QUARTERLY MARKET UPDATE

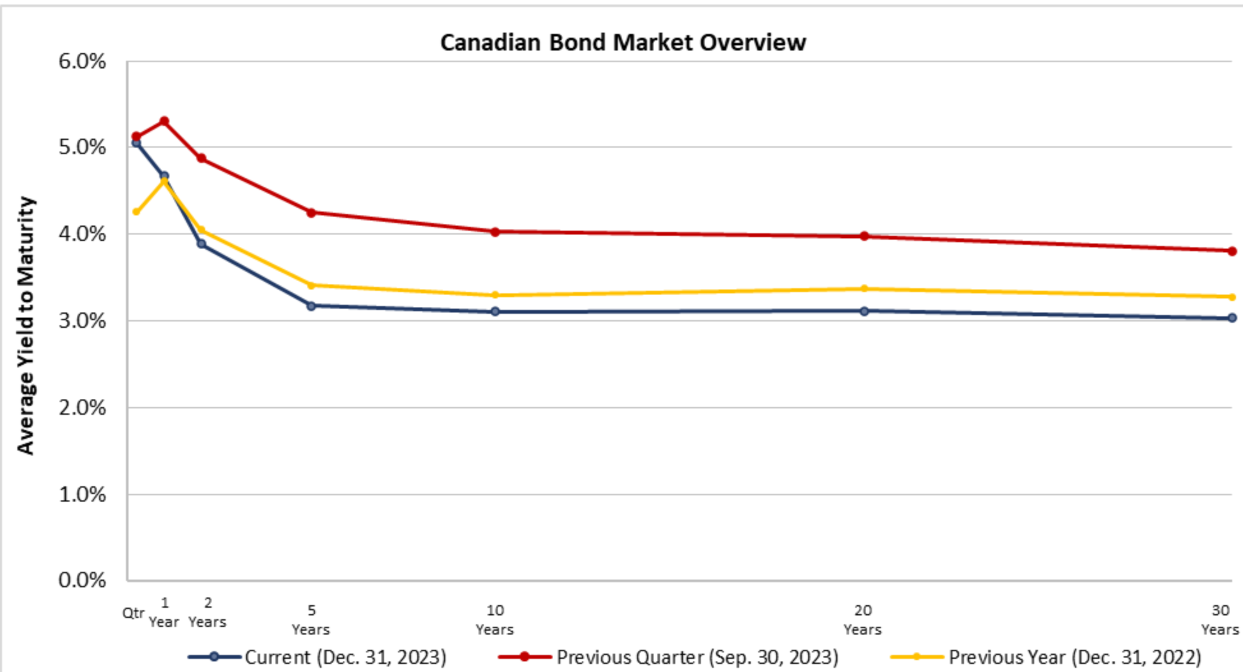
AS AT DECEMBER 31, 2023

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.

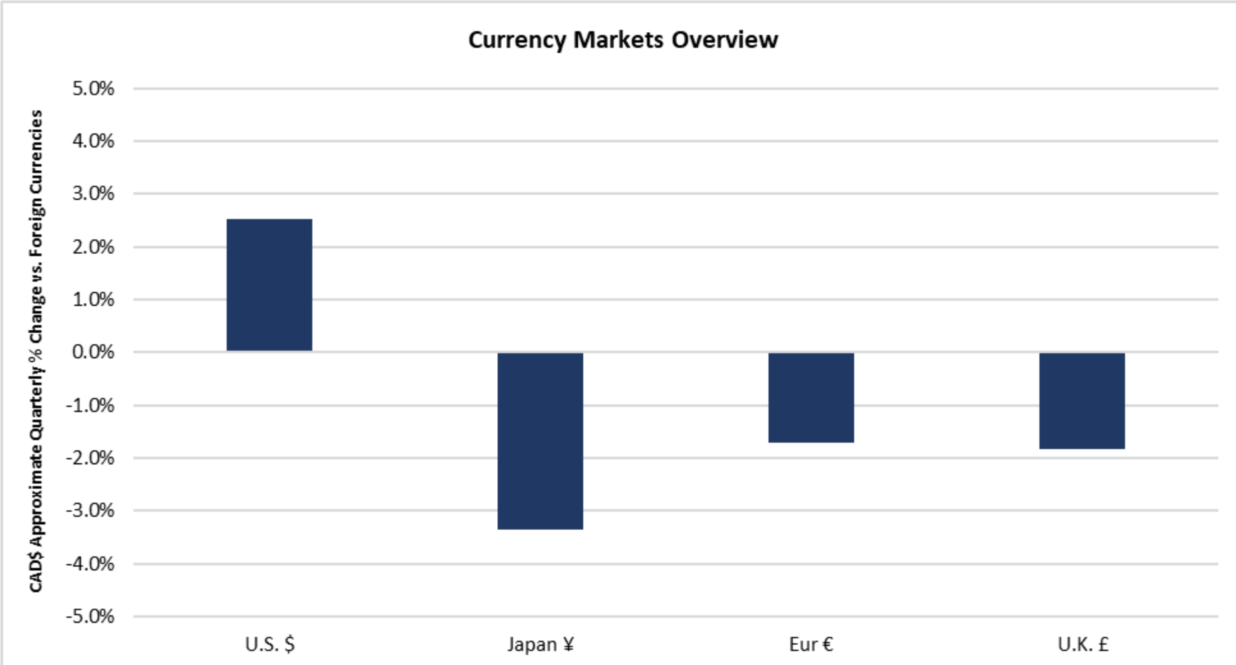
Please note that the following material is specific to Vestcor activities and is presented for information purposes only. It does not constitute investment advice in any way, and no guarantee is provided as to its completeness or appropriateness. We recommend that readers consult a professional advisor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

