NEXUS

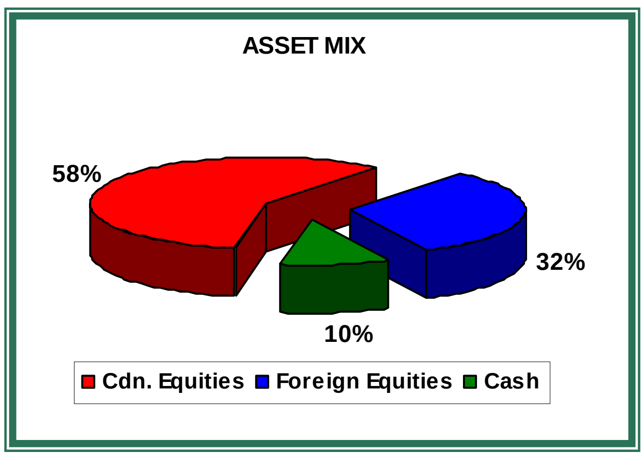
Portfolio Management & Financial Counsel

NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT - September 30, 2006

Interest rates and commodity prices moved sharply lower in the third quarter. The move occurred as economic evidence surfaced showing a moderation in economic activity in both Canada and the U.S. This slowdown has caused both the Bank of Canada and the U.S. Federal Reserve to step to the sidelines and await greater clarification as to whether their previous tightening moves have had the desired effect of slowing economic growth. Commodity and energy price weakness reflected a softening in demand that would be associated with a slowing economy, but certainly some of the price declines also related to investors (and speculators) reducing their expectations of hurricane-related supply disruptions in the Gulf of Mexico, and an easing of political upheaval in the Middle East, Venezuela and other parts of the world. Equity investors viewed the weaker energy and commodity prices as being positive for consumer spending power and helpful to corporate profitability. Both the Canadian and U.S. stock markets were stronger this quarter, reversing the weakness of the previous quarter. In fact, at the end of the quarter, the S&P 500 was set to move with great fanfare to a new “all-time high”.

Despite a moderation in energy prices late in the summer, the C$ remains close to its recent high. We have acknowledged previously that the basis of our strong currency is sound economic fundamentals - most notably, an attractive investment climate both for portfolio and direct investments, as well as trade and current account surpluses arising from the strength in commodity exports. However, as energy prices eroded over the course of the summer, we were surprised at how well the C$ has stood up. Perhaps the strength relates to the large recent flows related to foreign takeover activity in our mining and property sectors. If this is the case, as we suspect, it would not be surprising to see the C$ weaken somewhat in the weeks ahead. This would assuredly be welcomed by the beleaguered manufacturing base in Ontario and Quebec.



The major cause of worry regarding a slowdown in growth emanates from the U.S. housing sector. Long expected, it is now apparent that a major slowdown is at hand. After years of price increases, record levels of construction and quality job creation, it is clear that many of those trends have now reversed. How it will affect Americans is up to debate, but we certainly feel that a period of consumer retrenchment is likely. The stock of housing in the United States is now worth $22 trillion. At almost 160% of U.S. GDP, its relative size greatly surpasses any historical precedent. According to Merrill Lynch, the real value of housing has increased 90% in the last six years, but the book value has increased only 20%. It is quite likely that some price adjustment (lower prices) needs to take place. Declines in home prices, although uncommon, have actually begun in many localities and, in August of this year, the average selling price of a home in the Unites States fell on a year over year basis for the first time since 1993. A decline in the value of housing reduces the equity owners have in their homes, and this restricts the ability of owners to borrow against their homes and fund consumption. Second order effects associated with a slowdown in housing construction, such as weaker employment levels in this sector, will also moderate economic activity as consumers adjust to a softer economy.

During the quarter, the Fund’s unit value increased 3.8%[1]. The Fund is up 7.0% 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, after being allowed to creep up to 12%, reduced our cash position to 10%. The money was used to add to our U.S. and non-North American exposure, which now stands at almost 1/3rd of the portfolio.

Canadian Equity Summary (58% of Assets)

Weakness in the Basic Materials and Energy sectors was offset by strength in interest rate sensitive sectors such as Financials and many income trusts. Our list of largest holdings is largely unchanged, but we did make changes to other holdings in the quarter that are worth noting.

Ten Largest Holdings	
Bank of Nova Scotia	**3.6%**
Royal Bank	**3.6%**
Manulife	**3.5%**
Bank of Montreal	**3.1%**
TD Bank	**3.0%**
Suncor	**2.9%**
EnCana	**2.1%**
Enbridge	**2.0%**
Petro Canada	**1.9%**
Transcanada Corp.	**1.9%**

After a long and very successful period, we sold our holding of H&R REIT. Like almost every REIT, H&R was interest rate sensitive and had benefited from the decline in interest rates. Conservatively capitalized and conservatively managed, the markets had ascribed a premium valuation that left very little potential for upside surprise. We felt there were other income producing opportunities with superior return potential.

