QUARTERLY MARKET UPDATE

AS AT MARCH 31, 2024

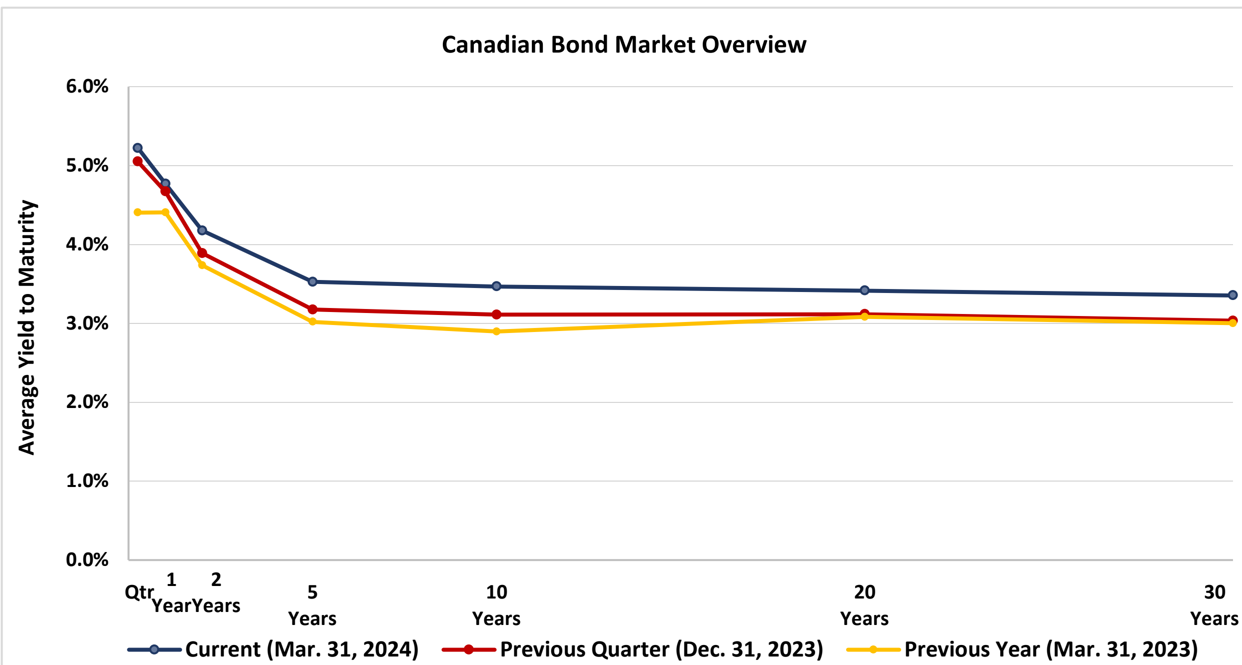
The following information is being provided as an overview of Vestcor Inc.'s (Vestcor) investment activities and the general financial market conditions experienced during the noted reporting period.

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

- Equity markets started the year strongly, with the S&P 500 gaining over 10% by the end of Q1, before selling off modestly in concert with the rise in interest rates from March into April.

