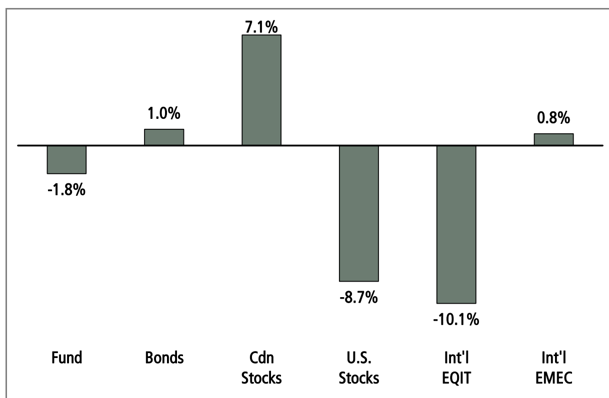
A Wild Ride

Like a bone-rattling roller coaster ride, the first three months of 2016 offered plenty of thrills for investors. The first five days of stock market trading in January was the worst start to a year ever experienced in the U.S. Most global markets suffered a similar decline, and the selling continued right through to February 11, at which point the S&P 500 was down 10.5% on the year.[1] February 11 turned out to be the bottom, however, and markets rebounded as sharply as they fell. Once the dust settled, the S&P 500 showed a modest gain of 0.8% for the first three months of the year. Those who look only at the final results might think the quarter was boring. Those who lived it day-to-day know that it was quite the opposite.

The behavior of many markets during the last three months reminds us that the most powerful force in the investment world is reversion to the mean. Markets can soar and markets can sink in the short term, but they will always revert to long-term averages over time. In 2015, the Canadian stock market was one of the worst in the world. In the first quarter of 2016 it was the best performing of the world's major markets. Similarly, after falling 16.2% against the U.S. dollar in 2015, the loonie surged 6.7% over the last three months. Of course, currency movements have a meaningful impact on investor returns – our currency's weakness provided a huge tailwind to non-Canadian investments in 2015. Its recovery provided a stiff headwind over the last three months. Accordingly, asset class returns in the last quarter are almost completely reversed from what was achieved in 2015.



Nexus Balanced Fund – Component Returns for 3 Months Ended March 31, 2016[2]

[1] Returns in this paragraph exclude dividends and are in US$.
[2] Total returns for each asset class expressed in C$.

Better Days Ahead?

2015 was not a brilliant year for the Canadian economy. The collapse in oil prices led to a sharp reduction in capital spending by energy companies and widespread layoffs in the formerly robust energy-producing provinces. As we've noted several times in the past, the economic impact from the decline in energy prices and the related decline in the Canadian dollar is asymmetric. It has a negative impact on the energy sector that is felt almost immediately. The positive impact it has on manufacturing competitiveness and other export-oriented businesses takes time to work its way through the system.

Times continue to be tough in Canada's energy-producing regions. However, Canada's recent GDP report for the month of January suggests that the long-awaited benefit from the low dollar may be starting to be felt. GDP rose 0.6% in January compared to December, the strongest rise in three years and double the rate expected by economists. This was the fourth consecutive month of growth and it lifts economic growth for the three months ended January 31 to an annualized rate of 5%. While gains were quite broad-based, strength in manufacturing and exports suggests that the long-awaited boost from our currency's decline may be upon us.

The Bank of Canada's recent Business Outlook Survey also supports this view. There is a sharp dichotomy between different regions of the country as the energy-producing provinces remain under a dark cloud. Almost every aspect of their current economic condition seems to be in a downward spiral. Yet, consistent with the January GDP report, other regions display considerable optimism about the future. To be sure, rising commodity prices will be needed to spur a broad-based recovery of the Canadian economy. But the low Canadian dollar and improving demand for exports suggest that Canadian economic growth may improve modestly in 2016.

U.S. Recovery Continues

Investors hoping for a strong acceleration of U.S. economic growth continue to be frustrated. Growth is solid, but seems unable to gain any real traction.

