NEXUS

Portfolio Management & Financial Counsel

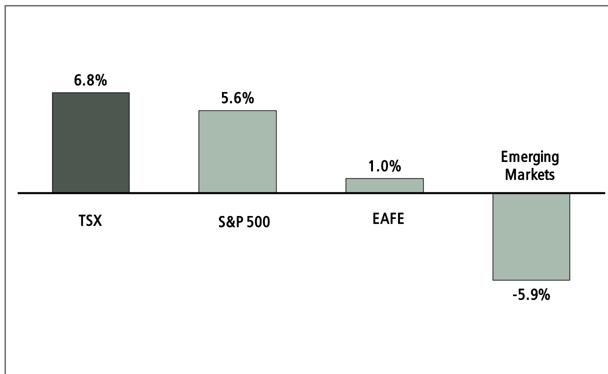
THE NEXUS REPORT

Second Quarter, 2018

A Welcome Bounce

After a rocky first quarter in Canadian and U.S. stock markets, investors enjoyed strong gains in the last three months. On a total return basis, the TSX Composite posted an impressive 6.8% return and the S&P 500 generated a 5.6% gain in Canadian dollar terms.[1] Moreover, after a volatile first three months of 2018, markets stabilized considerably in the second quarter. Early in the quarter, the VIX[2], the widely-followed measure of U.S. market volatility, settled to a level back below its long-term average.

In contrast to Canada and the U.S., many international stock markets did not enjoy the same second quarter bounce. EAFE, the principal index of developed economy stock markets, gained only 1.0%, and Emerging Markets fell 5.9%.[3] Some of these markets were held back by their own internal issues (e.g., Brexit), but many also reacted to the growing uncertainty around international trade, and the potential fall-out from changes to the established order. More on that below.



Q2 2018 Stock Market Returns (Total Returns in C$)

Thanks to the second quarter rebound, Canadian investors now see positive returns in their portfolios over the first half of 2018. Nevertheless, overall returns have moderated substantially compared to recent years. Year-to-date, the TSX Composite and EAFE gained 1.9% and 2.1%, respectively.[3] While the S&P 500 gained 7.7%[3], most of this return arises from the appreciation in the U.S. dollar rather than the U.S. stock market. Only Emerging Markets are negative for the year (down 2.0%), thanks to the steep decline in the last quarter.

[1] Weakness in the Canadian dollar added to the U.S. return last quarter. The S&P 500 had a 3.4% total return in U.S. dollar terms.

[2] VIX is the ticker symbol for the Chicago Board Options Exchange S&P 500 Volatility Index.

[3] Returns are all total returns in Canadian dollars.

Canada Strong (For Now)

At present, the Canadian economic environment is pretty darn good. Following 2017, when Canada recorded by far the strongest economic growth in the G7, economic conditions have remained robust. Our economy is operating close to full capacity and, after a weak start to 2018, the labour market has improved recently. Another 31,800 jobs were added in June, and wage growth was impressive, up 3.5%. While the unemployment rate ticked higher – to 6.0% from 5.8% – even this was good news. The increase arose from 76,000 new entrants to the labour market, who seek employment as a result of the promising opportunities. As well, the Bank of Canada's Business Outlook Survey, released June 29, reflects more positive sentiment. Business confidence was the second highest recorded in the 17-year history of the survey, and intentions to hire and invest are robust. While consumer confidence has declined a little recently, it remains near a 10-year high.

This tale of success, however, comes with the important caveat, "at present". Expectations for the future are appropriately more cautious. Canada faces a number of serious headwinds that we have outlined in the past. Unprecedented debt levels among individuals and governments could prove difficult in a rising interest rate environment. As well, Canada's attractiveness as a destination for investment has been compromised by the decline in U.S. tax rates and the relaxation of many regulations. Ontario now has the second highest electricity prices in North America. Additionally, and perhaps most ominous, is the threat of NAFTA's demise.

