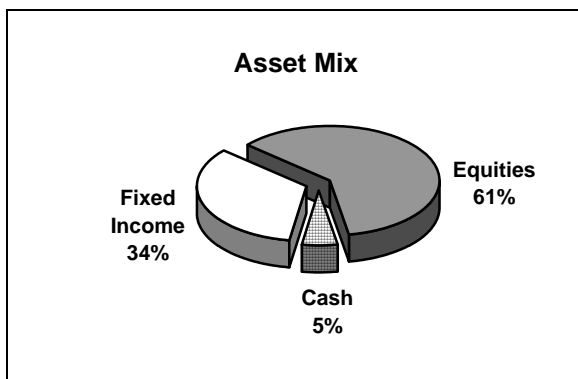


**NEXUS NORTH AMERICAN BALANCED FUND  
 QUARTERLY REPORT – March 31, 2005**

Looking back on the quarter just concluded, with the exception of the energy sector, it was an unexciting and uninspiring period for investors. North American equity markets traded in very narrow ranges, bringing disappointment to bulls and bears alike waiting for a trend to develop. Nowhere else was this more true than in the fixed income markets which concluded the quarter at very similar levels to where they had begun. In North America, the economy continued its uneven recovery, with Canada generally lagging behind the performance of the United States. While the U.S. Federal Reserve has continued on its program of systematic interest rate increases, the more moderate economic performance in Canada has encouraged the Bank of Canada to remain on the sidelines leaving the Bank Rate unchanged this past quarter. As a result, despite an exceptionally strong backdrop of energy and commodity prices, the C\$ is virtually unchanged in value as compared to its U.S. counterpart over the quarter.

We would expect that interest rates will gradually drift higher over the course of the current year, but it is clear that the Canadian economy, especially the manufacturing sector, is stumbling due to the strength of

the currency. As a result, as we have felt for some time, we think the Bank of Canada will need to be cautious in moving rates higher, and that this caution is justified given the economic landscape that is unfolding. Without leadership from the interest rate markets, equity market developments and returns will be largely driven by specific corporate developments, although the outlook for energy prices will surely remain a significant consideration.



During the quarter, the Fund's unit value increased 3.2%<sup>1</sup>. The fund is up 11.8% in the last 12 months.

**Asset Mix**

Our present asset mix remains slightly overweight fixed income and underweight equities. Within equities, we remain overweight Canadian equities and underweight the U.S. market. Our cash position is at its long-term guideline.

**Fixed Income Summary (34% of Assets)**

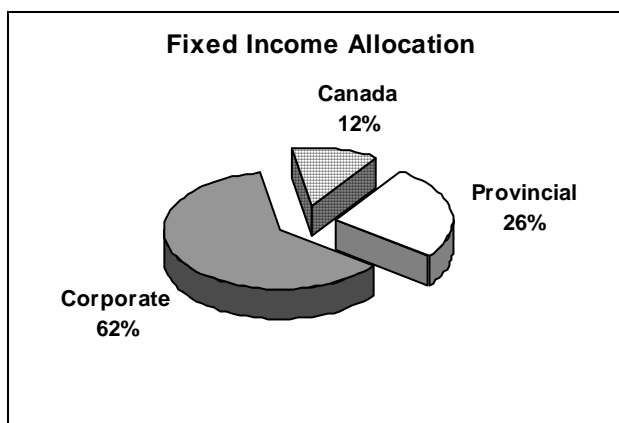
Not surprisingly, rates have been tracking sideways so far this year. A steady stream of economic reports over the quarter has generated an inconsistent picture of the degree of strength or weakness of the Canadian and U.S. economies. Accordingly, bond markets have been relatively trendless to start the year. Without a clear economic trend in place, support for the bond market, particularly in the United States, continues to rely heavily on the investment of foreign exchange reserves by a few key Asian central banks. It is worth worrying about the sustainability of this behaviour and whether other currencies and other bond markets might one day prove more attractive. Should these key central banks develop a preference for holding foreign exchange reserves in currencies other than the U.S. dollar, then it would certainly force the US\$ lower and interest rates higher. While the towering U.S. trade deficit is a worry, it is also clear that economic recovery and the prospects for growth in both Europe and Japan remain well below those in North America. As a result, we do not expect that there is any real alternative for the

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

central banks at the present time other than to keep accumulating US\$ assets, but it is a situation that warrants continued vigilance.

The primary motivation behind the recent increase in administered rates by the Federal Reserve and the Bank of Canada has been to move short-term interest rates to less stimulative levels more than to head off any incipient increase in the CPI. In fact, while administered rates have been rising, long-maturity bonds have remained very stable and have actually fallen in yield. This reflects investor comfort that policy makers are moving quickly enough to normalize interest rates at an appropriate level. Canada maintains a better record on inflation than does the U.S., an important factor in keeping interest rates lower here than in the U.S., but it is clear that inflation has picked up from the low levels of a year or so ago. In Canada, headline rates of inflation are still about 2%, while in the U.S. inflation has been running a little more than 3%.