Another disposition was Canadian Western Bank. CWB has a small market capitalization ($1.3 billion) and operates in a narrow geographic niche. It does not trade particularly actively. Over the years, it has compiled a fine operating record and in the process, like H&R, commanded a premium valuation. As is the case with all small capitalization stocks, you have to, “sell when you can, and not when you want to”. CWB was a very successful investment for the Fund, however, when adjusted for the trading liquidity, the narrowness of its operating base, and its valuation we felt that we could find more attractive opportunities.

In August, we purchased a small position in Teranet Income Fund. Teranet operates the electronic land title system in Ontario under an exclusive arrangement with the Province. Over the last decade, Teranet has been responsible for converting the dusty files in land registry offices into a web-based system of land title. From their desktops, lawyers and others needing access to land ownership information may now do so through Teranet’s network. Teranet has a stable base business, and the opportunity to grow by selling related services to users of land title data.

Our lack of meaningful exposure to the Basic Materials sector helped our Canadian equity selections outperform the TSX index. This quarter, the Fund’s Canadian equity returns were +3.4% compared to a return of the TSX Index of +1.9%. In the past year, we trailed the index; our Canadian equities have returned +6.9% in the last 12 months and, by comparison, the TSX Composite was + 9.2% for the same period.

U.S. Equity Summary (21% of Assets)

We made two additions to the portfolio and one disposition resulting in an increase in our weighting in U.S. securities to 21% of assets. Both purchases were in the healthcare services sector, and represent relatively large allocations within our limited U.S. exposure. We remain underweight this sector.

Ten Largest Holdings	
Bank of America	**2.5%**
Pfizer	**2.3%**
Edwards Lifesciences	**2.1%**
Exxon Mobil	**2.0%**
Baxter International	**2.0%**
Tyco International	**1.9%**
CVS Corporation	**1.8%**
Lincare Corporation	**1.8%**
DaVita Inc.	**1.7%**
CIT Group	**1.6%**

Lincare Holdings Inc. is a provider of oxygen and other respiratory care services to patients with Chronic Obstructive Pulmonary Disease (COPD). This affliction (think shortness of breath, emphysema and other lung disease) is already a large market and it is growing at about 6% per year. Lincare operates in 47 states and is the largest player in this niche by a wide margin. The provision of medical services, and the re-imbursement for those services, is under constant scrutiny. As the largest and most efficient operator, we believe Lincare has the opportunity to consolidate a very fragmented industry and deal with the challenges of the American health care system better than its competitors. This is a company with modest leverage and a strong record of growth, both by acquisition and organically.

Our other new addition is DaVita Inc., which is a large nationwide provider of dialysis services to people with End-Stage Renal Disease (ESRD). Like COPD, ESRD is growing steadily, with demand correlated to higher levels of diabetes, obesity as well as ageing. Like Lincare, DaVita is a large player in the field, but unlike the market for COPD care, this is an area of the healthcare system that is already well-consolidated. In fact, DaVita completed a large acquisition in late 2005 to become the second largest player in the field with more than a 30% share of the market. As a consequence of the acquisition, the company assumed a lot of debt. In the course of the past year, execution on the operating side of their business has been excellent, and the outlook for the company reducing their debt load and freeing up cash flow for such shareholder friendly activities as share buy-backs and dividends seems likely. Given the characteristics of the affliction that they treat, we believe that this is an investment with excellent prospects in the years ahead.

After many years, we parted with our holding of Washington Mutual. Over the years it has been making a steady transformation from being almost exclusively a mortgage lender into a more integrated financial services company. It has strong leadership and is often spoken of as a suitable acquisition target for either a large foreign bank wishing to enter the U.S. market or to be integrated with an enterprise such as JPMorgan Chase or Citigroup. Despite its many attractive qualities, we felt that it was over-exposed to mortgage banking and that it was prone to earnings disappointment in the event of a continued sharp slowdown in the real estate market. As our fund already has substantial exposure to the financial sector we felt it best to sell this holding.

Investment returns from U.S. equities were stronger this quarter, and the Fund's performance was stronger than the S&P 500 index. The Fund's U.S. equity returns in C$ were +6.6% for the quarter, and +8.0% for the last year. By comparison, the S&P 500 (in C$) was +5.7% and +6.4% for the same periods.

Other Investments (11% of Assets)

We maintained our investment in the JPMorgan *Equity International Investment Trust* (EQIT) over the course of the quarter. This quarter, EQIT returned +3.6% and, in the past year, it has increased 14.0%. We continue to view this as a core holding.

In addition to EQIT, we also made a new investment during the quarter in Wal-Mart de México. Walmex is a Mexican company (owned 66% by Wal-Mart) that operates Wal-Mart Superstores, Sam’s Clubs, and a variety of other food and clothing chain stores in Mexico. The Mexican population is young, and the middle class is growing rapidly. Generally speaking, the retail environment is fragmented and dominated by family-run enterprises employing little technology. Accordingly, we think the opportunity for Walmex to compete effectively, using the vast technological and merchandising expertise of its U.S. parent, is enormous. If we’re right about Walmex, it could be analogous to investing in Wal-Mart 20 years ago.