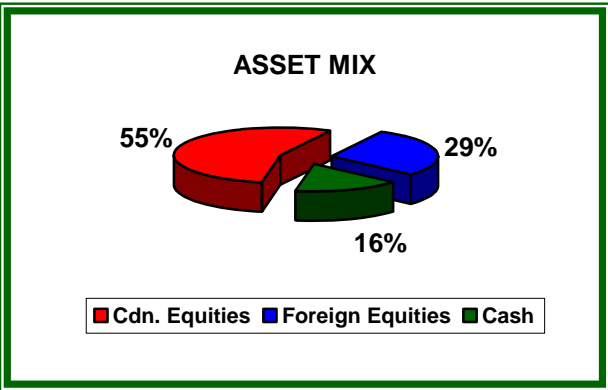


NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT – December 31, 2009

What a difference a year makes! 2009 was a year of vibrant recovery in capital markets with significant positive returns accruing to bond and stock investors alike. At the end of 2008, there remained real concern for the solvency of the global financial system, but over the course of 2009 extraordinarily stimulative monetary policy, together with massive fiscal intervention, has calmed most investor fears of a global financial meltdown. While some, including Nexus, may worry about the future consequences of current government fiscal and monetary policy, the settling down of the hysteria and fear that had gripped markets earlier in the year will now allow policy decisions to be made more thoughtfully than would have been possible just a few months ago.

While 2009 was a year of notable market recovery, it remains unclear whether it presages a period of economic recovery of similar significance. Optimistically, almost every kind of measure of economic activity shows sign of improvement as the year comes to a close. For example, in the United States, housing prices seem to be stabilizing, and in Canada, to the surprise of many, prices are actually higher on the year. Likewise, job losses in the U.S. are stabilizing at their lowest level in two years and, in Canada, new jobs have been created in three of the past five months. Measures of consumer sentiment have improved on both sides of the border, although they remain at historically low levels. Business confidence seems to reflect an improvement in attitude that, if accurate, will lead to a rebound in investment in capital equipment as well as inventories. Despite conflicting, but equally convincing, arguments for either future deflation or inflation, actual measured inflation, the scourge of long-term investors, seems to be well under control for the time being.¹



There is undeniable evidence of economic and market recovery, but it is not yet clear whether it is time to let down our guard as investors and assume a typical cyclical economic recovery is at hand. There remain a number of unresolved risks and imbalances in the global economy that make a 'normal economic recovery' still very much up for debate. At the very least, after a contraction in economic output such as we have just experienced, and in the face of U.S. fiscal stimulus amounting to almost 14% of GDP, some rebound in activity is to be expected. In short, zero percent interest rates, record debt and deficit levels, and massive trade imbalances remain worrisome aspects of the global economy. If 2008 was a year of crisis, and 2009 was a year of intervention, then 2010 may well need to be the year of normalization.

Certainly, the most pressing issue for investors in the coming year will be the relative success or failure of policy makers to restore normal monetary and fiscal policies without impairing the fragile recovery underway. In December, Bank of Canada Governor Mark Carney and Finance Minister Jim Flaherty each warned about the effects that an inevitable rise in interest rates would have on Canadians carrying too much debt. Unsurprisingly, ultra-low rates have encouraged Canadians to carry high levels of credit card and mortgage debt. A return to a more normal interest rate environment could easily derail consumer participation in this recovery – especially if wage and income gains remain subdued.

For now, changes in interest rates appear to be a matter of policy decisions by central banks. However, based on the extraordinary amounts of government spending and borrowing now planned, it is quite possible that the determination of interest rate policy may well end up being forced on governments and central banks, in particular those of the U.S. and the U.K., by investors in the global bond markets. While

¹ The 12 month change in Canada's All-Items CPI was 1.0% in November and 1.8% in the United States.

many economists see the merits of the sort and scale of fiscal stimulus being utilized currently, investors in government debt will need to believe there is a credible plan in place both to reduce the developing debt burden and to wean economies from relying on such extraordinary intervention. It is possible that, sometime in 2010, worry that a major country will be unable to repay its debts will come to a head and provoke another crisis in capital markets. Over 60% of U.S. Treasury bonds are held by international investors,² and 40% of all Treasury debt outstanding matures in the next 12 months.³ As such, there is a requirement to refinance a massive amount of debt, and it is essential that a plan to manage the debt burden be explained to investors so as to maintain their confidence and willingness to invest in the U.S. Treasury market. We are watching with interest the situation of Greece, recently downgraded to BBB status by Fitch, and that country's response to a growing international worry about the deterioration in its public finances.

Fund performance continues to be excellent and compares well to benchmarks and competitors. In the last quarter, the Fund gained 4.0% and, on the year just concluded, it generated a positive return of 23.8%.⁴

Asset Mix

We remain conservatively positioned in the Fund with an allocation to equities of 84%. The cash position reflects our cautious approach at this point in time, and certainly leaves room for us to add to positions as new opportunities come our way.