On the positive side, the labour market remains strong. U.S. non-farm payrolls grew by another

215,000 jobs in March, beating consensus expectations. While the unemployment rate ticked higher to 5.0%, the underlying reason for its increase is good news. More Americans entered the work force, implying a greater level of optimism about the prospects for employment. Just as important, average hourly earnings increased 2.3% on a year-over-year basis. More Americans had jobs, and those who did have jobs earned more money. That's good news for domestic demand.

While the Bureau of Labor Statistics employment data is the most widely-followed barometer of the health of the U.S. labour market, Fed Chair, Janet Yellen, closely follows another data series called the JOLTS[3] survey. The most recent JOLTS report corroborated the positive reading on the U.S. labour market previously suggested by the Bureau of Labor Statistics data.

Despite the good news in labour markets, the U.S. economy faces several headwinds. The strong rise in the U.S. dollar over the last 18 months has presented a steep challenge to the competitiveness of export-oriented businesses. Evidence of this has been manifest over the last several weeks in slightly disappointing reports on U.S. factory orders and also the Institute of Supply Management's survey of purchasing managers. As well, the foreign earnings of U.S. multinationals are worth less than they used to be when converted back into U.S. dollars. This, together with the collapse in earnings in the energy sector, has led to an expectation for a year-over-year decline of 7% in S&P 500 earnings in the first quarter of 2016. Earnings are forecast to fall a further 2% in the second quarter, before recovering in the second half.[4] With the recent softening of the U.S. dollar we are hopeful that the strong performance of many domestic businesses will soon spread to export-oriented ones.

Finally, while impossible to quantify, we can't help but think the U.S. Presidential race is creating a negative mood in the country. According to surveys, a clear majority of Americans think the leading candidate for each party's nomination is untrustworthy. Moreover, the Primaries, particularly for the Republicans, have become more of a circus than a forum for serious political discourse. Yet one of these candidates will become President in November. This inevitability must be distressing to many.

Risks Remain…As Always

Despite our reasonably sanguine view of the environment, we acknowledge that investors are confronted by downside risks that seem unusually worrisome. At the head of this risk parade may be the looming referendum in the U.K. in June over whether that country should remain part of the European Union. A vote in favour of leaving the EU could result in significant economic upheaval in the U.K., as well as draw into question the ongoing viability of the EU itself. It's impossible to know how such a scenario would play out, but suffice it to say that it would be unsettling.

We wrote extensively on the worries about a slowdown in economic growth in China in the last Nexus Report. Over the last three months several other geopolitical risks have gained attention. There is a growing economic and political crisis in Brazil, as well as renewed solvency concerns about Greece. North Korea remains frightening insofar as it is so unpredictable. The Zika virus has introduced a widespread public health scare in Latin America that is sure to have economic repercussions in the region.

While these risks feel particularly acute at present, the reality is that there is *always* something to worry about. The essence of investing is making decisions in the face of uncertainty. In fact, the only thing that is certain is that it is impossible to know how this myriad of issues will play out in the short term. Accordingly, the most sensible approach should not depend on knowing the unknowable. We don't know whether interest rates will be higher or lower a month from now. But we are pretty confident that they will be higher five years from now, so our bond portfolio is positioned in a way that anticipates that. Similarly, we don't know whether stock prices will be higher or lower a month from now. But we are pretty confident that the companies in which we are invested will be generating significantly greater earnings and paying higher dividends in five years than they do today. We don't set stock prices, but we know they will reflect the fundamentals of a business over time.

The investors who should be most worried about the daily ebbs and flows of the risks we face are those making short-term trades. For long-term investors such as Nexus, the need to fuss about these issues is considerably less. Volatility never feels good, but those who have purchased the shares of high quality businesses at an attractive price will prosper over time, no matter who becomes the next U.S. President.

