The Nexus Report

Fourth Quarter, 2022

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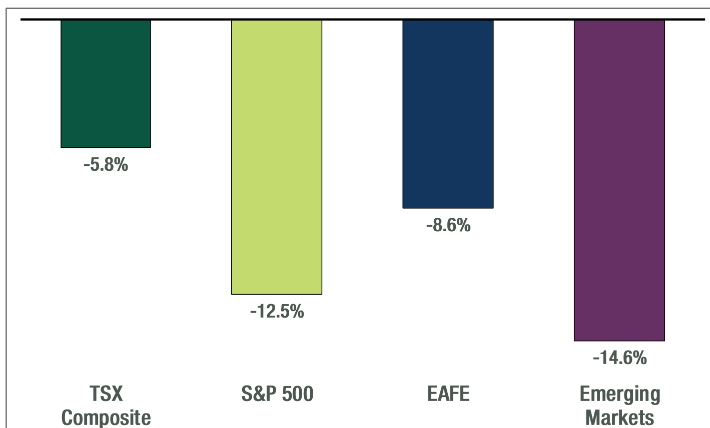
Investment Outlook

Goodbye 2022

Three months ago, financial markets sat near the year's low. Investors licked their wounds and there was not much to inspire optimism. Few would have guessed that stocks would enjoy a ferocious rebound in October and November. Despite a weak December, investors realized nice gains in 2022's final quarter. The TSX Composite and S&P 500 posted strong returns of 6.0% and 6.3%, respectively.[1]



Total Returns – 12 Months ended December 31, 2022 (C$)

Yet, as the chart above demonstrates, investors look back at 2022 as a difficult year. Moreover, the pain was not inflicted only on aggressive equity investors – even the most conservative investors with significant bond holdings suffered. Typically, when times are tough in the stock market, bonds provide stability, and often a modest gain. In 2022, however, the turmoil in stocks was matched by the worst-ever year for bonds, both in Canada and in the U.S.[2] Canada's main bond benchmark, the FTSE Canada Universe Bond Index, had a total return of *minus* 11.4%.

Poor bond returns were a consequence of sharply rising interest rates. We've reported before how central banks dismissed the threat of inflation for too long, then frantically raised rates repeatedly during 2022 to try and rein it in. The U.S. Federal Reserve raised rates 7 times this past year, its most aggressive rate-hiking regimen since the 1980s. The 10-year U.S. Treasury yield rose from 1.5% to 3.8%. In Canada, 10-year Government of Canada yields rose from 1.4% to 3.3%. Credit spreads on corporate bonds widened. It was a bad year for bond investors.

The U.S. stock market also had a bad year – its worst year since 2008 and considerably worse than in Canada.[3] There were stark differences in returns for each market sector. In comparison with the U.S., the weighting of the better-performing sectors was higher in Canada, while the weighting of the lagging sectors was lower. More specifically, strong energy prices, partly fueled by supply disruptions as a consequence of the war in Ukraine, drove the large Canadian energy sector to a 30.3% total return in 2022. In contrast, the Canadian information technology sector declined 52.0%, led by the erstwhile darling, Shopify, which declined 73%. Conditions were also uneven in the U.S. While the S&P's relatively small energy sector did very well – it gained 65.7% (total return in U.S. dollars) – the heavyweight sectors of information technology, consumer discretionary and communication services were down 28.2%, 37.0% and 39.9%, respectively. Many investors suffered more than the indexes. As 2023 begins, markets have a more positive tone. Yet investors will be carefully monitoring inflation and interest

[1] Returns in this section are total returns in Canadian dollars, unless otherwise noted.

[2] Bonds trade in an over-the-counter market so historical data is not as comprehensive as it is for stocks. Yet it is widely believed that 2022 was the worst year ever.

