The Nexus Report

First Quarter, 2024

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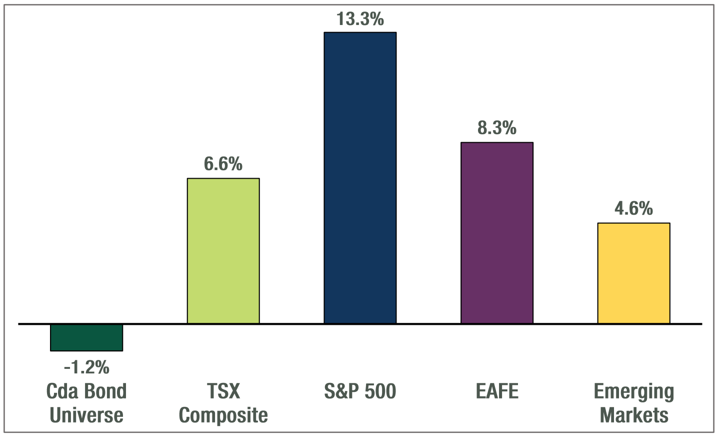
Investment Outlook

Happy Days for Investors

Robust stock market gains continued through the first three months of 2024. After a remarkable 2023, many investors were expecting gains to moderate. Yet, stocks continued their ascent. While bond prices slipped as a consequence of higher interest rates, stocks easily compensated. Stock markets surged most in the U.S., but investors in almost all markets were handsomely rewarded.



Total Returns – 3 Months ended March 31, 2024

In the last Nexus Report, we explained how the rise in stock market indices in 2023 did not necessarily reflect how the typical investor fared – gains in most countries were concentrated in relatively few growth stocks, particularly those involved in the exciting field of artificial intelligence. In the U.S., the so-called "Magnificent Seven" stocks ("Mag 7") garnered lots of the attention and accounted for a disproportionate amount of the market's gain.[1] Some of the Mag 7 continue to be market leaders in 2024 – Nvidia's stock price was up 82% in the first quarter. But, starting in February, returns in the market have broadened out to other stocks. The Energy sector, for example, was one of the best sectors in both Canada and the U.S. over the last three months.

Of course, it would be premature to conclude that stock market dynamics over a number of weeks assure a shift in market leadership. However, earnings forecasts for 2024 could well sustain current trends. In 2023, Mag 7 earnings were up 31% year-over-year, while earnings from the other 493 stocks in the S&P 500 declined 4%.[2] In this context, 2023 stock market performance is less surprising. In 2024, Mag 7 earnings are expected to be strong, but should decelerate. Earnings for the other 493 stocks are forecast to jump by 8%. If forecast earnings growth is realized, more investors will enjoy good portfolio returns.

Zig and Zag

The Canadian economy is well integrated into the much larger economy of our neighbour to the south. Economic growth usually follows a similar path in both countries. At the moment, however, the paths of economic progress appear to be diverging. One country seems to be zigging while the other is zagging.

NOTE: 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.

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

[2] JPMorgan Asset Management, "Guide to the Markets", April 2024.

In Canada, the economic outlook is muted and somewhat discouraging. The March employment report revealed that 2,200 jobs were lost in the month as compared to the expectation for job gains of 25,000, and the prior month gain of 40,700. The unemployment rate spiked to 6.1%, compared to 5.8% in February. This is the sharpest rise in the unemployment rate in 19 months, and the highest level of unemployment since January 2022. As we have written before, the demand for workers in Canada is not rising as fast as the population and labour force are growing. Despite the Federal Government's commitment to moderate immigration, current trends suggest that 2024 population growth in Canada will likely be in excess of 3% – well above Statistics Canada's "High Growth" forecast, and well above the 2% assumed in the Bank of Canada's January Monetary Policy Report.[3]

Another concerning trend in Canada, which has plagued the country for some time, is our weak performance in productivity. Nexus and many other commentators have expressed concern about this for years. However, it took a recent speech by the Bank of Canada's Senior Deputy Governor, Carolyn Rogers, to elevate the issue to the front page of newspapers. Ms. Rogers declared Canada's productivity decline a national emergency and exhorted the Federal Government to act. Indeed, this persistently weak performance on productivity combined with rapid population growth has resulted in a decline of Canada's GDP per capita. This is a vital measure of our standard of living and demands urgent action.