[3] JOLTS stands for Job Openings and Labor Turnover Survey.

[4] *Barron's*, April 4, 2016.

Asset Class Investment Review

Fixed Income

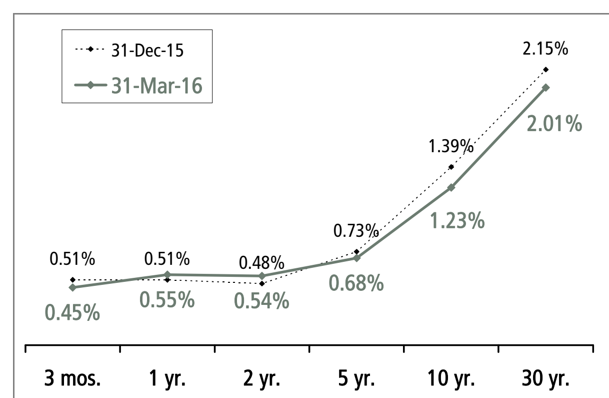
We remained a little out of step with developments in the bond market this quarter, being positioned for a rise in interest rates at a time when they have continued to fall. Our shorter maturity portfolio leaves us less exposed to the price changes in bonds that come with a change in the general level of interest rates. This quarter, yields of Canada bonds with less than five years until maturity were basically unchanged, while yields of longer maturity bonds fell slightly.

Anticipating policy changes of global central banks remained the primary focus of the bond market in the first quarter of 2016. Foremost of these central banks was the U.S. Federal Reserve which had ended 2015 with a well anticipated increase of 0.25% to its target federal funds rate. This was consistent with the Fed's statutory mandate of fostering maximum employment and price stability, and so it was widely expected to be the first of several small moves that would gradually nudge interest rates back to more normal levels. The rationalization for such belief was the overall improvement in the U.S. economy and, explicitly, the strengthening of the labour market and a pick-up in the rate of inflation. With respect to employment, new job creation has been robust, the labour participation rate is rising, and there is evidence of an incipient rise in wage growth. With respect to inflation, 'price stability' has been widely accepted as a policy target of 2% inflation. Over the course of the quarter inflation accelerated towards that target. In fact, core inflation (without including the effect of weaker energy prices) is now running at a 2.3% annual rate.[5] Nonetheless, at both Federal Reserve meetings held this quarter, worries about the stability of global economies carried more weight with the decision-makers than we expected, and the target range of the fed funds rate remained unchanged: between 0.25% and 0.50%.

Internationally, central banks are even more dovish than the Fed, with the European Central Bank leading a charge toward negative interest rate policies and ever larger quantitative easing practices. These practices have the effect of flooding the financial system with liquidity, and are designed to improve the balance sheets of the European banks, weaken the Euro to make businesses more globally competitive, and encourage inflation to avoid the worrisome consequences that deflating prices have on spending and economic activity. Elsewhere around the globe, other central banks like the Bank of Japan, the Peoples Bank of China and the Reserve Bank of India are all following very easy monetary policies.

In this environment, the Bank of Canada has held its policy steady for now, keeping the Bank Rate at 0.50%. A steady policy, combined with a growing belief that the U.S. Fed is not in a hurry to raise rates, and that the new Liberal government was committed to a large fiscal stimulus, drove a substantial improvement in the value of the Canadian dollar this quarter. From a low of $1.47 (US$0.68) in mid-February, our currency rose to $1.30 (US$0.77). It remains unclear whether this new-found strength will be justified by fundamentals. Energy prices have recently weakened and if the Canadian dollar doesn't soften a bit, we believe the Bank of Canada will consider another reduction in the Bank Rate.

In the first quarter, the FTSE TMX Canada Bond Universe Index (the Bond Index) returned 1.4%, and the trailing twelve month return was 0.8%. Our return, using the bonds in the Income Fund as a proxy, trailed the Bond Index over the quarter, but exceeded it over the last twelve months. For the quarter, our return was 1.1% and for the last twelve months it was 1.4%.