U.S. Expansion Gathers Steam

Throughout the long U.S. economic expansion, the labour market has been its most steadfast sign of strength. The June non-farm payroll report continued this tradition. 213,000 new jobs were created, which was modestly higher than optimistic analyst expectations, and the numbers previously reported for April and May were revised higher. As in Canada, the official unemployment rate moved slightly higher – to 4.0% from 3.8% – and, likewise, this resulted from an expansion in the workforce in response to attractive employment opportunities. Another survey, known as the Job Openings and Labor Turnover Survey (JOLTS), reveals that there are actually more unfilled job openings in the U.S. than there are people looking for work. Echoing this, the U.S.

Federal Reserve's Beige Book reports that the labour market is the tightest it has been since the late 1990s.

When U.S. GDP figures are reported for the second quarter later in July, those numbers are also expected to depict an economy gathering significant momentum. Estimates continue to creep higher with some economists looking for growth as high as 5%. Fueled by a booming economy and tax reform, S&P 500 operating earnings could be as much as 27% higher than they were in the same quarter last year.

Of course, the current rate of growth is likely unsustainable, particularly when one considers the fact that the current expansion is entering its 10th year this month and is the second longest on record. In particular, a boom in exports drove much of the recent GDP increase. This is likely transitory as foreigners stocked up on U.S. products now subject to tariffs, such as soybeans and bourbon.

Tariff Tantrum

Of course, the elephant in the room, in spite of otherwise encouraging economic conditions, is the risk from a growing trade war. Having introduced tariffs on all steel and aluminum imported into the U.S. in June (under an arcane rule related to national security), the U.S. has also introduced them against thousands of imported Chinese goods. Canada, the European Union and China have all retaliated with their own tariffs against a range of U.S. goods, including certain iconic items like Harley Davidson motorcycles and Kentucky bourbon. More ominously for Canada, however, is that the U.S. has warned that the next front in this trade war could be automobiles, an industry of crucial importance to our economy, particularly Ontario.

The U.S. is clearly motivated by the desire to get a "better deal" in trade relations that it believes will help its economy. For certain, any trade deal, such as NAFTA, is struck at a particular moment in economic history and can be usefully updated to the benefit of all parties with the passage of time. U.S. rhetoric, however, does not convey a sense of constructive renegotiation so much as it reflects worrisome protectionism. What cannot be determined is to what degree the rhetoric is serious or posturing.

Almost all economists accept the premise that free trade is beneficial. It might not positively affect every individual (a.k.a. voter), but it profoundly improves an economy in aggregate. Moreover, there is a clear historical record of the devastation wrought by the Smoot-Hawley tariffs in the Great Depression.

We remain optimistic that cooler heads and common sense will prevail. Already there are tales of unintended consequences in the U.S., such as that of one farm equipment part manufacturer in Kansas. The specialty steel needed for its products is sourced solely from a mill in Manitoba, now subject to a 25% tariff. Thanks to this, the parts made in Kansas can no longer compete domestically with those imported from China.[4] As well, the threat of tariffs on auto parts seems hard to fathom on a practical basis. Many parts go back and forth across the border – some as many as 11 times – before finding their spot in a finished vehicle. It is difficult to imagine how tariffs will help the U.S. auto industry, or its broader economy.

Investment Outlook

While we are pleased to have enjoyed another quarter of solid investment returns, we believe risk to the bull market has increased. It's possible that economic growth will continue and expanding corporate earnings will drive stock prices higher. But it is sobering to consider the possibility that tight labour markets ignite inflation and drive interest rates sharply higher, or that a protracted trade war turns the world economic order upside down. The future has rarely been so uncertain.

One of the few things around which there is some certainty is the likelihood that bond returns will be low in the coming years. We have recently written in *Nexus Notes* and an upcoming blog about the outlook for bonds, and why they are still important for most client portfolios. Rather than repeating those thoughts here, we urge you to read the articles.

