

## NEXUS NORTH AMERICAN EQUITY FUND QUARTERLY REPORT – June 30, 2005

Investors enjoyed positive returns across all asset classes last quarter. Notably, interest rates moved sharply lower and as a result fixed income markets outperformed the major equity indices. While some strength in equity markets was attributable to the support that low interest rates provide, positive performance relied largely on the strength of the energy sector. Equity indices continue to trade in a narrow range without a clear trend in place. Those who reduce the investment analysis into a point of view that is either bullish or bearish, can find an abundance of data to support their argument. Despite lackluster index returns, the Fund has had a very good quarter and an exceptionally strong last 12 months – led by particularly strong performance in Canadian equities.

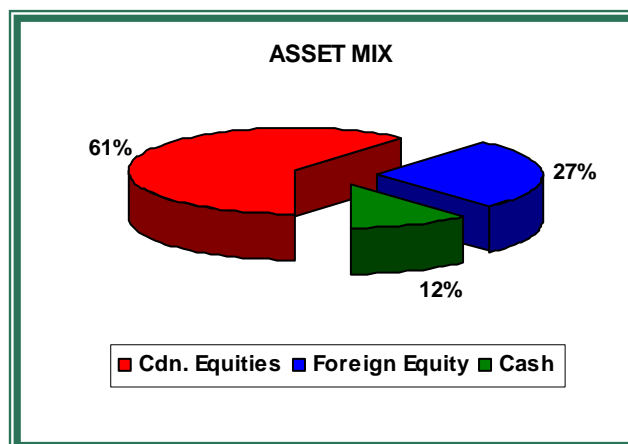
Economic growth in Canada and the U.S. looks to be positive and steady – likely between 2% and 3½% in the coming year. This is a satisfactory pace, neither too robust to generate much investment excitement (for bulls) nor too weak to lead to worry (for bears). It is worth noting that this middle of the road performance is the envy of European and Japanese policy makers.

Rather than declare ourselves on the side of the bulls or bears, we would prefer to acknowledge that this sort of investment environment is often characterized as a “stockpickers’ market.” Interest rates are stable and at historically low levels, and equity performance will be largely driven by specific corporate developments, not by a discernible market-wide trend.

During the quarter, the Fund's unit value increased 5.8%<sup>1</sup>. The Fund is up 18.0% in the last 12 months.

### Asset Mix

As we have been for more than a year, we remain overweight Canadian equities and underweight the U.S. This decision, when combined with our strong returns in Canadian equities, has made an important contribution to the Fund's record of outperformance. Our cash position remains about the same as last quarter and higher than our long-term guideline, as we look for interesting new opportunities in both markets.



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

## Canadian Equity Summary (61% of Assets)

We have maintained a significant weighting in the energy and financial services sectors, both of which performed well in the past quarter. Fearing overexposure to the latest mania, early in the year we had reduced our exposure slightly to energy. However, this past quarter, we reversed direction and added two new small holdings, UTS Energy and OPTI Canada in this sector. We now have a 21% weighting across 7 different holdings.

Ten Largest Holdings	
<b>Bank of Nova Scotia</b>	<b>4.4%</b>
<b>Manulife Financial</b>	<b>3.5%</b>
<b>TD Bank</b>	<b>3.1%</b>
<b>Suncor</b>	<b>2.9%</b>
<b>Petro Canada</b>	<b>2.5%</b>
<b>Talisman Energy</b>	<b>2.4%</b>
<b>Royal Bank</b>	<b>2.4%</b>
<b>Telus</b>	<b>2.2%</b>
<b>Rogers Communications</b>	<b>2.1%</b>
<b>Encana</b>	<b>2.0%</b>

Up over 30% in the first six months of the year, the energy sector is perhaps the only area in the capital markets with clear, short-term, upward momentum. Our attraction to this area rests on our long-term opinion that the supply-demand balance is likely to favour still higher prices for oil and natural gas as well as higher valuations for companies in this sector. Our two new holdings share two important similarities. They are early stage oil sands projects and they each have a strong partner. In the case of OPTI, it is a 50:50 partner with Nexen in the Long Lake Project south of Fort McMurray. Once operational in 2007, OPTI will have dramatically lower operating costs than other projects in the oil sands arena due to technological innovation in the recovery process. In the case of UTS, it is a 40:60 partner with Petro-Canada in the Fort Hills project north of Fort McMurray. It is a relatively small scale project and is not estimated to begin production until 2011.

In financial services, our weighting (28%) remains substantial – concentrated in bank and life insurance holdings. Keen observers of these reports will notice that while the Bank of Nova Scotia, Manulife and TD Bank remain our largest holdings, a number of companies in the energy sector such as Talisman and Petro-Canada have risen in the rankings due to price appreciation.

In our first quarter report we wrote briefly on our expectation (and hope!) for management change at MDS. Early in April the company announced the appointment of Stephen DeFalco as COO, with the understanding that he would subsequently assume the role of President and CEO later in the year. In June the decision was made for this transition to happen even sooner. It would be wrong to ascribe too much importance to one management change but, having held senior positions at United Technologies, PerkinElmer as well as U.S. Genomics, Mr. DeFalco has excellent experience in the healthcare and industrial sectors. In the short run his appointment has had a favourable effect on the share price. We expect that as he settles in and assumes greater control of the company, important strategic decisions will be made that help realize the underlying value of their various business divisions.

The Fund's Canadian equity returns were strong this past quarter, and substantially better than market benchmarks. Canadian equity returns were up +8.3% for the quarter and +33.1% for the year. By comparison, the TSX Composite was +3.6% and +18.0% for the same periods.

## U.S. Equity Summary (18.5% of Assets)

Investors in U.S. equities have needed to exercise patience and selectivity for some time, and this past quarter was no exception. The overall market has languished this year, trapped in a fairly narrow trading range with no obvious catalyst on the horizon that would act to move it higher or lower. In US\$ terms, the S&P 500 is basically unchanged (-0.8%) for the year to date and, of the ten industry sectors that constitute the index, only two have shown positive returns. Even casual readers of the business pages could likely guess which sectors are higher – energy (due to surging oil prices) and utilities (due to declining interest rates). It is clearly the type of market that breeds frustration!

In flat markets such as this, it can be tempting to “try and make things happen” by being opportunistic or by more active trading of short-term price movements.

We have not yet given into such temptation and, in the quarter just past, we neither added any new holdings nor did we sell out of any positions. However, we did add a small amount to our current holding of Edwards Lifesciences in April.

Our returns were relatively strong this quarter and continued to be ahead of the benchmark. The Fund's U.S. equity returns in C\$ were +4.3% for the quarter, and +0.5% for the year. By comparison, the S&P 500 (in C\$) was +2.7% and -2.8% for the same periods

Ten Largest Holdings	
<b>Renal Care Group</b>	<b>2.7%</b>
<b>Exxon Mobil</b>	<b>2.2%</b>
<b>Bank of America</b>	<b>2.1%</b>
<b>Edwards Lifesciences</b>	<b>1.9%</b>
<b>Baxter International</b>	<b>1.9%</b>
<b>Tyco International</b>	<b>1.7%</b>
<b>Pfizer</b>	<b>1.6%</b>
<b>Washington Mutual</b>	<b>1.6%</b>
<b>Home Depot</b>	<b>1.2%</b>
<b>Wells Fargo</b>	<b>1.0%</b>

## Other Investments (8.5% of Assets)

This quarter, the JPMorgan *Equity International Investment Trust* (EQIT) improved slightly, increasing 0.5%. In the past year it has increased 4.3%. We continue to view this as a core holding – providing attractive returns and diversification to our equity selections.