Performance Overview

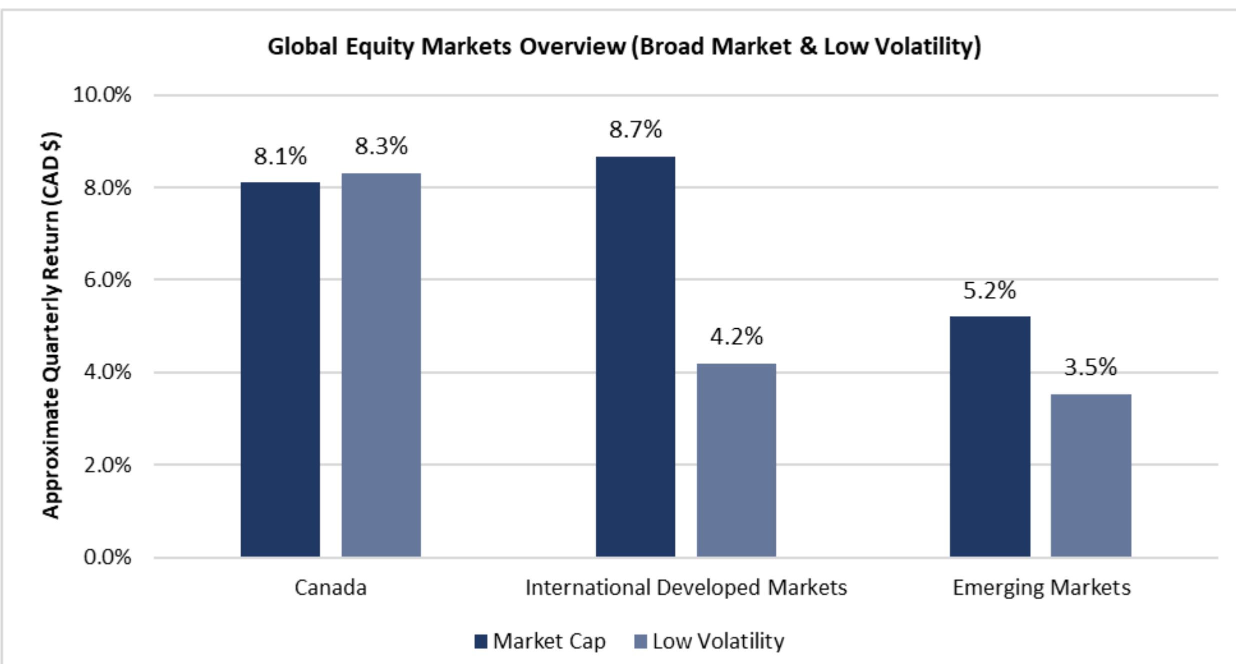
- Performance was very strong in the quarter for both fixed income and global equities.
- Yields fell over the quarter and the yield curve became further inverted with maturity terms of two years or greater falling nearly 100 bps. During the period however the Bank of Canada held interest rates at 5.00% as the bank remains committed to returning inflation to target levels which anchored the shortest-term yields.



- Given this backdrop, the Canadian All Government Bond index returned 8.49% due to falling yields. Credit spreads fell over the quarter helping to increase the quarterly return of the Corporate bond index, but it still underperformed government bonds earning 7.63% due to a lower sensitivity to declining yields.
- The Real Return Bond index was strongly positive with a performance of 10.50%, outperforming government bonds due to a higher sensitivity to falling yields.
- In currency markets, the Canadian dollar strengthened relative to the US dollar and depreciated against most other major currencies.



- Equity markets were robust during the quarter with all regions and strategies producing positive returns. During the period, developed markets outperformed emerging markets. As is typical in periods of rising equity markets, low volatility indexes underperformed market-capitalization weighted strategies except for the Canadian market which outperformed.



- Private investments, including real estate, infrastructure, and private equity generally underperformed their public market counterparts as valuations in private markets tend to lag public markets.