On the equity side, our caution for the months ahead is accompanied by confidence in the long term. No matter what policy choices politicians make in the short term, we think high quality companies that produce products or offer services that society needs will be successful. They will also be good investments if bought at the right price. The discipline of our investment process is most important when conditions become unsettled.

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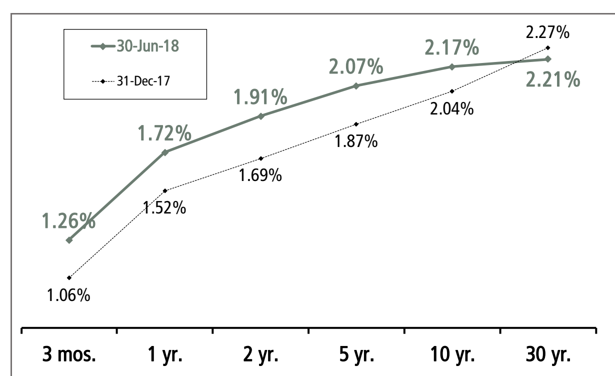
[4] *The Globe and Mail*, July 9, 2018.

Asset Class Investment Review

Fixed Income

The second quarter had much the same feel as the first. Across the yield curve, interest rates finished above where they started, except for the 30-year maturity, where rates again declined modestly. The Canadian bond market was led by developments in the U.S. economy, where a continued tightening of the labour market and a modest acceleration of both wages and inflation clearly argued for further central bank tightening. In keeping with the fundamentals, the fed funds rate was increased by 0.25% in mid-June. With respect to performance, returns were positive but modest. The bonds in our Income Fund generated a return of 0.3% to be up 0.4% for the year-to-date. The FTSE TMX Canada Universe Bond Index generated a slightly higher return. It was up 0.5% in the second quarter to be up 0.6% for the year-to-date.

Trading volatility has picked-up. In mid-May 10-year Canada bonds crested at a yield of 2.52%, some 0.40% higher than at the start of the quarter. However, in late May the continued drumbeat of tariffs and trade wars eventually drew out fears that the global economy could be undermined by Washington's policies designed to restructure long-standing international trade and political alliances. In the face of these concerns, confidence that global economic growth would remain strong declined and interest rates fell back to almost the same level as the start of the quarter.



Government of Canada Yield Curve

Along with the pick up in volatility, the first half of 2018 was the busiest period for Canadian corporate bond issuance ever. Because the yield curve is so flat, investors are unrewarded for extending term. As a result, there has been a trend to increase portfolio yields by accepting greater credit exposure. Corporate treasurers are taking advantage of this extra demand and are raising more money through bond issuance than ever before. In the second quarter, there was $36.8 billion of new corporate bonds issued, which brought the year-to-date total to $64.9 billion.[5] Although it has not been our major focus, we have added somewhat to our corporate bond exposure and taken advantage of the new issue selling concessions to rebalance and diversify our credit exposures.

In our last report we divided the Canadian bond market into two simplified points of view. The first view is that interest rates are driven by traditional economic fundamentals such as growth and inflation. The second recognizes that Canadian yields are relatively high as compared to bond yields in Japan and Europe. Yields in those markets continue to be manipulated by the quantitative easing policies of the Bank of Japan and the European Central Bank. Investors in the first camp, like Nexus, are frustrated by the lack of connection between strong economic fundamentals and current interest rates. For instance, the fixed income market is behaving as if inflation is no concern at all. Although inflation has steadily increased over the last year, there has been little change in the yield of Canadian 30-year bonds.[6] In fact, Canadian inflation is now solidly in the middle of the Bank of Canada's target range of between 1% and 3%. If the Bank is successful in keeping inflation within this range, investors who purchase 30-year bonds at a yield to maturity of 2.21% are explicitly accepting virtually no real return. We find this confounding and at odds with the fundamentals. In our opinion, it is only a matter of time before the flood of global liquidity, strong economic growth, and tight labour markets will create upward pressure on inflation, causing rising yields (lower prices) across the yield curve. So, our strategy has not changed, the bond portfolio has a high-quality bias and shorter-maturity profile. High quality gives the portfolio superior liquidity, which may be needed in the sort of dangerous world we live in, and the shorter maturity profile will protect capital when interest rates eventually rise.

