QUARTERLY MARKET UPDATE

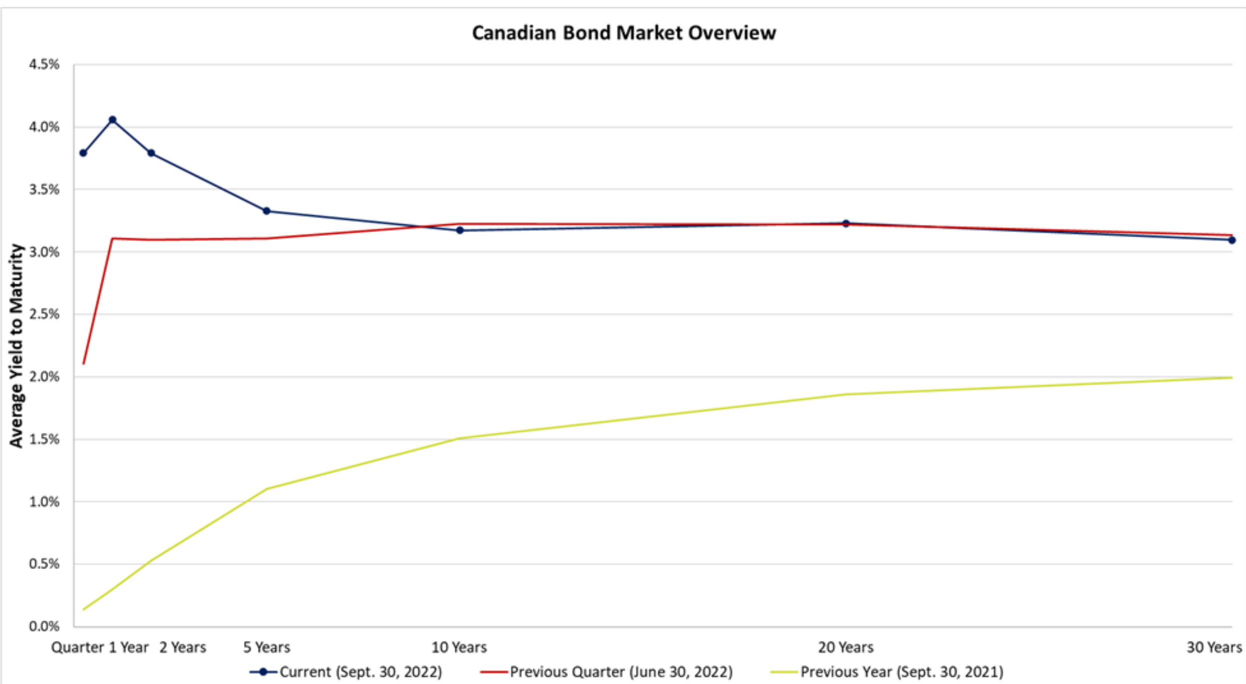
AS AT SEPTEMBER 30, 2022

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.

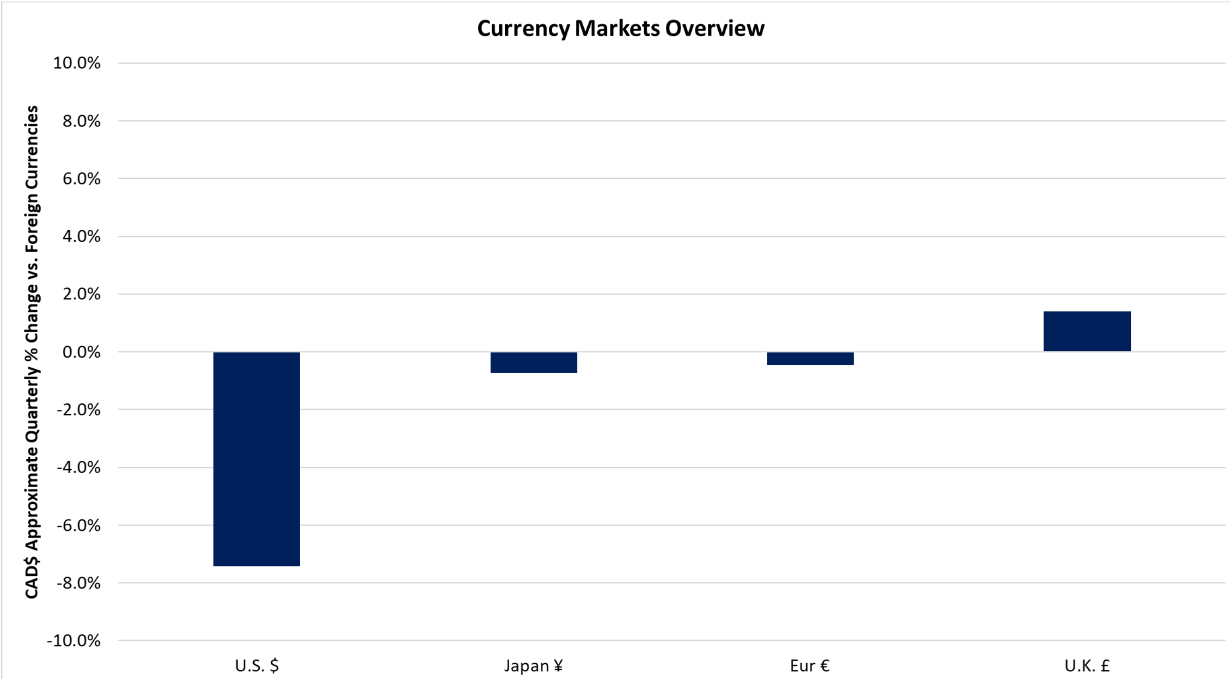
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

