NEXUS

Portfolio Management & Financial Counsel

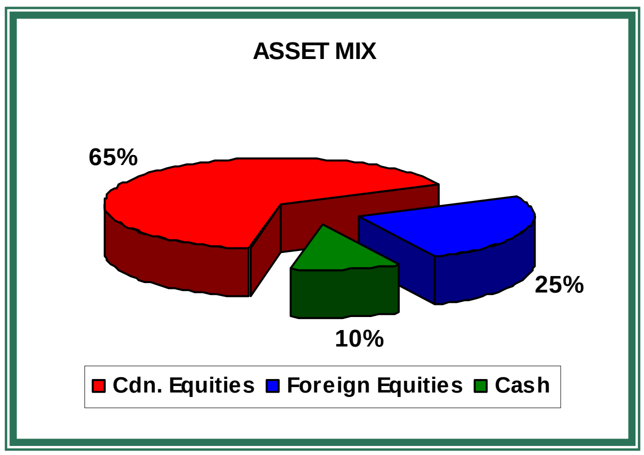
NEXUS NORTH AMERICAN EQUITY FUND

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. Energy related investments continued to contribute positively as did traditional interest-sensitive areas such as utilities and financial services. Things were somewhat more complicated with respect to interest rates, 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 in 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 2.9%[1]. The Fund is up 21.1% in the last 12 months.

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

Asset Mix

Over the course of the past quarter, we have increased our allocation to equities by 3%. Our cash position remains higher than our long-term guideline, as we look for interesting new opportunities in both markets. We continue to overweight Canadian equities and underweight the U.S

Canadian Equity Summary (65 % of Assets)

Ten Largest Holdings	
Bank of Nova Scotia	**4.3%**
Manulife	**4.2%**
TD Bank	**3.5%**
Royal Bank	**3.4%**
Suncor	**3.2%**
Talisman	**2.6%**
Trican Well Service	**2.6%**
Petro Canada	**2.6%**
Bank of Montreal	**2.5%**
Rogers Communications	**2.1%**

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.

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 were positive and managed to outperform the TSX index by a small amount. 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 +3.7% for the quarter and +35.1% for the year. By comparison, the TSX Composite was +2.9% and +24.1% for the same periods.

U.S. Equity Summary (17% 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 17% 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.

Ten Largest Holdings	
Bank of America	**2.2%**
Tyco International	**2.0%**
Pfizer	**1.9%**
CIT Group	**1.8%**
Exxon Mobil	**1.8%**
Home Depot	**1.8%**
Washington Mutual	**1.7%**
Edwards Lifesciences	**1.7%**
Baxter International	**1.5%**
Waters Corporation	**1.0%**

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 -1.4% for the year. By comparison, the S&P 500 (in C$) was +2.5% and +1.6% for the same periods.

Other Investments (8% 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.