The Nexus Report

Second Quarter, 2023

Investment Outlook

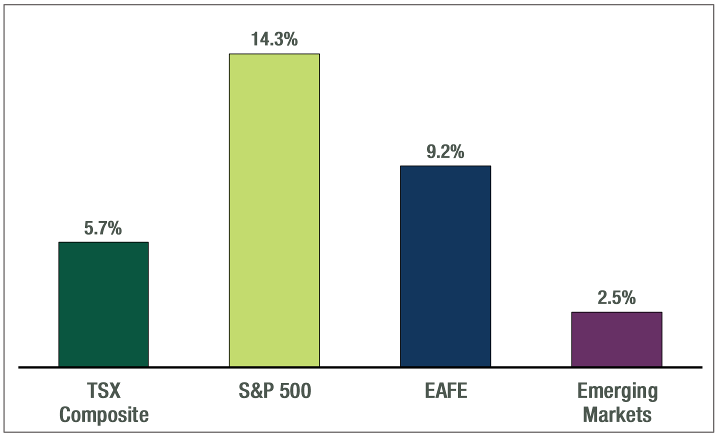
Off to the Races

At the beginning of 2023, the mood in financial markets was lugubrious. 2022 had been a tough year for investors, particularly for those with balanced portfolios. In addition to a sharp drop in stock prices, conservative investors suffered the worst losses of all time on their bonds. Moreover, looking at the year ahead, there was near certainty that the Canadian and U.S. economies would dip into recession in 2023.

So far, it hasn't quite worked out the way many expected. Instead of languishing, stocks have soared, particularly in the U.S. Over the first six months of 2023, the S&P 500 rose 15.9%. The real star of the show, however, was the technology-rich NASDAQ, which rose 31.7%.[2] The NASDAQ's gain was its strongest first half since 1983. It was stronger even than in the heat of the technology bubble in 1999.

Looking around the world (and translating foreign returns into Canadian dollars), the chart to the right shows the solid gains available to investors almost everywhere. The Canadian bond market, after its horrific 2022, also was higher. In most markets, the strongest returns came in the first quarter and second quarter returns were modestly positive or modestly negative. In the U.S., however, gains stayed strong throughout the six months.

Yet, not all is what it may seem. The exuberance in the first half of 2023 was remarkably narrowly concentrated. In short, market indexes were driven higher by a handful of large capitalization technology stocks, many of which have ridden the investment craze around artificial intelligence ("AI").[3] While this dynamic was universal, it was most acute in the U.S.



Total Returns – 6 Months ended June 30, 2023 (C$)

There are many ways to capture the extraordinary impact that a few large capitalization stocks had on market index returns. Perhaps the simplest is to compare the NASDAQ's 31.7% gain in the first half of the year with the 3.8% return of the Dow Jones Industrial Average.[2] The NASDAQ's return was dominated by the big tech stocks. In contrast, the Dow's composition and its methodology (it's an average not an index), meant that these tech stocks did not have an outsized influence. A different way to think about the same phenomenon is to observe that the largest 10 stocks now make up 31.7% of the market capitalization of S&P 500.[4] This

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[1] Unless indicated otherwise, all Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees (which are charged to client accounts and vary by client). Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Stock-specific returns are price-only returns, and for U.S. listed stocks are in U.S. dollars. Past performance is not indicative of future results. For more information about benchmarks, please refer to https://tinyurl.com/NexusOnBenchmarks.

[2] In both cases, in U.S. dollars excluding dividends.

[3] They include Apple, Microsoft, Alphabet, Amazon, Nvidia, Tesla and Meta Platforms.

[4] Coincidentally, the same number as the return on the NASDAQ.

is the highest concentration that any 10 stocks have ever had in the S&P.[5]

All of this is to say that, other than the big tech stocks, investment returns have been positive, but modest, in 2023. In our view, the relative performance of these market darlings is unsustainable. What remains to be seen is whether the rest of the market catches up… or do the big tech darlings come back down to earth? We have no way to predict which will occur and no way to know when.

What Recession?

Not all investment returns this year have been driven by speculation on AI or multiple expansion. There was a fair amount of positive economic news as well. Perhaps most important is the ongoing strength of the labour market in both Canada and the U.S.

