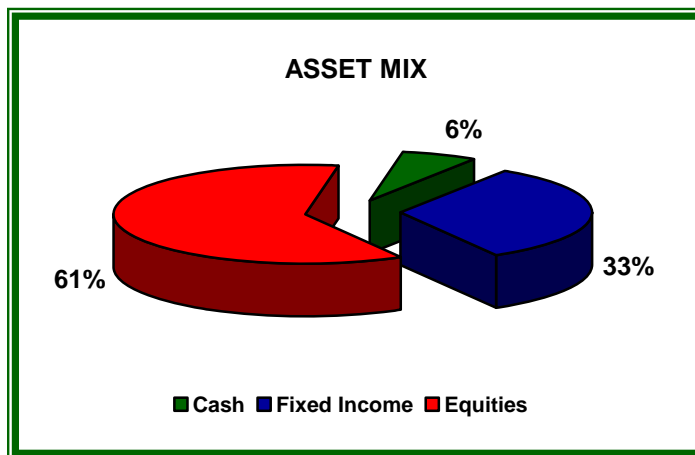


NEXUS NORTH AMERICAN BALANCED FUND

QUARTERLY REPORT – September 30, 2011

Capital markets continued to be roiled by a number of serious issues in the third quarter of 2011. Across the globe, the quality of the economic recovery eroded and the durability of the recovery was justifiably called into question. In the first half of the year, the disruption to the global supply chain caused by the earthquake in Japan and the Fukushima reactor melt-down might plausibly have been credited with undermining growth, holding out the hope that once conditions in Japan returned to normal, so too would the course of the recovery. However, it became increasingly clear this past quarter that the issues of European sovereign debt, a faltering recovery in the U.S. labour and housing markets, as well as a range of disappointing news from a number of leading industrialized countries were too concerning, and their successful resolution too unclear, to create the necessary climate of confidence for investors to see the way clear to an eventual return to normal economic conditions.



Over the quarter, equity market returns were significantly negative and bond returns significantly positive, reflecting a continuation of the pattern discussed in our last report of investor preference for less risk. As never before, the fate of the global economy is in the hands of the political class: central bankers, politicians and multi-national institutions such as the IMF. Unfortunately, the competence of such institutions to properly address the fundamental issues which face the world seemed only to heighten investor concerns. Never was this clearer than in July when the manner in which Washington

addressed the issue of raising the debt-ceiling laid bare the deep divisions in America between right and left and the prospect of continued policy paralysis. Disappointment over both the process, as well as the actual scale of the fiscal problems that face the U.S., contributed to the downgrade of America's credit rating from AAA status, an event that shook the global capital markets in early August and precipitated a massive shift from riskier assets, such as equities, into safer assets, such as bonds.

The sovereign credit worries of Europe (as well as the related issue of banking system integrity there), and the fiscal position of the United States continue to cast dark shadows over the global economic recovery. Tracking the daily news flow requires an understanding of a blizzard of different acronyms and an analysis of economic choices handicapped by political practicality. It is difficult to predict the final outcome in Europe. But, simplistically, we know that losses arising from excessive sovereign debts in Greece, Ireland and probably Portugal will need to be taken. More importantly, they will be shared between the private sector (primarily European banks) and among the 17 European Union nation states. While we may not know how these events will unfold, we do know that markets have already discounted a lot of bad news. Across the globe, so-called 'safe assets' such as government bonds offer meager yields and equity valuations reflect extraordinary pessimism about the prospect of earnings sustainability.

Although the global economic recovery is weak and disappointing compared to prior recoveries, by traditional economic measurements, it continues. GDP growth through the developed world remains positive and expansion in the emerging world continues as well. Although it has weakened, one of the most reliable indicators of future economic activity, the ISM Survey of U.S. Purchasing Managers, has

been positive for 26 consecutive months. Consumer spending on services continues to make a modest recovery and even car sales in the United States are growing at close to a 10% annual rate. Unfortunately, most of the risks are to the downside, a point repeated by economists, market pundits and central bankers at every turn.

As a result of the challenging issues and the pervasive cautionary commentary, businesses are extremely well prepared for a protracted period of difficult conditions. In the U.S., corporate profits are now 12.9% of GDP and have been growing at more than 8% per annum. Operations have become more efficient, the result of cost cutting and a strong rebound in spending on efficiency enhancing capital goods. Also worth noting, inventory to sales ratios in both Canada and the U.S. are low and cash balances and corporate liquidity measures are in terrific shape.