Not all economic news in Canada is discouraging. GDP growth picked up in January and February. In the 16 months between Labour Day 2022 and the end of 2023, Canada's GDP grew 0.8%. Initial estimates suggest it grew by 1.0% in the first 60 days of 2024.[4] The weak employment report for March leads many economists to expect the growth realized in the first two months to moderate. Nonetheless, it seems likely Canada will continue to avoid recession. Another consequence of the soft economy is that inflation is now just inside the Bank of Canada's 1% to 3% target range. Governor Macklem recently suggested that the Bank could start to ease its policy rate by mid-year.

In contrast with soft economic conditions in Canada, the U.S. economy is booming. It created 303,000 new jobs in March, compared to expectations for 200,000. The unemployment rate dropped to 3.8% from 3.9%. Unemployment has been below 4% for 26 straight months, the longest stretch since the 1960s.[5] There remain 8.8 million job openings at the end of February, a number well off its high, but still much higher than long term averages. The Atlanta Fed GDPNow tracker forecasts first quarter GDP growth at 2.5%, a slower rate than the economy was running at in late 2023, but still reasonably strong.

A consequence of the incredible resilience of the U.S. economy, however, is the persistence of elevated inflation. For March, both headline and core inflation measures were hotter than expected, at 0.4% month-over-month. On a year-over-year basis, headline inflation increased to 3.5% and core inflation remained at 3.8%. March was the third month in a row where inflation pressures came in higher than expected. As a result, expectations for interest rate reductions in the U.S. have declined significantly. At the start of the year, six 25 basis point cuts were widely expected. As recently as a few weeks ago, many economists expected three cuts, starting in July. After the March report, some economists have reduced their forecast to one, and maybe not until December. It will be important to watch the sustainability of U.S. growth in the face of a "higher for longer" interest rate environment.

Market Outlook

While stock markets can't and won't rise indefinitely, we are cautiously optimistic about the prospects for client portfolios over the balance of the year. Stocks are certainly generously valued, but most values are not extreme. Economic growth should stay positive and corporate earnings are expected to advance more broadly than in 2023. Just because we've had an excellent run in stocks doesn't mean a pullback is imminent. Since 1950, the S&P 500 has gained more than 8% in the first quarter on 16 occasions. In these instances, only once was the market lower at the end of the year.[6]

As always, there are many things for investors to worry about. War in the Middle East and in Ukraine rages on. If anything, the news is worse today than it was three months ago. China's pernicious efforts to undermine Western democracies persists and its intentions with respect to Taiwan are worrisome. So is the poor state of its domestic real estate sector and the implications thereof for its broader economy. Undoubtedly, the U.S. election will generate a lot of noise and uncertainty. However, the events that usually cause the greatest market upset are the ones no one sees coming – such as a pandemic. Accordingly, our approach is not to try and predict what *might* happen, but to be prepared for what *could* happen. The high quality, appropriately valued, and mostly dividend-paying stocks that we favour will rarely be the market darlings. But if we do our job well, they will prosper when times are good and will be survivors when times are tough. Stated another way, they are not supposed to provide the greatest returns at any particular moment in time. They are supposed to provide good returns over the longest possible time. That is the basis of success for the long-term investor.

[3] National Bank Financial, *"Economic News",* April 5, 2024.

[4] Doug Porter, *"Focus"*, BMO Economics, March 28, 2024.

[5] *The Wall Street Journal*, April 6, 2024.

[6] *Barron's*, March 30, 2024.

Asset Class Review

Fixed Income

After a strong conclusion to 2023 in fixed income markets, 2024 began on a down note with the FTSE Canada Universe Bond Index falling 1.2% during the first quarter. Nexus's bond holdings fared better, *gaining* 0.6%. In the last 12 months, our bond holdings rose 5.0%, outpacing the Index which rose 2.1%.

