QUARTERLY MARKET UPDATE

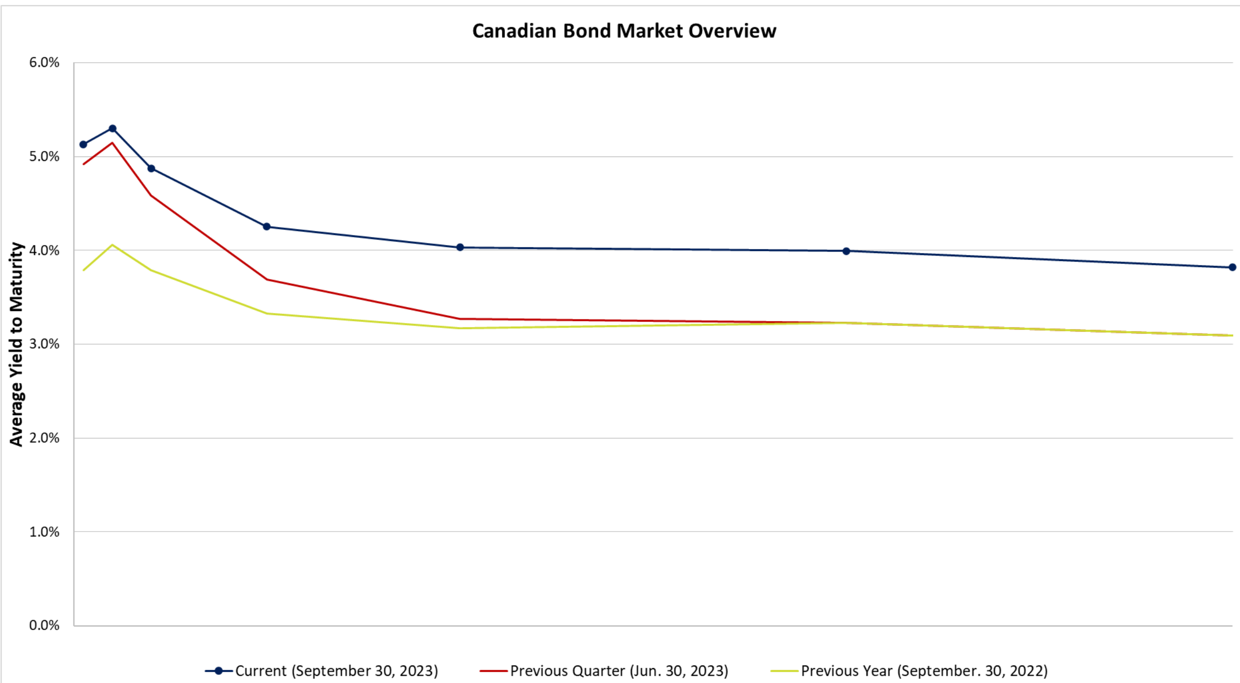
AS AT SEPTEMBER 30, 2023

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.

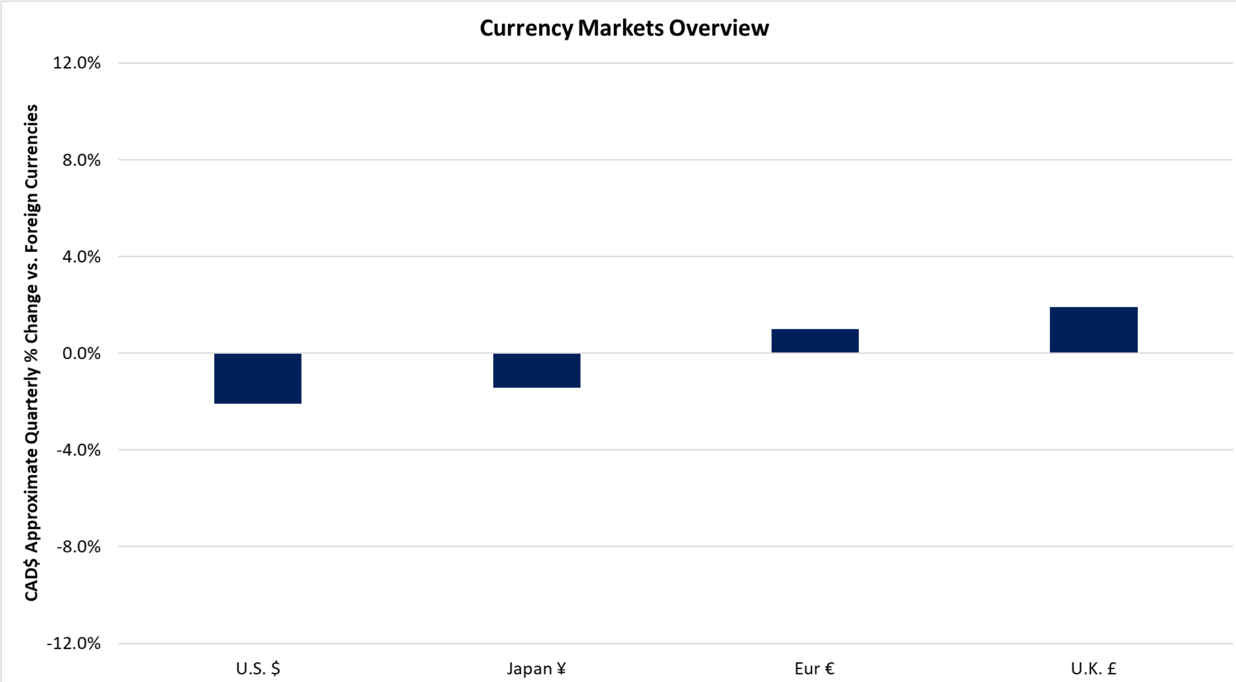
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