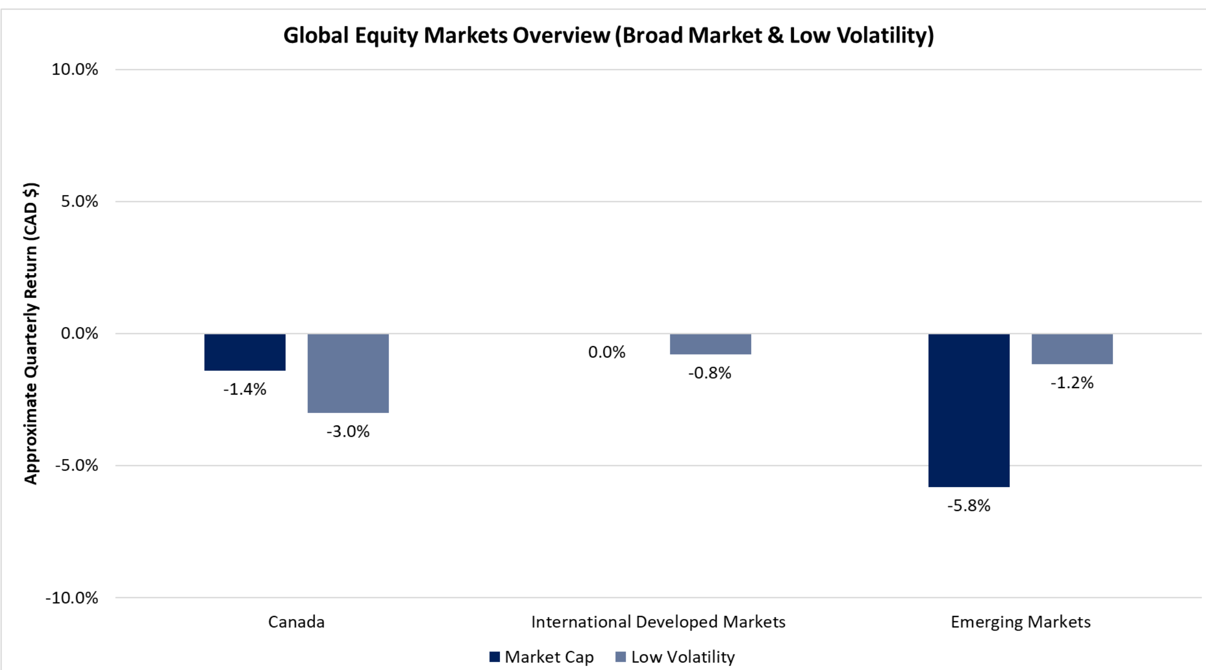
- Performance across asset classes was mixed this quarter with generally positive returns for mid to long-term Canadian fixed income and alternative investments while equities continued to decline.
- The yield curve rose further into inversion over the quarter with the one-year rate about 100 bps higher than the 30-year yield. Short-term rates increased as the Bank of Canada continued raising interest rates, 100 bps at the July meeting and 75 bps in September. Longer-term yields were anchored quarter over quarter as investors weighed concerns over economic conditions, providing support to relatively safer assets.



