QUARTERLY MARKET UPDATE

AS OF MARCH 31, 2022

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.

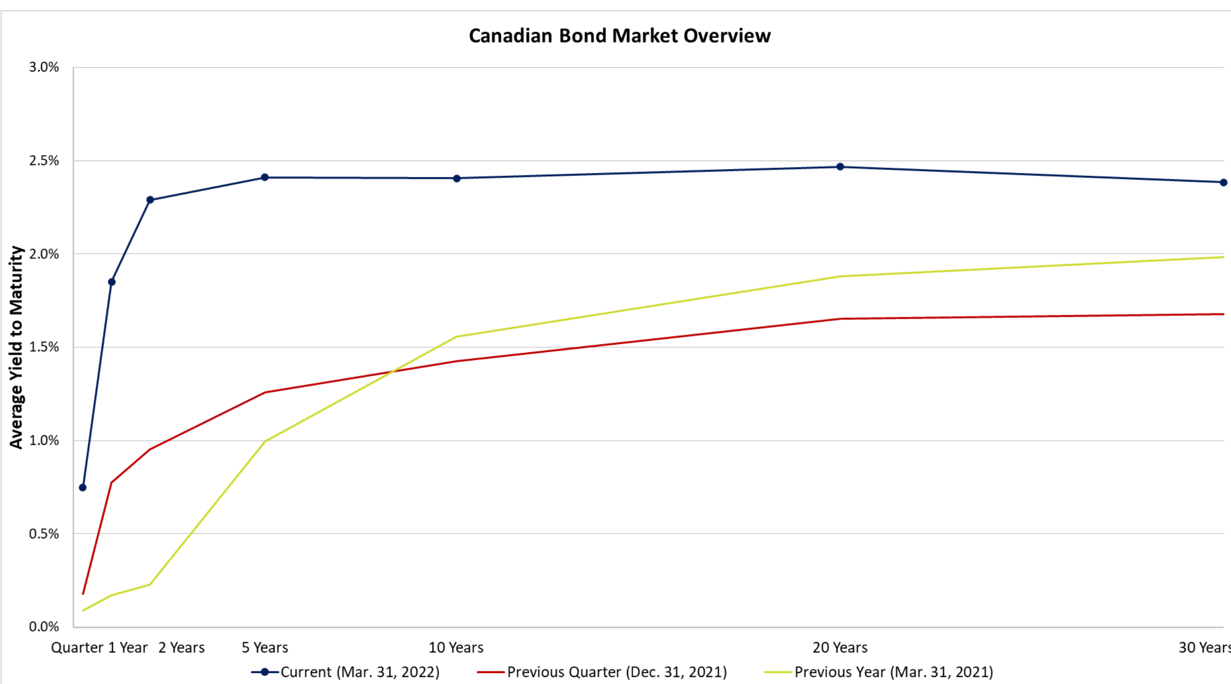
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

