



# Investment Review

March 18, 2021



# Agenda

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1. Inside Nexus
2. Current Environment
3. Portfolio Overview
4. Investment Performance
5. Appendices

# Inside Nexus

We continue to build our capability to support our clients and our vision



<sup>(1)</sup> Calculated as the average annual retention rate from December 31, 2010 to December 31, 2020.

# Current Environment

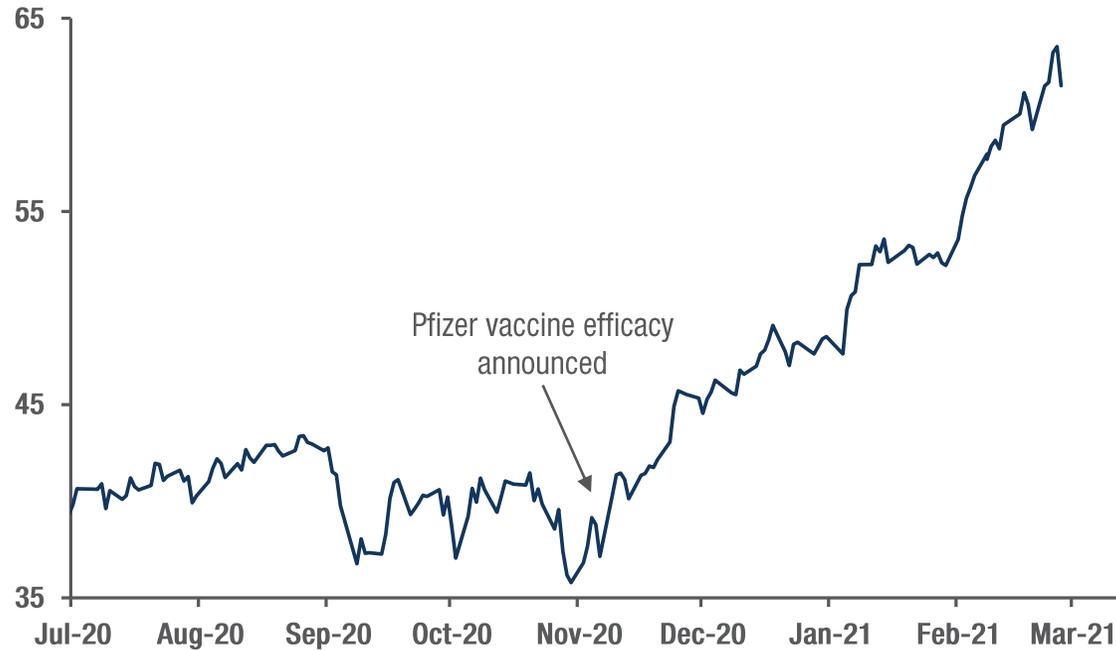
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The promise of a vaccine is good news, but the economic effects of COVID-19 are far from over

- Vaccine news has shifted the course of markets
- Much like the effects of the pandemic, the recovery will not be uniform
- Low interest rates and accumulated debt loads will have lasting effects
- For now, “Quantitative easing” continues to inflate asset prices
- Might all this stimulus prove inflationary? Possibly, but not imminently
- Central banks now explicitly want to encourage some inflation, a tricky endeavour

