

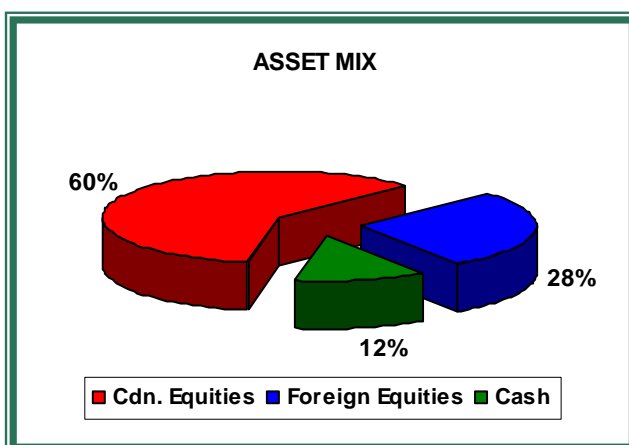
NEXUS NORTH AMERICAN EQUITY FUND QUARTERLY REPORT - June 30, 2006

This was a difficult quarter for financial markets with all major asset classes posting negative returns. After a strong start to 2006, it should perhaps be unsurprising that markets would go through a soft patch; adjusting to higher interest rates, slowing economies and continued geopolitical uncertainty. While it is sensible to put a soft quarter in the context of a very fruitful past five years, it is disappointing nonetheless.

After having finished the first quarter somewhat weakly, the C\$ has spent this quarter grinding higher. At US\$ 0.90, it ended the quarter very close to record levels. In our opinion, a number of important fundamental factors are contributing to the currency's strength - simple speculation is less of a factor. Most noticeably, energy rich western Canada is attracting copious amounts of overseas investment capital, the Harper government has surprised outsiders with the progress it has made on economic issues, and Canada's budgetary and trade surpluses compare very favourably to the situation that exists in the U.S. Although the strong currency is making things difficult for the export-oriented economies of Ontario and Quebec, increasingly it appears that business is coping with a stronger currency and that a stronger currency can be accommodated in our industrial and manufacturing sectors.

As is often the case, Central Bank policy makers are facing difficult choices. Simplistically, both the Bank of Canada and the Federal Reserve must determine whether the steady increases in interest rates that have already been administered have been enough to moderate economic growth and dampen the inflationary pressures caused by higher energy prices and strong employment.

In the U.S., a number of indicators (particularly housing and employment growth) suggest the economy is cooling, but the headline inflation rate is running at 4.2% and presents a problematic issue. Complicating the situation is that Ben Bernanke, the Chairman of the Federal Reserve, along with two other members, are new to their positions. After years of Alan Greenspan, investors need to be convinced that the new regime at the Fed is up to the job. There is a general concern that the Fed won't be tough enough, and may allow inflation to re-ignite. On the other hand, there are pundits who fear that, in establishing its inflation fighting credibility, the Fed will tighten too much and the U.S. will slide into recession. To state the obvious, neither a new round of inflation nor an economic recession would be good for U.S. markets. Mr. Bernanke and his colleagues need to find a middle course between these two outcomes. The stakes are actually quite high if their decisions go awry. Until recently, U.S. dollar investments were the "ne plus ultra" on the international stage. Increasingly, as Europe and Japan get their respective economies in order, assets denominated in Euros or Yen are legitimate alternatives. The United States, which now relies so heavily on external financing, must maintain international confidence in the stability of the U.S. economy and avoid any perceived acceptance of a weaker U.S. dollar.



In Canada, the economic situation is different. Canadian economic activity continues to be strong, evidenced most noticeably by high levels of job growth and capital investment. As compared to the U.S., the inflation rate is still well controlled (core inflation is running at 2%) and, with its strong trade and current account surpluses, Canada does not rely on foreign capital to keep the economy running. As a result of being less dependent on the international financial community, our central bank has more flexibility, and has more control of the timing of its actions. The semi-annual Monetary Policy Report from the Bank of Canada was broadly acknowledged to have built the case for the Bank of Canada pursuing a “wait and see” approach before raising rates any further. Indeed, despite a series of strong economic reports since its publication in April, early in July the Bank of Canada chose to leave rates unchanged while it waited to see the consequences of previous interest rate increases and the strong Canadian dollar.

During the quarter, the Fund's unit value decreased 3.5%¹. The Fund is up 10.8% in the last 12 months.

Asset Mix

We continued to pare back our large over-weighting in Canadian stocks this quarter, although at 60% we remain 10% above our long-term benchmark allocation. In the current investment environment the cash position has been allowed to “creep up” to 12 %, but we are not expecting it to rise very much further in the months ahead.