For some time we have thought that spreads between corporate bonds and government bonds were too tight. As a result, our portfolios have had an overweighting in government guaranteed and AAA rated securities. These securities pay less generous rates of interest than do bonds of lower rated entities, but the certainty of timely payment of interest and principal is much higher. We will profit from this positioning if interest rate spreads on lower rated securities widen out on heightened fears of their riskiness, and we are able to redeploy our funds at more attractive levels without having suffered any capital loss. In mid-March, General Motors, one of the largest borrowers in the world, announced that its corporate profit forecast would fall well below expectations. As a result, spreads on GM bonds and those of its affiliates widened dramatically. Fear of similar developments at other borrowers has begun to widen corporate bond spreads and, as the quarter drew to a close, there is evidence that spreads are widening out after a long period of compression.



The Fund's fixed income returns were +0.7% for the quarter and +4.4% for the year. By comparison, the Scotia Capital Bond Universe Index was +1.1%, and +5.0% for the same periods.

### Canadian Equity Summary (45% of Assets)

Although we have maintained a core concentration in energy and financial services, our weighting in both areas is now below their respective weightings in the index. The energy weighting in the index has surged on acceptance of the perceived permanence of higher oil and gas prices, as well as broadening domestic and international interest in participating in an area that has clear upward momentum. Although our belief in the long-term attractiveness of energy stocks remains strong, late in the quarter we chose to lighten up in this sector in order to avoid becoming too exposed to the latest mania. As a percentage of Canadian equities, our exposure to this sector is 17%, while it carries a weighting of 21.2% in the index itself.

#### Ten Largest Holdings

Manulife Financial	2.7%
Bank of Nova Scotia	2.5%
Royal Bank	2.0%
Telus	2.0%
EnCana	1.9%
TD Bank	1.9%
Enbridge	1.6%
Suncor	1.6%
Bank of Montreal	1.6%
Trican Well Services	1.5%

As for financial services, our weighting remains substantial (30%) and is concentrated in bank and life insurance holdings. In the TSX index, this area accounts for 32% of the weighting, and includes non-bank financials such as investment management companies and property and casualty insurers where we have no representation.

Early this quarter, we shaved our holdings in a number of income trusts. We felt at the time that they had become overpriced on investor demand for high current income distribution. In many instances, our individual holdings had

appreciated 30% or more in the past year, and the pricing of these securities incorporated little allowance for disappointment. We decided to trim exposure while liquidity and prices were high.

Long term holders of the fund will know that we have been invested in MDS for some considerable period of time. It is an international company in the health and life sciences field providing, among other services, medical testing, pharmaceutical research, and nuclear material used in medical imaging, sterilization and cancer treatment. Despite its attractive business characteristics, it has been a laggard in the portfolio and has tested our patient approach. As one would expect, we have followed the company closely while we have held it and had come to believe that their problems stemmed almost entirely from unsatisfactory management execution. Late in 2004 this issue came to a head when their contract research business, MDS Pharma Services, received a warning letter from the U.S. Food and Drug Agency regarding concerns with their operations in Montreal. We believed this to be an important catalyst to accelerate necessary managerial improvements that were already underway at the company and that share price weakness on this news presented an opportunity. Accordingly, in early January, and at lower prices, we added to our existing position. It is early yet to be too confident, but we are expecting the announcement of senior management changes to be made in the near future and that shareholders will be relieved.

The Fund's Canadian equity returns were +6.2% for the quarter and +24.7% for the year. By comparison, the TSX Composite was +4.4% and +13.9% for the same periods.

### **U.S. Equity Summary (11% of Assets)**

After having put in a strong finish to 2004, U.S. equity markets turned lower early in the new year and have under-performed the TSX again. The differences are largely attributable to two factors: interest rates and energy. In the first instance, the U.S. Federal Reserve has been more aggressive in raising interest rates than has the Bank of Canada, and so rising interest rates have provided more drag on valuations than we have felt in Canada. In the second instance, energy stocks account for only 9% of the S&P 500 and, despite appreciating in U.S. dollar terms by 18%, their gains were not able to compensate for mediocre returns across almost every other sector.

We made few changes to our holdings this quarter. We added to Edwards Lifesciences, a leader in cardiovascular treatment and research, as well as two other established holdings, Pfizer and Baxter International. We have sold our small holding in Express Scripts, a pharmacy benefit manager whose shares had run up strongly in a very short period of time.

<u>Ten Largest Holdings</u>	
Tyco International	1.3%
Renal Care Group	1.3%
Exxon Mobil	1.2%
Edwards Lifesciences	1.2%
Bank of America	1.0%
Pfizer Home Depot	1.0%
Baxter International	0.9%
Washington Mutual	0.9%
Home Depot	0.8%
Wells Fargo	0.8%

Actual returns were low this quarter although they were positive and ahead of the benchmark. The Fund's U.S. equity returns in C\$ were 1.0% for the quarter, and +3.1% for the year. By comparison, the S&P 500 (in C\$) was -1.7% and -1.5% for the same periods.

### **Other Investments (4% of Assets)**

This quarter, the JPMorgan *Equity International Investment Trust* (EQIT) was virtually unchanged, falling 0.1%. In the past year it has increased 5.1%. We continue to view this as a core holding – providing attractive returns and diversification to our equity selections.