QUARTERLY MARKET UPDATE

AS OF September 30, 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.

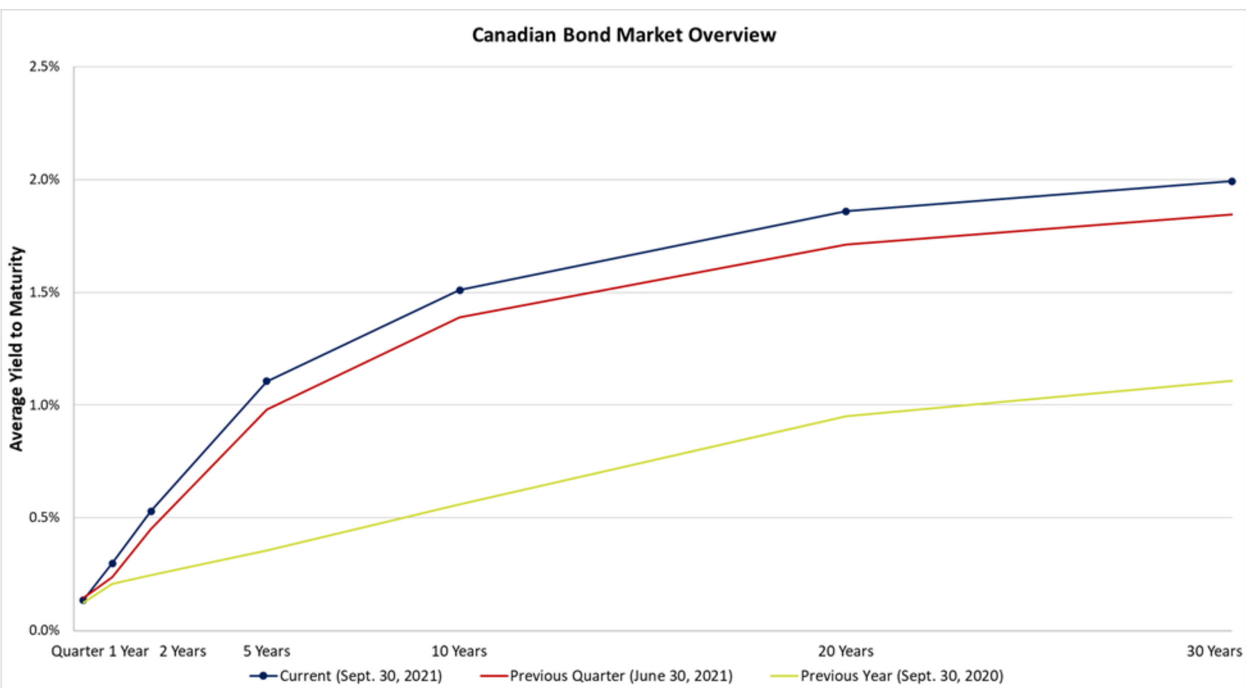
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

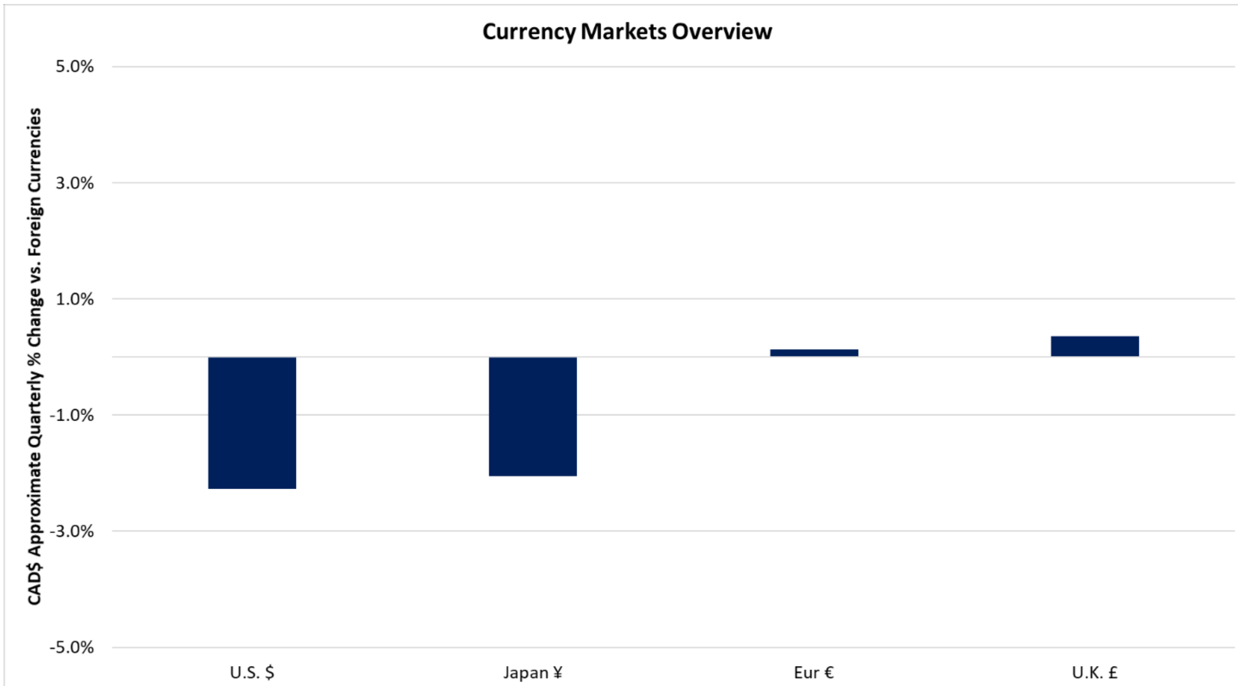
- Performance was mixed during the quarter with positive returns across most asset classes although bond portfolios modestly declined. Private Equity, Real Estate, and Infrastructure performed the strongest in the period. Within public equities, Developed International strategies gained the most.