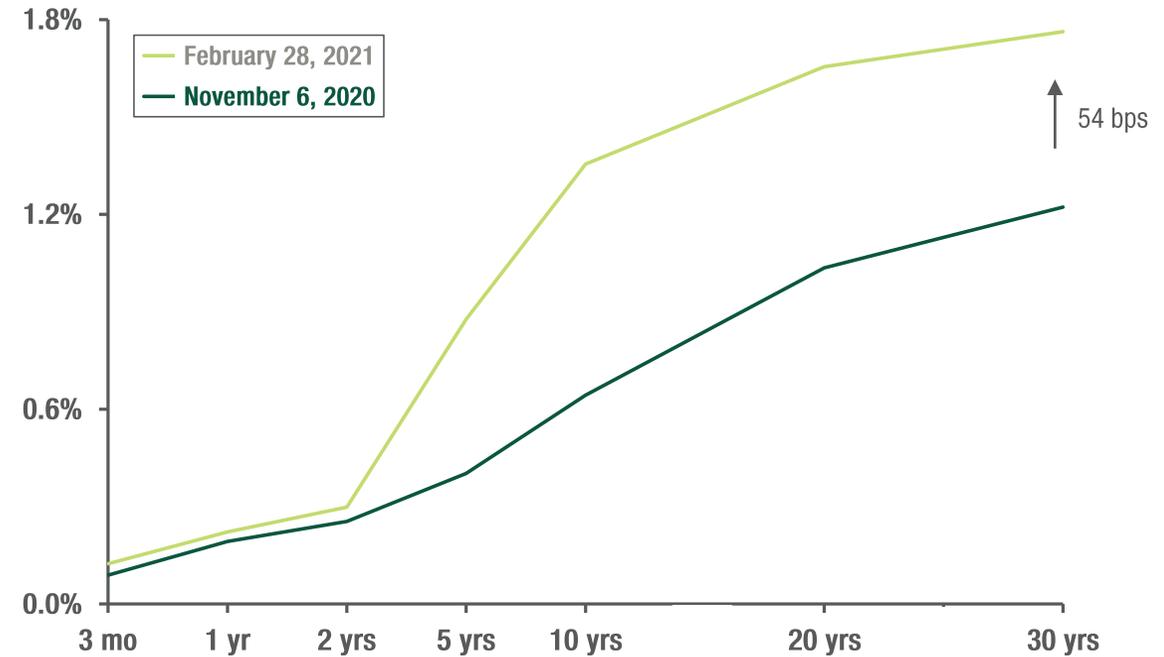
# Current Environment

## Vaccine news has shifted the course of markets



West Texas Intermediate Oil Price (US\$)

- Commodities have rallied significantly since the Pfizer vaccine news
- Lumber +79% , Iron-ore +60%, Copper +32% <sup>(1)</sup>



Government of Canada Yield Curve

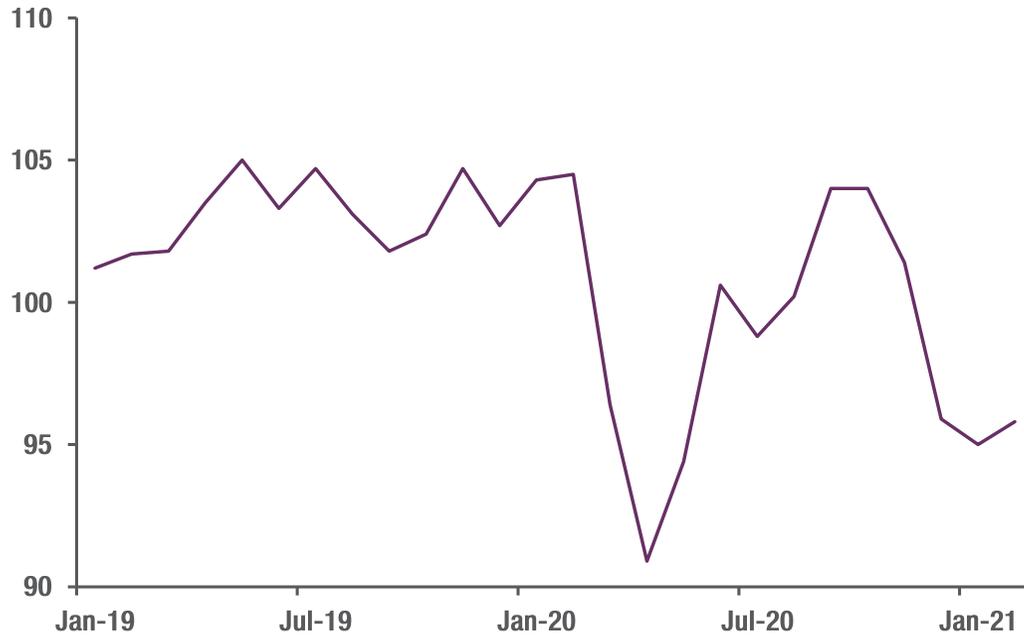
- Higher long-term interest rates reflect expectations for growth and inflation

Source: Bloomberg.

