

NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT – March 31, 2009

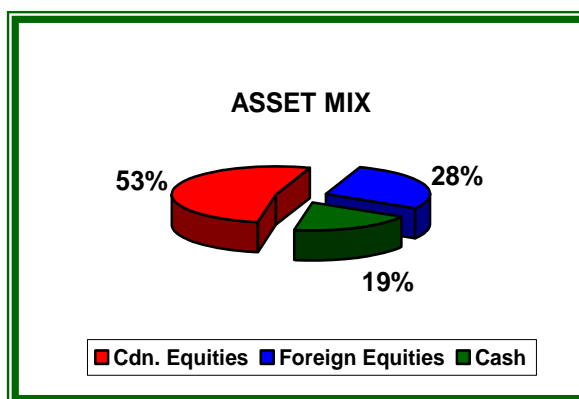
The environment for investing remains as complex and unsettled as it has been in the last 75 years. Weary of the challenges of 2007 and 2008, investors may have hoped for easier markets, but certainly 2009 has started in as difficult a fashion as 2008 had ended. Just as notable as any news regarding markets, was the inauguration of Barack Obama in mid-January, along with the installation of new cabinet members and the implementation of new policies to address the U.S. economic crisis. In response to a quarter where every week brought another release of worrying economic or banking news, the Obama administration rolled out a torrent of ambitious new policy responses and spending initiatives. Indeed, it also spent great effort exhorting other countries to do likewise. Globally, the size and speed of government response to the economic crisis is without precedent.

It remains to be seen how successful this “shock and awe” fiscal and monetary policy will be, for it is certainly not without risk. As we assess the likely effects, three issues are worth noting:

- ◆ Firstly, interest rate changes operate with long lags - conventionally it takes 12 months or more for their effects to be felt. The substantial reduction to interest rates that occurred in late 2008 has yet to be fully felt economically.
- ◆ Secondly, it may take well into 2010 for the direct injection of government spending to be fully deployed. Even the most “shovel-ready” projects will take months to be implemented.
- ◆ Finally, while these responses to our economic challenges are meant to offset the economic effects of a retrenchment in the consumer sector, the almost incalculable size and scope is also meant to shore up public confidence that politicians are addressing the challenges in a bold and creative fashion. Unfortunately, the prospect of ultra-low interest rates and massive spending programs introduces the unsettling worry in capital markets of potential future inflation and debasement of the U.S. dollar.

The economic news continues to be weak and the weakness is spread globally. Japan, still the world's second largest economy, is heavily oriented to the export of machinery and equipment to faster-growing, less-developed economies in the rest of Asia. Two worrying data points released this quarter are worth noting; as of February, export levels are running 35% below the levels of the previous year and, GDP in the 4th quarter of 2008 contracted at a 12.1% annualized rate.¹

In the U.S., many measures reflect an economic contraction, but perhaps none is more important than housing, which continues to be weak. The latest release of the Case-Shiller home price survey shows that across the U.S. home prices are declining at an 18% rate and are now almost 30% below their peak in 2006. Currently, almost 13 million homes in the U.S. have mortgages that exceed their market value and this amount will double if home prices decrease a further 15%.² The effect of declining home prices remains chilling to consumer spending and asset quality in the banking system.



As for Canada, the notion advanced by others, including the Governor of the Bank of Canada, that somehow we might avoid the worst of the global economic torment now looks misplaced. We have a particularly open economy, directly reliant on demand from the developing world for our energy and raw materials as well as for our manufactured goods in the United States. The weakness in the rest of the world has now come home to roost as evidenced by the

¹ Bloomberg.

² House Keys, Bank of America Merrill Lynch – February 23rd, 2009.

effect on Canadian unemployment, which jumped from 6.6% at the end of last year to 7.7% currently. It seems set to climb even further in the months ahead.

That the global economy is weak is no longer news. In fact, a depiction of doom and gloom has now become almost fashionable. Authors of the most dire forecasts attract significant media attention and, as a consequence, it is hard not to believe that bond and stock markets don't already anticipate a continued barrage of weak economic data in the months ahead. Equity prices declined at a record pace in the first two months of the year before rebounding sharply in March. The cause of the sharp recovery seemed linked to the announcement that the Federal Reserve in the U.S. would embark on a program of quantitative easing – a term used to describe a particularly expansionary monetary policy. However, markets were also relieved when the CEO of Citigroup commented that they had been modestly profitable in the first two months of 2009 and when GE was only downgraded one notch from its longstanding AAA bond-rating status. Interest rates remain low, reflecting an investor preference for absolute safety as well as a reflection of the recent direct bond purchases by global central banks. As we said in our last report, the key to navigating successfully through this period will be to position portfolios to take advantage of sectors and companies where more bad news is anticipated than what unfolds, and to avoid sectors of the capital markets that may yet feel the brunt of the coming recession. 2009 will continue to be difficult, but not without opportunity.