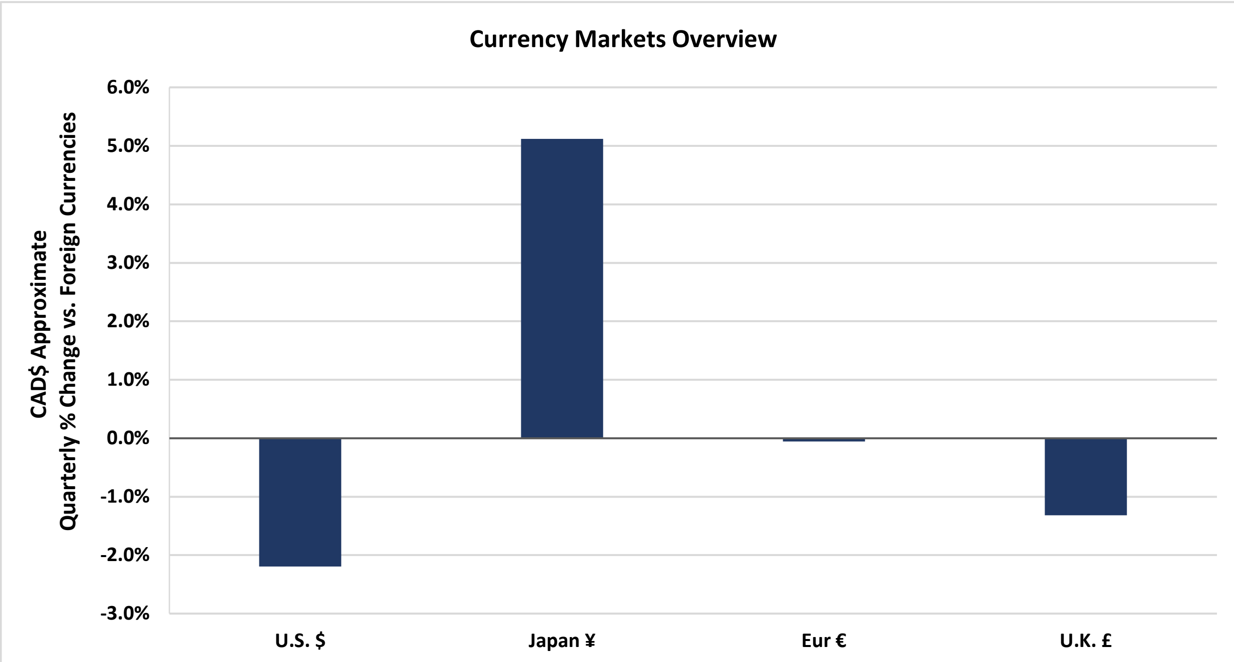
- Yields rose over the quarter with terms of two years or greater increasing 30 bps while short-term rates rose by a smaller amount. During the period the Bank of Canada held interest rates at 5.00% as the bank remains committed to returning inflation to target levels which anchored the shortest-term yields.



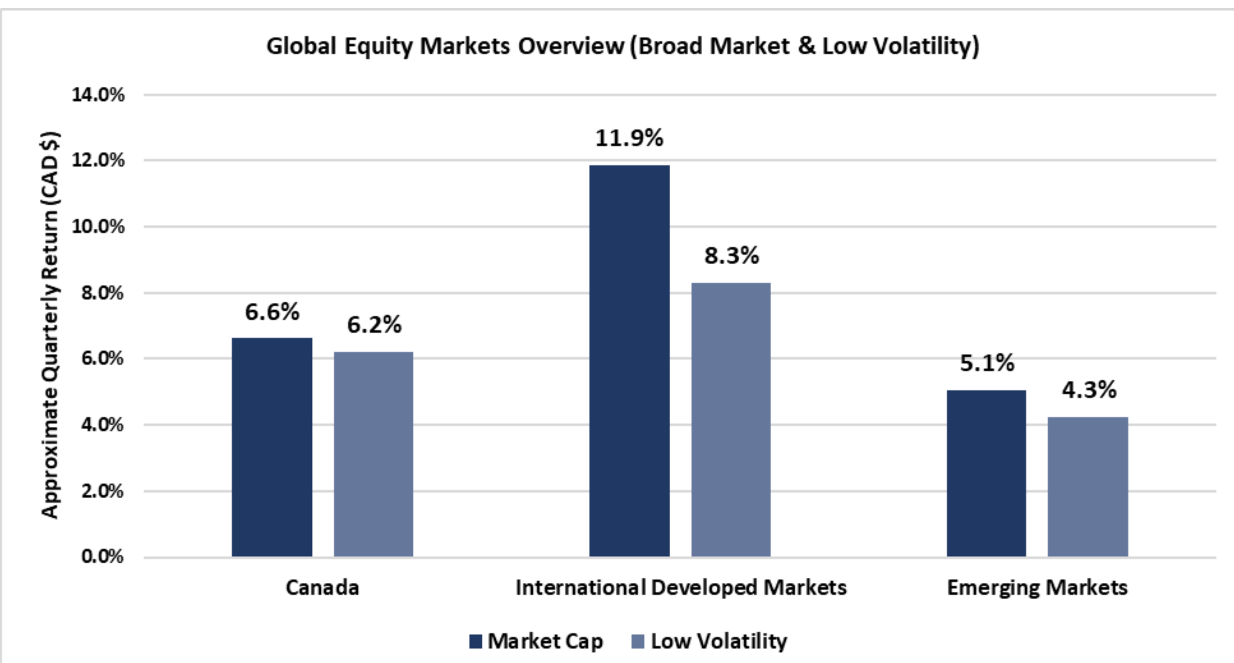
- Given this backdrop, the Canadian All Government Bond index returned -1.66% as yields increased during the quarter. The Canadian Corporate Bond index outperformed government bonds, earning 0.07%, as credit spreads fell over the quarter helping to increase the quarterly return and due to a lower sensitivity to rising yields.

