QUARTERLY MARKET UPDATE

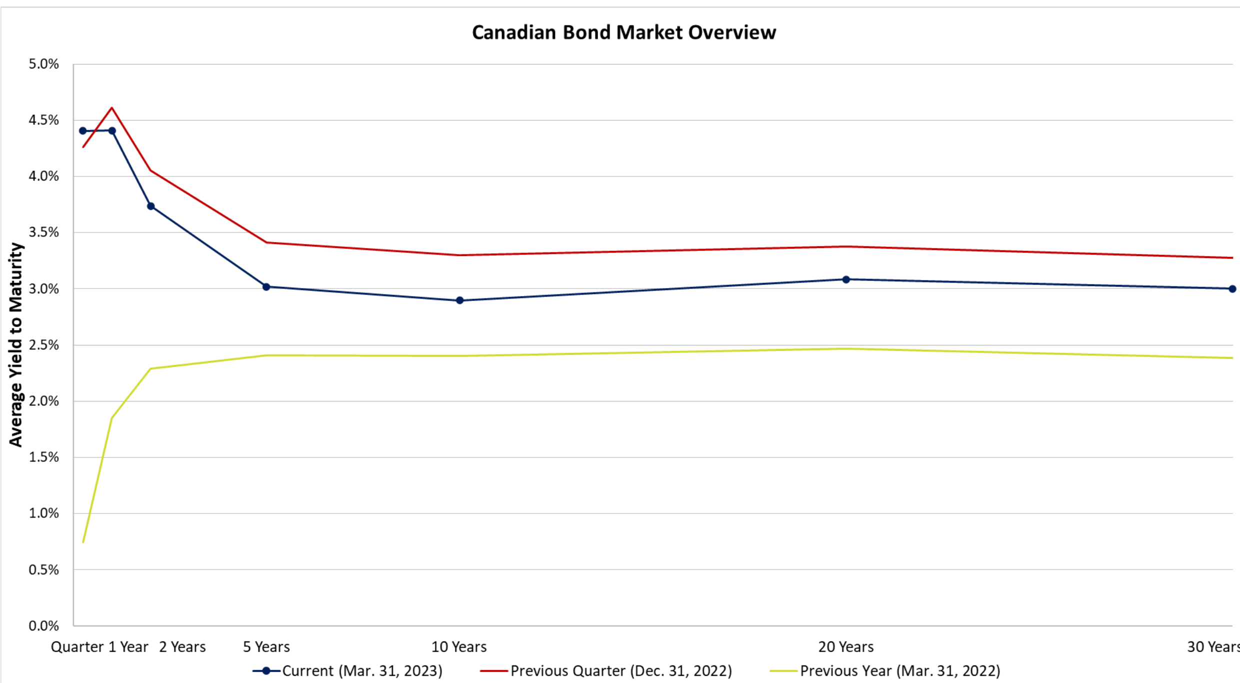
AS AT MARCH 31, 2023

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.

