QUARTERLY MARKET UPDATE

AS AT DECEMBER 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.*

Market Environment & Outlook

Strong returns across the board mean that 2024 was a good year

With positive returns from both stocks and bonds, investors had a highly successful 2024. In Canadian dollar terms, the Canadian, U.S., Global, and Emerging Markets gained about 21%, 36%, 29%, and 17%, respectively, while Canadian bonds earned modestly positive returns of a bit better than 4% for the full year. Overall, most diversified investors earned strongly positive returns over the past year, with those positioned in relatively higher risk investments performing best of all.

Central banks have apparently warded off high inflation

Central banks were, for the most part, successful in combating the final amounts of inflation. In the U.S., the annual rate of change of consumer prices fell below 3% during 2024, allowing the Federal Reserve to lower the target overnight interest rate from 5.5% to 4.5% during the year. The continuing strength of the underlying economy, as evidenced by employment and growth statistics, has resulted in a near-equilibrium in market expectations – as of early 2025, investors expect perhaps just 1-2 more rate cuts in the U.S. market this year.

With the Canadian economy performing relatively weaker from a growth, employment, and inflation perspective, the Bank of Canada has been both more aggressive in cutting rates throughout the past year (lowering the target rate from 5% to 3.25% by December), and is expected by investors to need to make at least two more rate cuts during the next year. If rate markets play out as currently expected, Canadian short-term rates will likely spend all of 2025 fully 1.25% lower than U.S. rates.

Market Environment & Outlook

Geopolitical risk remains a concern

From a geopolitical risk perspective, the market continues to face the same broad trends that have been expected and experienced for the past several quarters. The incoming U.S. administration will undoubtedly advance a "U.S. first" agenda, likely resulting in a volatile economic situation for those, such as Canada, with tight economic links to the U.S. market. Globally, conflicts in eastern Europe and the Middle East continue, and in general, many sources of tension remain ready to inflict volatility on investors in the coming year.

Outlook

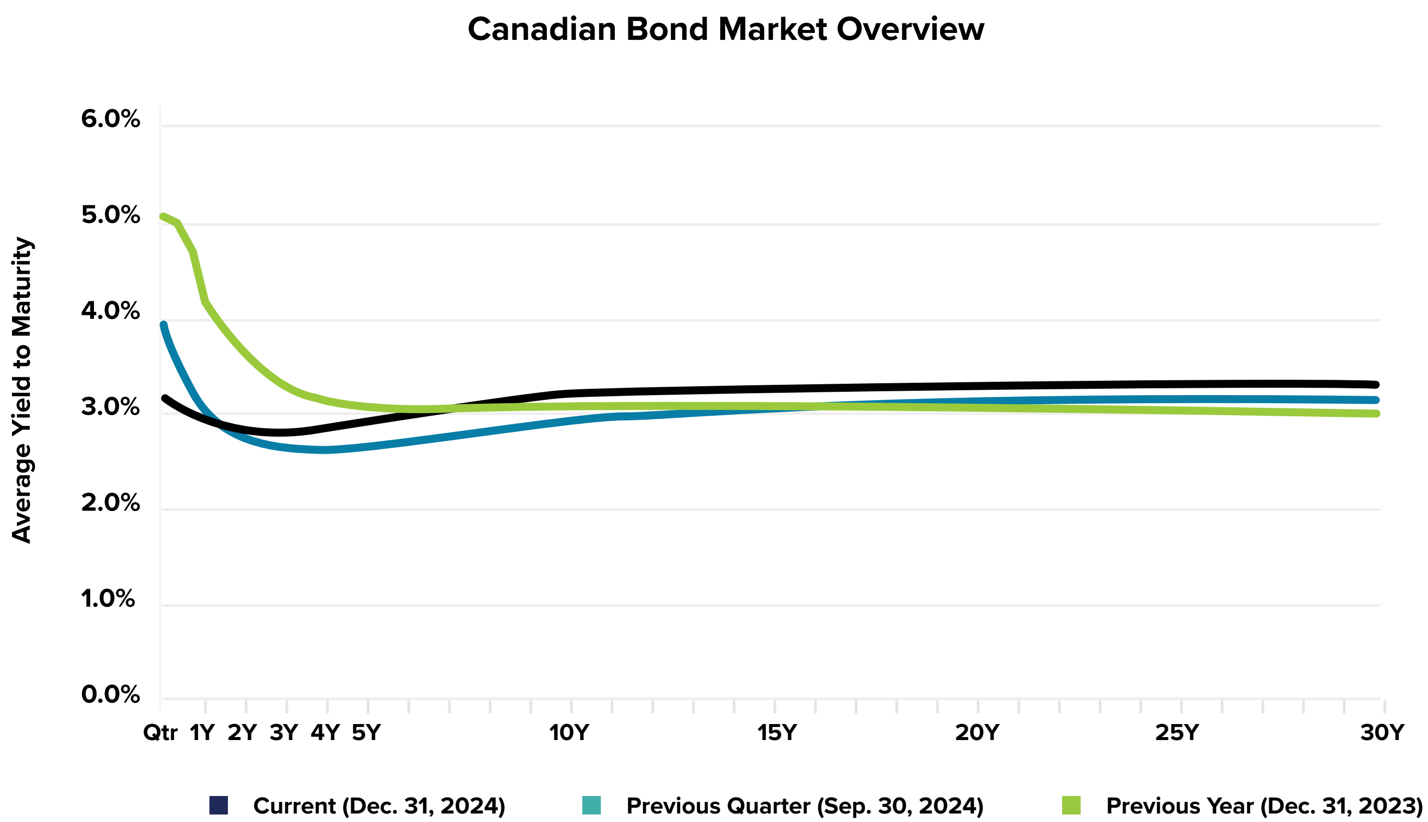
From an investment outlook perspective, risk trends will likely dominate in the coming year. The weaker Canadian dollar, which has been beneficial to Canadian dollar investors who left such risks unhedged, could provide meaningful volatility to investment results as investors digest upcoming inflation and growth data in the context of central bank policy actions. A sharp reversal in the exchange rate could be a material source of risk for Canadian investors.