[3] For Canadian investors, the decline in U.S. investment values was mitigated by the strengthening of the U.S. dollar.

rates, and ultimately the path of economic growth in Canada and the U.S. Can central bankers slow inflation sufficiently without sending the Canadian and U.S. economies into recession? Time will tell. Of course, several geopolitical concerns remain. In particular, the existential risks related to the war in Ukraine and China's ambitions with Taiwan persist and have the potential to overwhelm economic fundamentals as the driver of market performance.

A Soft Landing?

With the dawn of the new year came the hope that the U.S. may be closer than previously thought to a decline in inflation and a peak in interest rates. The December U.S. labour market report, released in early January, showed a labour market that was still growing well, but slowing. New jobs in December totalled 223,000, better than the consensus for the ninth straight month, but a deceleration from November and the previous months. The unemployment rate dropped to 3.5%, matching the lowest level in the 52-year history of the data. The U-6, a broader measure of unemployment that adds marginally attached workers to the ranks of the unemployed, dropped to 6.5%, also the lowest level in the history of the data. Most importantly for investors, however, was that average hourly earnings grew 4.6% year-over-year, compared to the 5.0% expected. November's wage growth data were also revised lower. While wage rates are still growing strongly, this deceleration lessens the worry of a 1970s-style wage-price spiral.

Even though the labour market remains strong, other measures of economic growth in the U.S. have weakened. The Institute of Supply Management (ISM) manufacturing survey fell from 49.0 in November to 48.4 in December. Many readers will recall that figures above 50 in these surveys correlate well with future periods of economic growth. Readings below 50 portend a period of economic contraction (i.e., recession). The ISM *services* survey, which previously was well above 50, had a stunning decline in December – from 56.6 in November to 49.6 – adding it to the chorus of recession predictors. In fact, the consensus among economists in the U.S. seems to be that the U.S. cannot avoid a recession. Another data series, the Conference Board's leading economic indicator, has declined for eight consecutive months. David Rosenberg wrote in the Globe and Mail that at no time since the start of this data series in 1959 has such a decline not preceded a recession.[4]

However, there are other factors that make one question whether a recession is so certain, and even if there is one, whether it might be short and shallow. The U.S. consumer remains in remarkable shape. Not only is employment strong, as highlighted above, analysts at Evercore ISI calculate that U.S. consumer net worth is $145 trillion, as compared to $115 trillion before the pandemic. House prices have declined recently across the U.S., but the Case-Shiller house price index average remains at $300,000 today compared to $230,000 before the pandemic.[5]

The Canadian economic outlook is even more confounding. On the same day that the U.S. labour market report was issued, so was Canada's. The data was astounding, and the economist commentary amusing. 104,000 new jobs were created in December, as compared to analyst estimates of 5,000. The unemployment rate dropped to 5.0%, close to the all-time low of 4.9% set earlier in 2022. Wage growth was 5.2%, a slight deceleration from previous months, but still strong. The analyst commentary is amusing because no one seems to understand why jobs growth is so strong, and many don't believe it! Nonetheless, Canada now has a remarkable 627,000 more jobs than before the pandemic and a further interest rate hike from the Bank of Canada in January seems certain.

As in the U.S., the robust economic picture suggested by the Canadian labour market is not consistent with other data. House prices are weak, particularly in major cities, auto sales slumped 9% in 2022, and surveys of business sentiment are declining. Perhaps a recession lies ahead, but the strong labour market surely will soften whatever befalls us. Maybe the elusive soft landing is possible.

Outlook

Despite the fog of conflicting economic signals, it seems clear that inflation is waning. The extent and speed of its decline are unknown, but there is little doubt in its direction. As certain as David Rosenberg is about a U.S. recession (see above), he is equally certain that inflation has peaked – demand is softening and supply chains are healing. BMO Economist, Doug Porter, points out that in December there was the lowest level of supply chain delay in 30 years. In 2021, supply chain delays were the highest in 40 years.[6] Some time in 2023 interest rates will likely peak. Maybe there will be a recession… unless there isn't. It seems likely that more bad news of some form lies ahead. However, stock and bond markets have priced in a lot of bad news. It may be that we are at a point where surprising good news is more likely than bad.