Government of Canada Yield Curve

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5 *The Daily Deck*, RBC Capital Markets, March 16, 2016.

Equities

The first quarter was a rollercoaster for equity investors and not great overall. As an indicator, the Equity Fund was down 2.8% in the quarter and down 1.8% over the past twelve months.[6] At its lowest close in February, the S&P 500 was down 9.7% in Canadian dollars but the rebounded to finish the quarter down 5.0%.[7] Non-North American markets also suffered and our EQIT holding, down 10.1%, reflected this. Canada's equity market also suffered early in the quarter, but by quarter end turned in one of the best performances in the world, up 4.5%.

The recovery in the Canadian dollar was a big drag in the first 3 months of the year and served to reduce the returns from U.S. investments by 6.3 percentage points from what they would have been in U.S. dollars. Note that this reversal follows the massive decline of the Canadian dollar in calendar 2015, which had improved U.S. equity returns by 20%, so some reversion was inevitable. The stronger Canadian dollar also reduced the return from our non-North American investments.

Canadian Equities

Nexus's Canadian stocks were up 7.5% in the quarter and flat over the past twelve months. This was noticeably better than the TSX Composite's 4.5% gain for the quarter and its 6.6% loss for the year.

For the quarter, a big part of the overall story related to stocks that we don't own. We benefited by missing the carnage in the Healthcare sector – principally Valeant Pharmaceuticals. On the other hand, the Canadian market's strong first quarter performance was due to a recovery in the two commodity sectors, Materials and Energy. Whilst we hold some Energy stocks, we have no Materials holdings, as has been the case for a long time, so we "missed" the Materials recovery. We note that we have little regret as the Materials sector was still down 8.3% for the twelve months and has generated a mere 0.4% annual return over the past 10 years.

Amongst our holdings, we had good returns in the quarter from Progressive Waste (from the announced merger with Waste Connections), Metro (strong earnings in the quarter) and a recovery in sentiment for several holdings: the Bank of Nova Scotia, Allied Properties, our two pipeline holdings (TransCanada and Enbridge) and Telus.

There were no substantial trades in the quarter.

U.S. Equities

After a very strong 2015, Nexus's U.S. equities were weak, down 8.9% in the quarter and down 1.1% for the twelve months. For the quarter and twelve months we trailed the S&P 500 index by 4% and 5%. Despite this, our longer-term U.S. equity returns remain very strong on an absolute basis and ahead of the S&P 500 over the past ten years.

Our relative underperformance for the quarter stemmed partly from our not having any U.S. holdings in the two strongest sectors, Telecom or Utilities (our Canadian holdings in these sectors did well in the quarter). Beyond that, our substantial holdings in the U.S. Financials and Technology sectors weakened. For our Financial holdings, the "lower interest rates for longer" view had a negative impact in the quarter. Our Technology holdings are struggling with the strong U.S. dollar in general and, in particular, Western Digital is in the midst of an acquisition that we think has a strong strategic rationale, but has faced some execution issues. These are all solid companies, with good track records and prospects, and we believe these issues will be temporary.

In the quarter, we added to our recently established position in PRA Group, which had traded down – we still like its prospects.

Other Equity Investments

We continue to hold two non-North American equity investments within our Balanced and Equity Funds. These are two externally-managed pooled funds called EQIT (international developed market equities) and EMEC (emerging market equities).[8]

In a reversal from last quarter, EQIT was down 10.1% this quarter and down 8.4% for the twelve months. EMEC was up 0.8% in the quarter and down 7.6% for the twelve months. Their returns in Canadian dollars have been reduced by the strengthening loonie, but we still believe they will add value to the portfolio over the long-term. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section of this report.

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[6] All the return data in the Equities section are total returns for the Equity Fund. Equity returns within the Balanced Fund were similar. For more specific performance, please refer to the Fund reports in this document or your client-specific report.