Obviously, it remains a most challenging environment. Despite outperforming our benchmark the Fund declined 4.0%³ last quarter to be down 20.0% for the year.

Asset Mix

We increased our equity allocation for both Canadian and U.S. stocks but the Fund remains very defensively positioned. With a cash position of 19%, there is clearly room to add to our equity exposure, however, in light of current conditions, we believe our positioning reflects a necessary prudence suitable for the times.

Canadian Equity Summary (53% of Assets)

Ten Largest Holdings	
Toronto Dominion Bank	3.1%
Royal Bank of Canada	2.8%
Bank of Nova Scotia	2.5%
EnCana	1.9%
Enbridge	1.8%
TransCanada	1.8%
Thomson Reuters	1.8%
Research In Motion	1.6%
Suncor Energy Inc.	1.5%
Rogers Communications	1.5%

After falling dramatically in the first two months of the year, equity prices rebounded in March. Our holdings in the energy sector fared especially well as oil prices recovered from their recent low levels. Another factor in the recovery in energy stocks was the announced merger of Suncor and Petro-Canada, both significant holdings of the Fund. The deal, which will create a global energy giant, is complicated by Petro-Canada's special status under an act of Parliament known as the Petro-Canada Act (1991), which is designed to restrict ownership by any one shareholder to less than 20%. Despite the complication, there is confidence in markets that the deal makes good financial sense as well as good policy. Shares of other energy companies deemed candidates for take-over bounced significantly.

In February, we established a full position in a new holding, BFI Canada Ltd. BFI is one of North America's largest full-service waste management companies. It provides waste collection and disposal services in five Canadian provinces and ten states in the U.S. It had previously operated as an income trust but has recently reverted to a corporation. It is a steady business, with low cyclicity. Management is experienced and an extremely competent operator of the business. We are confident that management will continue to grow the business by making acquisitions of smaller companies in contiguous areas and then extracting costs and revenue synergies.

Trading activity was light, characterized by a small amount of trimming and adding to positions. Apart from establishing the new position in BFI, we made no substantial changes to the portfolio.

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

Despite a strong recovery in March, equity returns were negative over the full quarter. Our holdings underperformed the benchmark, declining 4.1%, as compared to the TSX Index which declined 2.0%. Over the course of the last 12 months, we retained our out-performance of the index, with our holdings falling 30.6% and the TSX Index declining 32.4%.

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

Our exposure to U.S. equities remains low and well below long-term target levels. We remain heavily concentrated in the healthcare sector with six of our positions in healthcare or drug companies.

This quarter we established a new position in J.M. Smucker. Based in Ohio, the J.M. Smucker Company engages in the manufacture and marketing of branded food products primarily in the United States and Canada. You will likely know it for its 'fruit spreads', but it is also the maker of Jif peanut butter, Folger's coffee, Bicks pickles, Crisco shortening and Five Roses flour to name a few. This is a particularly stable business in the consumer staples sector of the market. We had followed the company for a while, but had always felt its valuation was too high to give us the margin of safety we require when making an investment. In late January, concern about salmonella contamination in peanut butter caused the share price to decline. Smucker's suppliers were unaffected and so we used the opportunity to establish a new position.

Largest Holdings	
Edwards Lifesciences	2.1%
CVS / Caremark	1.7%
Covidien	1.5%
Cisco Systems	1.5%
J.M. Smucker	1.4%
DaVita Inc.	1.4%
Lincare Holdings	1.1%
Pfizer Inc.	1.0%
Walter Industries	0.5%

The absence of financial companies as well as our heavy concentration in the healthcare sector made our U.S. returns quite favourable when compared to the S&P 500 benchmark. Over the quarter, our Fund's U.S. returns decreased 3.2% while the S&P 500 (C\$) index declined 8.4% for the same period. In the last 12 months, our U.S. holdings have declined 13.0% while the benchmark index fell 24.1%.

Other Investments (8% of Assets)

We made no changes to our holdings in this sector. The relative allocation declined by 1% due to a steeper decline in markets outside North America than for either the TSX or the S&P 500. Our weighting reflects a 5.9% weighting in the JPMorgan *Equity International Investment Trust* (EQIT), with the balance invested in Wal-Mart de México (Walmex). EQIT again outperformed the benchmark EAFE Index and remains an excellent source of diversification for the Fund. We continue to view it as a core holding.