We don't know what kind of returns markets will offer us in 2023. But we do know that after a tough year like 2022 the prospects for the next three to five years are considerably better! Valuations for both stocks and bonds are far more attractive today than they were a year ago. Moreover, the fundamental laws of economics remain intact: an investment in a growing business made at a reasonable price will be worth more in the future than it is today. We believe clients have every reason to be optimistic about the long term.

[4] *The Globe and Mail*, December 31, 2022.
[5] *Barron's*, January 2, 2023.
[6] Talking Points, BMO Capital Markets, January 6, 2023.

Asset Class Review

Fixed Income

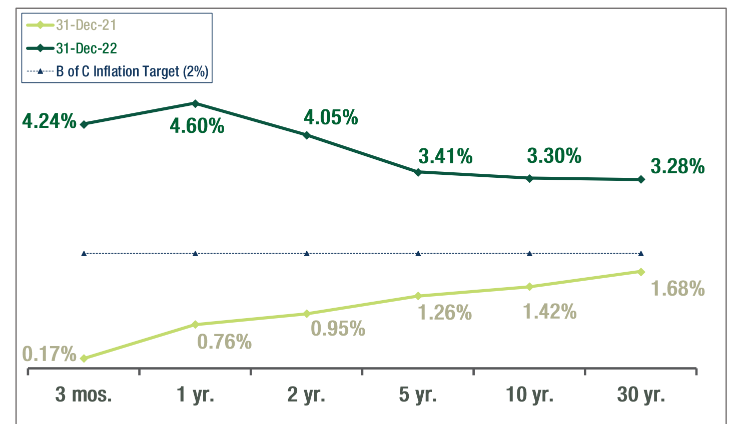
Bond markets ended the year weakly, concluding an atrociously bad year for fixed income. Over the course of 2022, interest rates rose sharply (see graph). The FTSE Canada Universe Bond Index lost 11.4% and, in the U.S., the Bloomberg Aggregate Bond Index lost more than 13%. This latter index has only lost money in four calendar years since it was created in 1973, and prior to 2022, the largest loss was 2.9%. If your favourite bond manager says, "I've not seen anything like this year", he is not exaggerating!

2022's rapid rise in bond yields was the explicit intention of global central banks. It was a change of course from the policies used to address the economic effects of the pandemic, when the banks pursued ultra-easy monetary policies, even while inflation was heating up. On the assumption that inflation increases were transitory and that the inflation rate would revert back to low levels, they kept policy rates too low for too long. In 2022 they had to move interest rates higher – both further and faster than many investors anticipated. But central banks were not solely to blame. Over the course of the pandemic governments adopted extravagant fiscal stimulus programs that they have maintained, even while the economy re-opened. The stimulus has fortified consumer and corporate spending power and exaggerated an imbalance between demand (too high) and supply (not enough) in both the goods and services sectors of the economy. With central banks using the brake, and governments pressing the accelerator, investors are forced to deal with extra uncertainty.

Too Soon to Declare the Worst Is Past

After a year of such poor returns, it is tempting to expect the market will "win back" some of those losses in the coming year. Good years often follow bad, and experienced investors know that mean-reversion is one of the most influential and predictable factors affecting returns. However, current interest rates do not yet reward investors for the current degree of uncertainty. We acknowledge that inflation has retreated from its most recent high readings, but yields in the government bond market are hardly restrictive. In the U.S., after peaking at 9.1% in June, the Consumer Price Index has fallen to 7.1%, while Canadian inflation has fallen from 8.1% in June to 6.8% currently. That's excellent progress, but remains far from the central banks' target ranges of between 1% and 3%. In fact, these declines have been led by a sharp decline in commodity prices and weakness in housing and the construction sector. These improvements are unlikely to dampen future inflation.