[5] Weekly Credit Edge – BMO Capital Markets, July 3, 2018.

[6] In the last year, headline CPI has risen from 1.3% to 2.2% and measures of core inflation, such as the CPI-trim have risen from 1.3% to 1.9%. Over the same period, the Government of Canada 30-year bond yield has moved from 2.17% to 2.21%.

Equities

With all the trade and Trump headlines, the equity market has seemed wobbly, but the second quarter was good on an overall basis. The Equity Fund returned 3.6%, but it lagged the market benchmark's strong return of 5.9%. Over the past twelve months, the Equity Fund returned 11.2%, slightly lagging the benchmark's 12.5% return.[7]

In the second quarter, our Canadian and U.S. equities were each up mid-single digits, but in both cases slightly trailed their respective country indices. The other source of relative weakness was our international equities, which traded down 3.0%.[8]

The Canadian dollar weakened again last quarter, with the effect that it slightly increased our U.S. equity returns when measured in Canadian dollars by 2.2 percentage points and added 1.7 percentage points to our 12-month U.S. equity return.

Canadian Equities

Nexus's Canadian stocks were up 5.3% in the quarter and up 9.9% for the year. This was behind the TSX Composite's return of 6.8% in the quarter and 10.4% for the twelve months.

The main event in Canada in the second quarter was a substantial rebound in the energy sector. Our energy holdings returned 18.9%, with three of our holdings up over 20% (Cenovus, Encana and Suncor), Enbridge up mid-teens and TransCanada up 8%. The strength was driven by better oil prices and progress with new pipeline approvals. Relative weakness in the Canadian portfolio stemmed from our Utility holdings (mainly Brookfield Infrastructure Partners, but also ATCO) and our Real Estate holdings.

U.S. Equities

Nexus's U.S. equities were up 4.0% in the second quarter, trailing the S&P 500's 5.6% return. For the twelve months, our U.S. holdings are up 14.5%, also slightly trailing the S&P 500's 16.1% return.

We benefitted from strong returns from our Consumer Discretionary holdings (CarMax was up 18%, but all three of our holdings did well). After a trying period, our industrial holding, General Electric outperformed its sector. The main weakness in the quarter was a decline in Western Digital. This world-class producer of hard-disk drives and solid-state memory is enjoying strong profitability and cash flow, but investors are concerned that memory pricing may weaken in the period ahead. We like Western Digital's longer-term prospects and note that investor sentiment with the computer storage stocks tends to be particularly volatile.

As occurred in the first quarter, while we still like the prospects for our tech holdings, we trimmed some of them in this past quarter in order to ensure proper portfolio diversification.

During the quarter, we added one new U.S. holding, General Motors. For decades, we considered GM to be un-investable, given our investment philosophy. This has changed since GM's restructuring. The new management team, led by Mary Barra, is making real headway in re-defining the company. GM has shed substantial liabilities, shuttered weaker brands and exited several unprofitable geographies. A massive effort is underway to effect cultural change and the company is embracing electric vehicles and autonomous driving. Today, GM has a 25% ROE, a 3.9% dividend yield with a conservative payout ratio and trades at a very attractive multiple of just 6.2x this year's expected earnings.

Other Equity Investments

We are invested in two non-North American equity holdings within our Balanced and Equity Funds. These are externally-managed pooled funds called EQIT (international developed market equities) and EMEC (emerging market equities).[9]

After an extended period of strong returns for both funds, the last quarter's returns were weak. EQIT fell 2.0% and is up 7.9% for the twelve months. Amidst substantial emerging market volatility, EMEC fell 5.0% in the quarter and is up 12.3% for the twelve months. As we hold these two funds in lieu of what would otherwise be North American stocks, they were a drag on performance in the quarter. With the uncertainty on trade and issues in some specific international markets, more weakness could lie ahead, but we continue to value the long-term benefits of these holdings. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section of this report.

