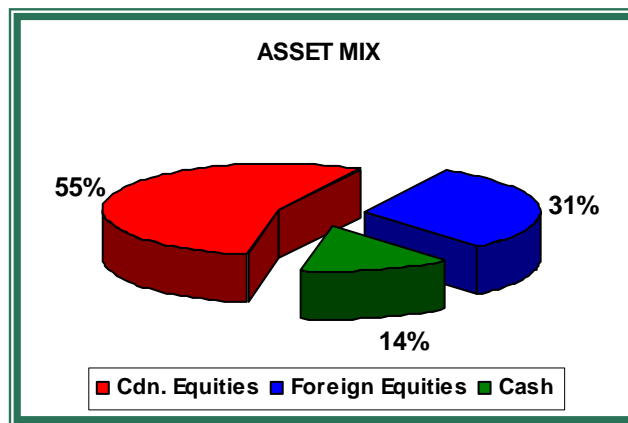


NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT – December 31, 2007

North American capital markets were roiled in the final quarter of 2007 by the consequences of the sharp deterioration in the asset quality of the global financial system. Although this crisis in credit has been unfolding since late spring, credit and equity markets were particularly volatile in the 4th quarter, lurching higher and lower in reaction to a stream of news releases and rumours. Originally, the problem was believed to be predominantly a result of lax mortgage underwriting standards in the United States. It is now clear that financial engineering, excessive borrowing and inadequate risk controls are pervasive problems in the global financial system. What has been laid bare is that liquidity was overestimated, complexity underestimated, and that the problems were more broadly distributed than almost anyone would have imagined. Virtually no financial institution or investor has been able to avoid being affected by the crisis now unfolding.

Canada has had a more conservative culture for borrowing and lending and, as a result, our system has suffered comparatively less than both the Americans and Europeans. 'Ground zero' of the credit crisis was the sub-prime mortgage lending business in the United States but, despite our geographic proximity, Canada's financial system has been only partly contaminated by this problem. Where it did affect Canadians was with regard to the asset-backed commercial paper market. This 'made in Canada' problem arose because a number of issuers of commercial paper in Canada had investments that contained more leverage and more exposure to low quality assets than investors realized. Since August, a committee of bankers, investors, and financial regulators has been working steadily to elicit agreement to what is known as the 'Montreal Accord', a plan to restructure almost \$32 billion dollars of frozen Canadian asset-backed commercial paper. On December 23rd, an agreement was arranged in principle that will turn the short-term debt into longer-term floating rate notes - a small, tentative sign of progress. Following this agreement, the tone in Canadian money markets improved. However, it is not clear that this improved sentiment will help the bond or stock markets. There remain many more credit challenges globally.



The Fund has avoided any direct exposure to the most egregious excesses and damaging write-offs in both the U.S. and Canada. Thankfully, we watched the negotiations of the Montreal Accord from the sidelines, unscathed by any exposure to the affected commercial paper, and our list of Canadian bank holdings does not include the CIBC which has had far more exposure to global credit problems than any other Canadian institution.

As the quarter ended, unlike the light at the end of the tunnel suggested by the Montreal Accord here in Canada, the global financial system remained in turmoil, without any clear end in sight. The problems of the global banking system have led to a significant reduction in lending activity and a slowdown in personal spending and corporate investment. It appears that concerns about the integrity of the financial system have undermined consumer and business confidence in North America and Europe. As economies in the developed world decelerate, the theory that the emerging economies of China and India can continue to grow in the face of a slowdown in the developed world will be tested.

After several years of excellent returns, in 2007 the Fund return was slightly negative on the year. In the past quarter, the Fund declined 2.8% and, over the last year, it declined 1.0%.

Asset Mix

After ending the third quarter with a record high cash position, we modestly increased our exposure to equities over the course of the past quarter. However, our allocation to equities remains well below long-term targets and our cash position, at 14% of assets, remains quite high. We remain defensively positioned, with an overweighting in Canadian equities and a large cash position.

