

## NEXUS NORTH AMERICAN EQUITY FUND

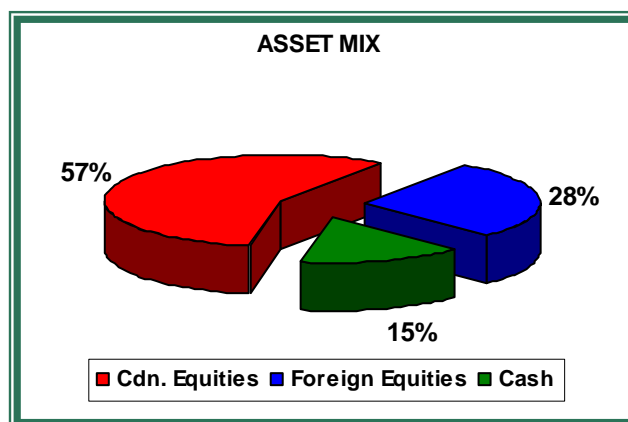
### QUARTERLY REPORT – March 31, 2008

North American capital markets began 2008 with no reprieve from the volatility that characterized the end of 2007. If anything, the unease at the start of the year has increased, as investors and the public at large come to grips with both the extent and the complexity of the worries in financial markets. The issues of excessive borrowing, lax lending standards and inadequate risk controls that we have described in earlier reports have clearly spread from Wall Street to Main Street in the United States. Likewise, in other developed economies, these same issues have moved from being financial industry issues to problems that are dragging the developed world to the brink of recession.

Thankfully, the secular story of continued strong growth in the emerging world (China, India and South America) remains largely intact. While there is a risk that these economies slow markedly from their recent levels, in all but the most dire of forecasts the emerging world will provide a measure of stability and necessary offset to the problems being worked through in North America and Europe. This is especially relevant to Canadians. Historically, due to our proximity to the United States, as well as to important policy agreements such as the NAFTA accord, Canada's economic fortunes have risen and fallen with the ups and downs of the U.S. economy. While this continues to be

largely true, this time the effects of economic disruption will be softened in two ways. Firstly, the demand for raw materials outside of North America (energy and basic materials, such as metals) remains elevated, providing significant support to a large section of our economy. Secondly, years of fiscal restraint in Ottawa have generated considerably more policy flexibility to manage through this difficult period than has been true in the past. Low inflation, balanced budgets and a strong currency give policy makers a number of choices to offset the effects of any cyclical slowdown in the United States, or for that matter the rest of the world. This is not to say that Canada will sail through this period unscathed by the serious issues affecting other economies, but rather to say that we are in as good shape as we have ever been to cope with developments as they arise.

What began as a U.S. mortgage lending problem has spread to the broad economy. Led by a weakening consumer sector, over the course of this quarter economic evidence has built that the U.S. is teetering on the brink of recession. There are many causes for this weakness. While the unemployment rate has remained very low, payroll employment (that is the actual number of people working) has actually fallen in each of the past three months. Unsurprisingly, home prices in almost all regions and at almost all price levels have also declined, defying the experts<sup>1</sup> and creating conditions where many homeowners have little or no equity in their homes. A continued escalation in energy prices (heating costs as well as gasoline prices) has also pinched the wallets of consumers. As a result, measures of consumer and business sentiment are low.<sup>2</sup>



<sup>1</sup> Unfortunately the experts also include the many credit rating agencies who never 'modeled' a significant decline in home prices when grading securities backed by residential mortgages.

<sup>2</sup> The Reuters /University of Michigan Consumer Sentiment Index, released March 28<sup>th</sup>, was 69.5 – a 16 year low, while the Institute of Supply Management reading for February was 48.3, a level associated with economic contraction.

Compounding these negative economic developments has been a steep decline in the U.S. dollar. This quarter the trade-weighted U.S. dollar fell by 8% and now sits 17% below where it was at the start of 2007. In simple terms, this is the result of declining global confidence in the might of the U.S. economy and years of structural trade imbalance, particularly with China in manufactured goods, and with the Middle East in oil. More recently, a sense among investors of indifference in Washington to the consequences of a weakening dollar has emboldened speculators and worried foreign central banks. Many central banks use the U.S. dollar as the major component of their foreign exchange reserves and invest in U.S. treasury securities with these balances.

Capital markets have now discounted a lot of bad news. While the level of pessimism may yet be proven justified, especially through to the end of the year, we believe that it is also an environment where investors will be able to establish positions that prove very rewarding over the long-term. The best defense in times such as these is a solid emphasis on quality. Investors should be mindful that interest rates, especially on government bonds, have fallen to levels where they provide only the important characteristic of capital preservation, not a real return. On the equity front, many companies are now valued for a period of never-ending disruption. 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 declined only 3.7% to begin the year and over the course of the past year it has declined 6.5%.

## Asset Mix

We ended last year with a high cash position and have allowed it to grow slightly over the quarter to 15% of the portfolio. Within our equity selections, the allocation to Canadian stocks has increased slightly, and our holdings of U.S. stocks remains low.

## Canadian Equity Summary (57% of Assets)

We made two important changes to the composition of our holdings over the course of the past quarter.