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[7] 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.

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

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

Pooled Fund Reports

Nexus North American Equity Fund

The Nexus North American Equity Fund generated a total return of 3.6% in the second quarter. This return compares to the 5.9% total return of the Fund's benchmark during the same period. In the last 12 months, the Fund generated a strong return of 11.2%, but trailed the benchmark return of 12.5%. From a longer-term perspective, our returns for the 2, 3, 5 and 10-year periods remain at or above the benchmark and are very attractive on an outright basis.

More detail on the Fund's performance is presented in the table below.

In Canada, the equity market rose 6.8% in the quarter. Our Canadian holdings lagged the benchmark, but still delivered a solid 5.3% return. A key driver of these returns was the sizable rebound in the Energy sector this quarter. Our portfolio fully participated in this rebound. Our Cenovus, Encana and Suncor holdings had 20%+ returns. Our pipeline holdings also did well with Enbridge up mid-teens and TransCanada returning 8%. The portfolio lagged the benchmark due to relative weakness in our Utility and Real Estate holdings.

In the U.S., the equity market rose 5.6% in the quarter. Our U.S. holdings lagged the benchmark, generating a 4.0% return. As in Canada, the U.S. energy stocks were strong, but we have no U.S. energy holdings. Another source of weakness was Western Digital, which declined following a strong showing in the first quarter. We had some stock-specific positive offsets, such as CarMax, which returned 20%.

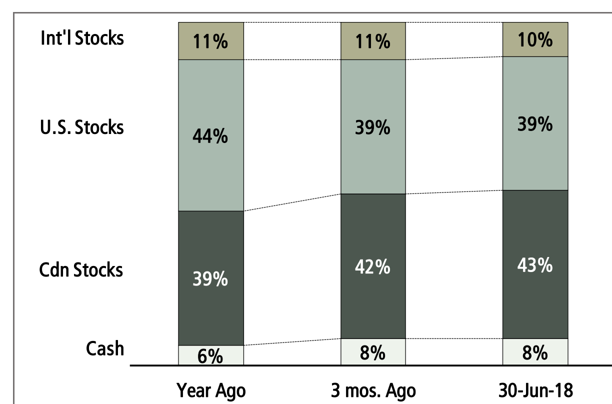
Our international holdings suffered a partial reversal of their recent run of strong performance. This weakness largely reflects concerns about global trade tensions and the risks of disruptive new tariff regimes. The developed markets fund, EQIT, declined 2.0% this quarter and the emerging markets fund, EMEC, declined 5.0%.

At the end of the second quarter, the Fund's cash position was 8%. Our allocation to Canadian stocks was 43%, while U.S. stocks represented 39% of the mix. We have maintained an allocation of 10% to markets outside North America and remain confident that this will provide important diversification to our North American investments.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	3.6%	5.3%	4.0%	-3.1%
Benchmark	*5.9%*	*6.8%*	*5.6%*	
One Year				
Fund	11.2%	9.9%	14.5%	9.9%
Benchmark	*12.5%*	*10.4%*	*16.1%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE TMX 91Day 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 June 30, 2018



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund generated a total return of 2.6% in the second quarter. This return compares to the 4.3% total return of the Fund's benchmark during the same period. In the last 12 months, the Fund has returned 7.6%, but trailed the benchmark return of 8.4%. From a longer-term perspective, our returns for the 2, 3, 5 and 10-year periods remain at or above the benchmark and are very attractive on an outright basis.

More detail on the Fund’s performance is shown in the table below.

Our bond holdings returned 0.3% in the quarter, slightly behind the benchmark’s return of 0.5%. Portfolio composition was little changed quarter over quarter. We participated in some corporate bond new issues to take advantage of new issue selling concessions, but on an overall basis, the changes were minor. We maintain our high-quality and short maturity emphasis. The outperformance of longer-maturity bonds versus shorter-dated maturities in the quarter was the primary source of the underperformance of Nexus's bond holdings versus their benchmark. This was partially offset by outperformance of higher-quality holdings versus bonds with a lower credit rating.

