

NEXUS NORTH AMERICAN EQUITY FUND

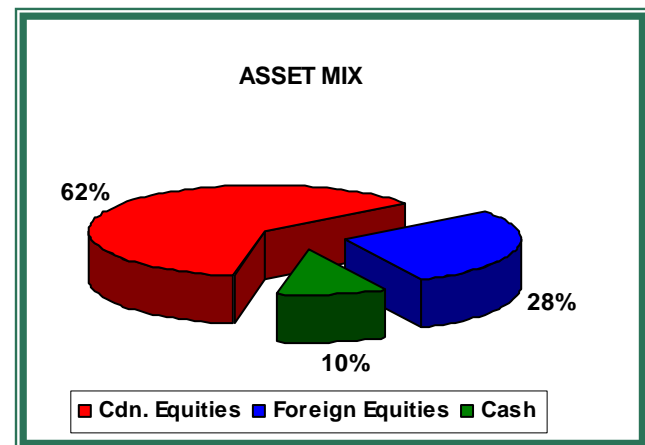
QUARTERLY REPORT - March 31, 2006

To begin the year, the fund recorded another quarter of positive returns. Both Canadian and U.S. equity markets had strong starts to the year, with the returns from the resource-intensive sectors of both markets leading the way. Interest rates continued their gradual upward ascent and, as a result, the valuation of interest-rate sensitive equities were weaker over the quarter.

Both the Bank of Canada and the U.S. Federal Reserve increased their short-term interest rates twice this past quarter. For the most part, these changes to official interest rates were well anticipated and came as little surprise to the markets. In fact, what has captured the attention of both the equity and fixed income markets was the passing of the reins of power from Alan Greenspan, Chairman of the U.S. Federal Reserve, to his successor Ben Bernanke.

The Chair of “the Fed” is one of the most powerful positions in government and as a result, commentators are transfixed with divining whether there is anything in Mr. Bernanke’s history to indicate where his predilections lie. Having previously been a member of the U.S. Federal Reserve, an economics professor at Princeton and the Chair of the President’s Council of Economic Advisers, Mr. Bernanke has a public record that might suggest what policy changes may be expected under his watch. In our opinion, the Fed under Mr. Bernanke will not depart from the successful pattern established under Mr. Greenspan. That is to say, traditional economic indicators of growth and inflation will be closely monitored and any upside pressures on inflation will be met with monetary restraint (higher interest rates). In the coming months, it is highly likely that the cost of overnight borrowing in the United States (the Fed Funds rate) will rise from 4.75% to a peak of no more than 5.25%.

On the economic front, it is clear that the U.S. housing market has finally reached a peak and that the buoyant construction, sales and pricing activity of the last many years are behind us. Recall that surging home prices in both Canada and the U.S. have underpinned a very strong consumer sector. Borrowing against the equity in one’s home has allowed many homeowners to consume at a rate not justified by either the level or the growth in their income. In the U.S., the most recent data on sales of new homes suggest that sales activity has declined 13% in the past year, and that median house prices have declined 5.5% from the highs of October. More worryingly, inventories of new unsold homes have increased dramatically, suggesting that the weakness in this area is building momentum. As a very general estimate, Merrill Lynch estimates that almost everyone who has purchased a new home since 2004 has not built up any incremental equity. Another survey, by First American Realty, suggests that in the same period, almost 30% of new borrowers have negative equity in their homes.



We stop well short of becoming too alarmed at the weakness in this sector just yet. Thankfully, employment in both Canada and the U.S. remains at very high levels, and employment income is the single most important determinant of housing affordability. Given the strong employment situation, the increase in posted mortgage rates in Canada, from 5.25% in the summer of 2005 to more than 6.5% currently,¹ looks manageable. However, we know that interest rate increases operate with a lagged effect on the economy, and what seems apparent is that a long awaited slowdown in consumer spending is upon us. In our opinion, interest rate increases put in effect by both central banks will “bite” a little deeper than many expect, and consumer discretionary spending will be “pinched” in the months ahead.

During the quarter, the Fund's unit value increased 3.9%². The Fund is up 21.5% in the last 12 months.