<sup>(1)</sup> Returns are for the period of November 6, 2020 through February 28, 2021.

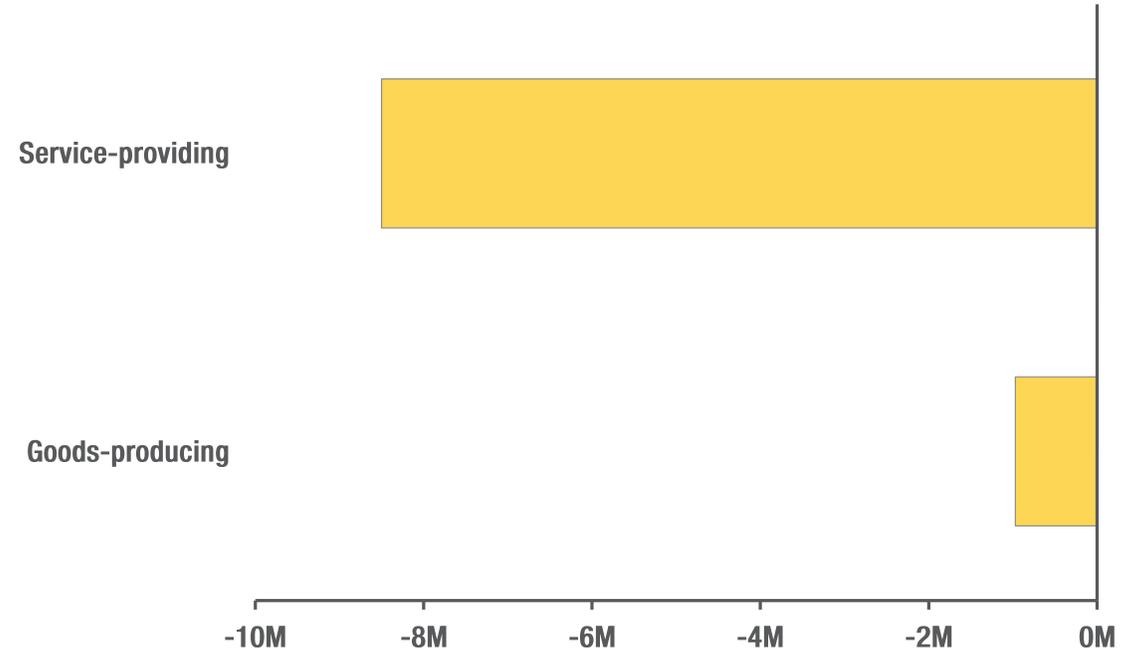
# Current Environment

Much like the effects of the pandemic, the recovery will not be uniform



NFIB Small Business Optimism Survey

- Small businesses face serious challenges despite vaccine
- Many may not survive until re-opening

