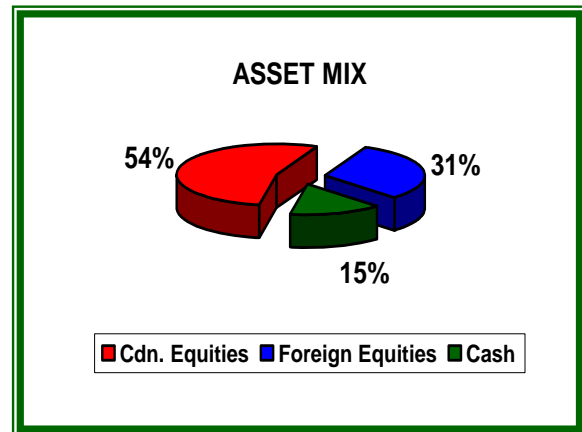


## NEXUS NORTH AMERICAN EQUITY FUND

### QUARTERLY REPORT – September 30, 2009

Over the course of this quarter the global economy continued its unsteady recovery. On any given day, an economic release in one country might suggest further economic weakness, only to be followed by a release, perhaps in another part of the world, which held out hope that recovery was at hand. However, by any reasonable standard, the recovery remains as much anticipated as it is evident at this point in time. Where our hopes are highest for economic recovery are the emerging economies of China, Southeast Asia and South America, which now represent almost 30% of global GDP. For many years, growth in these economies derived either from growing exports to North America and Europe, or from capital investment in machinery and infrastructure. In this recent recovery, growth has been led in large part by local domestic demand, which arose from fiscal stimulus and low interest rates. As a consequence, the growth of these developing economies is likely to be more self-sustaining and less reliant on a recovery in the developed world.

In Europe and the U.K., the case that a durable recovery is underway remains speculative. Encumbered by a legacy of fiscal rectitude as well as the drag of an aging population, a co-ordinated policy response across all countries has been unsuccessful in generating an immediate economic recovery. Many measures of economic activity such as retail sales and industrial production remain weak, while certain forward indicators, such as business sentiment, suggest that there is some light at the end of the tunnel. What has been good news this quarter is that real estate prices across Europe, and particularly in the U.K., have begun to stabilize. There is clear improvement in this part of the world, but it should not be confused with a solid cyclical recovery just yet.



Discerning an economic trend in North America remains challenging. For better or worse, the U.S. continues to lead the world with aggressive fiscal and monetary stimulus. While business sentiment in both Canada and the U.S. has greatly improved, consumer confidence and spending suggests there are reasons to remain cautious. In particular, employment in the U.S. remains especially worrisome. At a current level of 9.8%, unemployment continues to grow and this measure excludes the millions of Americans who have given up looking for work or who are 'under-employed'. Given the unprecedented degree of fiscal stimulus (now more than 13% of GDP) some rebound in economic activity ought to be taken for granted. The fact that the recovery so far is muted, suggests that the U.S. has significant structural challenges that still need to be dealt with. For example, the unavoidable de-leveraging of the over-indebted American consumer will act as a drag on growth for many years to come. Likewise, the economic consequences of addressing the issue of healthcare overspending will also take years to work their way through the U.S. economy. Investors need prepare themselves for a risky economic environment continuing for some time yet.

Thankfully, this contrasts with the situation in Canada where there is evidence that weakness in the labour market is receding. The recovery in the emerging world has put a floor underneath commodity prices and Canadian consumers do not have the same structural de-leveraging ahead of them that is so prevalent in the U.S. Low interest rates and fiscal stimulus are generating the seeds of a recovery, but a strong currency and weak exports, particularly to the U.S., make a durable recovery here very much in question. In short, our worst fears of economic calamity continue to recede but the dawn of a traditional cyclical recovery is still a hope rather than a reality.

Fund performance continues to be excellent and compares well to benchmarks and competitors. In the last quarter, the Fund gained 7.9% and, in the last 12 months, it generated a positive return of 5.6%.