During the quarter, tighter credit spreads were offset by a move higher in government bond yields (which sent prices lower). And, thanks to the current yield environment, bond investors are earning a yield of just over 1% per quarter on their holdings. Tightening credit spreads, combined with interest income earned, enabled Nexus's bond holdings to achieve a positive return. The benchmark, with its longer duration, was more exposed to the price declines resulting from higher rates and ended the quarter down 1.2%.

Yields on Government of Canada bonds with maturities between two years and 30 years moved 30 to 40 basis points (bps) higher during the quarter. This was a partial reversal of the approximately 90 bps decline experienced in late 2023.

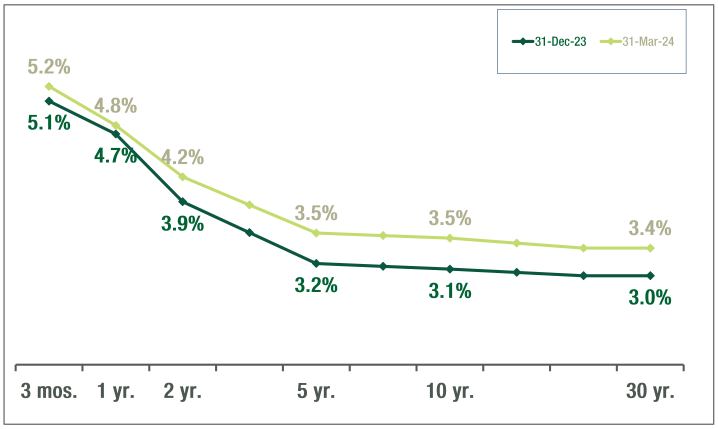
After several soft quarters, Canada is seeing signs that GDP growth is improving. Meanwhile, employment data is weakening. A lack of new jobs and an increase in workers (on account of increased immigration) have resulted in the Canadian unemployment rate hitting 6.1%, a level not seen since January 2022.

Inflation has continued to cool, and the message from the Bank of Canada is that, if we remain on the current trajectory, we can expect rate cuts later this year, and possibly as soon as June. That said, wage growth, energy prices and housing price pressures are all risks to the Bank of Canada's targets of 2.5% inflation in the second half of 2024 and 2% in 2025.

The current thinking of the Bank of Canada was articulated by Governor Tiff Macklem in his April 10th press conference: "We don't want to leave monetary policy this restrictive longer than we need to. But if we lower our policy interest rate too early or cut too fast, we could jeopardize the progress we've made bringing inflation down." The Bank of Canada held overnight rates steady at 5% in April, in line with expectations.

As was highlighted in the front section of this report, a different story is playing out in the United States. GDP growth, inflation, and employment are all coming in higher than anticipated, and rate cut expectations continue to be pushed out. This divergence between Canada and the U.S. means that we could see continued weakening of the Canadian Dollar.

With rate cuts in Canada widely anticipated to start in the coming months or quarters, we have been asked on multiple occasions how we think about the duration of our bond holdings. This is a good question and one well worth addressing.



Government of Canada Yield Curve

Looking at the shape of the yield curve (chart above), you will notice that shorter-maturity bonds have a higher yield than bonds with longer maturities. (The curve is "inverted".) While the yield curve has looked like this for some time, this is not normal. Typically, we expect to earn a higher yield on longer-dated bonds as compensation for taking on more term risk (the "term premium"). The market's assumption that the current period of heightened inflation would be short lived and that interest rate hikes would quickly be reversed has kept yields on longer-dated bonds lower, such that investors have not been able to buy longer-dated bonds at attractive yields.