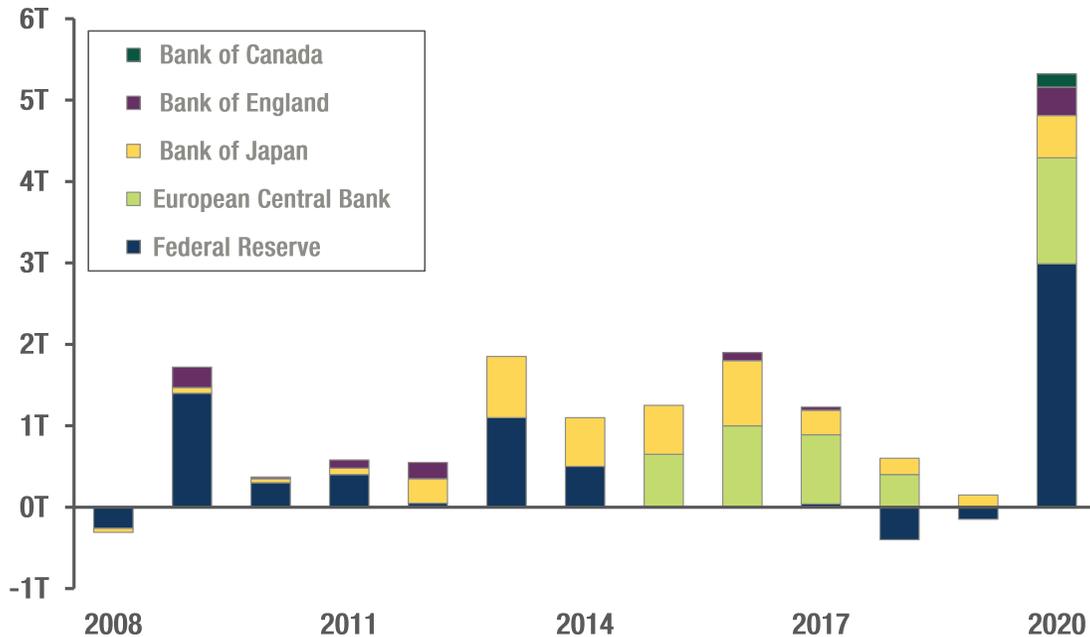


U.S. Employment Change, 12 months ended February 28, 2021

- 3.5 million jobs lost in Leisure & Hospitality
- In a re-opening, these jobs will come back quickly

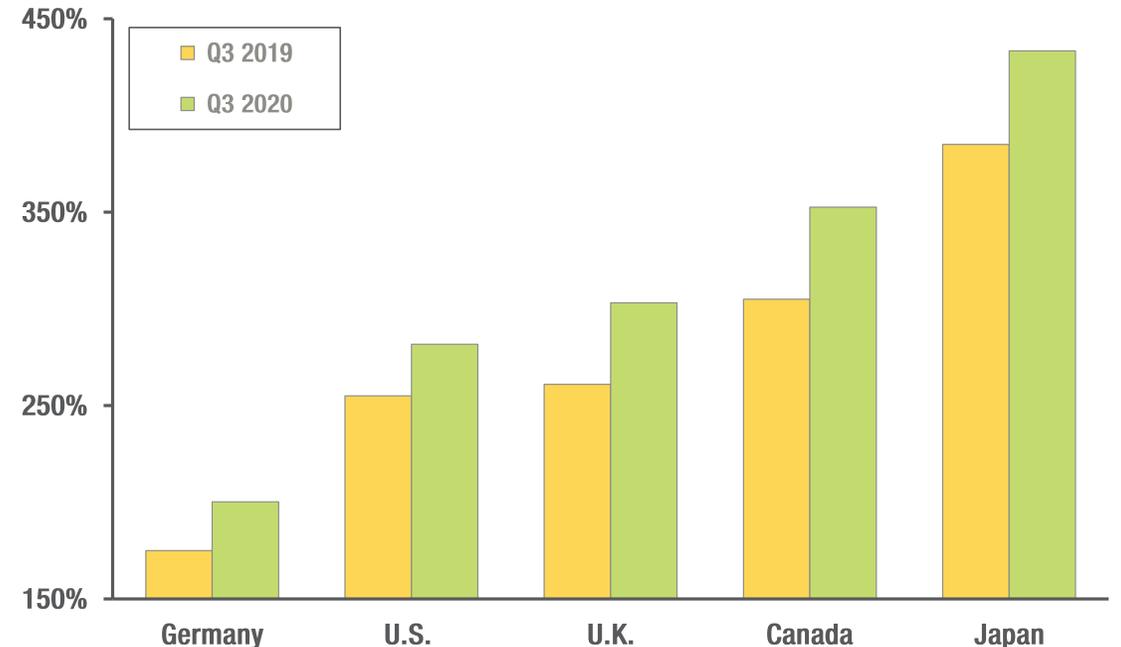
# Current Environment

## Low rates and fiscal stimulus will have lasting effects



### Net Asset Purchases by Central Banks

- Central banks have suppressed interest rates by purchasing bonds and other assets
- The Bank of Canada added almost \$400 billion to its balance sheet in 2020