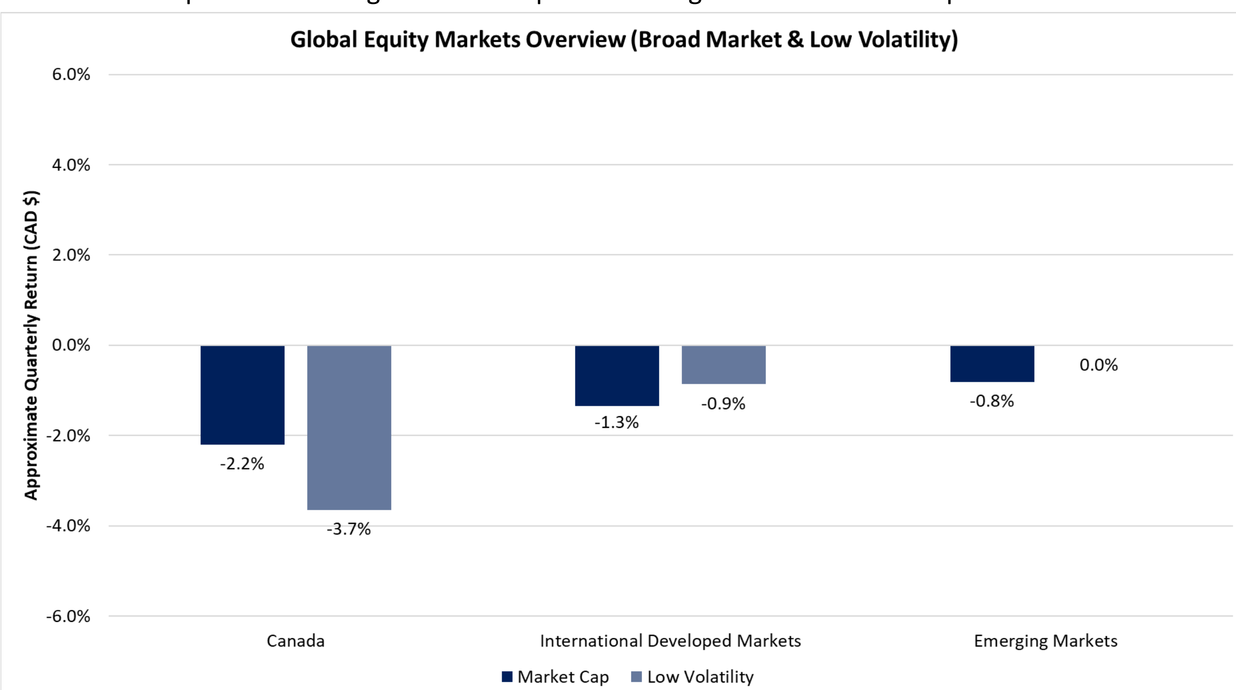
- Fixed income and public equities had mostly negative to flat returns for the quarter.
- During the period the Bank of Canada increased overnight rates 25 bps to 5.00%. Yields rose again over the quarter between 15 and 75 bps with higher increases for longer term maturities with markets demanding a higher term premium.



- Given this backdrop, the Canadian All Government Bond index declined 4.44% due to rising yields. The average yield for a Corporate bond index increased less due to declining credit spreads, which combined with higher interest earned resulted in returns of -2.22%, outperforming government bonds but still negative.
- The Real Return Bond index was negative with performance of -7.45%, underperforming government bonds due to increasing yields.
- In currency markets, the US dollar broadly strengthened against most currencies including the Canadian dollar. While the Canadian dollar depreciated relative to the US dollar it gained versus some other European currencies.