The outcome of the U.S. election will have unknown but likely consequential impacts on trading partners like Canada. Imposition of far-reaching tariffs would significantly impact Canadian producers, and retaliatory action on the part of Canadian policymakers have an additional negative impact on domestic consumers, who would be forced to pay more for imported goods if politicians engage in "like-for-like" tariff policy.

Overall, investors will need to be both tactical and strategic with investment portfolios going forward. While challenging from a timing perspective, significant dislocations in certain markets (FX, equities) could present both risks and opportunities for short- to medium-term value creation.

Overview: Fixed Income

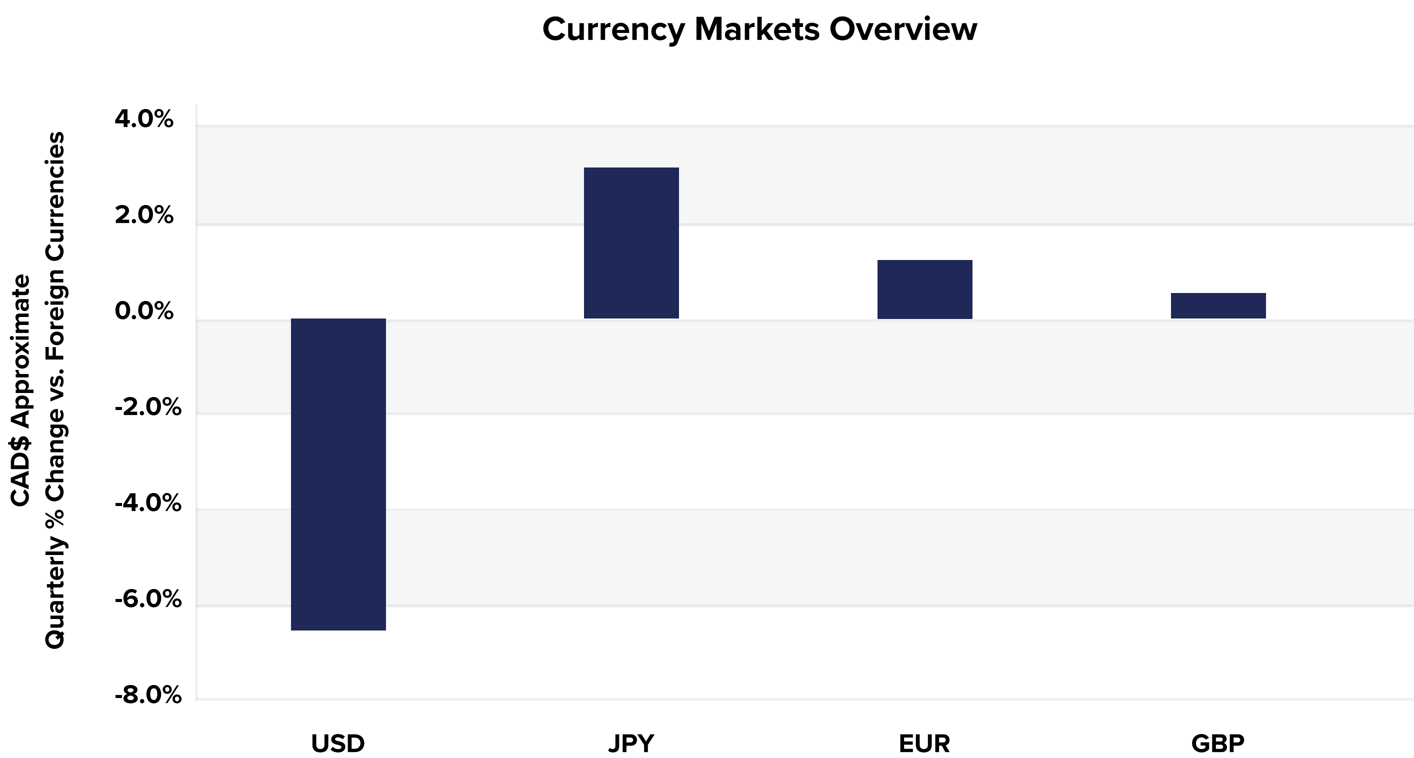
The Bank of Canada reduced the policy interest rate by 100 basis points over the quarter, bringing the overnight rate down to 3.25% as inflation continues to normalize within the targeted band. Consequently, yields on short durations declined over the quarter. Meanwhile, yields increased 20 to 30 bps on longer maturity bonds, resulting in a further flattening of the yield curve.