### Total Debt<sup>(1)</sup> to GDP, By Country

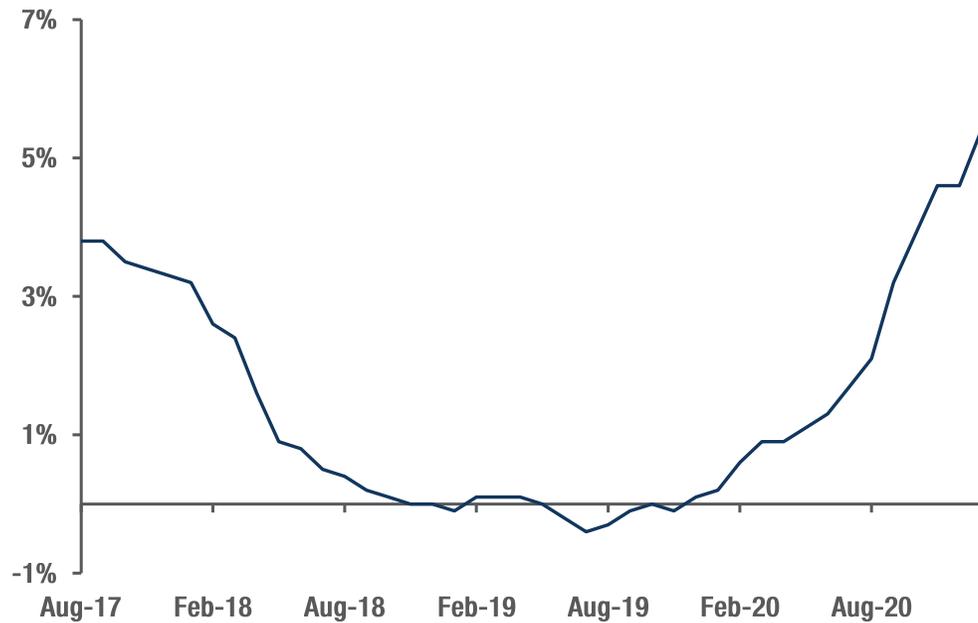
- Globally, \$4.4 trillion of corporate debt was issued in 2020

Source: Bank of Canada, Bloomberg.

<sup>(1)</sup> Total debt includes government bonds, corporate bonds and personal debt outstanding.

# Current Environment

For now, “Quantitative easing” continues to inflate asset prices



Change in Canadian Home Prices (% YoY)

- Canadian home prices are in a world of their own
- Yet, business investment in machinery and equipment has been declining



S&P 500 Index

# Current Environment

Might all this stimulus prove inflationary?



U.S. CPI and Inflation Expectations

Possibly, not imminently

- Economic slack is large and meaningful
- But, unlike past recessions:
  - Consumers have increased savings
  - Economic re-opening could be accelerated
  - Recovery likely to be synchronized globally
- Wage increases will be an early indicator of future inflation risk

# Current Environment

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Central Banks now explicitly want to encourage some inflation, a tricky endeavour

**“In order to move rates up, I would want to see inflation that’s persistent and that’s significant”**

*Federal Reserve Chair Jerome Powell  
December 2019*

**“One other thing I should say — and I didn't say this in those earlier interviews and that was a mistake on my part — is that, you know our new long-run framework, says explicitly we're going to be willing to let the economy run hot.”**

*Federal Reserve Governor Bostic  
January 2021*

- Fed has specifically endorsed average inflation targeting
- Nothing is more dangerous to long-term investors than inflation
- Should a shift occur faster than expected, Nexus portfolios well positioned
  - Interest rate exposure remains low
  - Many of our companies are able to pass through rising prices