- The yield curve steepened further over the period with longer-term yields rising at quarter end. Over the period the Bank of Canada kept interest rates unchanged while continuing to reduce the quantitative easing bond purchase program. With yields rising, fixed income indexes experienced losses with the Canadian All Government Bond index down 0.64%. The Corporate Bond index outperformed government bonds, down 0.13% due to a lower sensitivity to rising longer-term yields as credit spreads remained stable.

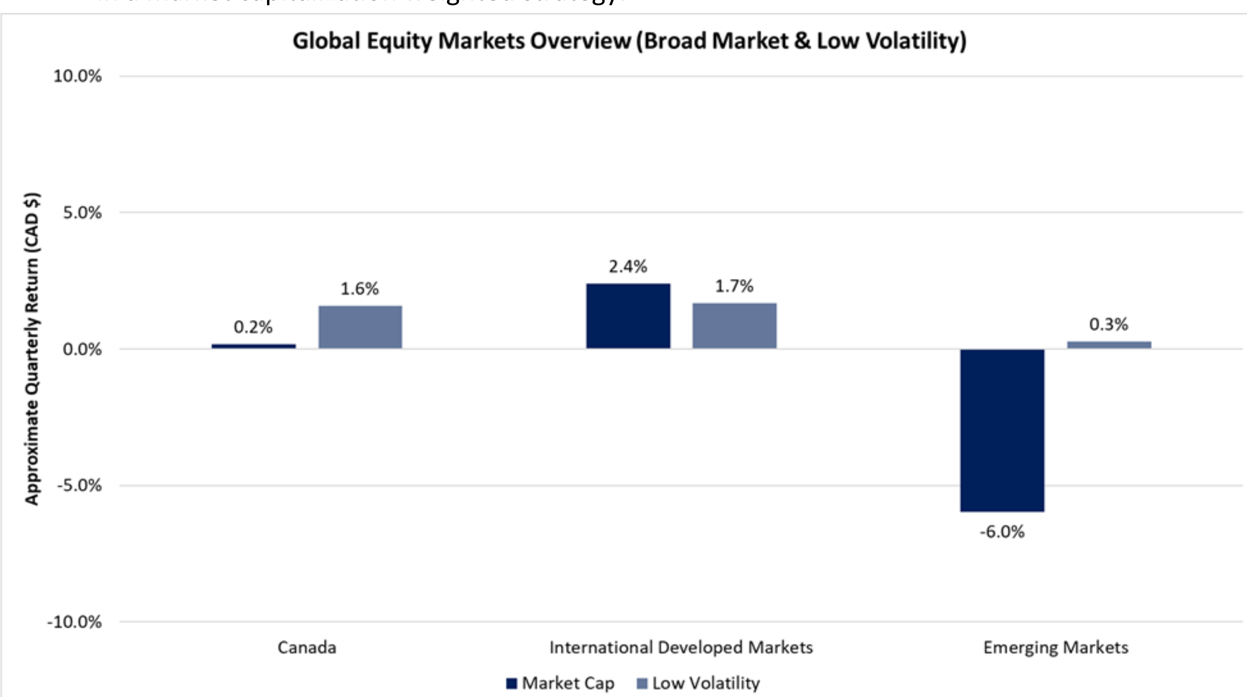
- The Real Return Bond index had a negative quarter, losing 0.27%, but outperformed Canadian nominal bonds due to rising inflation expectations.