Canadian economists were pleasantly surprised by the creation of 60,000 new jobs in June, compared to expectations for only 20,000. While the unemployment rate rose to 5.4%, this was entirely because of the expansion of the workforce. Immigration played a big role in this, but people also join the workforce when they perceive that good jobs are to be had. In other words, these are all positive signals. In the U.S., after 14 consecutive months when new jobs created exceeded expectations, there finally was a “miss”. A total of 209,000 new jobs were created compared to expectations for 230,000. The U.S. unemployment rate ticked down to 3.6%.

Whether the jobs report was a “beat” in Canada or a “miss” in the U.S., the main point is that labour markets are strong in both countries. Unemployment is near all-time lows. There are 9.8 million job openings in the U.S. at May 31 – this equates to 1.6 unfilled jobs for every unemployed person. Rarely is there a recession when the labour market is so strong.

Consistent with strength in the labour markets, Canadian and U.S. GDP growth has also stayed surprisingly resilient. Barron’s described the forecast of recession in 2023 as “the most widely predicted economic event in modern history”.[6] And with a parade of interest rate hikes, a U.S. regional bank crisis, a U.S. debt ceiling drama, and nasty geo-politics, there were lots of events to precipitate trouble. But, again and again, the worst case didn’t happen. From expectations of zero or negative GDP growth in 2023, most economists now expect modest positive growth in both Canada and the U.S. In the U.S., the Conference Board’s consumer confidence measure rose in June to the highest level since January 2022. $2 trillion of government spending promised in the Inflation Reduction Act and in infrastructure bills has shored up the economy. In Canada, one of the many factors supporting ongoing growth has been the surge in immigration. Canada’s population grew 3.1% year-over-year in the first quarter of 2023, the fastest growth since the 1950s. One could question the sustainability of this driver, but for the time being it is clearly supporting economic growth.

At the heart of any current economic forecast, however, is an assessment of the central banks’ fight against inflation. Can a soft landing be achieved? Or will the rapid rise of interest rates eventually overwhelm the strength in labour markets and tip the economy into recession? News over the last quarter was generally positive. In Canada, inflation pressures have been consistently lower than those in the U.S., and inflation declined materially again in May – to a 3.4% year-over-year rate. The Bank of Canada’s recent Business Outlook Survey found that capacity pressures were easing and wage growth was moderating. In the U.S., headline inflation is similarly moderating, although core inflation (which excludes food and energy) has been sticky. To be sure, inflationary forces are easing in both countries, but central banks remain determined to drive inflation all the way back to the long-run target of 2%. Time will tell whether interest rates need to rise significantly further to achieve this. We remain vigilant.

Market Outlook

It’s a frustrating time to be an investor like Nexus. Speculative stocks are soaring and the stock prices of many high-quality companies are languishing. Economic growth has not treated everyone equally. It has disproportionately benefitted the most affluent in society, while companies catering to lower income consumers have found business more challenging. Dislocations left over from the pandemic remain. However, we continue to focus on the long term. If the long-term outlook for a business remains good, we are content to ride out any short-term challenges

Warren Buffett quoted his mentor, Ben Graham, as observing that: “In the short run, the stock market is a voting machine. In the long run, it is a weighing machine.”[7] At the moment, the votes are in and AI is definitely the most exciting opportunity in the stock market. We remain old fashioned. We prefer the long-term economic attributes of more mundane businesses that have durable competitive positions and can steadily increase their profits over time. This is a winning combination if the stock of such a company can be purchased at an attractive price. We’re confident that this approach, given time, will tip the weigh scales in our favour.

In sum, we remain optimistic about the long-term opportunity for good returns in client portfolios. Uncertainty about the economy is high at the moment, but over time, diligence, discipline, and common sense are sure to result in good investment returns.

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5 “Guide to the Markets”, JP Morgan Asset Management, July 2023.
6 *Barron’s*, June 23, 2023.
7 This quote does not appear in either of Graham’s treatises, but Buffett quotes him in his 1993 shareholder letter for Berkshire Hathaway.

Asset Class Review

Fixed Income

In the second quarter, investors experienced modest negative fixed income returns in a partial reversal from the first, with the FTSE Canada Bond Universe down 0.7%. Rates were higher (and bond prices were lower) across all Government of Canada bond maturities. However, the drag from higher rates was somewhat offset by a combination of tighter credit spreads and the positive carry that comes with higher absolute yield levels. At the risk of stating the obvious, a bond portfolio with a 5% yield that experiences no price move will return 1.25% per quarter. This positive return buffer is something that we have not experienced for some time and it offers modest embedded downside protection in a period when yields move higher, as occurred this quarter.