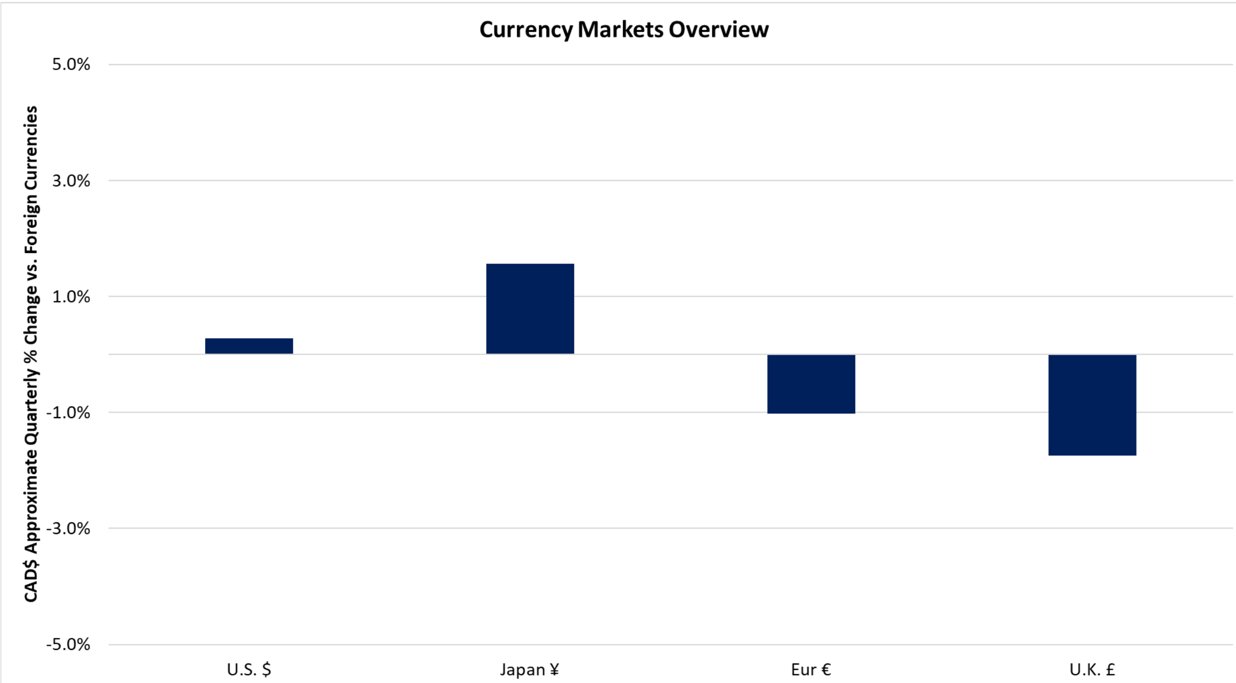
Performance Overview

- Performance was strong during the quarter with most asset classes having positive performance. Public equities produced the highest returns during the period with broad-based positive performance across all regions and strategies.
- Short-term (less than three month) yields increased as the Bank of Canada raised interest rates 25 bps at the January meeting while signaling a pause to further rate hikes in the coming months. Yields at longer tenures fell between 20 and 40 bps during a volatile period as investors weighed the outlook of monetary policy resulting from moderating inflation and US regional banking sector issues.

