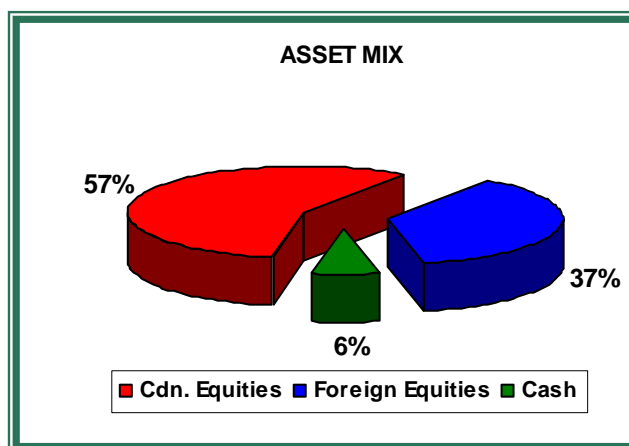


NEXUS NORTH AMERICAN EQUITY FUND QUARTERLY REPORT – December 31, 2006

Global equity markets finished the year very strongly. 2006 will go down in the books as another year of strong returns with both major Canadian and U.S. stock indices up slightly more than 15% and the broadest measure of non-North American share performance, the EAFE index, up more than 20%. This performance contrasted with positive, but unexciting fixed income returns. The strength in equity markets has been a pleasant (and rewarding) surprise. This time last year, we had expected only modest positive returns for the year ahead.

For Canadians, recently conditioned to an appreciating currency, the C\$ ended the year remarkably close to the levels at which it had begun the year. At the end of 2005, it was trading at US\$0.86 and that is approximately where it closed 2006. However, the C\$ has actually fallen quite sharply from almost US\$ 0.90 in September to its present level. The currency decline matches a softening in commodity and energy prices as well as increased evidence of a North American economic slowdown. In our last quarterly report, we remarked that we were surprised at the resiliency of the currency and that some erosion of its value would be unsurprising. Indeed, this decline in the currency has brought some needed relief to beleaguered exporters and manufacturers working hard to make the necessary competitive adaptations to a stronger currency. For policy-making central bankers, this break in the strength of the currency is likely welcomed as well. At this level (US\$0.86) we expect the currency to stabilize and to trade in a narrow range.



Over this past quarter, Canadian economic news has been decidedly mixed. It is clear that economic growth has moderated, but only a little more than was generally predicted. Indicators of economic output, business investment and retail consumption tell a consistent story of moderating growth, without particular risk of a sharp slowdown or recession. On the inflation front, consumer price increases have moderated from their mid-summer levels, but again at no greater a pace than has been expected. As a result, the Bank of Canada seems set to continue its hands-off approach. In fact, in December, Governor Dodge noted that inflation in Canada continued to read slightly above the Bank's target, while at the same time he noted that economic growth in Canada was likely to trail the Bank's previous forecast. As a consequence of all this, we expect no change to official interest rate policy in Canada (or the U.S.) until at least the summer.

Against a solid global economic backdrop, the major source of worry continues to emanate from the U.S. housing sector. Over the last quarter, the correction in this economic sector (lower prices, lower unit sales, reduced construction activity) continued to play out in a reasonably orderly fashion. What remains unknown is the degree of detrimental impact that will spill over to consumer spending. While it appears that measures of consumer sentiment have noticeably declined, spending has not fallen to the same degree. Anecdotal, as well as statistical, reports of sales during the Christmas season suggest that consumers are spending a little less, and are more price conscious. However, there is no evidence that they have put away their wallets and have fundamentally made the decision to save more and consume less.

During the quarter, the Fund's unit value increased 8.3%¹. The Fund is up 12.7% 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

We pared our over-weighting in Canadian stocks this quarter and, added to our foreign holdings. Our weighting outside Canada now stands at 37% of the portfolio. With regard to our cash position, as we had in the 3rd quarter, we reduced it further this quarter. At 6% of assets, it is now close to its benchmark weight.

Canadian Equity Summary (57% of Assets)

Equity markets closed the year strongly, led higher by firm commodity prices, optimism for a successful soft-landing in the U.S. economy and relentless takeover activity across a wide variety of industries. The takeover mania is a product of two conditions; abundant global liquidity and forgiving credit conditions. Unsurprisingly, it has allowed increased borrowing by public companies to fund acquisitions, a fairly

Ten Largest Holdings	
Royal Bank	3.8%
Bank of Nova Scotia	3.7%
Manulife	3.6%
TD Bank	3.4%
Bank of Montreal	3.3%
Suncor Energy	3.1%
Finning International	2.2%
Transcanada Corp	2.1%
Enbridge	2.0%
CAE Inc	2.0%

traditional pursuit. More noticeably it has funded pools of private capital (hedge funds, pension funds and private equity) to do likewise. In fact, in many instances, these private capital pools are actually purchasing public companies, or divisions of public companies, and operating them as private companies. In addition to the economic gain from buying good businesses at fair prices, there is a growing recognition that removing companies from public scrutiny empowers management to make decisions that, while difficult in the short term, are actually best for the longer term. Less important, but often cited, is the additional flexibility that comes from not operating under the glare of public market regulators and other oversight agencies. As 2007 begins, there is little reason to believe that take-over activity will subside at all in the coming year.

