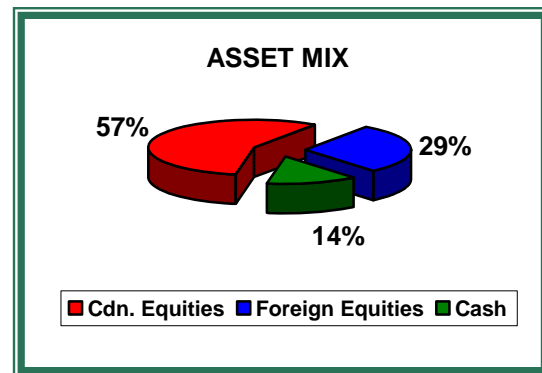


NEXUS NORTH AMERICAN EQUITY FUND QUARTERLY REPORT – June 30, 2008

The worry that characterized capital markets in late 2007 and early 2008 continues. Investor sentiment began the latest quarter with the hope that the well-documented economic woes (particularly in housing and the financial sector) would be contained. However, sentiment has changed for the worse over the course of the quarter and worry that the troubling issues that face the economy are unresolved and may have deteriorated is now beginning to be reflected in asset prices. The problems of the financial sector have now clearly spread to the wider economy and economic activity around the globe is decelerating. In North America, and particularly the United States, many harbingers of a traditional recession are in plain view. Unemployment is rising, consumers are spending less and industrial activity is operating below full capacity. After a long period of economic expansion, we have moved into an environment that, if not contracting, is certainly much less buoyant than recent history. This sort of experience is unsettling, but it is part of a natural cycle of economic activity.

If there is anything this time that seems different from the previous experience with the natural rhythms of the economy, it is that accompanying this period of economic slowdown there has been a pick-up in the measured rate of inflation around the globe. In North America, the decline in the value of the U.S. dollar, combined with robust resource demand in emerging markets has fueled price increases in a number of basic commodities, particularly energy. In the developing world, where spending for basic necessities, particularly food makes up a higher proportion of personal income, food price inflation has also risen sharply. At this time, it is unclear whether inflationary prices will be limited to the change in commodity prices, or whether it is more pervasive and will be passed through to other goods and services.



A mix of slowing economic performance and higher prices reminds investors of the debilitating period of 'stagflation' that was experienced in the late 1970s. It is a comparison that is not well founded, as present circumstances differ substantially from the situation back then. Nonetheless, the Bank of England, the European Central Bank, the U.S. Federal Reserve and the Bank of Canada have each announced that staying ahead of the pernicious effects of inflation remains a top priority and we would expect them to follow with tighter monetary policies should commodity price pressures flow through to higher prices for finished goods and services - a possibility, but not a probability in our estimation. For now, there is little evidence that companies in North America are able to increase the prices for consumer goods and services. Instead, companies continue to absorb higher input costs with lower profit margins. Likewise, workers are not 'winning' inflationary wage increases. In fact, unit labour costs are well controlled and productivity has been improving as the economy sheds jobs. In the coming months, we expect measured headline inflation will remain at elevated levels with energy prices continuing to pressure prices higher. However, a soft economy and declining prices for 'bigger ticket' items such as cars, appliances and even shelter (housing) will mitigate the effects.

Canada has enjoyed a period of relative stability in 2008. On a year-over-year basis, headline inflation released in May was 2.2% and the core rate was only 1.5% - enviable circumstances as compared to the experience in the U.S. and Europe. Equity markets have rebounded from their March lows and despite a weak month of June, are still 6% ahead of where they began the year. Although they have moved higher over the course of the quarter, interest rates remain low in absolute terms, and fixed income returns have been positive for the year-to-date. This relatively benign capital markets

experience belies a far different experience for many Canadians. In fact, the issues of imbalance between regions and industrial sectors is as acute now as it has been since we first worried about the ‘Dutch disease’ more than three years ago. The disparity between the economic performance in the resource-rich western provinces and the manufacturing and export-oriented provinces of Ontario and Quebec has likely never been larger. The new Bank of Canada Governor, Mark Carney, likely wanted to establish his inflation fighting credentials when the Bank defied market expectations and left the Bank Rate unchanged at 3% in early June. However, in the absence of a pick-up in the core rate of inflation, we expect that economic conditions will lead to reductions in short-term interest rates between now and the end of the year.

The present period is as challenging as any in recent memory. The litany of worrying news regarding both the economy and the financial system seems never-ending, and sensibly demands a heightened level of vigilance. Yet this remains an environment where opportunities will arise for patient long-term investors. We continue to emphasize quality in both our bond and equity investments and expect that, in this troubling period, we will establish some positions that prove especially rewarding for the years ahead. To repeat what we said in our last report, future long-term investment success will arise from being able to survive this current period with capital largely intact in order to be positioned for opportunities and a general market recovery, whenever that may be.

Despite the considerable risks and treacherous conditions, the Fund gained 3.5%¹ last quarter and is now basically unchanged (- 0.3%) since the start of the year.

Asset Mix

Our cash position remains high and as a result, our equity allocation remains below our long-term guideline. We have added slightly to our weighting in the U.S. over the course of this recent quarter. We believe our positioning reflects the necessary prudence suitable for current market conditions.