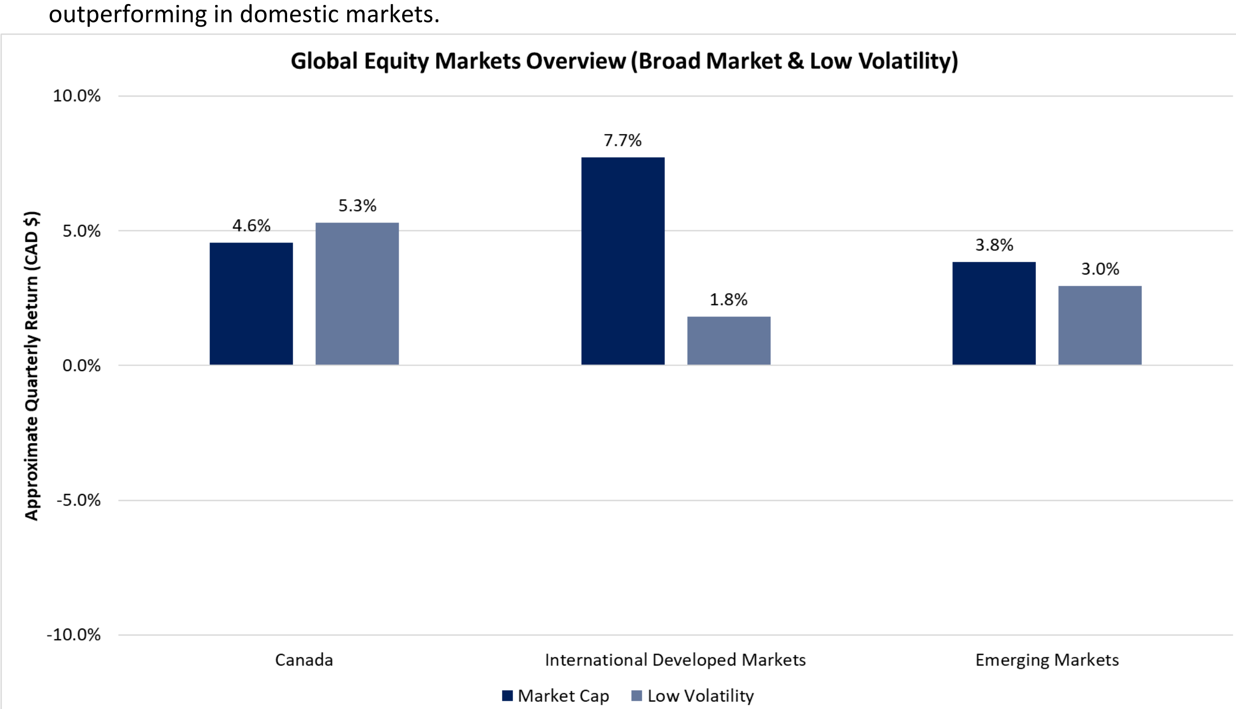


- Given this backdrop, the Canadian All Government Bond index had a strong return of 3.37% due to falling yields and interest income earned. Corporate bonds underperformed government bonds over the period with index returns of 2.79% due to modestly higher credit spreads and less exposure to declining longer-term yields.
- The Real Return Bond index fell -0.23%, underperforming other bond sectors as yields increased slightly over the quarter. Recently the federal government announced an ending to the issuance of real return bonds. As the predominant issuer in the Canadian inflation protected bond market, this development is expected to significantly impact the liquidity of these bonds, hindering both our ability to trade in this market and efficient market price discovery while impacting valuations through illiquidity discounts. Going forward we expect greater variability in the performance of our Real Return Bond portfolio, on an absolute and benchmark relative basis. We continue to assess longer-term implications and alternative solutions to provide inflation protection to the plan.

- In currency markets, the Canadian dollar had slight appreciation relative to the US dollar, gained versus the Japanese Yen while experiencing depreciation against other major currencies. With diverging currency movements and considering the relatively higher weight in US dollar denominated assets versus other currencies, the overall impact to the portfolio was minimal.



- All Public equity regions and strategies had positive performance during the quarter as investors assessed less aggressive monetary tightening alongside strong performance of technology and growth-oriented stocks. Low volatility strategies underperformed market-capitalization weighted indexes internationally while outperforming in domestic markets.



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

Market Environment & Outlook

Summary:

- Equity markets started the year on a strong note, with the U.S. S&P 500 index up 7.5% in Q1.
- Despite strong equity market returns so far in 2023, investors remain highly uncertain of the future path of central bank policy and market pricing suggests significantly reduced expectations of future short term interest rate hikes through the remainder of 2023.
- The turmoil experienced in the banking sector in March appears to be having the expected impact on the larger economy, with negative credit growth data suggesting a material slowdown in overall banking activity into quarter-end.

The first quarter of 2023 has seen a broad reversal of the experience in the previous year. In 2022, higher interest rates punished bond investors and had a secondary negative impact on higher risk growth stocks, which materially underperformed an already negative equity market. So far in 2023, interest rates have stabilized and moved lower, and stock market indexes have been led to the upside by higher flying technology companies. For the first quarter of the year, the S&P 500 gained a strong 7.5%, but was strongly outperformed by the 17% return earned by the NASDAQ.

In contrast to the equity market optimism, bond market indicators currently suggest a more cautious outlook. Interest rates declined significantly in March because of banking industry turmoil, and investors significantly reassessed expectations of central bank activity for the rest of the year. As of late February, short term yield curves suggested that market participants expected more than three additional rate increases by the Federal Reserve before year end. By the end of March (admittedly after one rate increase on March 22), despite inflation remaining significantly above the central bank's long run target, those same markets were pricing in less than one additional rate hike and instead expected nearly three net rate decreases before the end of Q1 2024.

Put simply, the banking system turmoil experienced in the aftermath of the failure of Silicon Valley Bank necessarily raises the question of how much damage central bank tightening has done already to the global economy. Economic statistics show that as of the end of March, bank credit growth – a measure of new loans granted by financial institutions – had been negative for six of the previous eight weeks, concluding the quarter with the largest 2-week credit contraction for the U.S. economic since 2001 in percentage terms.

Overall, markets remain highly uncertain about the near-term future, and investors should continue to expect large market moves as economic data brings additional clarity about the state of the economy. Continued declines in inflation will likely be seen as providing opportunities for central banks to gradually shift to an easier policy stance, boosting risk asset values, while the opposite outcomes will generally provide more downside risk for both bond and stock investors. The U.S. federal government's ongoing budget deficit negotiations will also require close monitoring as we approach a legislated mid-year debt issuance limit. While traditional diversification may not offset all sources of volatility in the near term, our lower risk stance with a bias toward higher quality, relatively liquid investments will likely benefit investors for the remainder of the year.