Worryingly, labour markets remain tight and upward pressure on wages is a real concern. In November, wages rose 5.5% from the year before in Canada and 5.1% in the U.S.[7] These increases are simply not consistent with inflation between 1% and 3%.



Government of Canada Yield Curve

The Canadian yield curve is noticeably inverted – investors earn higher returns for short maturities than they do for longer bonds. When yield curves invert, the conventional explanation is that investors in longer maturities accept a lower return because they expect short-term interest rates to fall – probably as central bankers ease monetary policy. Our view is that short term rates will stay where they are for longer than many people think, and that longer-term yields need to rise. Currently, yields for longer maturity bonds offer little or no real return over expected long-run inflation rates of 1% to 3%. As such, long-term yields favour borrowers not lenders. While we are mindful that there has already been a large correction in the bond market, we will continue to pursue a strategy that emphasizes better credit quality and shorter-maturity holdings. Our approach should produce positive, but modest returns. For now, our plan will be to extend term only when longer-term rates rise to more attractive levels or include a larger margin over inflation.

In the fourth quarter, our bond portfolio returned 0.5%, a modest improvement over the Universe Bond benchmark, which generated a 0.4% return. In the last year we generated a noticeable negative return of minus 5.5%, but this was much better performance than the Universe Bond benchmark's loss of 11.4%.

[7] Average Hourly Wages of Permanent Workers: Source – StatsCan.
Average Hourly Earnings Private Payrolls: Source – BLS.

Equities

While it was a miserable year for equity investors, it was not nearly as bad as it may feel. The war in Ukraine, inflation and COVID all conspired to make things feel worse than the data show. Despite a poor December, for the full three months of the fourth quarter, equity markets regained ground. The Equity Fund returned 8.3%, ahead of its benchmark (up 5.9%). Similarly, for the full year the Equity Fund, while down 6.7%, did better than its benchmark, which declined 8.4%.[8] As a reference, since 1990, the TSX Composite has declined more than 10% in 7 calendar years and was down over 30% in 1988.

After many years of the U.S. stock market outperforming Canada, it was Canada's year. The S&P 500 full-year return was minus 18.1% (in U.S. dollars) and, with our dollar weakening during the year, minus 12.5% measured in Canadian dollars.[9] Also, for a change, in 2022, globally, value style investing (think "profitable, established companies") outperformed growth ("new world", high growth companies, typically with low profitability or unprofitable). As an illustration, for 2022, the Russell 1000 Growth Index declined 29.1% in U.S. dollars and the Russell 1000 Value Index declined 7.5%. As always, our equity portfolio differs from the benchmarks, and we think its higher-quality and lower valuation multiple orientation will be positive contributors in the longer term. We note that, whereas a growth investment style had outperformed value for an extended period, over longer periods value has outperformed growth. Given Nexus's quality at a reasonable price investing style, we think this is a positive contributor to lower risk, attractive returns over the long term.

Canadian Equities

Nexus's Canadian stocks returned 9.2% in the fourth quarter, ahead of the TSX Composite's 6.0% return. Similarly, for the full year, our Canadian portfolio gained 3.7%, well ahead of the TSX's 5.8% loss. For the year, several of our energy stocks did particularly well (Cenovus, ARC Resources, Suncor, and Enbridge). Unfortunately, TC Energy had an oil pipeline leak late in the year, so had a return that was negative and in line with the overall TSX for the year. Although we still like the investment thesis for energy (underinvestment in the sector leading to limited supply, recovering demand, and a desire for higher North American energy security), after the strong run, we trimmed several of these holdings in the fourth quarter. Our consumer staples holdings (George Weston, Metro and Alimentation Couche Tard) also did relatively well in 2022, with each having a mid teens return. A few holdings were particularly poor in 2022 (Allied Properties, Magna and Bank of Nova Scotia), but we believe that they have solid investment characteristics and outlooks. A final big assist to our performance relative to the TSX Composite was not owning Shopify or the cannabis stocks, none of which fit with our investment philosophy and all of which suffered substantial losses in 2022.