Given this backdrop, the Canadian All Government Bond Index returned -0.40% as yields increased during the quarter. The Canadian Corporate Bond Index outperformed government bonds, earning 1.03% as credit spreads tightened, offsetting the impact of the increase in yields.

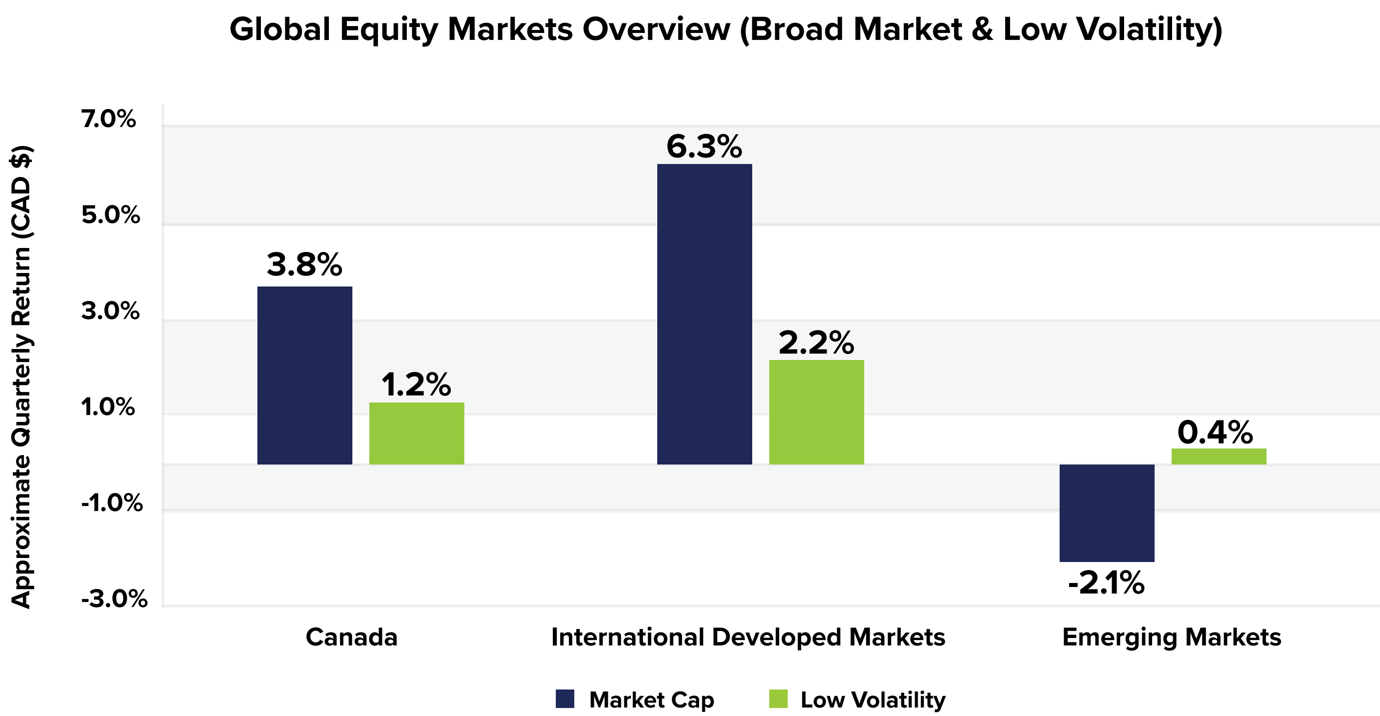
Overview: Currency

In currency markets, the Canadian dollar weakened relative to the U.S. dollar and appreciated against most other major currencies. Overall currency impacts were strongly positive to the portfolio's quarterly return.



Overview: Equities

Equity markets were divided this quarter, with some geographies producing positive results while others were either muted or negative. Market-capitalization weighted strategies outperformed low volatility strategies for developed markets but underperformed low volatility strategies in emerging markets.



Notably, 2024 was a year of measured recovery for the private equity industry against a backdrop of strong public markets globally. On the fundraising side, global private equity fundraising was down nearly 20% last year, reaching a six-year low. The U.S. Federal Reserve's 50-basis-point cut in interest rates in September, followed by two additional 25-basis-point cuts in Q4, not only reduced borrowing costs but also improved deal-making sentiment across the industry in Q4. Global quarterly exit values for private equity subsequently finished the year near their pre-pandemic average.