[7] Except where indicated, all U.S. and international returns are measured in Canadian dollars.

[8] Both funds are managed by teams from JPMorgan Asset Management in London, England.

Pooled Fund Reports

Nexus North American Equity Fund

Despite a strong month of March, the first quarter of 2016 turned out to be a difficult one for the Nexus North American Equity Fund. Over the quarter, the fund lost 2.8%, an amount that lagged our benchmark, which was flat for the quarter. In the last twelve months, the Fund was down 1.8%, which also lagged the benchmark's 1.3% loss. Our returns for 2, 5 and 10 year periods remain higher than the benchmark and very attractive on an outright basis. More detail on the Fund's performance is laid out in the table below.

Equity market returns differed widely between domestic and international markets. In the first 3 months of the year, the Fund's Canadian equities returned 7.5%, well ahead of the TSX Index, which rose 4.5%. Good performance was driven by individual stock selection and *not* holding Valeant Pharmaceuticals (which dragged down the TSX Index). However, our holdings outside Canada fared poorly, suffering from the unexpected strength in the Canadian dollar, which subtracted 6.3% from the returns of U.S. stocks, and also had an impact on our investments in non-North American markets. Not all the underperformance was due to currency changes. Our portfolio of U.S. securities also underperformed this quarter, losing 8.7% in Canadian dollar terms, while the S&P 500 lost 5.0% in the same period. Weak performance of our U.S. holdings can be blamed largely on our investments in financial services and, to a lesser degree, technology stocks. In particular, our investments in M&T Bank, Citigroup and JPMorgan, had been valued with an expectation that rates would rise steadily in 2016 and that these interest rate increases would expand lending margins. A consequence of the Fed's dovish approach to the setting of the fed funds rate has been a reduction in the expected profitability of the banking sector and disappointing short-term share performance of these key holdings.

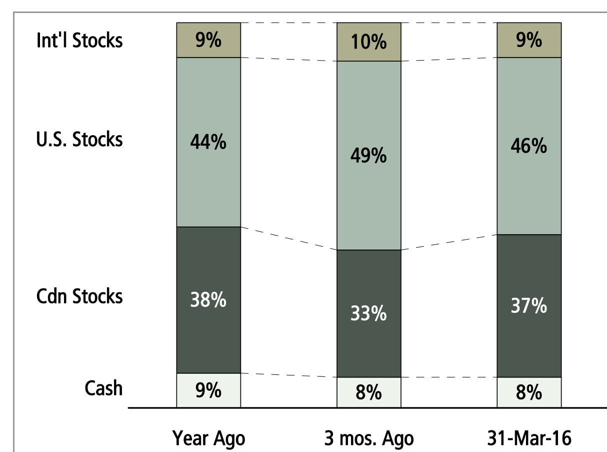
After a couple of years of excellent performance compared to the TSX, our international holdings underperformed this quarter. We have allocated approximately 10% of the Fund's equity exposure to markets outside North America and remain confident that they will provide important diversification to our North American investments. Like the U.S. returns, which suffered from the surprising strength in the Canadian dollar, these holdings also suffered from the loonie's strength. A more detailed explanation of developments in equity markets appears earlier in the Asset Class Review section of this report.

Our 8% cash position is at the same level it started the year, and above our guideline of 5%. Our allocation to Canadian stocks is 37%, 4% higher than when we last reported, due almost entirely to the Canadian dollar strength. Our U.S. allocation is 46%, with the balance of 9% invested outside of North America through our holdings of EQIT and EMEC.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	-2.8%	7.5%	-8.9%	-6.1%
Benchmark	*0.0%*	*4.5%*	*-5.0%*	
One Year				
Fund	-1.8%	0.0%	-1.1%	-8.6%
Benchmark	*-1.3%*	*-6.6%*	*4.1%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE TMX 91 Day TBill, 50% TSX, and 45% S&P 500 (in C$) (rebalanced monthly); (b) for Cdn Stocks: TSX; and (c) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at March 31, 2016



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund had a difficult start to 2016, declining 1.8% at a time when its benchmark advanced 1.0%. Notwithstanding such a weak relative outcome, its twelve month loss of 0.5% is ahead of the 1.2% decline in the benchmark in the same period. Our returns for 2, 5 and 10 year periods also are higher than the benchmark and very attractive on an outright basis. More detail on the Fund's performance is laid out in the table below.