To frame the decision of whether to buy 10-year bonds, consider that at the end of March, the 10-year Government of Canada bond offered a yield of 3.47%. Recently, inflation has been growing at just below 3%. We must then ask ourselves what the average inflation rate is likely to be over the next 10 years, and what we would like to earn above that. Of course, no one can answer these questions with certainty and so we must consider the cost of being wrong. After assessing these inputs, we don't believe that the yields on longer-dated bonds are sufficiently attractive. Given the balance of risks, we continue to concentrate our holdings in shorter maturities that offer a higher yield today and some protection should rates move lower. Using this framework, we are constantly reviewing our bond positioning as inputs and prices change.

Equities [7]

The markets started 2024 with a bang. The first quarter was an excellent one for investors around the world. The Equity Fund returned 9.0% in the quarter and 15.8% for the last 12 months.

In 2023, we wrote repeatedly about the concentration of stock market returns amongst several mega-cap stocks and how growth stocks were substantially outperforming value stocks. By contrast, the strong equity market returns in this quarter were much more broadly distributed across many stocks and, while the outperformance by growth stocks continued, this was by a small margin.

North American Equities

In the first quarter, Nexus's Canadian stocks returned 5.3% and our U.S. stocks returned 13.9%. For the 12 months, Nexus's Canadian stocks returned 9.2% and our U.S. portfolio returned 25.8%. These returns were roughly in line with their respective indices in the quarter, but trailed the indices for the 12 months due to the strong performance of growth stocks noted above.

Whilst there are always differences between the U.S. and Canadian equity markets in any quarter, this quarter, as a theme, defensive stocks (the Telecom, Utilities, Real Estate and Consumer Staples sectors of the market) were the main laggards. By contrast, financials, cyclicals and growth stocks did relatively well. Stocks in these better performing sectors tend to benefit from declining interest rates. Although interest rates actually rose in the quarter, investors are looking ahead with an expectation that interest rates will start to decline later in 2024.

Our strongest absolute North American equity returns came from our holdings in Meta Platforms, General Motors, Citigroup, and JPMorgan in the U.S., and our Canadian energy holdings (ARC Resources, Cenovus and Suncor). In the quarter, Meta returned 37%, and the stock has experienced an extended recovery from its late 2022 low, but it remains a controversial stock. Even now, its enterprise valuation to operating cash flow multiple is lower than the overall S&P 500.[8] During the quarter, Meta, which has over US$65 billion of cash on its balance sheet and generates prodigious amounts of cash, announced and paid its first dividend. Investors interpreted this as a sign of greater financial discipline and the stock responded well. General Motors rose 26% in the quarter and remains an incredibly inexpensive stock, with a price/earnings ratio of only 5.2 times its consensus 2024 net earnings. Investors are beginning to appreciate that the electric car revolution will take time, so the established, profitable manufacturers that offer both internal combustion cars and electric vehicles have enjoyed a comeback relative to the pure EV companies.

Our weaker holdings were TELUS, Allied Properties, and H&R REIT in Canada, and Gilead Sciences in the U.S. Whilst our third Canadian real estate holding, Primaris REIT, had a small positive return, our three Canadian real estate holdings continue to face a challenging environment. We anticipate that the real estate sector will stabilize as and when interest rates start to decline. We expect the recovery in real estate is likely to be slow, but note that the sector has provided good inflation protection and returns over the long term.

In the quarter, we sold Western Digital and added one new holding, Texas Instruments, both of which are U.S. technology hardware stocks. For more information on these companies, please see the Equity Fund section of this report.

International Equity Investments

We continue to hold two externally-managed pooled funds.[9] In the first quarter, EQIT (international developed market equities) returned 8.3% and EMEC (emerging market equities) returned a positive, but comparatively disappointing 2.7%. For the year, they returned 15.3% and 1.2%, respectively.

In light of higher interest rates and the continuing wars in Europe and the Middle East, EQIT has had a remarkably good period. Within developed markets, Japan has been a bright spot. The Japanese Nikkei 225 stock index returned 26.7% (price return in Canadian dollars) for the past 12 months and has more than quadrupled from its Global Financial Crisis low in 2009. EMEC has had a tough period, with both China and Hong Kong declining double digits in the past 12 months, as China grapples with a slow post-COVID normalization and challenges in domestic real estate.[10] Still, over the long term, emerging markets have experienced better economic growth than developed economies, so we continue to think that some emerging markets exposure is a good complement to our North American portfolio. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section.