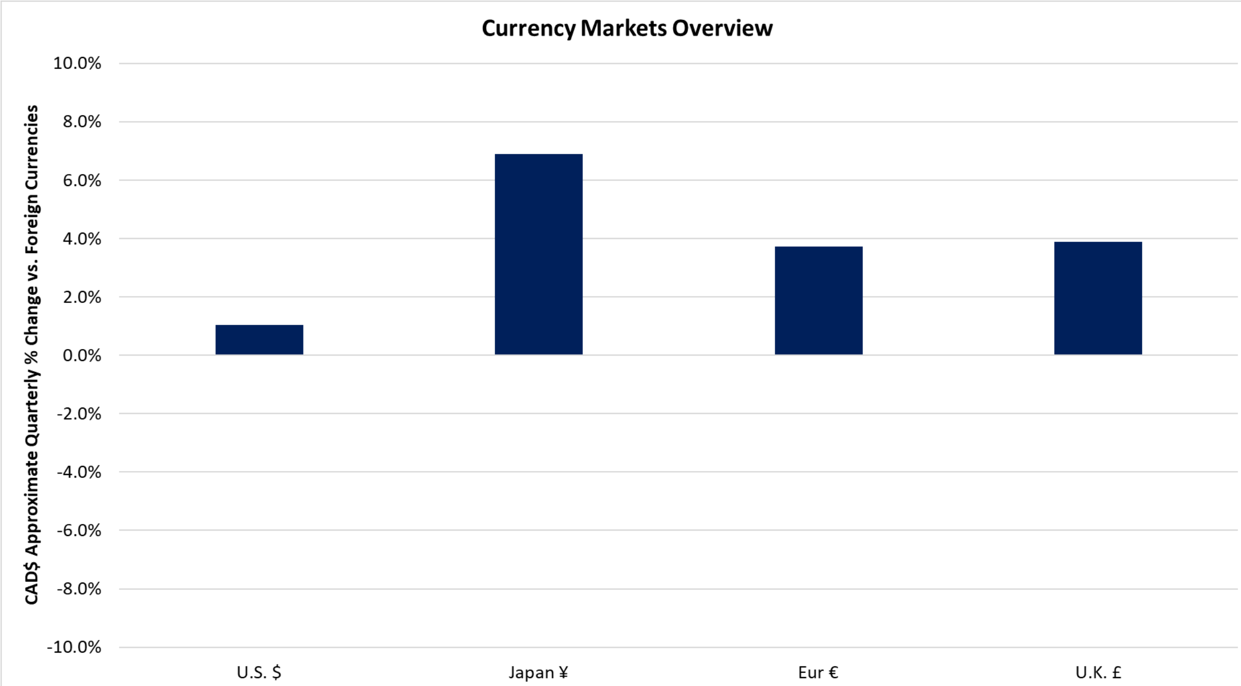
- The quarter was heavily impacted by a confluence of events including the Russian invasion of Ukraine, increasing inflation, higher commodity prices, and rising bond yields. Given this backdrop, while global equities were negatively impacted, Canadian stocks benefitted from the rise in commodity prices and earned positive returns.

- The yield curve shifted sharply higher over the quarter while continuing to flatten. Yields rose as the Bank of Canada raised interest rates 25 bps and as investors repriced towards a series of further interest rate increases over the next two years on inflation rates trending further above the Bank of Canada inflation target range. In this environment, fixed income indexes experienced significant losses with the Canadian All Government Bond index down 7.16%. Despite rising credit spreads over the period, the Corporate Bond index outperformed government bonds, declining 6.45% due to a lower sensitivity to rising yields.

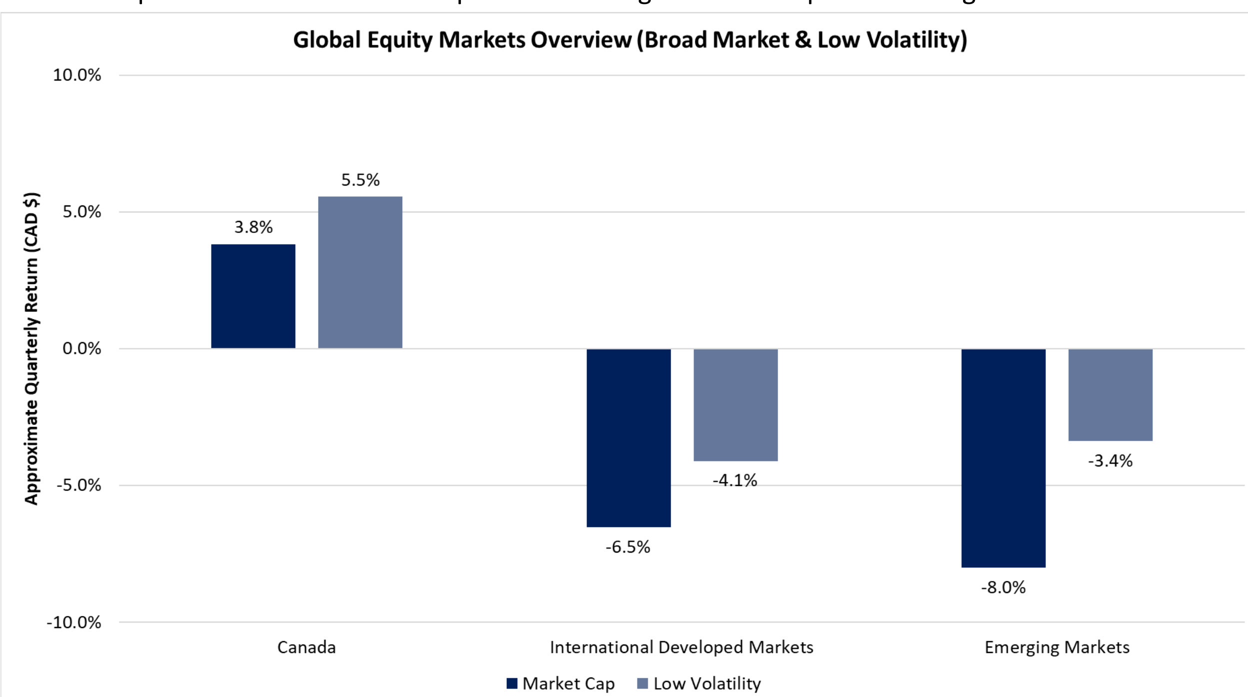
- The Real Return Bond index had a weak quarter, down 9.33%, underperforming Canadian nominal bonds due to a higher exposure to rising yields which outpaced increases in inflation expectations.