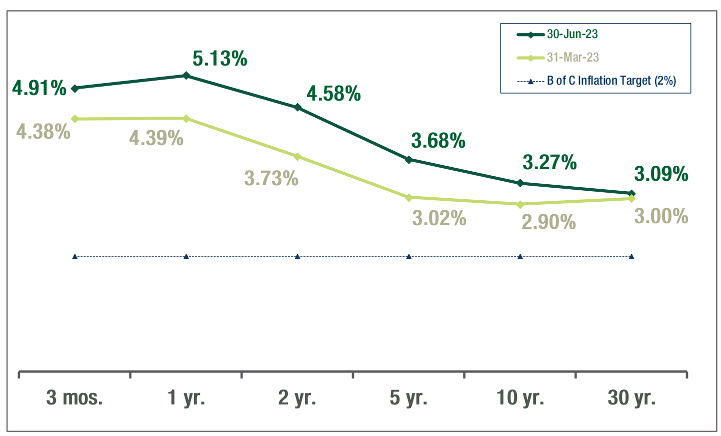
The quarter has been widely categorized as a one of resilience. As discussed at the front of this report, GDP growth, wages, and inflation all managed to meet or exceed expectations. In particular, labour markets in both Canada and the U.S. have remained surprisingly strong in the face of expected slowdowns. While reported wage growth has slowed and fewer workers are choosing to switch jobs, there is abundant evidence that employees retain considerable bargaining power. After lagging inflation at the beginning of the recovery, wages are now growing at a modestly positive real rate.[8]

Generally speaking, in the second quarter, global central banks continued to tighten monetary policy rates. There is widespread concern that the monetary policy tightening completed to date has not been enough in the battle against inflation. In Canada, the 25 basis point rate hike in June came as a surprise to many. Until that point, it had been unclear whether the recent rate hike hiatus from the Bank of Canada was a longer-term shift in policy or a pause on the path to yet higher rates. The nature of data-dependent decisions means that the central bankers themselves likely were not sure either.

Another notable development in bond markets over the quarter was the changing shape of the yield curve: the yield differential between 2- and 30-year bonds increased substantially. Going into the quarter, the yield on the 30-year Government of Canada bond was 74 basis points below that of the 2-year bond. This differential increased to 149 basis points by the end of the quarter, mostly thanks to the 80 basis point increase in 2-year yields.

This quarter, we made some opportunistic changes to our holdings. In the wake of the U.S. regional bank turmoil, certain bonds issued by Canadian banks, called Limited Recourse Capital Notes (LRCNs) have been trading at attractive valuations. These bonds rank lower on the capital structure than deposit notes, but we believe that the incremental yield offers good value right now. LRCN bonds from issuers such as Royal Bank and TD are offering yields in the 7% range. We like the long-term outlook for some of these LRCNs and have added them where it is appropriate.

In addition, we recognized some tax losses in fixed income holdings. The price decline in many bonds has created an opportunity to make switches in the portfolio that allow us to lock-in some of the capital losses that were incurred, and to re-deploy capital into other bonds that are trading at equal or better yields. This is advantageous for taxable investors, as it will allow us to shelter capital gains generated in our equity holdings this year, and it means that *future* fixed income returns will have a larger component of capital gains, which is preferred to interest income.



Government of Canada Yield Curve

For now, our strategy is the same as it has been. We remain invested in bonds of shorter maturity, which currently offer higher yields than longer-term bonds. We continue to emphasize quality and liquidity. If and when the absolute level of longer-term rates becomes more attractive, we will consider redeploying funds into longer-maturity bonds. During the last quarter, our bond portfolio gave up 0.6%, while the Bond Index lost 0.7%. In the last 12 months our bond holdings rose 2.2%, while the Bond Index returned 3.1%.

[8] Real wage growth is actual wage growth minus actual inflation over the same period of time.

Equities [9]

Notwithstanding the ongoing market turmoil, second quarter equity returns were positive. The year-to-date, one year, and longer period returns are also all positive. It has not been this way since December 2021! The Equity Fund returned 2.2% in the quarter. The last 12 months have been anything but typical, with the Equity Fund returning 10.7%, and the benchmark 15.7%.