In equities, our Canadian stocks rose (4.8%) as did our U.S. stocks (4.4%). Broad strength was evident across several industries in both countries, but the Energy sector was a particularly strong performer. In Canada, our energy holdings returned 18.9%, with three of our holdings up over 20% (Cenovus, Encana and Suncor), Enbridge up mid-teens, and TransCanada up 8%. Relative weakness in Canada stemmed from our Utility holdings (mainly Brookfield Infrastructure Partners but also ATCO) and our Real Estate holdings.

In the U.S., we benefited from strong returns from our Consumer Discretionary holdings and, after a trying period, our industrial holding, General Electric outperformed its sector. The main weakness in the U.S. was Western Digital, which declined following a strong showing in the first quarter.

Our international holdings detracted from performance this quarter, ending their recent run of exceptionally strong returns, as concerns about global trade conflicts came to the fore. The developed markets fund, EQIT, declined 2.0% this quarter and the emerging markets fund, EMEC, declined 5.0%.

At the end of the quarter, cash represented 8% of the Fund's asset mix, bonds were 27% and stocks accounted for the remaining 65%. These asset allocations continue to remain close to the Fund’s long-term guideline.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	2.6%	0.3%	4.8%	4.4%	-3.0%
Benchmark	*4.3%*	*0.5%*	*6.8%*	*5.6%*	
One Year					
Fund	7.6%	0.4%	8.2%	15.3%	9.9%
Benchmark	*8.4%*	*0.8%*	*10.4%*	*16.1%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE TMX 91Day 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 June 30, 2018

	Year Ago	3 mos. Ago	30-Jun-18
Int'l Stocks	8%	8%	8%
U.S. Stocks	31%	30%	29%
Cdn Stocks	25%	27%	28%
Bonds	29%	28%	27%
Cash	7%	7%	8%

Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund produced a total return of 0.8% in the second quarter. This return compares to the 0.5% total return of the Fund's benchmark during the same period. In the last 12 months, the Fund has returned 0.9%, modestly ahead of the benchmark return of 0.8%. From a longer-term perspective, our returns for the 2, 3, 5 and 10-year periods remain at or above the benchmark and are very attractive on an outright basis.

More detail on the Fund’s performance is displayed in the table below.

Our bond holdings produced a return of 0.3% in the quarter, trailing the benchmark which returned 0.5%. Portfolio composition was little changed quarter over quarter. We participated in some corporate bond new issues to take advantage of new issue selling concessions, but the overall impact on the Fund was minor. We maintain our high-quality and short-maturity emphasis (The Fund’s duration stands at 4.1 years vs. the FTSE TMX Canada Universe Bond Index duration of 7.6 years). The outperformance of longer-maturity bonds versus shorter-dated maturities in the quarter was the primary source of the underperformance of Nexus's bond holdings versus the benchmark. This was partially offset by outperformance of higher-quality holdings versus bonds with a lower credit rating.

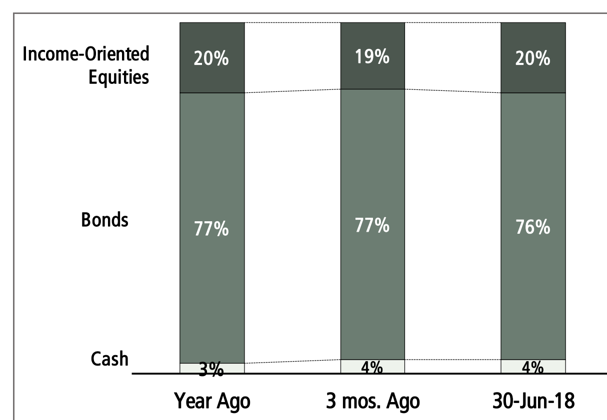
Our holdings of Income-Oriented Equities in Canada and the U.S. provided a tailwind to the Fund’s performance this quarter. Specifically, our Canadian stocks were up 2.4% and our U.S. equities produced a 4.2% gain, adding to the Fund’s return.

