QUARTERLY MARKET UPDATE

AS OF DECEMBER 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.

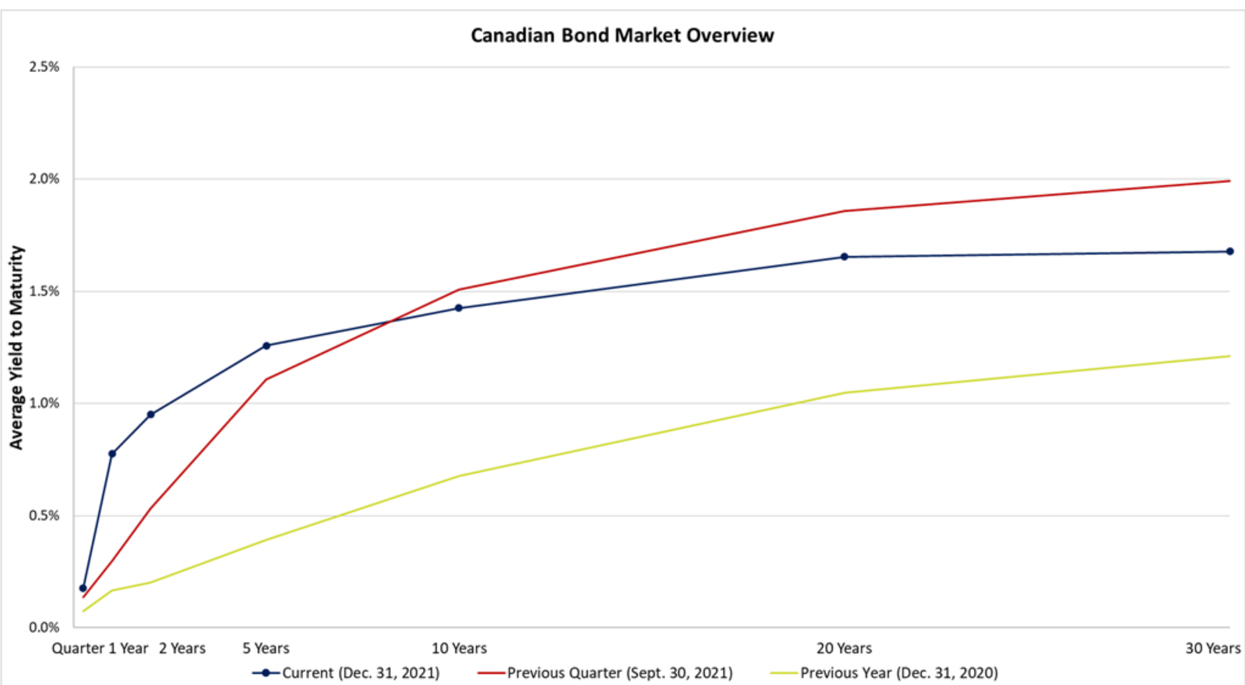
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

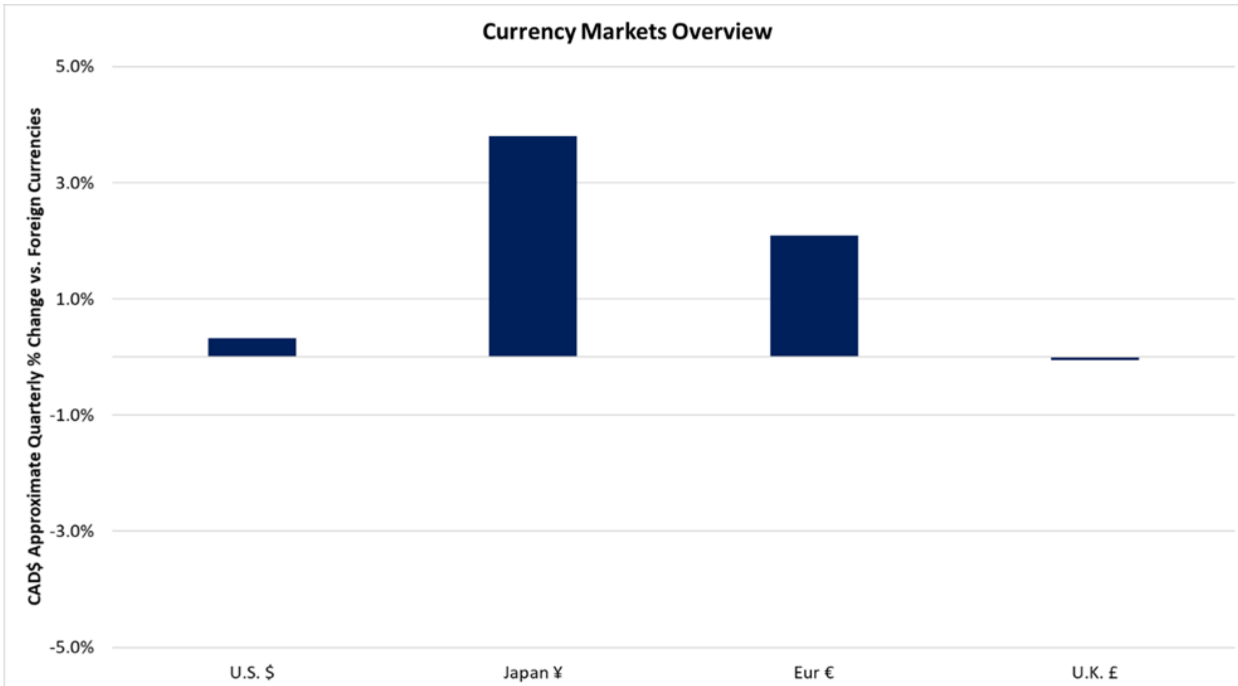
- Market performance was strong during the quarter with positive results across most investment categories. Most notably, Equities saw strong gains in both domestic and global developed markets.

