal bonds due to a high sensitivity to rising yields.



- In currency markets, the Canadian dollar advanced versus all major currencies which somewhat moderated generally positive foreign equity returns.



- Equity market performance continued to be broad-based during the quarter with most strategies producing positive results. Canadian equities outperformed other markets due in part to negative foreign currency translation. Low volatility strategies lagged broad equity markets across developed regions and outperformed in emerging markets.



Market Environment and Outlook

Summary:

- The strong equity market recovery continued in Q1, and investors have benefitted from significantly above average returns on equity investments over the preceding decade.
- While equity markets have proven incredibly resilient, the global economy remains somewhat less robust than at the end of 2019, with marginally lower output and a somewhat damaged employment situation.
- Compensation for risk (e.g., credit risk) has compressed significantly, and so despite the rise in government yields, corporate bond investors face significantly reduced expected returns relative to almost any point in history.
- Forward looking expected returns, while difficult to measure with any precision, appear low relative to historical averages.

Global financial markets continued their recovery in the first quarter from the COVID-19 pandemic induced volatility of the prior year, as the S&P 500 gained an additional 5.5% from January to March. With this gain, the broad market benchmark's total return since the market bottom of March 2020 comes in at an incredible 80%, nearly keeping pace with the more technology heavy NASDAQ's 88% gain over the same period. Market risk levels, as proxied by the VIX index, have declined in concert with the rise in stock prices, and now sit just slightly above the levels of late 2019.

However, while market gains have continued nearly without interruption over the past year, the underlying economic recovery remains incomplete. While the policy response has been significant (with large fiscal and monetary stimulus programs enacted globally), in general output in most countries at the end of 2020 remained below the levels at the end of 2019 while the employment situation was also less favourable. In the U.S., although initial claims for unemployment benefits have declined from the extreme levels of mid-2020, the most recent readings of approximately 600,000 weekly claims for jobless benefits are still double the average levels observed in 2019. While the unemployment rate has also improved to just above 6% in the U.S., the actual number of employees on nonfarm payrolls is currently still about 5% lower than it was in early 2020 – a significant number of people have left the measured workforce over the past year.

At the same time, interest rates remain low. While benchmark government rates in North America have increased somewhat (the U.S. 10-year bond yield increased from a low of 0.5% in August of 2020 to 1.74% at the end of Q1), all in yields for diversified bond investors have remained more muted due to the compression in spreads for state and local governments as well as corporates. Generic spreads for so-called high yield bonds have declined to below 2.5% in some cases in the U.S., and all in yields for investors in these markets now sit at an all time low of just about 4%, depending on the specific issuer. Since the peak of the Global Financial Crisis in March 2009, the S&P 500 Index has experienced only one calendar year with a negative return and has produced incredible gains of 18.2% per year for a 12-year period. While corporate earnings have also grown significantly over the same period, the price that must be paid today for a dollar of earnings in the U.S. equity market is significantly elevated over its post-war average. The Shiller Cyclically Adjusted P/E ratio currently sits at a level of over 36 - nearly double the average level since 1945 and the highest level achieved outside of the 2000 tech bubble. While valuations are at best a rough measure of the future return generating potential for equities over even longer periods, current levels warrant caution. This, when combined with high asset prices/low expected returns across nearly the entirety of financial markets, suggests that a prudent stance remains valuable in the present environment.