# Portfolio Overview

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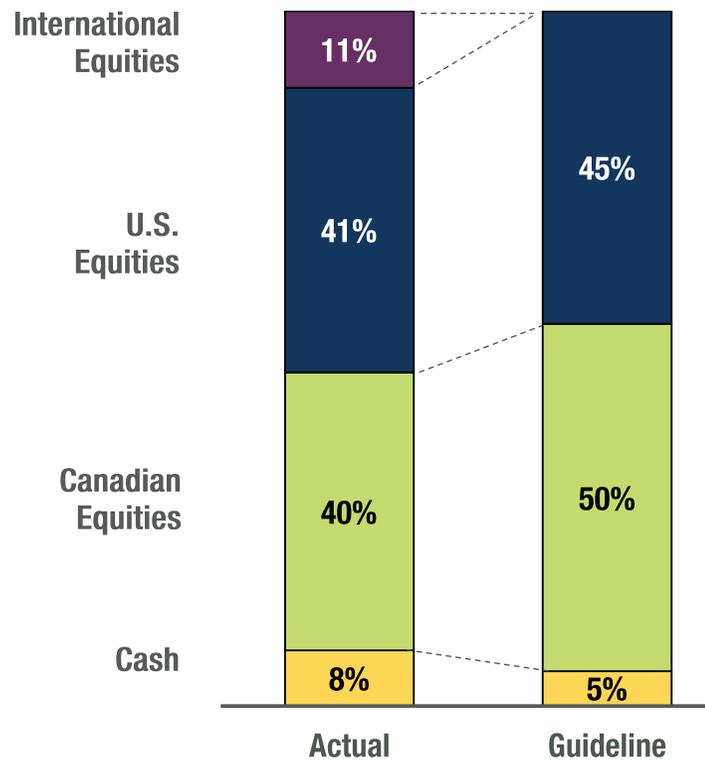
Portfolio changes have been made with a focus on long-term return potential

- Asset allocations remain aligned with our long-term guidelines
- No significant changes to our bond strategy
- Recent trading due to COVID-related disruptions and opportunities
- A diversified portfolio invested in quality businesses should perform well over time
- We remain confident in our holdings