- Given this backdrop, fixed income indexes experienced positive return through interest income with a Canadian Government Bond index gaining 0.62%. Corporate bonds underperformed government bonds over the period with a Canadian Corporate Bond index gaining 0.23% due to higher exposure to rising shorter term debt and slightly higher credit spreads. A Real Return Bond index rose 0.89%, outperforming both Government and Corporate bonds due to earning higher inflation linked income, less exposure to shorter term bonds, and falling long-term inflation expectations which lowered demand for inflation protected assets.
- In currency markets, the Canadian dollar experienced strong depreciation versus the US dollar while gaining against value against the British Pound, resulting in a positive impact on US dollar denominated assets and a negative impact on British Pound denominated assets.



- Public equity markets and strategies incurred mostly negative returns during the quarter as investors continued to weigh the impact of high inflation and monetary tightening on the global economy. An allocation to low volatility equity within Emerging Markets continued to protect the portfolio against deeper declines experienced in a market-capitalization weighted strategy.



- Private market investments including, real estate, infrastructure, and equity outperformed their public market counterparts however caution is still warranted as private markets tend to lag public markets in terms of valuation impacts.

Market Environment & Outlook

Summary:

- Market volatility remains high, but stocks and bonds ended Q3 approximately at the same levels that they entered the quarter.
- Although inflation has moderated slightly in the most recent data, market pricing suggests that central banks remain on a path toward tighter monetary policy in the coming months.
- Short term expectations are especially cloudy due to increased geopolitical risk and heightened market volatility, and although so-called bear market rallies can quickly move equities to the upside, most investors appear to be waiting for additional clarity on future policy from central banks before moving to full risk on positioning.

While total market volatility remained elevated in the third quarter, investors overall likely experienced a bit of relief in terms of total realized returns for the July to September period. In Canadian dollar terms, a generic 50/50 weighted global stock/Canadian bonds portfolio was essentially flat for Q3 despite the significant day-to-day noise experienced throughout the period. However, despite the apparently sedate quarter from a total return perspective, shorter term risk has remained elevated, with significant daily and intraday swings in various markets, potentially linked to increased short term options market trading activity from the increasingly influential retail traders that make extensive use of these high leverage products. Some of the largest short term moves in equity markets have coincided significantly with record volumes in these option markets, a factor of increasing importance for even longer-term investors.

Interest rates were also not immune to market volatility, with the benchmark Canadian 10-year yield entering the quarter on a downward trend – reaching an interim low of about 2.6% in July – before rebounding to above 3% by quarter end as rate hike expectations solidified. Short term rates now exceed the level of longer-term rates, and as of the date of this writing, the Bank of Canada is widely expected to deliver an additional significant interest rate increase of as much as 0.75% in late October, which would bring the target for the short-term rate to 4%.

While inflation did moderate slightly in September when compared to August (from 7% year-over-year to 6.9%), the overall rate of change of prices remains well above target levels for monetary policymakers in Canada. Despite this, the inherent lags in the effects of a tighter policy stance on economic fundamentals provides a measure of caution for the Bank of Canada in terms of how high rates might go. Current market pricing expects the bank to continue raising rates to a terminal level of about 4.5% (an additional 0.5% from what is priced in for the October meeting), which would equal the highest level for the overnight target rate from any time in the past 20 years. Future interest rate decisions will likely remain data driven based on inflation statistics in late 2022/early 2023, and it will be a challenging environment for policymakers to signal a pause in rate hikes if inflation remains stubbornly high because of continued supply chain imbalances.

Despite the ongoing Russia/Ukraine conflict, geopolitical risk has not recently been at the forefront of the news cycle for financial markets. Despite this, we continue to see increasing noise in the global political arena as 2022 progresses. The U.K. will once again go through the process of selecting a new leader (its third Prime Minister in as many months), and the effects of the October National party Congress in China will likely have far-reaching effects on Asia Pacific economies and capital markets as Xi Jinping's agenda for his third term as leader becomes clearer. Closer to home, mid-term elections in the U.S. will likely provide some volatility for investors in terms of the outlook for 2023.

While the long-term outlook for investors does look brighter in terms of nominal returns (a standard stock & bond portfolio is now priced much more attractively for long term investors such as pension funds when compared to levels in 2021), short-term expectations are highly uncertain. Volatility remains elevated, and as demonstrated by the recent bond market experience in the U.K., unexpected policy choices can trigger significant moves in financial markets. In North America, most investors appear to be waiting for increased clarity on monetary policy makers before resuming “risk on” positioning, and until the inflation picture becomes clearly, short term market volatility will likely be the norm.