Canadian Equity Summary (55% of Assets)

Ten Largest Holdings	
Manulife	3.7%
TD Bank	3.7%
Royal Bank	3.5%
Bank of Nova Scotia	3.5%
Enbridge	2.8%
Suncor Energy	2.7%
Petro Canada	2.7%
Rogers Communications	2.7%
Bank of Montreal	2.6%
Finning International	2.1%

We made a few small changes this quarter but generally stayed with our concentration in energy and financial services stocks. On the selling front, apart from selling two small positions that accounted for less than 1% of the value of the Fund, we tendered our units in CCS Income Trust to a take-over offer led by the founder. We were sorry to lose CCS, as it was a stable business, well suited to be an income trust and which we had only held since May. However, it was sold at a considerable premium to where we had purchased it and we are pleased to recognize the gain and look elsewhere for other attractive holdings.

With the proceeds of the sale of CCS, we added to three core holdings: Enbridge Inc., TransCanada Corporation and Teranet Income Fund. They each are excellent defensive holdings. Each of these companies can be described as having stable businesses with

clear opportunities for growth. They have attractive yields, are conservatively capitalized and are not particularly cyclical. In a difficult market since we purchased them, they have either appreciated or declined less than the market.

Our Canadian stock performance lagged the TSX Composite this past quarter. Our Canadian equity returns were -3.4% for the quarter and + 3.8% for the year. By comparison, the TSX Composite was down 1.3% in the last quarter and + 9.8% for the year.

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

Tumultuous capital markets inevitably generate attractive long-term opportunities or significant valuation distortions between sectors. The current investment environment will be no different. In order to take advantage of these situations, investors often note that being able to act quickly is key. In fact, while this is often the case, it is sometimes also true that patience is also a prerequisite. Investors with our style frequently invest early in companies and sectors that are out of fashion. Long-term unitholders will know that healthcare is a sector that we have emphasized without much benefit over the last several years. It now seems that because this sector is deemed to be 'safe' from many of the prevailing worries in the capital markets, it is finally on the cusp of delivering the reliable returns we had expected of it for some time. We have a number of exciting holdings in this area. For the most part they are conservatively capitalized and relatively insensitive to changing economic conditions.

We made no sales in this asset class, but we did add to positions in a number of holdings, particularly in the healthcare sector. One of the additions was to our position in Edwards Lifesciences. Based in California, Edwards is a global leader in the field of cardiovascular disease. It focuses primarily on heart valve disease, making tissue valves which are implanted in patients for whom mechanical replacement valves are unsuitable. In the future, we hope that they will successfully commercialize a procedure for implanting new heart valves in patients without the patients requiring invasive open-heart surgery.

Another addition was to DaVita Incorporated. Also headquartered in California, DaVita is the largest provider of dialysis services for patients suffering from chronic kidney failure, which is also known as end stage renal disease (ESRD). The service is provided in 1,300 stand-alone facilities as well as through over 700 hospitals across the United States. They have over 100,000 patients and the business is relatively immune from the vagaries of the economic cycle.

This quarter concluded another difficult year for Canadian investors exposed to U.S. equities. At 21% of Fund assets, we remain well underweight U.S. equities. However, given our growing conviction that the heady days of the C\$ are behind us, and the attractive valuations of some (not all) excellent multinational companies in the U.S., it is quite possible that we will increase our holdings in the U.S. in the coming year. Given the extraordinary circumstances in credit markets and the potential economic consequences, we will naturally be judicious.

After being a drag on performance all year, the Canadian dollar was basically unchanged this past quarter, meaning it played little role in the returns from U.S. investing. Our Fund's U.S. returns trailed the S&P 500 index this quarter and also lagged slightly over the course of the year. The Fund's U.S. equity returns in C\$ were -6.7% for the quarter, and -11.8% for the last year. By comparison, the S&P 500 (in C\$) declined 4.1%, and declined 10.6% in the past year.

Ten Largest Holdings	
CVS/Caremark	2.2%
Exxon Mobil	2.1%
Bank of America	2.1%
Waters Corporation	1.8%
Baxter International	1.7%
Edwards Lifesciences	1.7%
Lincare Holdings	1.6%
Pfizer	1.5%
DaVita	1.5%
Covidien	1.3%

Other Investments (10% of Assets)

Our 10% weighting consists of an 8% weighting in the JPMorgan *Equity International Investment Trust* (EQIT), with the balance invested in Wal-Mart de México (Walmex). In a difficult equity environment, EQIT was down only slightly over the quarter, outperforming both the U.S. and Canadian equity markets. EQIT continues to be an excellent investment for the Fund, providing both diversification and strong outright returns. We continue to view it as a core holding.