We made few changes to our portfolio this quarter, keeping our concentration in the financial service, energy and utility sectors. We remain underexposed all year to the base and precious metals sectors, which were very strong contributors to TSX performance in 2006. Although the underlying commodities reached their peaks in the middle of the year, the stocks kept their upward momentum much longer. Beginning in December, sentiment and speculation in these areas has begun to roll over. Most noticeably, the price of many raw materials, particularly copper, fell through levels of presumed pricing support. We remain concerned that easy global liquidity conditions, not fundamentals, explain much of the strength in metals investments, but we are watching this area closely to be sure our thesis is correct.

Also worth noting is the effect of Finance Minister Flaherty's Halloween announcement of changes to the tax treatment of income trusts. While some of our income trust holdings initially declined by as much as 20%, others such as bank and utility shares benefited from renewed investor interest. Wholly unpredictable, the sudden turn-around in Ottawa underscores the wisdom of maintaining a diversified portfolio. As we cast forward as to what might happen in the income trust market, it is our opinion that the resolve of both the government and policy makers in the Department of Finance is very strong on this issue. With one exception, TimberWest Inc., we have kept our positions, believing that the bad news is fully incorporated in the valuations at this time. In the case of TimberWest, although thought of and categorized as an income trust, it is actually a "stapled unit", a form of security currently thought to be outside the changes to the legislation. As a result it was mostly unscathed by the changes, and in fact had appreciated during this period. Not wanting to risk a stricter interpretation by the government when the legislation is ultimately written, we decided to sell our position in late December.

This quarter, the Fund's Canadian equity returns were +6.8% compared to a return of the TSX Index of +10.4%. In the past year, we trailed the index; our Canadian equities have returned +10.2% in the last 12 months and, by comparison, the TSX Composite was + 17.3% for the same period.

U.S. Equity Summary (25% of Assets)

After a relatively busy previous quarter of disposals and purchases, trading activity was reasonably quiet this past quarter. We added to current positions in both the financial services, as well as the healthcare sectors, and we made one new acquisition, a company called Navteq.

Navteq Inc. is a provider of digitized maps that enable customers to offer navigation, route planning and other geographic information. Their customers are companies that make automobile navigation devices, consumer GPS equipment or internet mapping services. Chances are, that if you have an on-board navigation system in your car, or from time-to-time use an internet mapping service such as Google Maps or Mapquest, you have relied on a Navteq map.

It is an attractive investment because the location and navigation device industry appears to be at a tipping point in a transition from commercial applications to far more ubiquitous consumer utilization. Navteq is the global market share leader and generates 2/3rds of its sales outside North America. It is a profitable, predominantly fixed cost business where earnings should expand even faster than revenues. Since purchasing it in early October, it has risen nicely.

Ten Largest Holdings	
Bank of America	2.8%
CIT Group	2.8%
Exxon Mobil	2.3%
Pfizer Inc	2.2%
CVS Corporation	2.0%
Edwards Lifesciences	2.0%
Tyco International	2.0%
Baxter International	2.0%
Lincare Holdings	2.0%
DaVita Inc	2.0%

Although our U.S. equity returns slightly trailed the S&P 500 this quarter, they remained well ahead for the year. The Fund's U.S. equity returns in C\$ were +10.2% for the quarter, and +19.4% for the last year. By comparison, the S&P 500 (in C\$) was +11.5% and +15.7% for the same periods.

Other Investments (12% of Assets)

Our 12% weighting consists of a 10% weighting in the JPMorgan *Equity International Investment Trust* (EQIT) with the balance invested in Wal-Mart de México (Walmex), a security we described last quarter and which has continued to appreciate strongly.

This quarter EQIT returned +13.4% and, in the past year, it has increased 23.4%. Since inception, this has proven to be an excellent investment, on both an outright basis and as a substitute for U.S. exposure. However, this fund has slightly underperformed the non-North American benchmark index known as EAFE (Europe, Australasia and Far East) recently and so we met with the manager to review strategy in November. What became apparent in the discussion is that the phenomenon of excess investment liquidity playing out in North America is also making itself felt around the globe. Share performance of companies with more variable earnings records, smaller market capitalizations, and greater debt have all benefited when compared to larger, higher quality, more conservatively capitalized companies. Our manager has a style that emphasizes quality and growth and the EQIT Fund has a portfolio of attractive companies that will benefit in the future from any reversion to more normal liquidity conditions. We continue to view this as a core holding.