At the end of the second quarter, the Fund’s cash position was 4%, Income-Oriented Equities accounted for 20% and the balance, 76%, was in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	0.8%	0.3%	2.4%	4.2%
Benchmark	*0.5%*	*0.5%*		
One Year				
Fund	0.9%	0.3%	2.6%	8.5%
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 June 30, 2018



Income Fund Asset Mix

Nexus International Equity Fund

The Nexus International Equity Fund ("NIEF") holds two underlying funds: EQIT (invested in international developed market equities) and EMEC (invested in emerging market equities).[10]

The Nexus International Equity Fund declined 3.0% in the second quarter. This return compares to the 0.7% decline of the Fund's blended benchmark during the same period. Over the past year, the Fund has returned 9.9%, outperforming the benchmark return of 8.8%.

Longer-term returns for both EQIT and EMEC have been solid, with EQIT up 6.7% per year and EMEC up 11.2% per year over the past three years.

More detail on the Fund's performance is presented in the table below.

The spectre of a global trade dispute that we discussed last quarter became more tangible in the second quarter. The protectionist trade policies emanating from the U.S. have evolved beyond mere threats and have now crystalized into actual tariff levies. The U.S. and China have both implemented tariffs on $34 billion of each other's exports, amongst other announced or potential trade measures.

Although the barrel of the gun is directed at China for the time being, other countries remain at risk of becoming collateral damage if a global trade war erupts. Negative returns in the International Fund this quarter reflect the concern that these opening salvos in a trade fight could eventually lead to a meaningful international markets slowdown. It's difficult to foresee how long a trade fight might last and what the effects might be, but the risk of a breakdown in international trade is now elevated.

In Europe, political divisiveness was front-and-center in the second quarter and contributed to the environment of uncertainty that continues to linger. More broadly, concerns about the unknown impacts of central banks unwinding their quantitative easing programs dampened sentiment for both Europe and various emerging market economies.

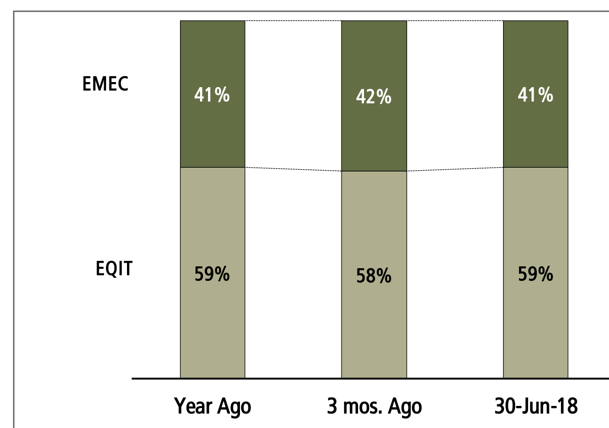
Despite the current uncertainty ushered in by the trade dispute, we remain positive on the longer-term outlook for both EQIT and EMEC. With their focus on high-quality companies with resilient business models, we believe both funds continue to offer solid long-term prospects for growth at valuation levels that remain attractive.

At the close of the second quarter, the International Equity Fund's investment in EQIT accounted for 59% of the fund's assets, while EMEC accounted for 41%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	-3.0%	-2.0%	-5.0%
Benchmark	*-0.7%*	*1.0%*	*-5.9%*
One Year			
Fund	9.9%	7.9%	12.3%
Benchmark	*8.8%*	*8.4%*	*9.8%*

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 June 30, 2018



International Equity Fund Asset Mix

[10] International developed markets or "EAFE" includes Europe, Australasia and the Far East. Emerging markets include 23 developing countries. EQIT and EMEC are managed by JPMorgan Asset Management in the UK. The Nexus Balanced and Equity Funds have held EQIT and EMEC for some time and continue to do so.