[7] 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.

[8] Specifically, its enterprise value (equity value plus debt net of cash) to its 2024 consensus estimate EBITDA multiple is 13.5 times.

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

[10] Many larger mainland Chinese companies are listed in Hong Kong.

Pooled Fund Reports

Nexus North American Equity Fund

The Nexus North American Equity Fund delivered an impressive 9.0% gain in the first quarter, continuing its positive momentum from the previous year. Our U.S. holdings, up 13.9%, were the main driver of the strong performance. Our Canadian and international holdings also showed solid growth, with 5.3% and 6.1% increases, respectively.

Over the last 12 months, the Fund delivered a 15.8% gain. Our Canadian and U.S. stocks were up 9.2% and 25.8%, respectively, and our international holdings delivered strong positive returns. More details on the Fund's performance are presented in the table below.

Better than expected economic growth, especially in the U.S., drove the strong equity returns in the quarter, boosting investor confidence in central bankers' ability to manage inflation without causing major economic problems. The U.S. equity market rally showed early signs of extending beyond the dominant large-cap technology stocks to include undervalued and cyclical stocks, as discussed earlier in this report.

During the quarter, defensive and interest rate-sensitive sectors such as Telecom, Utilities, Real Estate, and Consumer Staples lagged as interest rates moved higher. Meanwhile, cyclical sectors such as Financials and Industrials, along with growth stocks, performed well as economic growth was better than expected. The Energy sector was one of the top performing sectors both in Canada and the U.S. as oil prices rose due to rising geopolitical tensions and ongoing supply cuts. In the Fund, Meta Platforms, General Motors, Citigroup and JPMorgan were some of the strongest performers in the U.S. In Canada, our energy holdings (ARC Resources, Cenovus Energy and Suncor) performed well. Our weaker holdings included TELUS, Allied Properties, and H&R REIT in Canada, and Gilead Sciences in the U.S.

In the quarter, we sold Western Digital as the stock had recovered from an industry downcycle. Also, we bought Texas Instruments (TXN), a company specializing in manufacturing analog semiconductor chips. TXN's chips are used in a wide variety of applications and end markets, including cars, airplanes, automated assembly lines, washing machines, phones, laptops, refrigerators, thermostats, X-ray machines, MRI scanners, and many more. TXN benefits from secular growth tailwinds as semiconductor content continues to increase to make devices and equipment smarter and more productive. TXN is a high-quality business, which is currently out of favour as it is going through an industry downcycle and an elevated investment cycle simultaneously. The company has a strong balance sheet and a consistent record of paying dividends.

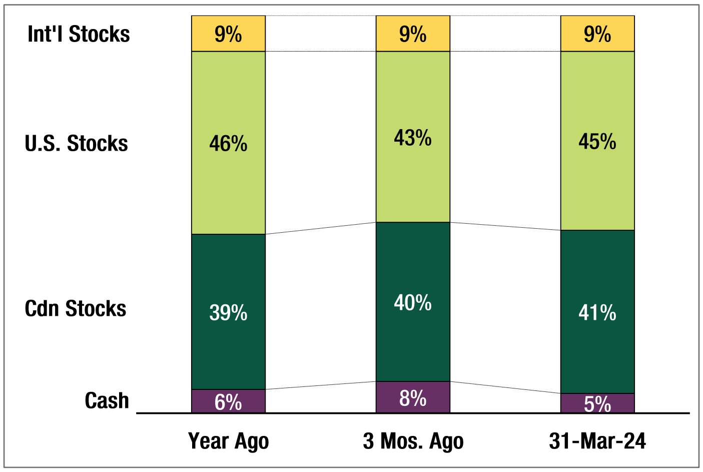
Our international holdings produced strong returns over the past 12 months, rising by 9.6%. For more details, please see this report's Nexus International Equity Fund section.