- The yield curve flattened over the period with short term yields rising as inflation pressures persist while longer-term yields fell with investors rebalancing towards safer assets on news of the Omicron COVID variant. Over the period the Bank of Canada kept interest rates unchanged while ending the quantitative easing bond purchase program and citing expected rate increases in 2022. Fixed income indexes experienced gains in the quarter with the Canadian All Government Bond index up 1.62%. The Corporate Bond index underperformed government bonds, gaining 1.08% due to a lower sensitivity to falling longer-term yields and modestly higher credit spreads.

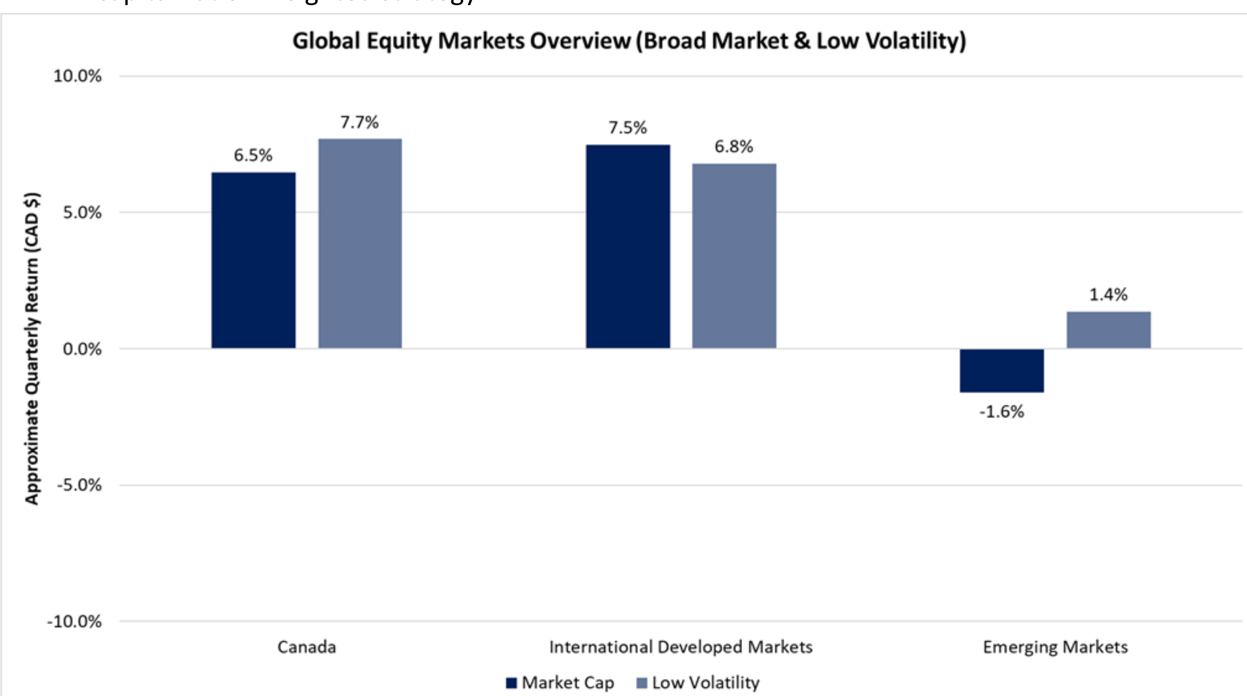
- The Real Return Bond index had a strong quarter. The index advanced 6.40% and outperformed Canadian nominal bonds due to a higher exposure to falling long-term yields along with rising inflation expectations.



