

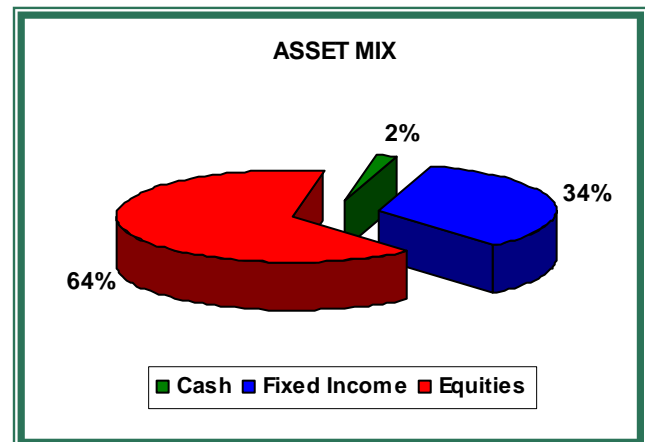
NEXUS NORTH AMERICAN BALANCED FUND

QUARTERLY REPORT – December 31, 2005

The fund recorded modest, positive returns this past quarter – bringing to conclusion a strong year. In equity markets, both the TSX and the S&P 500 closed very near their best levels of the year. Things were somewhat more complicated on the bond front. While short-term rates rose over the course of the quarter to their highest level all year, longer-term rates actually fell to their lowest levels!

Another important development of this past quarter was the conclusion (maybe?) to the federal government's threat to alter the tax treatment of Flow Through Entities (Income Trusts and Limited Partnerships). Instead, what Finance Minister Goodale has proposed is an adjustment to the tax treatment of dividends paid by traditional corporations that should remove much of the comparative advantage that was enjoyed by businesses that were constituted as FTEs. This "solution" was what we had considered most likely, although the timing of the announcement came to us and the market as a surprise.

As for the economy, we remain worried about the effect that higher short-term interest rates will have on consumer borrowing and consumption. It has become clear that in the United States, the effect of 13 interest rate hikes has finally cooled activity in the housing market. Bubbling house prices created an environment that encouraged consumers to borrow against the equity in their homes and use the proceeds for consumption. In the coming year this source of economic strength will surely subside from the levels of the last few years. Likewise, a moderation in the housing market will also remove the support that had come from vigorous activity in the construction sector, an area that Goldman Sachs estimates accounted for over 90% of the new jobs created in the U.S. since 2001.



Contributing to our concern with the consumer is the effect of higher energy prices as the winter unfolds. For the time being, prices for natural gas, heating oil, and gasoline are well off their highest levels, but they remain at levels that will surely impact the discretionary spending of millions of Canadians and Americans. As the early appraisals of the Christmas shopping season are reported, it appears that consumers have been feeling the pinch and consumer activity on both sides of the border has been somewhat disappointing.

During the quarter, the Fund's unit value increased 1.8%¹. The Fund is up 17.8% in the last 12 months.

¹ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

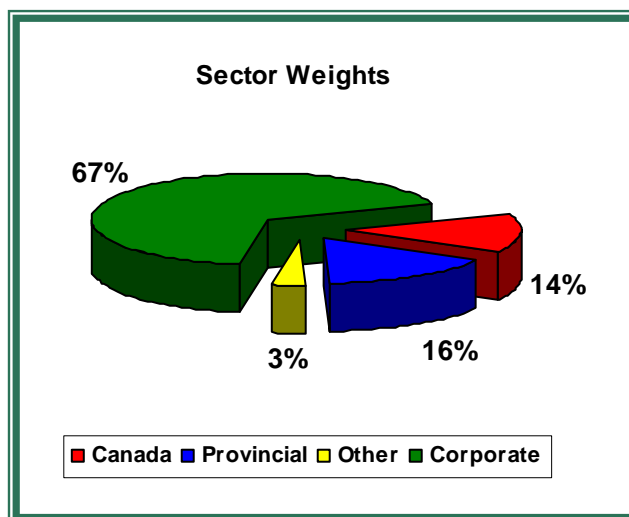
ASSET MIX

The balance between stocks and bonds in the Fund remained essentially unchanged from the previous quarter. Our current asset mix remains close to our long-term guidelines. Within our equity allocation, we continue to be underweighted the U.S. and overweighted Canada – as we have been for some time.

FIXED INCOME SUMMARY (34% of Assets)

As expected, the Bank of Canada increased the Bank Rate twice during the course of the past quarter, bringing it to a level of 3.25%. These increases were widely expected by the market. Two year maturities rose in yield by a similar amount, but ten year securities closed the year within 1 basis point of where they had ended the 3rd quarter, and 30 year bonds were actually lower in yield by almost 20 basis points. Long-term bonds in Canada are now at multi-decade lows and this level of rates certainly seems to reflect that inflation fears are very subdued.

The story on inflation is worth examining. Driven by higher energy and materials prices, headline rates of inflation (CPI) have generally been running at 2.5% per year. However, core CPI, an economic series that excludes 8 components which are predominantly energy related, is very much better controlled - running at a level of about 1.5%. Between these two measures of inflation, core CPI is the economic series preferred by economists as it is thought to better represent the true trend in pricing. Many investors are surprised to discover that, over the course of the past 10 years, core CPI has averaged 1.8% and is trending lower. There are a number of reasons to believe this experience will continue. Many of the driving forces of low inflation - global competition, open trade and technology - all seem likely to continue their restraining effect on price inflation. Rather than declare victory in the fight over inflation and rush out and buy long bonds, it is probably more relevant to assume that low interest rates may well be with us for a long time, and that investors needing income and capital preservation should adjust their return expectations accordingly.