## Asset Mix

We remain conservatively positioned in the Fund with an allocation to equities of 85%. Like last quarter, we increased our equity exposure by 2%, primarily by spending cash on a wide variety of long-standing positions but also from the capital appreciation of our present holdings.

## Canadian Equity Summary (54% of Assets)

Ten Largest Holdings	
<b>Suncor Energy</b>	<b>4.3%</b>
<b>Toronto Dominion Bank</b>	<b>4.1%</b>
<b>Royal Bank of Canada</b>	<b>3.9%</b>
<b>Bank of Nova Scotia</b>	<b>3.6%</b>
<b>Manulife Financial</b>	<b>3.0%</b>
<b>Research In Motion</b>	<b>2.9%</b>
<b>Trican Well Service</b>	<b>2.4%</b>
<b>Talisman Energy</b>	<b>2.3%</b>
<b>TransCanada</b>	<b>2.2%</b>
<b>Telus</b>	<b>2.2%</b>

If there is a silver lining to the period of economic contraction that we have been experiencing, it is that the steep and sudden decline in economic activity in late 2008 forced many companies to make severe changes to their cost structures and business models. Wage pressure is non-existent, commodity and energy costs are contained and, for senior companies, financing costs have never been better. More so now than at any time in many years, companies have lean cost structures, excess capacity that can be brought on at low marginal expense and thus, tremendous operating leverage to a pick-up in economic activity. In layman's terms, companies have 'cut to the bone'. Given the improved operating efficiency of many companies, it is expected that a small rebound in economic activity will generate a much more considerable rebound in corporate profitability.

While cost cutting has helped many companies achieve their estimated earnings targets in the last quarter, as a long-term strategy, cost cutting has its limits, and eventually companies need to grow their revenues. Having risen more than 10% this quarter, we believe that equity markets anticipate an earnings rebound that will arise from a cyclical pick-up in economic activity. It will be important to monitor upcoming earnings reports and economic releases to discern which of these two dynamics is driving underlying corporate profitability.

Reflecting our preference for more conservative industry sectors, the Fund's Canadian equities lagged the recovery in the TSX index by a small amount this past quarter. Our holdings increased 9.3%, as compared to the TSX Index which rose 10.6%. Over the course of the last 12 months, we have retained our modest outperformance of the index, with our holdings improving 1.5% and the TSX Index up 0.5%.

## U.S. Equity Summary (20% 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. We added no new companies to our holdings, but added to a few longstanding positions. At 12% of the Fund, our allocation is unchanged from last quarter.

Although activity in our U.S. holdings has been light, 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.

Largest Holdings	
<b>Covidien</b>	<b>2.6%</b>
<b>Cisco Systems</b>	<b>2.4%</b>
<b>Edwards Lifesciences</b>	<b>2.4%</b>
<b>Walter Energy</b>	<b>2.4%</b>
<b>DaVita Inc</b>	<b>2.3%</b>
<b>Lincare Holdings</b>	<b>2.2%</b>
<b>J.M. Smucker</b>	<b>2.0%</b>
<b>Pfizer Inc</b>	<b>2.0%</b>
<b>CVS/Caremark</b>	<b>2.0%</b>

The U.S. market was up strongly again this quarter, and our positions continued to outperform the S&P 500 benchmark. Over the quarter our Fund's U.S. holdings increased 10.7% while the S&P 500 (C\$) index advanced 6.6% for the same period. In the last 12 months our U.S. holdings have generated a positive return of 5.1% while the benchmark has fallen 5.8%.

## **Other Investments (11% of Assets)**

We increased our allocation outside North America this past quarter by 2% adding to both the JP Morgan EQIT Fund as well as our longstanding position in Walmart de México (Walmex). In Canadian dollar terms, the international benchmark stock index, EAFE, rose 10.2%, more than the S&P 500 (C\$) and almost as much as the TSX composite which climbed 10.6%. Our holdings outperformed the index, gaining 11.7% this quarter to be up 6.7% in the last 12 months. Our non-North American holdings have been our best performers in the last 12 months. EQIT and Walmex remain an excellent source of diversification for the Fund and continue to be viewed as core holdings.