At the end of the first quarter, the Fund's cash position was 5%. Our allocation to Canadian stocks was 41%, while U.S. stocks represented 45%. We maintain 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	9.0%	5.3%	13.9%	6.1%
Benchmark	*9.3%*	*6.6%*	*13.3%*	
One Year				
Fund	15.8%	9.2%	25.8%	9.6%
Benchmark	*20.6%*	*14.0%*	*30.0%*	

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 March 31, 2024



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund gained 6.5% in the quarter. Our bond holdings saw a modest increase of 0.5%, while the FTSE Canada Universe Bond index recorded a decline of 1.2%. Our U.S. stock holdings exhibited robust performance, delivering gains of 13.6%, while the Canadian and international stocks increased by 6.0% and 6.1%, respectively.

In the last 12 months, the Fund produced a total return of 11.5%, with all the Fund's asset classes contributing positively. The U.S. holdings continued to be a standout performer, delivering a 22.2% gain. Our bond holdings advanced by 4.8%, and our Canadian and international stocks increased by 9.7% and 9.4%, respectively, over the same period.

While the equity markets began the year with a bang on the back of better than expected economic growth, bond market returns were more subdued. Bond investors interpreted the strong economic growth as an indicator that central banks are less likely to lower interest rates, which put a damper on enthusiasm for bonds. Yields on Government of Canada bonds with maturities between two years and 30 years rose by 30 to 40 basis points during the quarter, which pushed the bond index lower. Our bond portfolio, which was positioned favourably due to its shorter duration compared to the index, delivered a modest positive gain against this backdrop of subdued bond market performance. You can read more about this in the Fixed Income section of this report.

During the quarter, defensive and interest rate-sensitive sectors such as Telecom, Utilities, Real Estate, and Consumer Staples lagged as interest rates moved higher. Meanwhile, cyclical sectors such as Financials and Industrials, along with growth stocks, performed well as economic growth was better than expected. The Energy sector was one of the top performing sectors both in Canada and the U.S. as oil prices rose due to rising geopolitical tensions and ongoing supply cuts. In the Fund, Meta Platforms, General Motors, Citigroup, and JPMorgan were some of the strongest performers in the U.S. In Canada, our energy holdings (ARC Resources, Cenovus Energy and Suncor) performed well. Our weaker holdings included Telus, Allied Properties, and H&R REIT in Canada, and Gilead Sciences in the U.S.

In the quarter, we sold Western Digital as the stock had recovered from an industry downcycle. Also, we bought Texas Instruments (TXN), a company specializing in manufacturing analog semiconductor chips. TXN's chips are used in a wide variety of applications and end markets, including cars, airplanes, automated assembly lines, washing machines, phones, laptops, refrigerators, thermostats, X-ray machines, MRI scanners, and many more. TXN benefits from secular growth tailwinds as semiconductor content continues to increase to make devices and equipment smarter and more productive. TXN is a high-quality business, which is currently out of favour as it is going through an industry downcycle and an elevated investment cycle simultaneously. The company has a strong balance sheet and a consistent record of paying dividends.

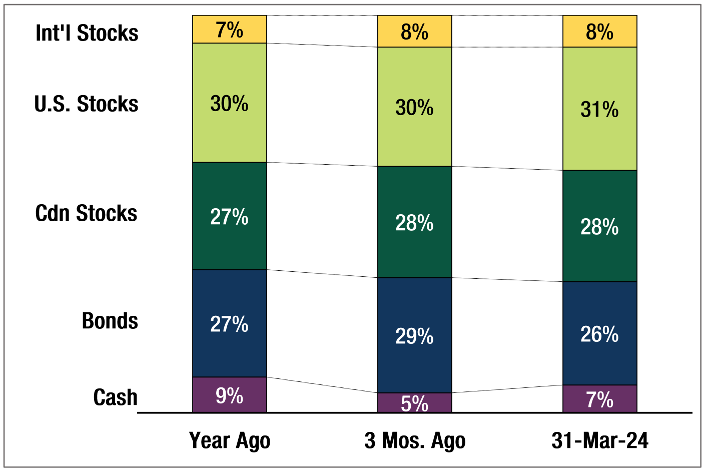
Outside of North America, our international holdings produced strong returns over the past 12 months, rising by 9.4%. For more details, please see this report's Nexus International Equity Fund section.