Asset Mix

We remain 90% invested in equities, which is essentially the same level as we began the year. However, within our holdings we have increased our U.S. weighting by 1%, and our foreign holdings by 2%. Naturally, this caused a 3% reduction in our Canadian equity allocation. We remain over-weighted in the Canadian market.

Canadian Equity Summary (62 % of Assets)

Ten Largest Holdings	
Royal Bank	3.8%
Manulife	3.7%
Bank of Nova Scotia	3.7%
Suncor	3.1%
TD Bank	3.1%
Petro Canada	2.5%
Finning	2.2%
Bank of Montreal	2.1%
Talisman Energy	2.1%
Trican Well Service	2.0%

The Canadian equity market has begun 2006 with a bang. As would be expected with a manager of our style, we were along for the ride, but certainly didn't participate in the full upside. Our significant weighting in energy stocks (23% of Canadian equities) has proven very beneficial, but the current momentum in mining and basic materials stocks is happening without our Fund's full participation.

It was another quiet quarter for trading and re-balancing of the portfolio – there were only two trades of real note. In early February we sold our position in MDS, our sole holding in the Canadian healthcare sector. MDS is a company that has been through a necessary and well orchestrated management change in the last two years. As a result, the share price had appreciated nicely from where we had established our position. Despite the focus and quality of the new management team, we felt the valuation of the business in the marketplace reflected all of its potential, and that room for any

disappointment was not built into the share price. Given the attractive valuations of alternatives in the U.S., we determined it would be better to recognize our gains and look for alternatives.

¹ Bank of Canada.

² Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

We added to our holdings in the energy sector with a new position in Calfrac Well Services. As the name would suggest, Calfrac is a service provider to the drilling industry with a specialization in deep fracturing, primarily of natural gas wells. Fracturing a well refers to the pumping of high pressure gas down a well bore so that the formation is “fractured” allowing hydrocarbons to flow more freely to the surface. Both because of its modern fleet of equipment, as well as its experience and training, Calfrac is a world leader in providing essential services to exploration and production companies in this field. Like many companies in the energy patch, it is highly profitable, generates significant free cash flow, and has a very high ROE with no net debt. Unlike others, however, it had disappointed investors twice in the previous six months with earnings that fell below expectations, due largely to weather. Valued at only 12X 2006 EPS and with a strong competitive position in a growing industry, we think that the long-term opportunity is compelling.

Over the quarter the return from our Canadian equity investments lagged the TSX index. They remain ahead of the index in the last twelve months. The Fund’s Canadian equity returns were up +4.0% for the quarter and +32.6% in the last 12 months. By comparison, the TSX Composite was +8.0% and +28.4% for the same periods.

U.S. Equity Summary (18% of Assets)

Although the S&P 500 lagged the performance of the TSX this quarter, it nonetheless posted a very satisfactory positive return. Our own performance kept roughly in pace over the quarter. At 18% of the Fund, our allocation to U.S. stocks remains low in absolute and relative terms.

We made no new additions to our list of holdings, but we did add to our position in a number of healthcare names such as Pfizer and Baxter International. If compared to the S&P 500 index sector weights, our holdings are very concentrated between the financial services and the health care sectors. However, they integrate very well with our sector allocations in the Canadian market. In light of our unease with the prospects for the U.S. economy as it comes to grip with higher energy prices and higher interest rates, we feel very comfortable with our reasonably narrow list of holdings at this time.

The Fund’s U.S. equity returns in C\$ were +3.3% for the quarter, and +0.8% for the year. By comparison, the S&P 500 (in C\$) was +4.3% and +7.8% for the same periods.

Ten Largest Holdings	
Bank of America	2.2%
Home Depot	2.1%
Exxon Mobil	2.0%
CIT Group	2.0%
Pfizer	1.9%
Washington Mutual	1.8%
Edwards Lifesciences	1.8%
Tyco International	1.7%
Baxter International	1.6%
Waters Corporation	1.1%

Other Investments (10% of Assets)

We added to our investment in the JPMorgan *Equity International Investment Trust* (EQIT) over the course of the quarter. As it has for sometime, it continues to strongly outperform our U.S. holdings and provides diversification to our equity selections. This quarter EQIT returned +9.6% and, in the past year, it has increased 18.9%. We continue to view this as a core holding.