As outlined above in the Investment Outlook section, the quarter was a continuation of an unusual period. So far in 2023, a small number of large growth stocks have had very strong returns and, as a consequence, have inflated the return of the overall indices, such that the returns of the S&P 500 and the TSX are not at all reflective of the performance of the vast majority of the stocks within each index. This effect has been extreme. Morningstar released a study showing that, for 2023 through to May 31, 97% of the total return for the 716 stocks in the Morningstar U.S. Large-Mid Index came from just the largest 10 stocks. Without the supersized returns of these 10 stocks, the return on the *other* 706 stocks in the index was essentially zero for the period.[10] The recent outsized return of a few large stocks has biased the returns for longer periods as well. For the last 12 months the Russell 1000 Growth Index returned 30.6%, whereas the Russell 1000 Value Index returned just 14.6%.[11] Similarly, in Canada, the TSX's return has been dominated by the technology sector (mainly Shopify). For the 12 months, the TSX Information Technology sector's return was 50.1%. By contrast, the TSX Composite Dividend Index returned 8.0%. This outperformance by growth stocks is great for the index investor right now, but this may also be the first half of the "tech bubble and bust" movie from the start of the 2000s.

North American Equities

In the quarter, Nexus's Canadian stocks returned 1.0% and our U.S. stocks returned 3.9%. This was in-line with the TSX, but trailed the S&P 500. For the 12 months, Nexus's Canadian stocks returned 4.5% and our U.S. holdings returned 16.8%, both trailing their respective indices. This was largely due to the effect of the growth stocks noted above.

Our strongest sector in the quarter was Communication Services. Meta Platforms (up 36%) and Alphabet (17%), both in the aforementioned mega-cap top 10, continued to recover. Our Consumer Discretionary holdings also fared well – especially CarMax and BMW. Given the outperformance of growth stocks, our Information Technology holdings, Microsoft (another of the mega-cap top 10), Western Digital and Cisco – all quality companies – could not match the pace of the rest of the Technology sector that contributed so much to the index returns.

The flip side of growth stock strength is that defensive and value-oriented stocks underperformed. The weakest sector in the portfolio was Canadian Real Estate Investment Trusts. While this sector is out of favour with investors, we like the income-oriented role and prospects of our holdings (H&R, Allied Properties and Primaris). They will benefit from back-to-office and back-to-mall trends. Historically, real estate has provided excellent inflation protection after absorbing the initial effects of higher interest rates. While we wait, our holdings carry 6% to 8% annual distribution yields. Our Consumer Staples holdings lagged – amongst these, Dollar General and George Weston are retailers dealing with inflation, a shortage of labour, and stretched supply chains. Our Healthcare holdings were mixed and suffered from the current "growth beats defensive" market pattern.

To take advantage of what we see as the unsustainable differences in the performance of growth and value stocks, we trimmed back our holdings of Meta Platforms, Alphabet and Microsoft during the quarter. We still like all three, but they had become oversized holdings. Meta and Alphabet carry valuations that are at a discount to the broad market indices and well below those of many growth stocks. Microsoft trades at a premium valuation, but its prospects and business results are more in line with this. We took advantage of price weakness and added to our Allied Properties position.

International Equity Investments

We remain invested in two externally-managed pooled funds.[12] EQIT (international developed market equities) returned 1.6% in the quarter and EMEC (emerging market equities) declined 1.8%. Their 12-month returns were 22.8% and 11.2%, respectively. We think these international equities – which collectively have a more "established economy" orientation with fewer growth stocks than the U.S. market – will be a good complement in the portfolio, offering both solid prospective returns and avoiding the risks inherent in the North American high-valuation stocks. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section of this report.

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[9] The overall and geographic level return data in this section are 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.

[10] This Morningstar U.S. Large-Mid Index performs similarly to the S&P 500.

[11] The Russell 1000 Value Index includes the approximately 850 largest capitalization value stocks in the U.S. and is more reflective of Nexus' investment approach than the Growth Index. We note that a growth investment style has outperformed value since the end of the global financial crisis, but over longer periods value has outperformed growth.

[12] Both pooled funds are managed by teams from JPMorgan Asset Management in the U.K. and are held in our International, Equity and Balanced Funds.

Pooled Fund Reports

Nexus North American Equity Fund

The Nexus North American Equity Fund advanced 2.2% in the second quarter, marking a third consecutive quarter of gains for the Fund. The largest contributor to this quarter's gain was our U.S. holdings which rose 3.9% during what proved to be a bullish quarter for U.S. equity markets.

In the last 12 months, the Fund gained 10.7%. Our Canadian stocks rose 4.5% but most of the upside came from our U.S. holdings, which advanced 16.8%, with additional tailwinds provided by our international holdings.