At the end of the quarter, cash represented 7% of the Fund's asset mix, bonds were 26% and stocks accounted for the remaining 67%.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	6.5%	0.5%	6.0%	13.6%	6.1%
Benchmark	*5.6%*	*-1.2%*	*6.6%*	*13.3%*	
One Year					
Fund	11.5%	4.8%	9.7%	22.2%	9.4%
Benchmark	*13.7%*	*2.1%*	*14.0%*	*30.0%*	

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 March 31, 2024



Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund advanced 1.4% in the quarter. Our bond holdings gained a modest 0.6%, while the bond benchmark, the FTSE Canada Universe Bond Index, declined by 1.2%. Our income-oriented Canadian and U.S. stocks gained 1.6% and 9.5%, respectively.

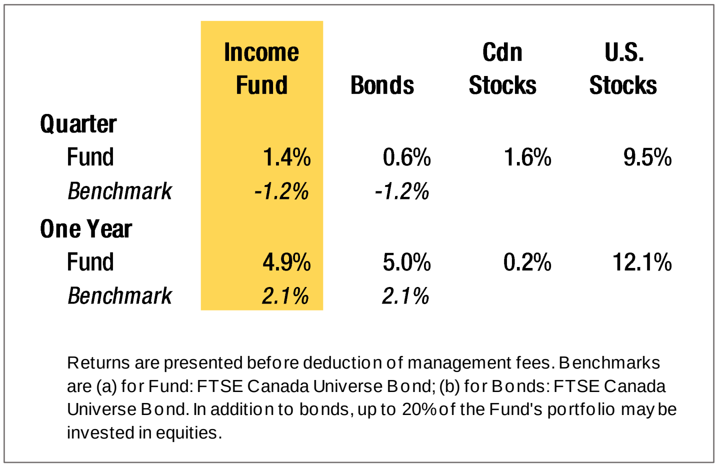
In the last 12 months, the Fund gained 4.9%. Our bond and U.S equity holdings were the primary drivers, gaining 5.0% and 12.1% respectively.

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

While the equity markets began the year with a bang on the back of better than expected economic growth, bond market returns were more subdued. Bond investors interpreted the strong economic growth as an indicator that central banks are less likely to lower interest rates, which put a damper on enthusiasm for bonds. Yields on Government of Canada bonds with maturities between two years and 30 years rose by 30 to 40 basis points during the quarter, which pushed the bond index lower. Our bond portfolio, which was in a favourable position due to its shorter duration compared to the index, delivered a modest positive gain against this backdrop of subdued bond market performance. You can read more about this in the Fixed Income section of this report.

The increase in bond yields also pressured our income-oriented equities, which continued to lag the overall equity market. The income-oriented equities in the Fund are high-quality businesses with strong prospects and reasonable valuation levels. We view the impact of yield changes as a temporary headwind for these stocks and expect them to deliver satisfactory long-term total returns.

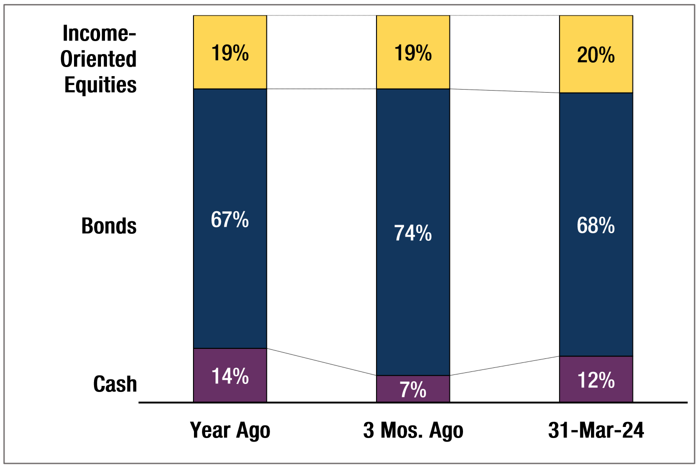
At the end of the quarter, the Fund's cash position was 12%, income-oriented equities accounted for 20% and the balance, 68%, was in our core bond holdings.