Beginning with the bond market, after raising rates in December for the first time in almost ten years, it was expected that the Federal Reserve would continue to nudge rates higher in 2016. Instead, concerns of weak economic performance in Europe, Asia and emerging markets seem to have swamped domestic factors for now. So, to the surprise of many, including Nexus, the fed funds rate has not been increased as yet in 2016. At the same time, many other central banks have reduced interest rates to historic lows and instituted even more aggressive quantitative easing policies in an effort to create better economic conditions and buttress their own halting economic recoveries. In our opinion, the worry about economic stability is overdone and there is risk, especially in North America, that we could be a little late in normalizing interest rates. In the most recent quarter, the Bond Index generated a 1.4% return, and the bond component of the Fund returned 1.0%. The recent under-performance is a result of our holdings having a shorter maturity profile than the Bond Index during a period of falling interest rates. A more detailed explanation of developments in bond markets appears earlier in the Asset Class Review section of this report.

In the first 3 months of the year, equity market returns differed widely between domestic and international markets. During that period the Fund's Canadian equities returned 7.1%, well ahead of the TSX Index, which rose 4.5%. However, our holdings outside Canada fared poorly, suffering from the unexpected strength in the Canadian dollar, which subtracted 6.3% from the returns of U.S. stocks, and also had an impact on our investments in non-North American markets. Not all the underperformance was due to currency changes. Our portfolio of U.S. securities also underperformed this quarter, losing 8.7% in Canadian dollar terms, while the S&P 500 gave up 5.0% in the same period.

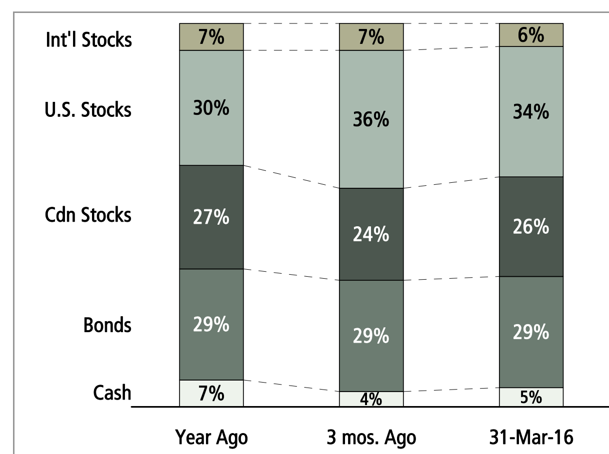
In some ways, this quarter's results were 'payback' for returns last year that were flattered by the decline in the Canadian dollar. It remains to be seen whether the strength of the Canadian dollar will continue or if it will drift back to lower levels in the event either commodity prices remain subdued or the U.S. Federal Reserve raises interest rates again. A more detailed explanation of developments in equity markets appears earlier in the Asset Class Review section of this report.

