



Portfolio Management & Financial Counsel

NEXUS NORTH AMERICAN EQUITY FUND

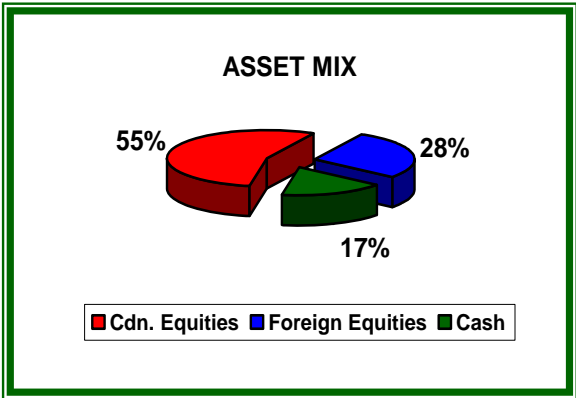
QUARTERLY REPORT – June 30, 2009

From the initially careful references to data that suggested a slowing of the rate of decline in global activity, the use of the term “green shoots” has quickly evolved. Some now refer to green shoots as if the global recovery is a forgone conclusion or even as if sustainable growth had already begun.....Just as you don’t count your chickens before they are hatched, we shouldn’t presume that green shoots today guarantee a bumper crop tomorrow.¹

Mark Carney, Governor of the Bank of Canada

Despite continued deterioration in a wide range of economic fundamentals around the globe, bond and equity markets generated substantial positive returns in the second quarter of the year. Since the end of the first quarter, economic news continues to indicate widespread weakness across a range of economic measures such as employment, factory output, and consumer spending. For those not inclined to track economic statistics, there were bankruptcy filings by such former corporate leaders as GM and Chrysler, as well as General Growth Properties, the second largest mall operator in the United States. Even California, on its own the 8th largest economy in the world, seems set to default on its bonds. There is abundant evidence that the economy, especially in the developed world, remains in a deep recession. Yet, it is also evident that the pace of economic contraction has also moderated, holding out hope that a more stable economic period lies ahead. In the face of a litany of dark economic news, and keeping to their well-broadcast public commitments, politicians and central bankers continued to roll-out spending programs, interest rate cuts and other policies to address the widespread economic weakness.

For investors, it remains a period without easy or accurate precedent. For now, our confidence has risen that economies in the developed world will avoid a deep depression and that a profound period of economic weakness will not necessarily be accompanied by a like amount of earnings weakness. In the Great Depression, the length and depth of economic contraction was much more extreme than our present circumstances, but this recession has been without precedent in the pace with which the economy has shed jobs and industrial activity has declined. It isn’t surprising that after a sharp slowdown such as we’ve recently endured, and in the face of unprecedented economic stimulus, some rebound in activity is occurring.



We remain concerned with the ongoing weakness in the U.S. housing sector. Despite some signs of moderation in the rate of decline of house prices, as well as an improvement in the sentiment of homebuilders, the housing sector remains very weak. Mortgage delinquencies are rising rapidly, home prices are still falling and, as we said in our last report, the effect of this continues to reduce consumer spending and asset quality in the banking system. In response to job losses and sliding asset values, consumers have become more cautious. The number of unemployed has risen for 18 consecutive months and over that time, more than 6 million jobs have been lost.

On the bright side, after many years of excessive spending, Americans are now saving again. Over the course of this year the savings rate has risen from nil to 6.9% and may well rise further. Not since 1993 have Americans consumed so little of their disposable income. After years of spending as much as they could, this new thriftiness is undoubtedly an indication of a greater realism about economic matters on the

¹ Remarks to the Regina & District Chamber of Commerce, June 18, 2009.

part of U.S. consumers. Another welcome development arising from the economic turmoil is that, as a result of consumer restraint and a decline in the price of imported energy, the U.S trade deficit has made a stunning improvement. After many years where the monthly imbalances exceeded \$60 billion, the trade deficit has now been below the \$30 billion level for three months. A correction in the imbalance between consumption in the U.S. and savings in the rest of the world is an early, first step toward better global economic stability.

Unfortunately, although necessary in the long run, a more cautious consumer will act as a drag on economic recovery in the short-run. However, lower personal consumption is more than being made up by government stimulus efforts. Around the globe, governments are spending and borrowing with abandon. The IMF estimates that for its 10 largest members, public debt as a percentage of GDP will rise from 78% in 2007 to 114% by 2014.² The future burden of servicing and paying off this debt is a present worry overhanging capital markets.

Here in Canada, despite many structural advantages, our economy remains seriously affected by the global economic slowdown. GDP has now fallen for 9 months in a row and is currently declining at a 3% annual rate. After being as low as 5.8% in January of 2008, unemployment is now 8.4%. It is widely expected to move higher still. A slow recovery in the United States logically means a slow recovery here. However, there is hope that commodity prices have begun to stabilize, reflecting resilient demand in the developing world and a source of potential export growth for Canada.

The environment remains challenging and demands caution in the construction of portfolios and the selection of securities. Through this turbulent period, the Fund has continued to perform well and has outperformed our benchmark. The Fund increased 14.9%³ over the quarter to be down 11.2% in the last 12 months.