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

On the surface, it was an upbeat quarter for equity market investors. The S&P 500 was on a roll, gaining 8.7% in U.S. dollar terms, in part due to economic data that was better than expected as well as an abundance of enthusiasm about new artificial intelligence technology. However, as discussed in previous sections, this advance was narrowly focused, with much of the index gains concentrated in a handful of "mega-cap" growth stocks that are expected to benefit from these AI innovations.

Although our North American equity holdings did produce positive returns in the quarter, they were not enough to keep pace with the rapid advance of markets on the back of this concentrated enthusiasm for growth stocks. Several of our holdings – including Meta (up 36%), Microsoft (18%) and Alphabet (17%) – delivered significant gains as they are perceived to be beneficiaries of AI innovations. However, our other value-oriented tech holdings, Cisco and Western Digital, were essentially unchanged in the quarter, which paled in comparison to the huge gains in AI-favourites like NVIDIA (52%). Other factors that detracted from our relative returns were a poor quarter from Dollar General, whose customers are feeling the sting of inflation, and our REIT holdings (Allied Properties and H&R REIT), which have been affected by both rising interest rates and poor sentiment around the outlook for office property in a remote-work future. While there have been some bumps in the road from inflation, interest rates and even AI, we remain confident that the high-quality nature of our holdings will deliver satisfactory results over time.

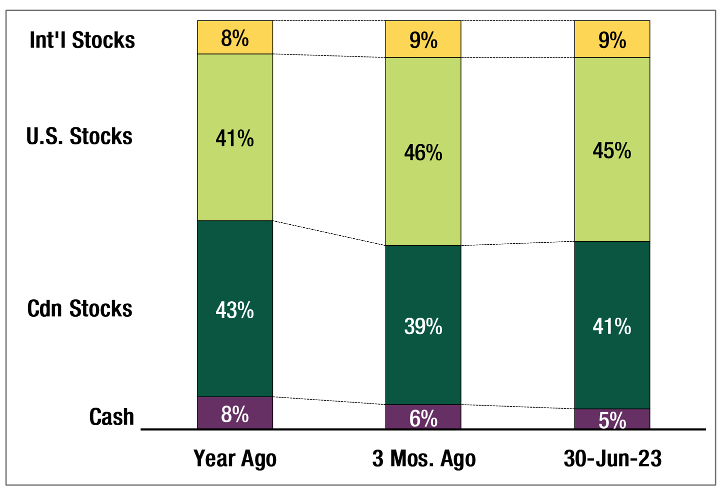
Our international holdings were mostly unchanged during the quarter but have delivered strong gains over the last 12 months. For more detail, please see the Nexus International Equity Fund section of this report.

At the end of the second quarter, the Fund's cash position was 5%. Our allocation to Canadian stocks was 41%, while U.S. stocks represented 45% of the mix. We have maintained an allocation of 9% 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	2.2%	1.0%	3.9%	0.2%
Benchmark	*3.5%*	*1.1%*	*6.4%*	
One Year				
Fund	10.7%	4.5%	16.8%	17.8%
Benchmark	*15.7%*	*10.4%*	*22.9%*	

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 June 30, 2023



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund delivered a 0.4% gain in the second quarter. Our bond holdings fell 0.7% during the period, matching the benchmark. Our equity holdings rose in both Canada and the U.S., but in each market the gains were more muted than those of their respective indices.

In the last 12 months, the Fund advanced 6.4%, with each asset class rising. Over this period, U.S. and International markets have shown particular strength, while bond returns have been solid but unspectacular.

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

In the second quarter, the Canadian bond market gave back some of the gains achieved the quarter before. The FTSE Canada Universe Bond Index declined 0.7% and the Fund's bond holdings declined by the same amount. Government of Canada Bond yields moved higher across all maturities, resulting in the negative return. Canada and the U.S. both saw their policy interest rates move higher during the quarter as central bankers continue to try and tame inflation. Expectations of an economic slowdown persist, but economic data continues to be better than anticipated, which has kicked recession worries down the road.

North American equity markets produced a remarkably upbeat quarter. The S&P 500 was on a roll, gaining 8.7% in U.S. dollar terms, in part due to economic data that was better than expected as well as an abundance of enthusiasm about new artificial intelligence technology. However, as discussed in previous sections, this advance was narrowly focused, with much of the index gains concentrated in a handful of "mega-cap" growth stocks that are expected to benefit from these AI innovations.