- The Real Return Bond index had a return of -1.81% underperforming government bonds due to a higher sensitivity to rising yields.

- In currency markets, the Canadian dollar weakened against the US Dollar and British Pound while strengthened relative to the Japanese Yen.



- Equity markets were robust over the period with all regions and strategies producing positive results. During the quarter, International Developed outperformed other regions. As is typical in periods of rising equity markets, low volatility indexes underperformed market-capitalization weighted strategies.



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

Market Environment & Outlook

Summary:

- U.S. inflation came in at 3.5% year-over-year for the month of March, higher than the previous month's rate, and above the analyst forecast expectation, causing investors to reassess expectations for the path of interest rates for the remainder of the year.
- Equity markets started the year strongly, with the S&P 500 gaining over 10% by the end of Q1, before selling off modestly in concert with the rise in interest rates from March into April.
- Geopolitical risk remains a significant source of uncertainty for investors across all markets and asset classes, with continued conflict in eastern Europe and the middle east, and a potentially volatile U.S. federal election cycle for the remainder of the year.

Inflation remains a significant source of risk for investors to digest in 2024. While central banks have continued to manage policy to bring consumer price changes back closer to target (after reaching a peak in mid-2022), more recent data releases in the U.S. suggest that price pressures remain in certain segments of the economy. Inflation for March showed that consumer prices in the U.S. increased at a 3.5% year-over-year rate, higher than the two previous months and above analysts' expectations. After reaching a low of 3% annualized in mid-2023, U.S. consumer price inflation has remained sticky between 3-4% for nearly a year, above the Federal Reserves stated goals for the long-term annual inflation rate.

Investors continue to struggle to set firm expectations for future central bank policy choices on short-term interest rates. At the end of 2023, market prices suggested as many as seven rate cuts for the Federal Reserve in 2024, which would have taken the policy rate down from its target level of 5.5% to below 4% by the end of the year. By the end of Q1, those expectations had fallen to between 3-4 rate cuts, and after the most recent inflation data release, markets now expect as few as 2 rate cuts from the Fed this year. The 2-10 year yield spread – a common measure of investor expectations of economic strength or weakness – has now remained inverted for the longest time on record, another indication that investors remain wary of the impact of central bank policy on economies and markets in the short to medium term.

As a result of the uncertainty in central bank policy, longer-term interest rates have moved steadily higher throughout the first part of the year. In both the U.S. and Canada, benchmark 10-year government bond yields have increased by approximately 0.7% year-to-date, bringing those benchmark yields to 4.64% and 3.80%, respectively, for the U.S. and Canada. Bond investors have experienced negative returns as a result, with a benchmark of Canadian government bonds declining about -1.7% by the end of Q1, with a further drawdown to -3.9% in early Q2.

Equity markets, despite the move lower since late March, have produced positive results so far year-to-date. Canadian, global developed markets, and global emerging markets produced gains of approximately 6%, 9%, and 5% respectively in the first quarter of the year when measured in Canadian dollars. Despite the more recent volatility and modest selloff in stocks in concert with rises in interest rates, public equity markets have remained positive contributors to diversified portfolios and serve as a challenging benchmark for private market strategies overall.

Markets have so far digested geopolitical events with minimal volatility. The U.S. federal election cycle is still in its early stages, and the ongoing hostilities in eastern Europe and the middle east have so far had limited impact on markets in 2024, and global leaders appear to be working diligently to avoid broader escalation. Recent strikes by Israel on targets in Iran were more limited than originally feared, lowering the probability of retaliation. Oil markets, despite moving higher, have so far had limited volatility in response to recent conflicts.

Overall, a lower risk position remains attractive for investors in the short term. Despite the risk of short-term volatility, however, the medium to long-term outlook remains solid from the point of view of total returns. Although certain segments of global equity markets remain stretched from a valuation perspective, most markets have continued to benefit from broad economic strength. Bond markets, particularly with the recent move higher in rates, provide solid contributions to total returns, particularly in short term maturities. Most likely, short term market risk will be impacted fairly significantly by geopolitical risk and central bank policy actions/inflation, and investors who are well positioned from a liquidity and risk perspective may be best able to continue to take advantage of long-term opportunities in global markets.