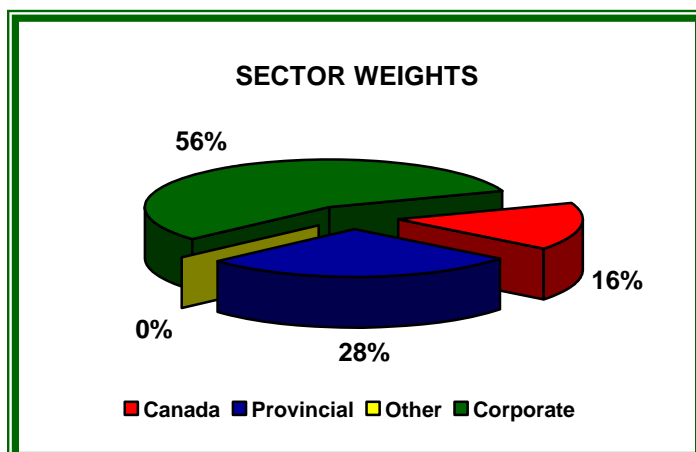
Just as the business community is prepared for difficult times, so too do we feel we have prepared the portfolios for a period of difficult markets. Much like a captain at the helm of a ship riding out a storm, we are focused on the horizon rather than each approaching wave. There is ballast in the boat arising from a combination of defensive asset allocations and stocks and bonds of higher quality. We expect that for some time we will be dealing with stormy conditions and that the ride will be rough. But we remain confident that we can navigate these circumstances with capital intact and portfolios properly positioned for a recovery – whenever it arrives.

Fund returns were disappointing this quarter, declining 6.9%¹ and over the course of the last 12 months the return has been -1.2%.

Asset Mix

The balance between stocks, bonds and cash remains slightly on the conservative side – due to a small underweight in equities. We continue to believe that fixed income holdings are relatively unattractive over the long-term, but at this moment, bonds provide some necessary short-term capital protection. Likewise in the equity market, where we continue to feel that long-term returns should be attractive, short-term concerns argue for leaving room to adjust the portfolio based on economic and geo-political developments as they happen.

Fixed Income (33% of Assets)



After marking time for the first half of the year, bond yields moved sharply lower this past quarter to levels unseen in more than a generation. Although the Bank of Canada's target for its Overnight Rate remained at 1%, market-driven rates collapsed to lower levels. Over the quarter, two year Canada bonds declined almost 0.75%, from 1.59% to 0.85%, and ten year yields dropped over 1.00%, from 3.11% to 2.08%.

These new 'normal' yield levels are confounding and unknown to all but the most grizzled veterans of bond markets. A conventional explanation for such a dramatic change, or a justification of such

low absolute rates, would normally rest on an anticipated significant slowdown in the economy and the spectre of deflation – a period of declining prices across a wide range of goods and services. While we acknowledge there has been a slow-down in the rate of economic growth and that there are risks of a slip back into recession, it seems unlikely that these low rates will prove consistent with how the future course of the economy progresses. More importantly, rather than deflating, prices are rising in Canada. Currently, measured inflation in Canada sits just above 3%, meaning that real interest rates are currently negative. While it may be desirable for monetary policy purposes to have such stimulative monetary conditions, it is certainly not attractive for investors.

As it was last quarter, our strategy is to concentrate our holdings in shorter maturity bonds and to overweight high-quality corporate bonds. We own more than 30 different corporate issues spread across 23 different credits. The preponderance of our exposure is to 'A' or 'AA' credits; less than 3% of the portfolio is 'BBB' rated.

We acknowledge that there is a 'sleep-well' factor that comes from an allocation to bonds, but our purpose is to grow client capital in real terms over the long-term. Obviously, that means earning a return that beats inflation and the likelihood of generating such an inflation-beating return in bonds with such meager yields seems remote in all but the most extreme deflationary scenarios.

In the last quarter, our emphasis on shorter maturity bonds meant that we did not benefit from as much capital appreciation as the DEX Universe Bond Index (DUBI). Our bond portfolio generated a return of 4.1%, while the DUBI earned a return of +5.1%. Over the course of the past year, our bonds generated a return of +5.7% while the DUBI was up +6.7%.

Canadian Equity Summary (38% of Assets)

It was a difficult summer for equity investors with each month posting negative returns. Volatility in markets has been elevated and, on many days, intra-day market moves were more than 3%. Understandably, anxiety is high and the temptation to respond compelling. One of the ways that investors cope is to reduce their overall exposure to risky assets so, as the news from Europe worsened and frustration with political dysfunction in Washington rose, equity investors sold stocks to buy bonds.