Ten Largest Holdings	
<b>Manulife</b>	<b>4.6%</b>
<b>Bank of Nova Scotia</b>	<b>4.3%</b>
<b>Toronto Dominion Bank</b>	<b>3.8%</b>
<b>Royal Bank</b>	<b>3.3%</b>
<b>Enbridge</b>	<b>3.0%</b>
<b>Suncor Energy</b>	<b>2.8%</b>
<b>EnCana</b>	<b>2.4%</b>
<b>Petro Canada</b>	<b>2.3%</b>
<b>Rogers Communications</b>	<b>2.2%</b>
<b>Finning International</b>	<b>2.0%</b>

Most noticeably, we have added a position in Thomson Corporation. Operating primarily in the U.S. and Europe, Thomson is an information services business serving largely the financial and legal communities. Most importantly, it has recently announced a merger with Reuters PLC., the global financial news and information service. Reuters has a strong presence in Asia so the two businesses complement each other well. The combined entity will be the global leader in providing news, historical information and data, analytics, as well as electronic trade processing to legal, financial and health service professionals. The merger has been many months in the making, but recently was approved by regulators and shareholders. We believe there will be significant operating and revenue synergies that will generate large benefits to shareholders.

We also re-configured our financial services holdings this quarter, selling our interest in the Bank of Montreal and adding to our positions in the three other Canadian banks we own (Royal Bank, Scotia Bank and TD). While attractively valued and offering a generous dividend, credit write-downs and lower levels of profitability handicap the Bank of Montreal from being able to cope with present market conditions as well as the other banks can. We think the banks we purchased offer better long-term growth, as well as superior capabilities to adapt to a period of financial market instability.

Our Canadian stock performance lagged the TSX Composite both in the past quarter and over the past year. An explanation for this under-performance rests mainly on our low weighting in the Materials sector compared to its weight within the TSX. The Materials sector (encompassing primarily mining, metals and golds) of the TSX has been largely responsible for carrying the index to a positive return in the last 12 months, due both to the attractive returns generated, as well as the large weighting of this sector. At present levels, many of these stocks discount a longer period of high commodity prices than we are comfortable with. Our Canadian equity returns were -5.0% for the quarter and -4.7% for the year. By comparison, the TSX Composite was lower by -2.8% in the last quarter and + 4.0% for the year.

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

At just 19% of the Fund, we remain considerably underweight our long-term target for U.S. equities. After a recent period of light activity in this asset class, this quarter we made some changes to our holdings. In January, we increased our position in Covidien, a diversified healthcare company operating in over 100 countries around the globe. Our initial position arose when Covidien was spun-out of Tyco International in 2007. It is primarily a medical devices company, making equipment used in operating theatres and in the medical imaging business. As an industry leader in its main businesses, we expect Covidien to be able to capitalize on the growth of the healthcare industry as the population ages and, just as importantly, to take advantage of greater demand for quality medical care in the developing world. In its previous incarnation as Tyco Medical, Covidien was starved for growth capital and lacked adequate funding for research and development. In the future, we expect it to be able to take advantage of some pent-up opportunities in these areas and that it will be recognized with a higher valuation in the equity market.

After many years in the Fund, we sold our position in Baxter International this quarter. Baxter had been a particularly successful holding in the last few years, but the premium valuation of its stock discounted a more optimistic future than we envisioned for the company. In such instances, it is always difficult to part with a solid business, but we expect the present environment will present many superior opportunities.

We believe that one of those opportunities is SunPower Corporation, a global leader in the development and manufacture of photovoltaic (PV) systems. Late in the quarter, we established a position in this profitable and exciting company. While there are a number of companies in this field, SunPower's PV systems are more efficient than its competitors and it is more vertically integrated than other companies in this sector. It has an experienced management team and a client list that includes both Wal-Mart and Hewlett Packard. At a share price more than 60% below its recent high, we think this is an example of the sort of opportunity that presents itself to patient investors in tumultuous times.

Ten Largest Holdings	
<b>CVS/Caremark</b>	<b>2.3%</b>
<b>Exxon Mobil</b>	<b>2.0%</b>
<b>Tyco International</b>	<b>1.7%</b>
<b>DaVita</b>	<b>1.7%</b>
<b>Edwards Lifesciences</b>	<b>1.7%</b>
<b>Waters Corporation</b>	<b>1.6%</b>
<b>Covidien</b>	<b>1.6%</b>
<b>Pfizer</b>	<b>1.5%</b>
<b>Lincare Holdings</b>	<b>1.3%</b>
<b>Tyco Electronics</b>	<b>1.3%</b>

The Canadian dollar weakened slightly over the quarter offsetting some of the effect of negative returns from investing outside Canada. We have maintained a significant under-weighting in U.S. stocks, and our U.S. positions remain heavily concentrated in healthcare, a sector which complements our Canadian holdings. Our Fund's U.S. returns trailed the S&P 500 index this quarter and also lagged over the course of the year. The Fund's U.S. equity returns in C\$ were -6.2% for the quarter, and -17.5% for the last year. By comparison, the S&P 500 (in C\$) declined 5.8% over the quarter and slid 15.4% in the past year.

## 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.