U.S. Equities

Nexus's U.S. holdings rose 8.4% last quarter, but were still down a disappointing 16.5% for the year and trailed the S&P 500. This was largely because the only sectors in the U.S. equity market that had a positive return in 2022 (in U.S. dollars) were the energy and utility sectors. Other than EOG Resources that we purchased at the end of the first quarter, our energy and utility-like holdings are in our Canadian portfolio.

That being said, a number of our U.S. holdings performed relatively poorly in 2022 and are being punished by investors for what we think are shorter-term negative factors (the post-COVID normalization for companies that did well in the last couple of years). These holdings include our social media (Meta and Alphabet), technology, and automotive holdings (CarMax and General Motors). All of these businesses are profitable, with solid balance sheets, strong competitive positions and almost all have valuations that are well below that of the U.S. equity market as a whole. (Microsoft is the only stock in this group that has a higher-than-market valuation multiple, which we believe is justified given its strong investment characteristics.)

Other Equity Investments

We remain invested in two externally-managed pooled funds, which add international exposure to our Funds.[10] The difficult environment for our international holdings continues, but the fourth quarter brought a partial recovery quarter as many of the underlying stocks had become oversold. EQIT (international developed market equities) returned 15.0% in the quarter and EMEC (emerging market equities) returned 9.3%. Now Chinese COVID lockdowns are ending, which will lift emerging markets. Similarly, for international equities overall, the principal currencies in these countries are weak, valuation multiples are lower, and dividend yields are higher than in North America, all of which are supportive drivers of a relatively better period ahead. Historically, after a period such as this, international holdings tend to do relatively well – but the timing has varied widely and is impossible to predict. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section of this report.

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

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

[10] Both pooled funds are managed by teams from J.P. Morgan Asset Management in the U.K. and are held in our Equity and Balanced Funds.

Pooled Fund Reports

Nexus North American Equity Fund

The Nexus North American Equity Fund rose 8.3% in the fourth quarter, marking a positive finish to an otherwise challenging year.[11] The Fund produced solid gains in the quarter across our Canadian, U.S. and international stocks. Investor optimism about economic conditions rose early in the quarter as solid labour market data and better-than-expected corporate earnings buoyed sentiment. In addition, early indications of progress in the fight against inflation helped fuel the fourth quarter equity market recovery.

In the last 12 months, the Fund has delivered a 6.7% loss. Equity markets worldwide struggled in 2022, weighed down by macroeconomic factors, including high inflation, restrictive monetary policy, recession worries and geopolitical tensions. While the Fund managed to outperform its benchmark, it was nevertheless pressured by the effects of higher interest rates, which lowered valuations and stirred fears that central bank efforts to tame inflation may come at the expense of the economy.

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

In Canada, our stocks gained 3.7% for the year, which was a strong result compared to the TSX Composite's 5.8% decline. Our energy stocks were a key source of our positive return, with Cenovus, ARC Resources and Suncor up 70%, 59% and 36%, respectively. In addition, we benefitted by avoiding the information technology sector in Canada, which fell 52% in 2022, led by the 73% decline in its key constituent, Shopify.

In the U.S., our holdings suffered a difficult period, falling 16.5% for the year. The decline reflects the overall weakness in the U.S. markets – in the past 40 years, only 2002 and 2008 were worse than 2022 for the S&P 500. A key contributing factor was our limited exposure to the energy sector in the U.S. (most of our energy stocks are Canadian) and this sector was a huge winner in the U.S., gaining 77% in Canadian dollar terms in 2022. (Thankfully we got the benefit from energy on the Canadian side of the portfolio.) Along with the broad market decline, a number of our stocks declined during the year. While we are dissatisfied with the performance of these U.S. stocks, we continue to own them in the belief that, in time, each will be able to capitalize on its competitive advantages, strategic positioning, and financial flexibility to generate attractive returns for shareholders.