In an environment of ultra-low bond yields, we have made two adjustments of note. Firstly, we have continued to run a large overweighting in corporate securities, ensuring we earn a higher yield. As we have all year, we continue to favour higher quality corporates. Many of our holdings are rated AA or better. Secondly, we have not committed to the long end of the bond market. Instead we are holding shorter maturities with slightly lower yields but less price volatility. The duration of our portfolio is 5.9 years, while the duration of the index we are benchmarked against, the SCBU, is 6.5 years. It seems sensible for now to avoid the longer end of the market at historically low yields. Investors with good memories will know that several years ago we were beneficially over-weighted in longer dated securities given the large pick-up in yield that was then available in the market. Given the flat shape of the yield curve today, the case for long bonds is less compelling.

Our outlook for interest rates remains fairly unexciting. As the effect of higher short-term rates and a subdued housing market are felt by the consumer, we would expect that, late in 2006, the market will begin to expect some easing from both the Bank of Canada and the U.S. Federal Reserve. This should have the effect of “normalizing” the slope of the yield curve and should favour our positioning with a portfolio concentrated in maturities of 5 to 10 years.

The Fund’s fixed income returns were +0.5% for the quarter and +5.5% for the year. By comparison, the Scotia Capital Bond Universe Index was +0.7%, and +6.5% for the same periods.

CANADIAN EQUITY SUMMARY (50% of Assets)

After languishing early in the quarter, our income trust holdings finished very strongly – the result of Finance Minister Goodale’s surprise announcement on November 23rd that he would leave the tax treatment for FTEs in place and alter the manner that dividends were taxed instead. It remains likely that this proposal, as yet not law, will be a “floor” to investor expectations. Any government that is formed as a result of our upcoming election will certainly not do anything less favourable in the eyes of investors.

For taxable investors, the returns from patient, long-term investments in stable dividend-paying stocks such as utilities and bank shares will be better as a result of these changes. In contrast, the attractiveness of alternatives such as long-term corporate bonds is relatively less appealing. Over time, we would expect the proposed dividend tax changes to improve the valuation of utility and bank shares, benefitting both taxable and non-taxable investors in the Fund. Such a change could well be of some considerable significance. Holding all other considerations constant, it suggests that a subtle preference in asset mix for quality equities rather than interest bearing instruments such as bonds is appropriate.

Ten Largest Holdings	
Bank of Nova Scotia	3.2%
Royal Bank	3.1%
Manulife	2.7%
Trican	2.7%
TD Bank	2.6%
Suncor	2.1%
Enbridge	2.1%
Talisman	2.0%
EnCana	2.0%
Bank of Montreal	2.0%

The moniker “buy and hold” well describes our approach to the Canadian equity market this past quarter. We made no dispositions and, because of new subscriptions to the Fund, added to a broad range of established holdings, with a particular emphasis on utility and bank shares.

This quarter capped a very strong year for the Fund. Over the quarter the return from our Canadian equity investments roughly matched the TSX index. However, for the year, both outright and when compared to the index the Fund’s returns were excellent. The Fund’s Canadian equity returns were up +3.0% for the quarter and +34.9% for the year. By comparison, the TSX Composite was +2.9% and +24.1% for the same periods.

U.S. EQUITY SUMMARY (9% of Assets)

This quarter the benchmark S&P 500 index rallied just enough to post a very small positive return on the year. Despite a very strong December with our own selections, we again lagged the index by a small amount. This variability remains a natural consequence of maintaining only a small list of holdings. With a 9% weighting, unchanged from the previous quarter, we remain very under-exposed to the U.S. market as compared to our long-term benchmark.

Apart from investing the proceeds of new subscriptions to the Fund, we made only one notable change in this area of the Fund. In November, we sold the U.S. bank, Wells Fargo, and replaced it with a new position in CIT, a financial services company which specializes in secured lending to mid-sized corporations. Wells Fargo is predominantly western based, and a considerable part of its lending exposure is consumer and housing related. Despite Wells Fargo's considerable positive attributes, and they are many, we felt that a reduction in exposure to these businesses was appropriate in order to reflect our unease with the state of the U.S. consumer.

Factoring is a secured lending technique often used by small and mid-sized retail businesses to finance their accounts receivable. CIT is the largest lender of this type in North America. In addition it finances healthcare and business equipment, provides aircraft and rail car leases and has a specialization in lending to the education sector. CIT diversifies our exposure to the financial services industry, mostly by its business mix, but also due to its considerable growth opportunities internationally. Although a number of financial services companies seem to be valued attractively, CIT was also cheaper on a number of valuation metrics than was Wells Fargo. We purchased CIT at less than 11X '06 earnings and approximately 1.5X book value. It has moved higher in price since we bought it.

As mentioned above, returns lagged the benchmark this quarter. The Fund's U.S. equity returns in C\$ were -0.3% for the quarter, and -2.4% for the year. By comparison, the S&P 500 (in C\$) was +2.5% and +1.6% for the same periods.

Ten Largest Holdings	
Tyco International	1.0%
Home Depot	1.0%
CIT	1.0%
Exxon Mobil	0.9%
Waters Corporation	0.9%
Washington Mutual	0.9%
Edwards Lifesciences	0.9%
Bank of America	0.9%
Baxter International	0.8%
Pfizer	0.7%

OTHER INVESTMENTS (4% of Assets)

Our investment in the JPMorgan *Equity International Investment Trust* (EQIT) continues to strongly outperform our U.S. holdings and provides diversification to our equity selections. This quarter EQIT returned +4.7% and, in the past year, it has increased 8.8%. We continue to view this as a core holding.