- Equity market weakness was broad-based with declines experienced in all regions. International developed markets underperformed Canada in local currency but the Canadian dollar depreciation against the US dollar helped mitigate some of the declines. Emerging markets outperformed developed markets bolstered by currency impacts but weren't immune from broader weakness. Low volatility outperformed their market-capitalization weighted counterparts in foreign markets but underperformed in Canada.



Private real assets including real estate and infrastructure generally outperformed their public market counterparts. While private equity had generally strong returns and outperformed public market counterparts.

Summary:

- Overall, investors have faced a challenging year so far in 2023. Active management has been challenging, with most of equity market gains concentrated in just a few names, and bonds continuing to face headwinds.
- The U.S. equity market remained extremely concentrated through the first nine months of 2023, with the so-called "magnificent seven" stocks – Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia, and Tesla – accounting for 10.6% of the year-to-date gain of 13.5% for the MSCI USA Index, a broad market benchmark of the U.S. stock market.
- Interest rates have continued to move steadily higher through the year – the benchmark Government of Canada 10-year generic yield increased an additional 0.7% from 3.3% to 4.02% during the first three quarters of the year, bringing the total increase in yields to about 3.5% off the lows in 2020.
- Central bank expectations have stabilized somewhat, with markets now forecasting no additional rate hikes in 2023, with increasing probabilities of as many as three rate cuts in 2024 now priced into the bond market.

Global equity markets have produced strong returns so far in 2023. In Canada dollar terms, the global equity market gained slightly more than 10% year-to-date at the end of Q3, although those returns were quite differentiated by region. The U.S. market, riding the strong performance of the tech sector earlier in 2023, earned more than 13% over that period, while both the Canadian market and global Emerging Markets were much more challenged, rising just 3.4% and 1.9%, respectively, over that period.

In contrast, Canadian bond investors have continued to face headwinds due to rising rates. During the first nine months of the year, the benchmark 10-year Government of Canada bond yield increased a further 0.7%, increasing from 3.3% at the beginning of the year to about 4% at the end of September. Year-to-date, the broad Canadian bond market has experienced a loss of about 1.5% - with investors in the government sector underperforming slightly with a -2.1% return. Corporate bond investors experienced a slightly more stable ride, with the shorter maturities and relatively higher coupon income producing a modest positive return of 0.7% over that same period.

Since the bottom in yields in August of 2020, investors in Canadian government bonds have experienced annualized losses of about -6% per year, for a total loss of nearly -19% over that span. If the current negative return year-to-date in 2023 is maintained through to year end, 2021-23 will represent the first consecutive three-year period of bond losses for investors in the history of modern financial markets.

Overall, despite tighter financial conditions and persistently elevated market implied probability of recession, economic performance has remained relatively strong. Non-farm payrolls – a measure of net new jobs created in the U.S. Economy – has remained solid throughout the year, helping to maintain the low rate of unemployment. Despite the headwinds caused by global geopolitical events and rising rates, thus far, the world's largest economies have continued to march forward with steady employment and reasonable growth, albeit with persistently higher than desired inflation.

Central banks have continued to walk a fine line on tightening financial conditions to bring down inflation without causing a significant slowdown or recession. Recent comments by central bankers in the U.S. have continued to prepare investors for the possibility of further rate increases should conditions warrant, while also suggesting that the current rate cycle is likely nearing its end. As of the end of Q3, investor expectations in the bond market suggested a very low probability of additional rate hikes in the near term, with up to three rate cuts priced in for 2024. Interest rates, both short term and long term, have increased significantly from the lows of 2020, and the impact on the real economy will likely continue to be felt for quite some time, and the ultimate path for rates will continue to be very data dependent – continued higher than desired inflation will result in rates being kept higher, while a recessionary experience, even mild, will likely result in pressure on central bankers to reverse course in rapid fashion.

Despite the challenges for bonds, however, the outlook appears to be much brighter for investors in fixed income. In the short term, risks appear biased to favourable outcomes as a result of improved income caused by higher yields – over the next year, an investor in a U.S. government 10-year bond would earn about 5% if yields were unchanged, 13% if yields decline by 100 basis points, and would lose only about -2.5% should yields continue to increase by 100 basis points. Starting from a higher current yield produced a more favorable risk-return basis for investors. Additionally, particular opportunities continue to exist in shorter dated maturities, with higher yields and relatively lower price risk. Continuing to tactically add exposure in more favorable pockets of the markets will likely add incremental value and manage downside risk for portfolios in 2024.