Canadian Equity Summary (55% of Assets)

Ten Largest Holdings	
Toronto Dominion Bank	4.6%
Royal Bank of Canada	3.9%
Bank of Nova Scotia	3.8%
Suncor Energy	3.8%
Research In Motion	2.6%
Manulife Financial	2.3%
IESI-BFC	2.2%
Talisman Energy	2.1%
Trican Well Service	2.1%
Telus	2.1%

We made few changes to the portfolio this quarter, content with our current selections and the defensive nature of our holdings of telecom, consumer staples and utility stocks. However, one change was the addition of a new holding in Brookfield Infrastructure Partners LP. Brookfield Infrastructure is a business that owns and operates infrastructure assets in Canada and around the globe. Generally speaking, its investments are in high-quality infrastructure assets, such as power or pipeline projects, with little competition or high barriers to entry. Typically, these investments have low maintenance capital requirements and generate stable and growing cash flows. Currently providing a distribution yield of slightly more than 6%, we think that with only modest growth, Brookfield Infrastructure could well generate almost 10% returns per year for many years.

Two other holdings in the portfolio have experienced major corporate transformations. After more than a year in the planning, EnCana Corporation, a long-term core holding of the Fund, re-organized through a plan of arrangement into two separate corporate entities. One part of the company remained named EnCana and is now a pure play on unconventional natural gas production in North America. The other part of the company was re-named Cenovus and its business is focused on oil sands assets in northern Alberta. We like the leadership of both companies and think that running the two businesses separately will bring more focus to each operation. The other company undergoing a change of sorts is IESI-BFC Ltd., which announced the acquisition of Waste Services Inc. (WSI). WSI, with solid waste management operations in several Canadian provinces and Florida, is about 40% of IESI-BFC's size. The two have good regional overlap in Canada and the acquisition should yield over \$25 million in annual pre-tax synergies. In Florida, it establishes IESI-BFC in several cities, providing a base for growth and tuck-in acquisitions. The merger should close in the first quarter of 2010. Post acquisition, IESI-BFC will be the clear number three waste management company in North America. To reiterate our investment thesis,

² *Guide to the Markets*, J.P. Morgan Asset Management Q1, 2010.

³ *Reckoning Delayed*, National Post, January 5, 2010.

⁴ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

IESI-BFC is a defensive story with good long-term growth potential. It carries a 3.5% dividend yield and retains strong cash flow to finance future growth. Note that the company was recently renamed from BFI Canada.

We concluded the year with another quarter of strong absolute performance. Notwithstanding a concentration in industries and companies with defensive attributes, the Fund's Canadian equities increased 3.0% on the quarter and were up 32.3% for the year just finished. The TSX Index rose 3.9% in the final quarter of the year and was up 35.1% for all of 2009.

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

Our exposure to U.S. equities remains well below the Fund's long-term guidelines, and we remain heavily concentrated in the healthcare sector. However, since last quarter, we sold our position in Edwards Lifesciences which had been one of our largest U.S. holdings. Edwards is a dominant player in the field of cardiovascular surgery with an expertise in tissue valves and a proprietary method of doing minimally invasive heart valve replacement. It has been a very successful holding, but since the beginning of the year it had risen almost 100% and was trading at a very expensive valuation based on forecast earnings. Other securities will provide better risk reward trade-offs, and healthcare remains an area that we are heavily represented in.

Largest Holdings	
Walter Energy	2.6%
J.M. Smucker	2.6%
Covidien PLC	2.5%
CVS/Caremark	2.4%
Lincare Holdings	2.2%
Pfizer Inc.	2.2%
Cisco Systems	2.2%
DaVita Inc.	2.0%

Although changes to our U.S. portfolio have been modest, the performance of our holdings has been very satisfactory. The defensive nature of our holdings has meant that operating activity and profitability have held up well in the face of a difficult economy.

U.S. equities were our top performing asset class this past quarter and these results were far ahead of the performance of the S&P 500 index. The Fund's holdings rose 9.0% in this period to be up 26.1% over the course of 2009. In the last quarter of the year, the S&P 500 index (C\$) rose 3.5% to finish 2009 with a full-year return of 8.1%.

Other Investments (10% of Assets)

EQIT again outperformed the benchmark EAFE Index, returning 1.6% in the past quarter to finish 2009 with a return of 17.1%. The index lost 0.3% this quarter to be up 12.6% in the last 12 months. EQIT remains an excellent source of diversification for the Fund and continues to be viewed as core holding.

In addition to EQIT we also have maintained a core position in Walmart de Mexico (Walmex), which rose more than 30% in the last quarter. Late in the year Walmex made an exciting acquisition by adding Walmart Central America to its business. Walmart Central America has been a joint venture between Walmart (U.S.) and significant local minority shareholders. It has 519 stores located in 5 countries – Guatemala, Honduras, Costa Rica, Nicaragua and El Salvador. As in Mexico, these countries offer more rapid demand growth than is available in more developed economies, together with a benign competitive environment. The retail environment in these countries is dominated by small, inefficient, family-run enterprises that are not able to compete against the highly skilled, low-cost operations of Walmart. Moreover, we believe there are significant opportunities to further improve costs and, therefore, value offered to customers, by leveraging Walmex's increased scale.