Market Environment & Outlook

Summary:

- Both bonds and stocks experienced significant gains in the 4th quarter, with declining interest rates and strong performance in equities driving total returns higher for diversified investors.
- In contrast to the public market strength, private markets experienced a more challenging year, with investors apparently taking a prudent approach to capital allocation and slowing the pace of investments as a risk management strategy.
- Economic growth and employment gains have for the most part remained solid, although geopolitical risk and other sources of tension contribute to market expectations of a softer economy in 2024, including significant potential of short-term rate cuts by central banks.

A strong 4th quarter for both bonds and stocks resulted in 2023 being a solid year for diversified portfolios despite a slow and choppy start to the year that persisted through much of the first three quarters. For the full year, global stocks gained approximately 19% in Canadian dollar terms, while Canadian dollar bonds rallied strongly in Q4 to finish the year up more than 6%. Overall, diversified public market portfolios had a strong year in 2023.

Once again, U.S. stocks had the strongest results during the past year. Diversified stock market benchmarks representing Canada, the U.S., global developed markets, and global emerging markets equities gained approximately 12%, 23%, 15% and 7% in Canadian dollar terms. In the U.S., the extreme concentration in that market persisted throughout much of the year, with the so-called "Magnificent Seven" stocks[1] contributing nearly 60% of the total gains for the U.S. market for 2023. Concentrated markets, with the largest few stocks outperforming much of the rest of the universe, typically present a challenging environment for active managers, with limited opportunities to pick outperforming securities.

While public markets had strong gains for the year, private markets (particularly certain segments of private equity and private real estate) continued to experience challenges. As of Q3, the trailing 1-year return for a standard benchmark of private real estate funds in Canada earned a return of -0.6%, with the 4th quarter results (expected to be released during Q1 2024) not anticipated to improve those returns. Overall, while certain segments of private markets performed strongly in 2023 (including certain private debt and infrastructure strategies), the increasing dry powder in these markets – that is, the amount of money that global investors have committed to invest but have yet to actually deploy – suggests that investors globally are taking a prudent approach to deploying capital in these markets, with a slower pace of deployment as a risk mitigation approach in the face of an uncertain environment.

Interest rates, particularly in the medium term, experienced significant volatility throughout the second half of the year. Going into the month of May, the Canadian 10-year government bond had an approximate yield to maturity of just under 3%. Over the following 5 months, this rate moved steadily

[1] Alphabet (Google), Amazon, Apple, Meta (Facebook), Microsoft, Nvidia and Tesla.

higher as the central bank short-term rate hikes and the improving economic growth picture resulted in investors reassessing the appropriate level of rates. However, with the rapid decline in inflation, and the associated increase in the probability of future short term rate cuts in 2024, these medium-term rates significantly reversed in Q4, with the Canadian 10-year declining from a high of nearly 4.2% to approximately 3% by year end, significantly boosting bond returns for the full year in the process. The 10-2 year interests rate spread, which had become significantly negative by mid-year (generally a negative signal for future economic growth) recovered significantly to a more modestly negative level by year end.

Inflation, which reached a Year-Over-Year ("YoY") peak of approximately 9% for the U.S. economy in mid-2022, began a strong decline late in that year and into the first half of 2023. Ultimately however, while central banks continued to raise rates and project a strong anti-inflation bias, the YoY inflation rate stabilized at just over 3% in the latter part of 2023, finishing 2023 with a full year price level change of 3.4%. With inflation apparently moderating significantly, and employment continuing to grow at a solid pace, it appears that central banks – particularly the U.S. Federal Reserve – have come closer to achieving a so-called "soft landing", although market implied probabilities of rate cuts in 2024, with prices suggesting an expected average of 6 cuts in the coming 12 months, suggest that investors still consider the potential for a growth slowdown in the near to medium term as a significant likelihood.

Adding to this slowdown risk is that geopolitical issues remain a concern for investors around the globe. Pockets of conflict remain throughout parts of the middle east and eastern Europe, recent Taiwan election results suggest the potential for continued challenges in the relationship between China and the rest of the world, and the upcoming U.S. elections all provide issues that will at times dominate the news cycle in the coming quarters.

Overall, despite the significant volatility and pockets of uncertainty in certain markets, medium to long term expectations for investors remain solid. Interest rates, while lower than the 2023 highs, remain reasonable contributors to total portfolio returns, and while valuations in certain markets such as the U.S. appear somewhat high relative to experience, there remain significant opportunities for global equity investors to improve the profile of their portfolios. Economic growth in general has remained solid, while employment continues to expand (although despite the relatively faster than normal post-COVID gains, employment remains below a projected level of where total employment would have been without the 2020 disruptions), and certain central banks now face the challenge of setting a level of interest rates that more effectively balance both the inflation control and growth & employment support components of their mandates.