There has been no significant change to our overall asset mix this quarter. Cash is slightly higher at 5%, bonds remain at 29%, and stocks are 66% – almost exactly in line with the Fund's long-term guidelines. Within equities, we remain over-weighted in the U.S. and international markets and so will benefit from any retracement of the Canadian dollar should that occur.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	-1.8%	1.0%	7.1%	-8.7%	-6.4%
Benchmark	*1.0%*	*1.4%*	*4.5%*	*-5.0%*	
One Year					
Fund	-0.5%	1.3%	0.1%	-0.3%	-8.1%
Benchmark	*-1.2%*	*0.8%*	*-6.6%*	*4.1%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE TMX 91 Day TBill, 30% FTSE TMX Universe Bond, 40% TSX, and 25% S&P 500 (in C$) (rebalanced monthly); (b) for Bonds: FTSE TMX Universe Bond; (c) for Cdn Stocks: TSX; and (d) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at March 31, 2016



Balanced Fund Asset Mix

Nexus North American Income Fund

Canadian interest rates fell modestly over the quarter. Yields of 10-year bonds declined 17 basis points (from 1.40% to 1.23%) while bonds of less than five years in maturity were essentially unchanged. Despite a continued recovery in the United States, Canada's economy remains burdened by weak commodity prices and their dampening effects on capital spending and consumer demand – especially in the west. Offsetting this weakness has been strength in construction spending, car sales and signs of increased foreign demand for goods and services. The Nexus North American Income Fund had an excellent start to the year generating a 1.6% return this quarter, and 1.8% over the year. The Fund has fared better than its benchmark, the Bond Index, which increased 1.4% over the quarter and 0.8% in the last twelve months. More detail on the Fund's performance is set out in the table below.

As we have done for some time, we own a portfolio of shorter-dated, higher-quality bonds. The duration of our portfolio is 5.1 years. Our benchmark, the Bond Index, is considerably longer, with a duration of 7.3 years. We believe the global economy is in a less precarious condition than policy makers seem to think, and the abundance of monetary stimulus that has driven bond prices into record territory cannot produce truly appealing long-term returns in the future. However, what bonds do provide, even at current levels of interest rates, is some degree of capital stability against the sorts of short-term risks that abound in today's world. Whether it is terrorism, political change (Brexit, Grexit), social instability (European refugees) or political upheaval (Trump, Rousseff), high-quality, liquid bonds provide an offset to these sorts of geopolitical developments that periodically influence capital markets. We still expect that as 2016 unfolds, signs of economic acceleration will increase and interest rates will gradually rise. Our shorter maturity portfolio should fare relatively well in this scenario. A more detailed explanation of developments in bond markets appears earlier in the Asset Class Review section of this report.

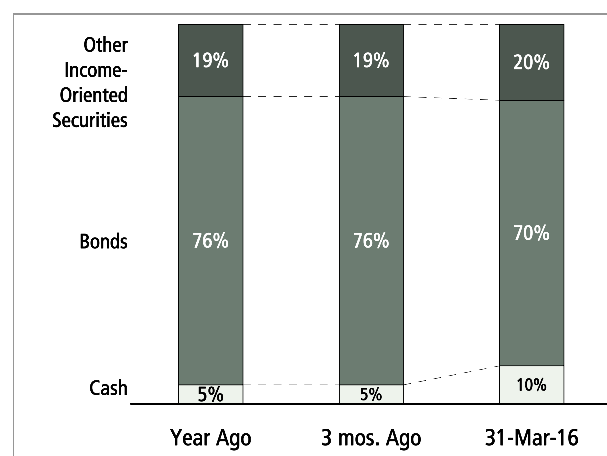
The "Other Income-Oriented Securities" in the portfolio began the quarter weakly, but rebounded very strongly in March and provided a good lift to performance. Were it not for the sudden strength of the Canadian dollar, which moderated the performance of our U.S. holdings, results would have been better still. Using high-quality income-producing equities as a method of augmenting the Fund's returns in an ultra-low interest rate environment is a strategy we remain fully committed to and confident in.

At the end of the quarter, cash accounted for 9.6% of the Fund, "Other Income-Oriented Securities" for 20% and the balance, 70.4%, is in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	1.6%	1.1%	9.8%	-9.1%
Benchmark	*1.4%*	*1.4%*		
One Year				
Fund	1.8%	1.4%	-0.2%	15.6%
Benchmark	*0.8%*	*0.8%*		

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: FTSE TMX Universe Bond; (b) for Bonds: FTSE TMX Universe Bond. In addition to bonds, up to 20% of the Fund's portfolio may be invested in equities.