Canadian Equity Summary (60 % of Assets)

Ten Largest Holdings	
Manulife	3.6%
Bank of Nova Scotia	3.5%
Royal Bank	3.5%
Suncor	3.4%
TD Bank	2.7%
EnCana	2.4%
Petro Canada	2.4%
Finning	2.1%
Trican Well Service	2.0%
Talisman Energy	2.0%

Without any particular bad news, the Canadian equity market gave back some of the gains generated early in the year. The weakness was broadly spread across industry sectors; only the Energy and Materials sectors posted positive returns, and each of them were up less than 1%. Of the major industry sectors, technology has been the weakest, suffering from a diminished growth outlook in a slowing economy. We have little exposure to this sector. However, financial services were also weak, and this is an area that represents more than 30% of our Canadian equity allocation. We remain very comfortable with our concentration in this area, and the individual prospects for each of our holdings. A consequence of the weakness in the area is that valuations are as attractive as they have been in some time and this should be a sector that will provide solid returns in the months ahead – especially if our unexciting interest rate forecast proves correct.

On the energy front, a split in the behaviour of natural gas and oil prices continues, generating performance differences in energy related stocks. Oil prices have finished the quarter very near their yearly highs (just below \$74.00), while natural gas that last fall had traded above \$15.00 per mcf, closed at its yearly low (about \$6.00 per mcf). There are good reasons why in the short term these two energy commodities have headed in opposite directions. Oil is very much a globally traded commodity and

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

supply can move relatively easily to where there is demand. On the other hand, the market for natural gas is more of a regional market (it cannot be transported easily or economically around the globe) and so the pricing swings more violently in response to supply and demand imbalances. Recently, due to the warm winter across North America and a consequent reduction in heating demand, storage of natural gas has reached capacity. This excess of supply has caused prices to fall. A warm summer, which would increase demand, or a violent storm season in the Gulf of Mexico, which would reduce supply could quickly move prices substantially higher from their current levels. But whether it happens quickly or not, our confidence in the longer-term investment thesis of rising energy demand and declining supply remains strong and over long time periods we know that pricing of these two commodities will move in the same direction. As a consequence, an attractive investment opportunity appears to exist in stocks exposed to natural gas. Three of our seven holdings in the energy sector (Encana, Trican Well Service, and Calfrac Well Services) are each set to benefit from a return to a more normal pricing relationship between oil and natural gas.

Over the quarter the return from our Canadian equity investments slightly lagged the TSX index. The Fund's Canadian equity returns were -4.2% for the quarter and +17.6% in the last 12 months. By comparison, the TSX Composite was -3.5% and +19.6% for the same periods.

U.S. Equity Summary (19% of Assets)

We added to a number of our established positions in the Fund over the course of the quarter moving the weighting in US equities up slightly to 19%. We remain substantially underweight this sector.

Early in April we made a significant switch, selling Home Depot, and replacing it with CVS, a large U.S. drug store chain. There were a number of reasons behind the move. As many will know, Home Depot is the largest, and by many measures, the most successful "home improvement" retailer in the world. However, its fortunes are tied to activity in the U.S. home building market and to larger "ticket" consumer spending. These are both areas of the economy that we think will soften in the months ahead. On the other hand, the drug retailing space is not nearly as closely tied to discretionary consumer spending or to the economic cycle.

Based in Rhode Island, CVS operates 5,400 stores in 37 states. It has been growing by building new stores as well as by acquiring other established drug store chains. In particular, CVS did a wonderful job acquiring and integrating a portion of the Eckerd chain over the last couple of years, and recently purchased a number of Sav-on / Osco stores from Albertsons. As well, there are a number of very positive industry trends favouring CVS in the period ahead. The most important relates to the acceleration of drug patent expirations. As drugs lose their patent protection, generics replace them. Drug stores generate lower revenues from generics, but much higher profits. We're quite optimistic about the prospects for CVS in the next few years

This quarter, we bought and sold (profitably) shares in Kinder Morgan Inc., a large operator of natural gas pipelines and storage facilities in both Canada and the U.S. Although not precisely the same, it is in a very similar business as two other large holdings we have in Canada, Enbridge Inc. and TransCanada Pipelines. First identified as a possible investment candidate in early 2006, we had been impressed by

Ten Largest Holdings	
Bank of America	2.4%
Edwards Lifesciences	2.1%
Exxon Mobil	2.0%
Pfizer	2.0%
Tyco International	2.0%
Washington Mutual	1.9%
CIT Group	1.9%
CVS Corporation	1.9%
Baxter International	1.7%
Waters Corporation	1.3%

management, the valuation of the business and the long-term investment attributes of the 'energy infrastructure' sector. We purchased our holding early in April. As circumstance would have it, in late May the company became the subject of a management-led takeover at a substantially higher price than where the shares were then trading. In a tumultuous environment we chose to take our profit and wait for other opportunities. In fact, the price at which we sold our shares was actually higher than the proposed tender price, on speculation that once 'in play' the company might attract a higher offer.

Investment returns from U.S. equities were again weighed down by the strong Canadian dollar. The Fund's U.S. equity returns in C\$ were -2.1% for the quarter, and -4.9% for the year. By comparison, the S&P 500 (in C\$) was -5.9% and -1.2% for the same periods.

Other Investments (9% of Assets)

We maintained our investment in the JPMorgan *Equity International Investment Trust* (EQIT) over the course of the quarter. This quarter it again out performed the U.S. market, although not our fund's U.S. selections. This quarter EQIT returned -4.5% and, in the past year, it has increased 13.2%. We continue to view this as a core holding.