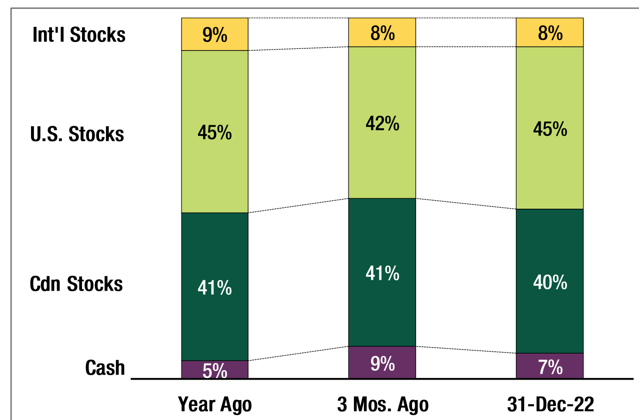
Over the course of the year, our international holdings declined because of the pressures of high inflation, restrictive global monetary policy and geopolitical tensions. The fourth quarter did provide a measure of relief, with the developed markets fund, EQIT, rebounding 15.0%, and the emerging markets fund, EMEC, rallying 9.3%.

At the end of the fourth quarter, the Fund's cash position was 7%. Our allocation to Canadian stocks was 40%, while U.S. stocks represented 45% of the mix. We have maintained an allocation of 8% to markets outside North America which have strong long-term growth potential.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	8.3%	9.2%	8.4%	12.5%
Benchmark	*5.9%*	*6.0%*	*6.3%*	
One Year				
Fund	-6.7%	3.7%	-16.5%	-14.1%
Benchmark	*-8.4%*	*-5.8%*	*-12.5%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Canada 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 December 31, 2022



Equity Fund Asset Mix

[11] All returns in the Pooled Fund Reports section are total returns in Canadian dollars unless otherwise specified.

Nexus North American Balanced Fund

The Nexus North American Balanced Fund rebounded 5.9% in the fourth quarter. The gains were broad, with our bond holdings rising as well as our Canadian, U.S. and international stocks.

In the last 12 months, the Fund has retreated 5.4% in a difficult environment in which only our Canadian stocks have managed to produce positive returns.

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

2022 was an atrocious year for bond markets, with the FTSE Canada Universe Bond Index losing 11.4%. The fourth quarter offered only the mildest of reprieves, with the Bond Index producing a 0.4% gain in the period. Bond markets have been pressured by the actions of central banks, which have been explicit about their intention to raise rates in order to tame inflation. Rates have moved higher, and at a faster pace, than many investors anticipated. In the last year, our bond holdings generated a notable decline of 5.3%, but this was much better than the 11.4% decline of the benchmark.

Equity markets also finished down for the year, but did manage to rebound strongly in the final quarter. The 2022 decline was driven by inflation concerns, rising interest rates, geopolitical conflict, and worries that these macroeconomic forces will lead to economic recession. Within this environment, our Canadian stocks proved very resilient, producing a gain of 4.0%, as compared to a decline of 5.8% for the TSX Composite. Our energy sector holdings in Canada provided a substantial boost to our returns, and we also benefited by avoiding the Canadian information technology sector, which fell 52% in 2022. However, our U.S. stocks and international stocks did poorly, registering double-digit declines in the period. The U.S. equity market suffered a very difficult 2022. Other than 2002 and 2008, this was the worst yearly decline for the S&P 500 in the last 40 years. A key contributing factor was our limited exposure to the energy sector in the U.S. (Most of our energy stocks are Canadian, and, thankfully, we got the benefit from energy on the Canadian side of the portfolio). Along with the broad market decline, a number of our stocks declined during the year. While we are dissatisfied with the performance of these holdings in 2022, we continue to own them in the belief that, in time, each will be able to capitalize on its competitive advantages, strategic positioning, and financial flexibility to generate attractive returns for shareholders.