Asset Mix

We remain conservatively positioned in the Fund with an allocation to equities of 83%. This level is a 2% increase from last quarter, reflecting capital appreciation of our holdings, incremental additions to longstanding holdings, as well as one new Canadian equity holding.

Canadian Equity Summary (55% of Assets)

Ten Largest Holdings	
Toronto Dominion Bank	4.4%
Research In Motion	3.8%
Royal Bank of Canada	3.6%
Bank of Nova Scotia	3.5%
Manulife	3.4%
PetroCanada	2.4%
TransCanada	2.6%
Talisman Energy	2.5%
Suncor Energy	2.2%
Enbridge	2.2%

There was a strong recovery in Canadian equity prices this quarter. The sharp recovery that had begun in March continued in April and May, while in June markets moved sideways. The rebound in values was broadly based, but was led by many of the stocks that had suffered the greatest declines in 2008. In particular, financial stocks rebounded on reduced concerns regarding the solvency of the global banking system and mining and energy shares benefitted from early signs that commodity prices were stabilizing.

We maintained our emphasis on defensive sectors in the market and made few changes to the portfolio. We remain underweighted in commodity stocks and have strong representation in defensive sectors such as consumer staples, utilities and telecommunications stocks.

Our sole new holding this quarter was a purchase of Bell Aliant Regional Communications Income Fund. Bell Aliant provides wireline telephone service throughout most of eastern Canada other than the heavily populated Windsor–Quebec City corridor. It pays a generous distribution supported by a stable business

² Debt: The biggest bill in history - The Economist, June 13th 2009.

³ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.

that faces no competition in many of its markets. Growth in value-added services such as high-speed internet access should more than offset the slow decline in its traditional landline telephone business.

The Fund's Canadian equities had excellent performance this quarter, more than keeping pace with the vigorous rebound in the TSX. Our holdings increased 22.4%, as compared to the TSX Index which rose 20.0%. Over the course of the last 12 months, we retained our outperformance of the index, with our holdings falling 19.3% and the TSX Index declining 25.7%.

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

Our exposure to U.S. equities remains below long-term target levels and we remain heavily concentrated in the healthcare sector with six of our positions in healthcare or drug companies. Traditionally, healthcare has been viewed as defensive because earnings growth depends less on the economic cycle than it does on predictable demographic factors that arise from an aging population.

Like any investment thesis, there are risks to be considered. In the case of the medical industry the most notable risks arise from the spiraling costs of providing healthcare. On an annual basis, Americans pay more than \$7,000 per capita for health care while Canadians pay less than \$4,000.⁴ In simple terms, the U.S. cannot afford to ignore the spiraling costs of the healthcare system any longer. It is estimated that healthcare costs in the U.S. represent over 15% of GDP and continue to grow faster than the economy itself. The new administration in Washington is embarking on substantial reforms with the intention of controlling the cost of providing healthcare as well as broadening the provision of medical services to the estimated 48 million Americans currently without coverage. Funding for healthcare will feature tax increases and spending cuts, and will be a messy, partisan political exercise. Approximately 63% of the cost of the healthcare system is the provision of medical services by hospitals and physicians and prescription drugs account for a further 12% of the cost burden.⁵ It is these areas that we expect to bear the brunt of reimbursement pressure in the coming years. When we review our holdings, we feel we are well-positioned for the reforms that will be coming. Many of our holdings have substantial exposure outside the U.S. or are concentrated in services that keep patients out of hospitals (DaVita for dialysis and Lincare for COPD). In addition, Edwards Lifesciences and Covidien are medical equipment providers that should benefit from the inclusion of people currently without coverage. Healthcare reform is an issue that warrants close scrutiny in the months ahead as policy changes will create both winners and losers.

Largest Holdings	
J.M. Smucker	2.4%
CVS / Caremark	2.3%
Edwards Lifesciences	2.3%
Covidien	2.3%
Cisco Systems	2.3%
Lincare Holdings	2.2%
DaVita Inc	2.2%
Pfizer Inc	1.8%
Walter Energy	1.5%

The U.S. market was up strongly over the quarter, although not nearly as much as the TSX. Our U.S. returns were again favourable when compared to the S&P 500 benchmark. Over the quarter our Fund's U.S. holdings increased 8.0% while the S&P 500 (C\$) index advanced 6.9% for the same period. In the last 12 months our U.S. holdings have declined 10.7% while the benchmark index fell 15.8%.

Other Investments (8% of Assets)

Just as North American markets rebounded this past quarter, so too did international markets. Our positions rose slightly more than 15% and we have kept the same basic allocation to our holdings in this sector. Our weighting reflects a 6.4% weighting in the JPMorgan *Equity International Investment Trust* (EQIT), with the balance invested in Wal-Mart de México (Walmex). EQIT remains an excellent source of diversification for the Fund and we continue to view it as a core holding.

⁴ Reforming American health care – The Economist, June 27th, 2009.

⁵ The Looming Health Care Crisis – Wm. Blair & Company May 28, 2009