- In currency markets, the Canadian dollar appreciated relative to the Japanese Yen and Euro while performance was more muted versus other currencies. Overall currency movements somewhat moderated positive foreign equity returns.



- Equity markets generally advanced during the quarter with strong performance in developed markets, both domestic and international. An allocation to low volatility equities within Emerging Markets continues to protect the portfolio against recent declines experienced in a market capitalization weighted strategy.



Market Environment and Outlook

Summary:

- Equity markets finished the year strongly. The broadest measure of global equities, the MSCI All Country World Index, gained over 18% in Canadian dollar terms for the calendar year. In contrast, bond investors experienced modest value declines for the year, and so a well diversified Canadian balanced 50-50 bond-stock investor likely earned returns of approximately 7-9%, depending on regional allocations.

- After several years of approximate 2% increases, inflation moved significantly higher in the second half of 2021, nearing a 5% rate of Year-over-Year changes by year end.

- Going forward, investors would be well served to expect modest returns over the medium term. The dividend yield on the S&P 500 declined to just 1.25% at year end (the lowest reading since the 1999-2000 tech bubble) and the longer term *Cyclically Adjusted Price Earnings ("CAPE") Valuation Ratio* ended the year just below 40x, the second highest reading over the past 100 years.

Overall, 2021 continued the rebound from the COVID-19 shutdowns in 2020, and the so-called "reopening trade" proceeded almost uninterrupted to year end. Global equity markets gained about 18% for the year, although returns were quite differentiated across countries, with North America performing particularly well compared to certain international markets.

Higher risk assets tended to perform more strongly than lower volatility securities. While low volatility equity portfolios experienced strong gains for the year, defensive strategies in general lagged standard market capitalization weighted indices in 2021. The MSCI All Country World Index Minimum Volatility Index gained just under 15% for the year, compared to the approximate 18% gains for the broad market benchmark, as the index had a smaller position in Information Technology companies.

Although interest rates moderated somewhat throughout the summer, the earlier in the year sharp move higher in interest rates was for the most part maintained to year end, with North American 10-year government bond yields closing December up about 0.5% from levels at the beginning of the year. While interest rates remain low relative to historical averages, the increased yields did impact bond investors, and diversified broad universe portfolios were broadly negative for 2021. Going forward, the path of interest rates and their impacts on both bond investors and secondary impacts on other asset classes will be closely watched by investors.

Despite the market volatility, underlying economic fundamentals could be described as strong, with robust consumer spending being balanced by the headwinds of ongoing supply chain interruptions and labor market tightness. While total employment has remained somewhat depressed despite the economic recovery (the total number of non-farm employees in the U.S. remains 2-3% below the 2019 year-end level), the labor market itself tightened considerably throughout the year, with the U.S. unemployment rate falling to nearly 4% by year end. Labor costs and staffing issues will be an important consideration for many companies in 2022 and beyond.

This labor market and supply chain tightness has contributed to significantly above normal inflation, particularly in the second half of 2021. After a year of significantly lower than normal price increases during the COVID lockdowns in 2020, the middle part of 2021 saw an increasing trend in total CPI with Year-over-Year changes rising from below 1% in the early stages of 2021 to nearly 5% by November. Although cumulatively, the 2020-21 period has experienced total CPI increases that were only slightly above the Bank of Canada's 2% target at approximately 2.9% per year, nearly all those price increases were concentrated in the April-November period of 2021. Globally, central bank policymakers have reacted to the increased inflation by shifting course to a tighter policy stance, with the U.S. Federal reserve planning 3-4 interest rate hikes in 2022 along with potential balance sheet normalization efforts. This rapid change in policy expectations – while likely necessary to maintain control over inflation in the medium term – will have significant impacts on investors across all asset classes.

As we have discussed in previous updates, investors should expect continued periods of short-term volatility combined with a relatively modest medium term expected returns. The usual contingent of market risks (geopolitics, COVID) remains of significant concern, while the medium-term outlook is clouded by elevated valuations in most asset classes. For equities, most valuation measures (dividend yield, price-earnings ratios) are at significantly above normal levels, while interest rates on both government and corporate bonds remain low. All in, the medium-term expected return on a generic 60/40 stock bond portfolio is likely to be modestly below its long run average level.

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.