Investment Returns – As at March 31, 2016



Income Fund Asset Mix

Nexus International Equity Fund

The Nexus International Equity Fund ("NIEF") was launched in September 2015. It is a pooled fund invested in international developed markets ("EAFE") and emerging markets ("EM").[9]

NIEF holds two underlying funds – EQIT (invested in international developed market equities) and EMEC (invested in emerging market equities) – both of which are managed by JPMorgan Asset Management in the United Kingdom. Currently, NIEF's holdings are approximately two-thirds EQIT and one-third EMEC. EQIT and EMEC complement Nexus's North American equity exposure and offer additional diversification. The Nexus Balanced and Equity Funds continue to hold EQIT and EMEC directly.

In the quarter, NIEF had a difficult quarter with a loss of 6.4%, slightly ahead of its blended benchmark which gave up 7.1%. This was comprised of a loss of 10.1% for EQIT and gain of 0.8% for EMEC. EQIT and EMEC's returns were reduced by the strengthening Canadian dollar (negative currency impact of 2.7 percentage points for EQIT and 3.7 percentage points for EMEC). As we have argued before, while currency moves can be substantial, they tend to serve as a hedge in an investor's overall portfolio in the short term and be self-hedging over the longer term. As such, this should not be a concern for a long-term investor. Over the past year, EQIT is down 8.4% and EMEC down 7.6%. Longer-term returns are decent: EQIT is up 9.3% per year and EMEC is up 4.1% per year over the past three years.

Current investor concerns affecting EQIT include the June "Brexit" vote and European bank recapitalizations. For EMEC, China has elevated levels of private debt, a strong currency, and slowing growth. Some EM countries, such as Russia and Brazil, are being hurt by lower commodity prices and others, such as Argentina and Turkey, are being affected by politics and geopolitics issues.

Nonetheless, we continue to like the longer-term prospects for EQIT and EMEC.

- For developed markets, while Europe and Japan are areas of slow economic growth, many of the public companies in these areas operate globally and offer global growth exposure. Eurozone unemployment is declining and lending, which is supportive of growth, is recovering. Japan has benefited from stimulus and employment is growing. The lower oil price is a net benefit across all developed markets.

- Emerging markets indeed face several challenges. But in China slower growth is actually a natural outcome of a maturing economy, not a fundamental issue. Demographics, urbanization, and the weak currencies of most EM countries (other than China) are constructive.

While short-term "headline" and ongoing geopolitical issues are adding uncertainty, longer-term investors should look through this. Valuation levels are attractive in EAFE and compelling in EM, as illustrated in the table below.

[9] "International developed markets" includes all developed markets outside of North America and is referred to as EAFE (Europe, Australasia and the Far East). "Emerging markets" include 23 developing countries, such as India, China, South Africa, Brazil, Taiwan, and South Korea.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	-6.4%	-10.1%	0.8%
Benchmark	*-7.1%*	*-9.1%*	*-0.9%*
One Year			
Fund	n.a.	-8.4%	-7.6%
Benchmark	*n.a.*	*-6.2%*	*-10.0%*

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: 75% MSCI EAFE (in C$) and 25% MSCI Emerging Mkts (in C$) (rebalanced monthly); (b) for EQIT: MSCI EAFE (in C$); and (c) for EMEC: MSCI Emerging Mkts (in C$).

Investment Returns – As at March 31, 2016

	Price / NTM Earnings(1)	Price / Book	Dividend Yield
Int'l Developed Markets (EAFE)	14.1x	1.5x	3.4%
Emerging Markets (EM)	12.0x	1.3x	2.8%
S&P 500 (U.S.)	16.7x	2.6x	2.2%

(1) Price to next 12 months earnings

Comparative Index Statistics – As at March 31, 2016