Although our North American equity holdings did produce positive returns in the quarter, they were not enough to keep pace with the rapid advance of markets on the back of this concentrated enthusiasm for growth stocks. Several of our holdings – including Meta (up 36%), Microsoft (18%) and Alphabet (17%) – delivered significant gains as they are perceived to be beneficiaries of AI innovations. However, our other value-oriented tech holdings Cisco and Western Digital, were essentially unchanged in the quarter, which paled in comparison to the huge gains in AI-favourites like NVIDIA (52%). Other factors that detracted from our relative returns were a poor quarter from Dollar General, whose customers are feeling the sting of inflation, and our REIT holdings (Allied Properties and H&R REIT), which have been impacted by both rising interest rates and poor sentiment around the outlook for office property in a remote-work future. While there have been some bumps in the road from inflation, interest rates and even AI, we remain confident that the high-quality nature of our holdings will deliver satisfactory results over time.

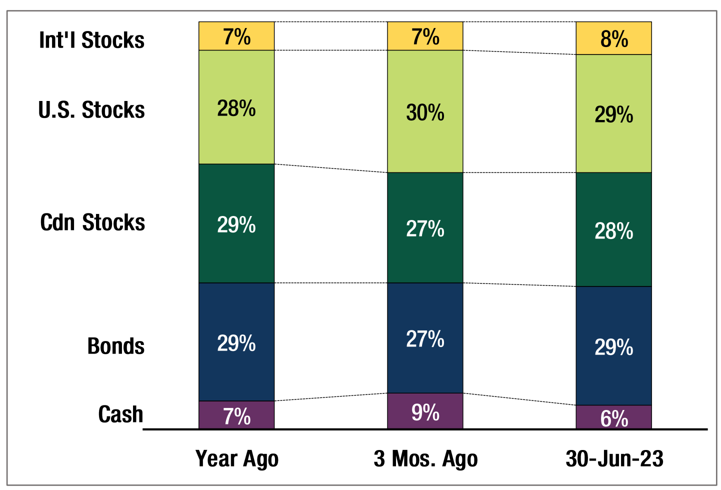
Our international portfolio was mostly unchanged during the quarter but has delivered strong gains over the last 12 months. For more detail, please see the Nexus International Equity Fund section of this report.

At the end of the quarter, cash represented 6% of the Fund's asset mix, bonds were 29%, and stocks accounted for the remaining 65%.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	0.4%	-0.7%	0.2%	2.1%	0.2%
Benchmark	*1.9%*	*-0.7%*	*1.1%*	*6.4%*	
One Year					
Fund	6.4%	2.3%	2.2%	13.1%	17.8%
Benchmark	*11.0%*	*3.1%*	*10.4%*	*22.9%*	

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 June 30, 2023



Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund retreated 0.7% in the second quarter. Our bond holdings fell 0.6%, in line with their benchmark and our Canadian and U.S. stocks declined 2.4% and 1.0% respectively.

In the last 12 months, the Fund has gained 1.1% which, while positive, trailed the benchmark return of 3.1%. The 12-month gains were powered by our bond holdings, which advanced 2.2% during the period. However, these gains were offset by declines in our income-oriented equities.

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

In the second quarter, the Canadian bond market gave back some of the gains achieved in the prior quarter. The FTSE Canada Universe Bond Index declined 0.7%, while the Fund's bond holdings declined 0.6%. Government of Canada Bond yields moved higher across all maturities, resulting in the negative return. Canada and the U.S. both saw their policy interest rates move higher during the quarter as central bankers continue to try and tame inflation. Expectations of an economic slowdown persist, but economic data continues to be better than anticipated, which has kicked recession worries down the road.