	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	1.4%	0.6%	1.6%	9.5%
Benchmark	*-1.2%*	*-1.2%*		
One Year				
Fund	4.9%	5.0%	0.2%	12.1%
Benchmark	*2.1%*	*2.1%*		

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 March 31, 2024



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).[11]

The Fund delivered a solid 6.3% return in the first quarter, primarily driven by EQIT, which advanced 8.3% in the period, while EMEC gained 2.7%. Over the last 12 months, EQIT delivered a gain of 15.3%, while EMEC was up a modest 1.2%. More detail on the Fund's performance is presented in the table below.

The European equity markets performed remarkably well in the quarter, despite the continuing wars in Europe and the Middle East. Eurozone inflation continued to fall and is now within striking distance of the European Central Bank's 2% target. Cyclical sectors such as Financials, Consumer Discretionary and Industrials led the charge in Europe as well. Defensive sectors, such as Utilities, Consumer Staples and Real Estate, lagged.

Japan continued its strong performance in the quarter, with the Nikkei Index up 21% in local currency. Foreign investors played a key role in driving the rally. Japan witnessed two important milestones during the period. Firstly, the Nikkei Index reached its all-time high, surpassing its prior peak reached in 1989. Secondly, Japan became the last major economy to end its negative interest rate policy, much later than any other major economy.

Emerging market equities continued to underperform their developed market peers, primarily driven by China. Although the Chinese equity market remained weak through the quarter, it rebounded from its lows on the back of improved economic activity and some easing by its central bank.

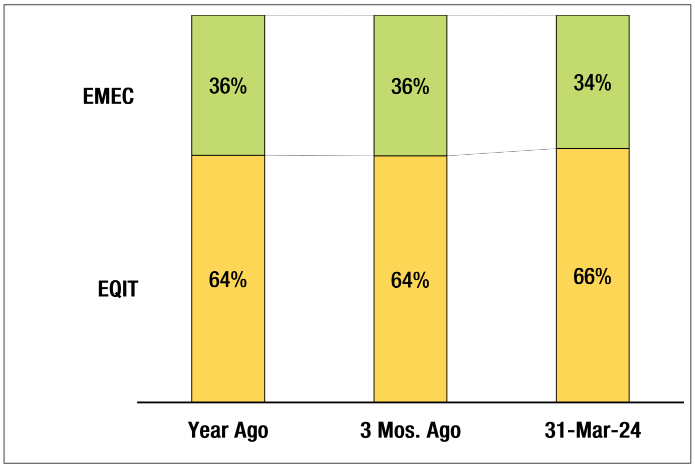
As long-term investors, we continue to see merit in holding international stocks. In addition to the general benefit of increased diversification, international holdings also provide access to a broader opportunity set than that available in Canada and the U.S. What's more, the growth potential, dividend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

At the close of the fourth quarter, the International Equity Fund's investment in EQIT accounted for 66% and EMEC accounted for 34%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	6.3%	8.3%	2.7%
Benchmark	*7.4%*	*8.3%*	*4.6%*
One Year			
Fund	10.1%	15.3%	1.2%
Benchmark	*13.5%*	*15.3%*	*8.0%*

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

Investment Returns – As at March 31, 2024



International Equity Fund Asset Mix

[11] International developed markets or "EAFE" includes Europe, Australasia and the Far East. Emerging markets include 24 developing countries. EQIT and EMEC are managed by J.P. Morgan Asset Management in the U.K. The Nexus Balanced and Equity Funds also hold EQIT and EMEC.