Canadian Equity Summary (57% of Assets)

Ten Largest Holdings	
Bank of Nova Scotia	4.1%
Manulife	3.9%
Toronto Dominion Bank	3.7%
Royal Bank	3.0%
Enbridge	2.9%
Petro Canada	2.8%
EnCana	2.7%
Suncor	2.6%
Rogers Communications	2.3%
Trican Well Services	2.2%

Changes to the holdings last quarter can best be described as being of a re-balancing nature. We added to some positions and pared back on others in response to market fluctuations. One position we added to was our holding in TransCanada Corporation. Headquartered in Calgary, in recent years TransCanada has transformed itself from being predominantly a steady but somewhat sleepy regulated pipeline utility into one of North America’s leading energy infrastructure and power generating companies. Its major businesses include operating almost 60,000 km of gas pipelines, the ownership and operation of 18 power plants and a natural gas storage business. We believe it has the expertise and the strategic positioning to benefit from a looming ramp-up in infrastructure investment in the energy and power generating industries. In May, it announced the purchase of the

Ravenswood Generating Station, a large natural gas-fired power plant serving the New York City area. Accompanying this purchase, the company issued more equity and we added to our position at that time. This is a stable industry with a number of visible projects that will increase earnings and cash flow. TransCanada has an excellent management team to guide the strategic decisions as well as manage the planning, engineering and construction complexities of multi-billion dollar projects.

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

We also added to our position in Teck Cominco Ltd. Based in Vancouver, Teck is a diversified mining company that ought to prosper with the ongoing development of the emerging world. It owns established copper and zinc mines in Canada and South America, and a large metallurgical coal business (through a direct interest in the Elk Valley Coal Project and an ownership stake in Fording Coal Income Trust). In addition, it owns a significant stake in two large oil sands leases in northern Alberta as well as a smelting business.

In 2000, the TSX Composite Index became over-concentrated in technology stocks. In 2008, a concentration in commodity stocks, which now account for more than 53% of the index, appears to follow the same pattern. In the last 12 months, the return of one stock, Potash Corporation, accounted for 80% of the capital return of the entire index. Just as the risks were high when technology stocks were roaring, so too are they high now for investors over-committed to commodities. We believe long term success is best achieved through sensible diversification, so we have resisted excessive exposures in this area. Our Canadian equity returns were 5.1% for the quarter and -0.1% for the year-to-date. By comparison, the TSX Composite rebounded by 9.1% in the last quarter to be up 6.0% for the year.

U.S. Equity Summary (20% of Assets)

We have been more active managing our U.S. holdings this quarter than has been the case for most of the last two years. In our last quarterly report we wrote about a new holding, SunPower Corporation, a leading developer of photovoltaic (PV) power systems. The shares appreciated 30% in the two weeks after we made our purchase and so we made the decision to take our profits. The share price has subsequently fallen well below where we had established our position. This area of environmentally sustainable investing remains an interesting long-term opportunity, but the short-term volatility is distracting. We will continue to examine opportunities in this area, but will pay especially close attention to our valuation disciplines.

Also in our last quarterly report, we described the realignment of our bank holdings. At the start of this most recent quarter, we sold our holding in Bank of America. Bank of America had held up reasonably well compared to other large U.S. banks, but we felt that, given the scope and breadth of its operations (it holds 10% of the U.S. banking industry deposits), it had become a proxy for the U.S. banking sector. Despite an attractive valuation, it wasn't plausible that, at its size, it could perform meaningfully differently than the entire industry. Since selling it, it has declined a stunning 37% and now yields more than 10%. At these levels, we are watching it carefully to see if it can be re-introduced to the portfolio. For now we are waiting until the issues of the U.S. banking industry become clearer to us.

We added a new position in a company called Walter Industries. Walter is a metallurgical coal producer with two mines operating in Alabama. For the most part, the coal it produces is used in the production of steel in Europe and South America. The largest alternative suppliers of metallurgical coal are in Australia and Western Canada, so Walter has a very beneficial geographic position that gives its coal a significant pricing advantage when shipping rates are included in the cost. As well, the quality of its coal is high and Nucor Steel is building a mill that is only 200 miles away and which may become a new customer. The market for 'met' coal has been very tight - not only have demand conditions in the developing world been strong, but supply has been disrupted due to flooding in Australia and rail and port capacity limitations around the globe. Walter has a mine expansion underway to increase production and it has announced that it is getting out of two smaller businesses in order to focus on coal. We think that investors will look favourably on these developments.

Ten Largest Holdings	
Edwards Lifesciences	2.2%
CVS / Caremark	2.2%
Covidien	2.0%
Exxon Mobil	2.0%
DaVita	1.9%
Tyco International	1.8%
Lincare Holdings	1.8%
Waters Corporation	1.7%
Tyco Electronics	1.4%
Walter Industries	1.2%

Largely due to its heavy weighting in the healthcare sector, the Fund had outstanding performance with its U.S. selections this past quarter. Our Fund's U.S. returns increased 5.4% while the S&P 500 (C\$) index declined 3.6% for the same period. In 2008, our U.S. holdings have declined 1.1% while the benchmark index fell 9.2% over the same period.

Other Investments (9% of Assets)

Our 9% weighting is unchanged from the start of the quarter and reflects a 7.0% 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 again down less than the U.S. market in both the past quarter and the past year. 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.