FIRST CAPITAL FINANCIAL

WORLDSOURCE FINANCIAL MANAGEMENT INC.
Sponsoring Mutual Fund Dealer

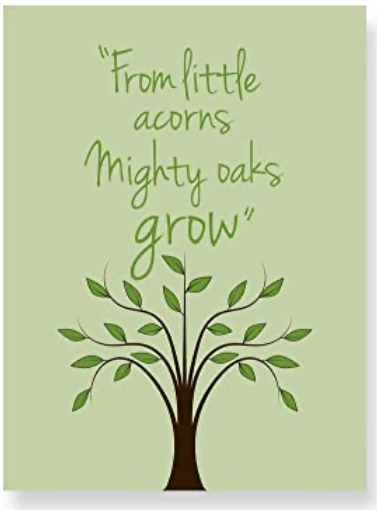
Ever since the creation of the MSCI Emerging Markets (EM) Index in 1987, EM have long held the allure of untapped investment potential that was on the precipice of realization, only to suffer from cyclical setbacks and negative macro shocks. Although the MSCI EM index has doubled the total return of both the MSCI World index and the S&P/TSX Composite index since its inception, these bouts of volatility have created a perception of cyclicality and low quality that has deterred investors from including emerging markets in their portfolios. But is the perception the reality?

"I came here to chop you down. Falling in love wasn't part of the plan."

Materials, Energy, Financials and Real Estate once dominated the EM index, which was expectedly accompanied by high volatility. The Asian Currency Crisis of 1998 was a notable example of this. However, today's EM index bears little resemblance to the 1990s version. Technology is now the largest sector, while materials are fifth. In fact, the cyclical value weight of the EM Index now closely resembles that of the MSCI World index (38% and 35% respectively). Beyond just creating a far more balanced index, this evolution has also translated into an overall improvement of quality characteristics, including profitability and sustainability.

More, EM have lower correlations to developed markets, which means that their inclusion can *lower* portfolio volatility, while positioning investor capital for *higher* returns. This explains why institutional investors hold EM positions, including Canada Pension Plan, which is targeting a one-third weighting in EM by 2025. Although Canadian mutual fund investors are showing signs of catching on, EM still represents only about 4% of total equity exposure.

One way to gain exposure to emerging markets is through Mackenzie Financial's Emerging Markets fund. This high-conviction fund invests across emerging and frontier economies and has posted impressive numbers over time. Since inception in 2001, investors would have seen their capital grow over 500%. (Please click <here> for further information about this capital appreciation and the rate of returns with the applicable assumptions and disclaimers). Of course past performance is not a guarantee of future results, but its track record explains why we see opportunity to generate alpha (returns above benchmark returns) and why EM merits inclusion portfolio allocations.



I look forward to speaking with you at our next portfolio review about how emerging markets (EM) can play a role in your retirement portfolios. Food for thought: all markets in developed countries were at one time considered emerging. From tiny acorns to mighty oaks grow!

Be safe, be well!

Martin
519-546-5088