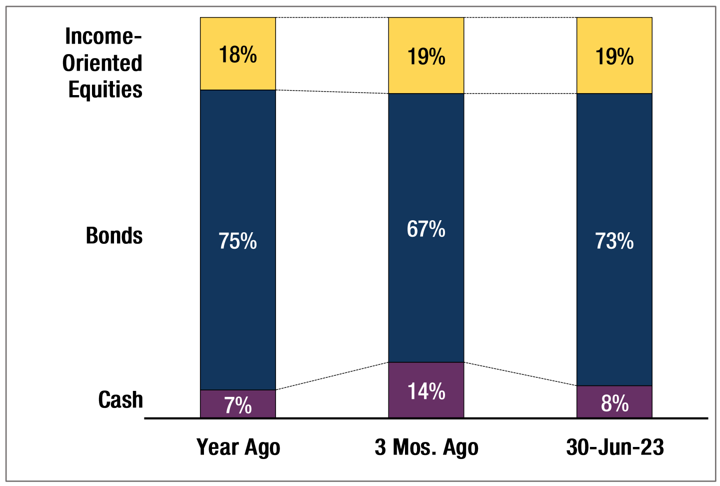
The income-oriented equities delivered a weak quarter in which our defensively-oriented stocks were out of favour as compared to more speculative growth stocks. Over longer time periods, however, this allocation to income-oriented equities has been significantly additive to the performance of the Fund.

At the end of the second quarter, the Fund's cash position was 8%, Income-Oriented Equities accounted for 19%, and the balance, 73%, was in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	-0.7%	-0.6%	-2.4%	-1.0%
Benchmark	*-0.7%*	*-0.7%*		
One Year				
Fund	1.1%	2.2%	-5.0%	-1.2%
Benchmark	*3.1%*	*3.1%*		

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 June 30, 2023



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).[13]

The Fund delivered a small positive return in the second quarter, gaining 0.4%. EQIT gained 1.6% in the period, while EMEC declined 1.8%.

Over the last 12 months, both EQIT and EMEC produced double-digit gains, but EQIT was the standout, up 22.8%, as compared to EMEC's gain of 11.2%.

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

In international markets, Japan produced solid gains when measured in local currency terms, driven by weakness in the Japanese yen as its central bank continued to hold interest rates low in stark contrast to its developed market counterparts. The yen weakness drove the Japanese market upward, as many companies that earn a significant proportion of profits abroad benefit from a weaker currency. However, the yen weakness substantially reduced the gains for unhedged foreign investors.

European markets posted modest gains in the quarter, despite the European Central Bank (ECB) raising interest rates for the eighth successive time to combat inflation. While the Eurozone managed to avoid the worst-case economic impact from the curtailed flow of cheap Russian gas, it did experience a mild recession over the winter, with GDP declines of 0.1% in both the fourth quarter of 2022 and the first quarter of 2023.

China dragged down emerging markets as hoped-for economic benefits from the post-COVID reopening failed to materialize. China's macroeconomic indicators remained weak, and its property market struggled. China's home sales tumbled in June, snapping a brief four-month rebound.

As long-term investors, we continue to see merit in holding international stocks. In addition to the general benefit of increased diversification, international holdings also provide access to a broader opportunity set beyond that available in Canada and the U.S. What's more, the growth potential, dividend opportunities and valuations in these markets remain compelling.

At the close of the second quarter, the International Equity Fund's investment in EQIT accounted for 65%, while EMEC accounted for 35%.

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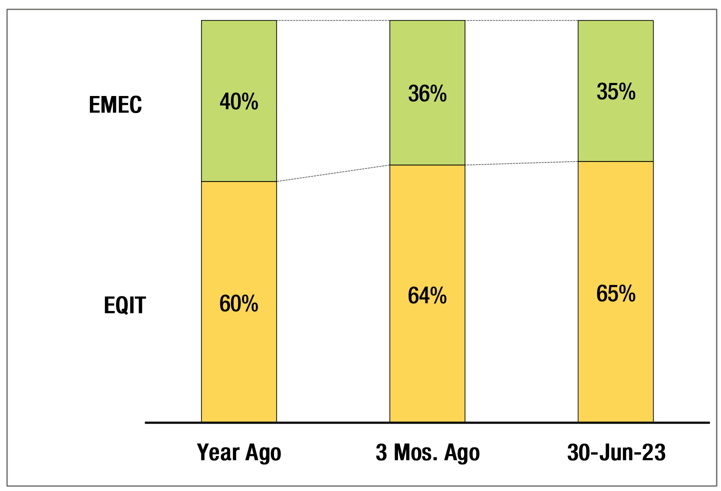
	International Equity Fund	EQIT	EMEC
Quarter			
Fund	0.4%	1.6%	-1.8%
Benchmark	*0.2%*	*0.7%*	*-1.3%*
One Year			
Fund	18.3%	22.8%	11.2%
Benchmark	*17.6%*	*22.0%*	*4.5%*

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, 2023



International Equity Fund Asset Mix

[13] 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 also held EQIT and EMEC for some time and continue to do so.