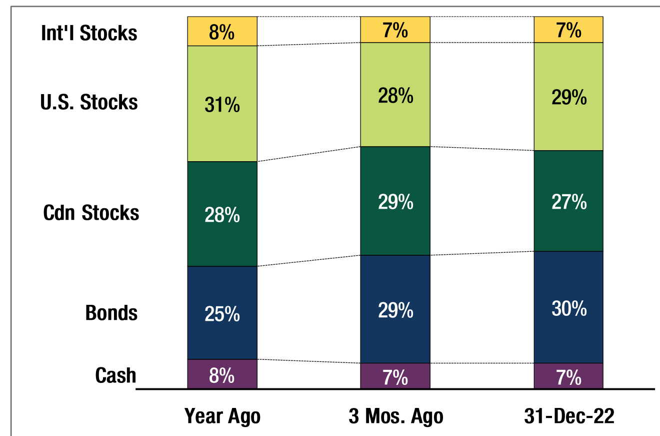
Over the course of the year, our international holdings declined because of the pressures of high inflation, restrictive global monetary policy and geopolitical tensions. The fourth quarter did provide a measure of relief, with the developed markets fund, EQIT, rebounding 15.0%, and the emerging markets fund, EMEC, rallying 9.3%.

At the end of the quarter, cash represented 7% of the Fund's assets, bonds were 30%, and stocks accounted for the remaining 63%. These asset allocations remain close to the Fund's long-term guideline.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	5.9%	0.5%	8.2%	8.7%	12.5%
Benchmark	*4.2%*	*0.4%*	*6.0%*	*6.3%*	
One Year					
Fund	-5.4%	-5.3%	4.0%	-14.8%	-14.0%
Benchmark	*-8.6%*	*-11.4%*	*-5.8%*	*-12.5%*	

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

Investment Returns – As at December 31, 2022



Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund gained 1.4% in the fourth quarter. While the quarter ended on a positive note, it was otherwise a most difficult year for fixed income investing. The FTSE Canada Bond Index lost 11.4% for the full-year period, by far its worst year on record over its 40-year history. In comparison, the Income Fund declined 5.2% for the year which, while negative, was much better than the benchmark return.

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

Over the course of 2022 interest rates rose sharply, which produced the poor bond market returns noted above. This rise in bond yields was the explicit intention of global central banks, all of which, after a period of ultra-easy monetary policy, have now changed course in an attempt to tame inflation. Central bank action to raise rates caught many investors by surprise, as the rate increases went further and came faster than many had anticipated.

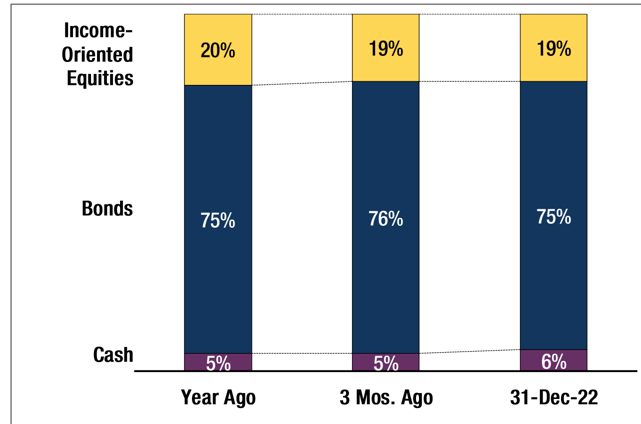
In addition to the declines in our bond holdings, the income-oriented equities we hold in the Fund also fell in 2022. Our Canadian equity holdings fell 8.3% while our U.S. holdings declined by less, yet still retreated 2.8% for the full year. The fourth quarter delivered a partial rebound, with our Canadian stocks gaining 2.0% and our U.S. stocks recouping 8.8%.