We have maintained a modest underweight in our equity allocation and hope that as a result of sometimes indiscriminate selling we will be able to take advantage of relative valuation differences and build new positions that should do well over the long-term.

Our largest positions are in the banking sector and we believe that our holdings here remain in excellent condition with significant opportunities for growth ahead of them. It is well known that the global banking industry is besieged by problems. While the greatest worry resides in Europe, we learned from the previous crisis that the global financial system is closely interconnected and a full blown crisis in one region is likely to have ramifications of varying gravity around the world. That said, coming changes to the capital rules required to operate a bank, known as the Basel III capital standards, as well as operating changes made by the managements of Canadian banks (better lending standards, more geographic diversification and lower risk-taking) have Canadian banks in particularly good competitive position. Recent quarterly results underscore the effectiveness of these changes, and we are hopeful that the capital strength and core Canadian franchises will support steady, profitable growth in new markets.

TransCanada Corporation is one of our larger positions and has been in the press a great deal over the summer. It is the operator of the planned, but not yet approved, Keystone XL oil pipeline to the United States. As many will be aware, there are compelling business reasons on both sides of the border to proceed with this \$7 billion project. Oil producers in Western Canada need a market for increased production from the oil sands and the U.S. needs reliable energy at competitive pricing from a friendly neighbour. Despite an enormous amount of regulatory scrutiny and environmental review, there remains a well organized and vocal opposition to the project and final approval is still not certain. As investors, we hope the project goes ahead and we take comfort from both the industry's and TransCanada's track record of operating thousands of miles of pipeline with very few environmental incidents. Just as importantly, Keystone XL is but one piece of TransCanada's business, amounting to about 15% of the company, were it to proceed. The capital for this project has been raised and were it to be cancelled, we are confident that the funds would eventually be deployed in other productive investments.

TEN LARGEST HOLDINGS

Toronto Dominion Bank	3.2%
Bank of Nova Scotia	3.0%
Royal Bank of Canada	2.9%
Enbridge	2.0%
Brookfield Infrastructure	2.0%
TELUS	2.0%
TransCanada	1.9%
H&R REIT	1.9%
Alimentation Couche-Tard	1.8%
Rogers Communications	1.8%

This quarter, despite very noticeable differences between the composition of our holdings and that of the TSX, the returns have not been substantially different. This quarter, our Canadian equity selections declined 12.9%, trailing the TSX performance of -12.0%. In the last 12 months, returns of our holdings were -3.9%, against a decrease in the Index of 3.6%.

U.S. Equity Summary (17% of Assets)

TEN LARGEST HOLDINGS	
Covidien	2.0%
Pfizer	1.9%
J.M. Smucker	1.9%
Wal-Mart Stores	1.8%
Apple	1.7%
DaVita	1.6%
Cisco Systems	1.4%
Western Digital	1.3%
CarMax	1.1%
Hewlett-Packard	0.9%

Like all equity markets around the globe, the performance of the S&P 500 was weak this past quarter. However, the declines were tempered in Canadian dollar terms by the sharp decline in the value of our currency. Over the course of the quarter, the Canadian dollar slid 7.2% against the U.S. greenback, softening the effect of declining share prices of U.S. listed companies.

At the end of this quarter, we added a position in CarMax to our U.S. portfolio. CarMax is the largest retailer of used cars in the U.S., operating 105 superstores in 51 markets. It provides a better customer experience by offering a huge selection of high quality vehicles – with up to 600 cars on the lot and online access to as many as 30,000 cars in CarMax’s inventory – low, no haggle prices, and various quality assurances. CarMax’s goal is

to revolutionize the used car purchase experience, which traditionally has been a source of great customer dissatisfaction. In our view, CarMax has a better ‘mouse trap’ than the competition and an open-ended growth opportunity.

Our U.S. equity returns were negative this quarter, returning -10.9%. These results lagged the S&P 500 Index which, over the same period, fell 7.2%. In the past year our U.S. equity holdings lagged the broader market, declining 4.7%, while the Index advanced 2.0%.

Other Investments (7% of Assets)

The allocation to investments outside North America remained unchanged this past quarter. The JPMorgan EQIT Fund slid 12.9%, not much different than the performance of the benchmark EAFE Index which fell -12.7% over the same period. In the last 12 months, the EQIT Fund declined 7.4% while the EAFE Index fell 8.6%. We continue to believe that diversification, through international investing, remains an important component of a well-constructed investment portfolio, and we believe that EQIT remains an excellent source of diversification and potential return for the Fund.

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