- In currency markets, the Canadian dollar appreciated versus all major currencies over the period which had a negative impact on foreign denominated assets.



- International equity markets experienced a challenging quarter while Canadian equities advanced, outperforming other regions due in part to a higher exposure to commodity related sectors. As expected over periods of market turbulence, low volatility equity indexes outperformed their market-capitalization weighted counterparts in all regions.



Market Environment and Outlook

Summary:

- The first quarter of 2022 has delivered significant volatility for investors, with the Russian invasion of Ukraine dominating headlines and contributing to significant investor uncertainty.

- The continued run of elevated inflation has left global central banks in a reactive situation, rapidly tightening policy to cool down economic activity and contributing to investor unease.

- Stock-Bond correlations – typically negative during periods of market volatility – provided no benefit for investors in Q1 as bond portfolios also experienced losses.

Global equities suffered broad declines in the first quarter, as the combination of the Russian invasion of Ukraine and significant policy tightening on the part of many global central banks led to a major reassessment of expectation for risk assets on the part of investors. U.S., Global Developed Markets, and Emerging Markets all suffered large single digit declines of -5.9%, -6.5%, and -8.2%, respectively. In contrast, Canadian equities were one area of safe haven, as the greater commodity exposure in the S&P/TSX Composite Index allowed the benchmark to generate a positive return of 3.8% for the first three months of 2022.

While investors have historically counted on diversification from bonds to mitigate portfolio downside risk during market drawdowns, the significant upheaval in bond markets in Q1 caused by central bank actions meant that fixed income investors also had no shelter. In Canada, the benchmark Canadian Government 10-year bond yield increased nearly 100 basis points (1%) from the beginning of the year to March 31, and as a result, broad market bond portfolios had losses of on average about -7% for Q1.

While traditional downside protection from bonds was lacking, low volatility equity strategies did manage to provide some measure of risk mitigation. Globally, generic low volatility strategies outperformed higher risk market capitalization weighted portfolios across most regions, including by significant margins internationally. While defensive equity portfolios have lagged higher risk peers over the past few years (with greater exposure to higher flying technology companies), a sustained period of market volatility and challenging environment for technology firms will likely continue to provide improvement in these strategies in the near to medium term.

On the back of both above normal demand and ongoing supply chain disruptions, inflation continues to run ahead of any reasonable target in North America. In the U.S., CPI reached 8.5%, while in Canada the measure reached 6.7% - the highest reading for CPI since 1991. In March, the U.S. Federal Reserve raised rates by 0.25% to a target of 0.5%, while the Bank of Canada has increased its target for the overnight lending rate twice so far in 2022, up from 0.25% at the beginning of the year to 1% in April. Market expectations over the next year are for a further 9 rate hikes in the U.S. and for an additional 7 quarterpoint hikes in Canada, a result that would take both markets to a target short term interest rate of 2.75% - a significant normalization in rates should it occur.

Overall, the economic picture has clouded significantly in 2022. Geopolitical risk has obviously impacted markets and underlying economies, above normal inflation has left central banks in the uncomfortable position of working to slow growth to offset supply disruptions and bring prices back to stability, and as a result, most estimates of GDP growth have fallen considerably across the globe. In general, investors are potentially faced with a binary outcome of continued growth but accompanied with uncomfortably high levels of inflation, or reduced inflation but at the expense of slowing growth. Central banks will have a significant challenge in engineering a so-called “soft landing”.