At the end of the fourth quarter, the Fund's cash position was 6%, Income-Oriented Equities accounted for 19% and the balance, 75%, was in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	1.4%	0.5%	2.0%	8.8%
Benchmark	*0.4%*	*0.4%*		
One Year				
Fund	-5.2%	-5.5%	-8.3%	-2.8%
Benchmark	*-11.4%*	*-11.4%*		

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

Investment Returns – As at December 31, 2022



Income Fund Asset Mix

Nexus International Equity Fund

The Nexus International Equity Fund holds two underlying funds: EQIT (invested in international developed market equities) and EMEC (invested in emerging market equities).[12]

The Fund rebounded strongly in the fourth quarter, gaining 12.7%. EQIT gained 15% in the period and EMEC gained 9.3%.

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

2022 proved a very difficult year for international markets. The main benchmark for international developed markets fell 8.6% (measured in Canadian dollars) and the main emerging markets benchmark fell even more, declining 14.6% in the last 12 months.

The challenges in international developed markets were many in 2022, starting with war in Ukraine and extending to the resulting pan-European energy crisis, rising interest rates and record inflation. While difficult to predict, many observers anticipate that Europe will suffer a recession in 2023. In addition, Europe will have to contend with worries about geopolitical tail risk springing from the Russia/Ukraine conflict.

Emerging markets, too, had their share of challenges in the last year. A trio of macro forces – inflation, rising rates and the strengthening of the U.S. dollar – put significant pressure on emerging market economies. Another contributing factor was China's zero-COVID policy, which drove many cities into lockdown for most of 2022, until those severe policy restrictions were relaxed recently. There are hopes that the reopening of China will help jumpstart growth in Asia and perhaps ease the property market troubles that continue to plague the country.

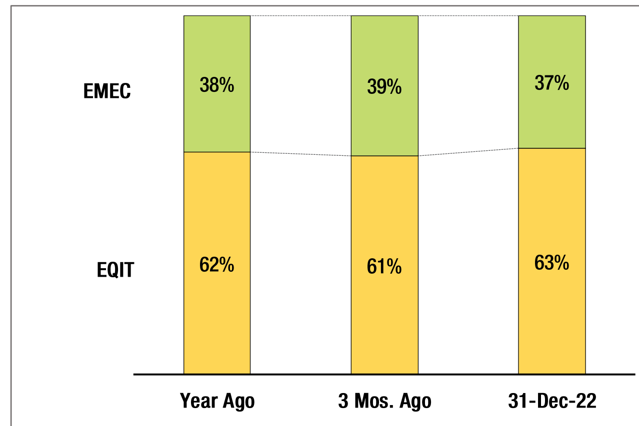
If there is a silver lining to this difficult period, it is that much of the risk has now been priced into market valuations. Equities in both developed international and emerging markets are very attractively priced and offer good potential for long-term shareholder returns. While the road ahead will surely have its share of twists, turns and surprises, we remain optimistic about the long-term growth opportunities available in international markets.

At the close of the third quarter, the International Equity Fund's investment in EQIT accounted for 63%, while EMEC accounted for 37%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	12.7%	15.0%	9.3%
Benchmark	*14.1%*	*15.9%*	*8.4%*
One Year			
Fund	-14.0%	-14.1%	-14.0%
Benchmark	*-10.0%*	*-8.6%*	*-14.6%*

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 December 31, 2022



International Equity Fund Asset Mix

[12] International developed markets or "EAFE" includes Europe, Australasia and the Far East. Emerging markets include 24 developing countries. EQIT and EMEC are managed by JPMorgan Asset Management in the U.K. The Nexus Balanced and Equity Funds have held EQIT and EMEC for some time and continue to do so.