- In currency markets, the Canadian dollar depreciated relative to the U.S. dollar and Japanese Yen while performance was more muted versus other currencies. This was an overall positive influence on foreign denominated assets, lifting total fund returns.



- Equity markets generally advanced during the quarter though modestly for some strategies. International developed equities outperformed other markets. An allocation to low volatility equities within Emerging Markets protected the portfolio against a notable decline experienced in a market capitalization weighted strategy.



Market Environment and Outlook

Summary:

- While the COVID-19 Delta variant, above normal inflation, and potential central bank policy normalization risks have each impacted markets at times in 2021, the global recovery trade has for the most part continued, albeit with a modest setback in September.

- Traditional energy markets have experienced significant price increases this year, with strong steady gains in oil and a rapid rise in natural gas prices globally caused by perceived supply-demand imbalances in the face of a rapidly normalizing economy.

- Although the overall economic picture remains mostly strong, economic growth appears to be moderating somewhat, and inflation (while likely still transitory in nature) remains elevated.

Following a string of seven consecutive positive monthly returns from February to August, the S&P 500 Index closed out Q3 with a decline of 4.65% in September. Despite that setback, the benchmark has gained nearly 16% in USD terms (15.1% in $CAD) thus far in 2021. Investors who maintained a "buy and hold" strategy in the index during 2020 & 2021 have now gained a total of about 37% in total, despite experiencing an approximate 35% drawdown in spring 2020, demonstrating the strength of the post-pandemic recovery.

Energy markets continued their strong recovery as well, with benchmark WTI Crude Oil futures prices reaching $75 USD at the end of Q3 after starting 2021 below $50. Natural gas prices have surged strongly through the middle part of the year, rising from $2.83 at the end of Q1 to more than $5.50 at the end of Q3, for a gain of 107%. Supply-demand imbalances particularly in Europe have contributed to the price jump, and volatility will likely remain high in the near future as the near to medium term weather outlook and supply change evolution come into focus. In general, a continuing climb in prices will produce significant drag on consumer spending in other areas of the economy.

After moderating somewhat throughout the early stages of 2021, interest rates moved higher at the end of Q3, with the benchmark 10-year U.S. Government bond yield moving back above 1.5%. In general, medium term interest rates at the end of Q3 were roughly similar to their levels at the end of Q1, a period of general optimism about the global economy as well as a broad consensus among investors about the impending normalization of monetary policy.

In terms of economic growth, the U.S. leadership of the global recovery has continued mostly unchanged. The U.S. economy has recovered to set new highs in activity levels, while other markets like Canada, the Euro area, and Japan have yet to recover to their pre-pandemic levels. Despite this, current data-based "*Nowcasts"* of real GDP Growth from the Atlanta Federal Reserve Bank suggest that U.S. growth is shifting lower, and it remains to be seen if global markets will be able to take up leadership in driving the global recovery forward should the U.S. growth picture continue to moderate.

After the spike in 2020, the U.S. jobless rate has nearly normalized at a level of just above 5% (7% in Canada), although improvements in employment have moderated recently and the overall employment to population ratio in the U.S. remains significantly below pre-pandemic levels, indicating either a persistent skills mismatch or alternatively continued excess capacity still to be taken up by the recovery. Gains in nonfarm payrolls were reported at 194,000 in September, the lowest monthly reading for 2021, although statistical issues around seasonal adjustment factors will likely result in significant revisions in future months.

While inflation has remained somewhat elevated in the most recent readings (an annual rate above 5% in the U.S.), most research continues to suggest that much of these above normal readings are at least partly transitory. Significant portions of the recent inflation spike continue to be driven by "base year" effects that will moderate in the coming quarters, meaning that despite the observed increases in many commodity prices recently, central banks should be able to navigate this period with consistent policy choices to return inflation to long term target trends. Market implied measures of forward inflation support this view – although the so-called 5-year forward inflation break-even rates are somewhat elevated (at about 2.5%), they currently do not suggest that recent higher increases in price levels will be fully sustained, although it is likely that inflation will continue to run somewhat above 2%. Navigating the challenge of policy normalization in the context of uncertain growth, rising commodity prices, and significant market volatility will remain a challenge for Federal Reserve policy makers over the coming quarters.

Overall, while the global economic picture appears robust, growth will likely continue to moderate from the strong recovery experience over the past year and risks to the outlook from COVID-19, global geopolitical risk, and policy normalization remain at the forefront for investors. The economic picture, combined with continuing high valuations across most markets suggests that a strong focus on diversified, low risk sources of return will provide investors an appropriate position to benefit from the continuing recovery while limiting exposures to downside risk in periods of market volatility.