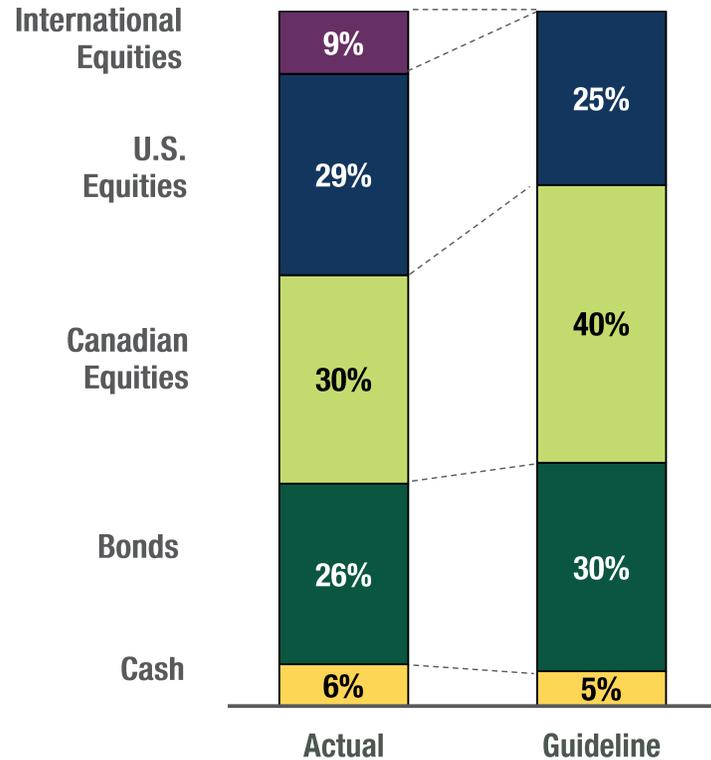
# Portfolio Overview

## Asset Allocation

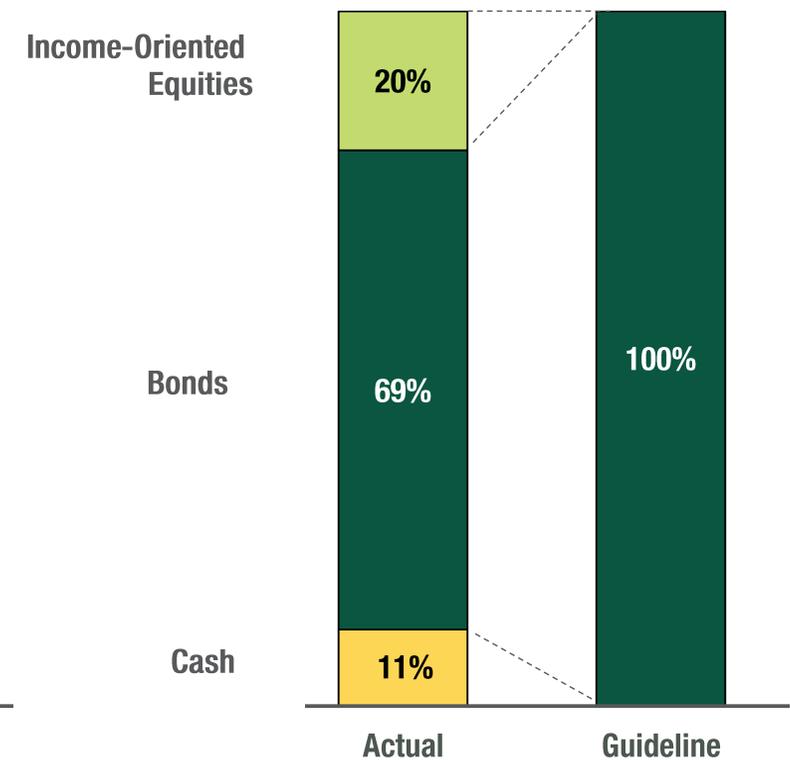
Overall equity allocations remain close to long-term guidelines



Nexus Equity Fund



Nexus Balanced Fund



Nexus Income Fund

As at February 28, 2021

# Portfolio Overview

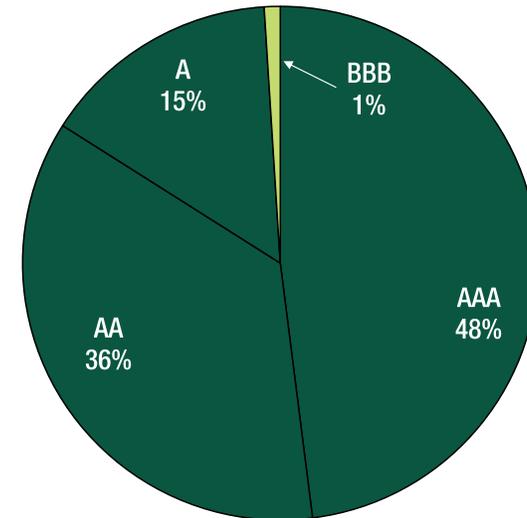
## Fixed Income

In the current environment there is no benefit from taking interest rate risk

	Duration (Years)	Average Yield	Decline from sudden increase of 1% in rates
Nexus Income Fund Bonds	3.9	1.2%	3.9%
FTSE Canada Universe Bond Index <sup>(1)</sup>	8.0	1.6%	8.0%

### Nexus Income Fund and Bond Universe Characteristics

- Even a small increase in rates would result in significant losses for indexed bond portfolios
- This risk is not justified at current yield levels



### Credit Profile of Nexus Bond Holdings

- A focus on high-quality bonds reduces volatility and helps liquidity

As at February 28, 2021

<sup>(1)</sup> Index data is represented by ETF XBB.

# Portfolio Overview

## Equity Portfolio Changes

Recent trading due to COVID-related disruptions and opportunities

### Buy

George Weston Limited

### Sell

—

### Add

Suncor

### Trim

—

Canadian Equities

### Buy

UPS  
Medtronic  
Boston Scientific

### Sell

Apple  
General Electric  
Ovintiv

### Add

—

### Trim

Selected overweight stocks

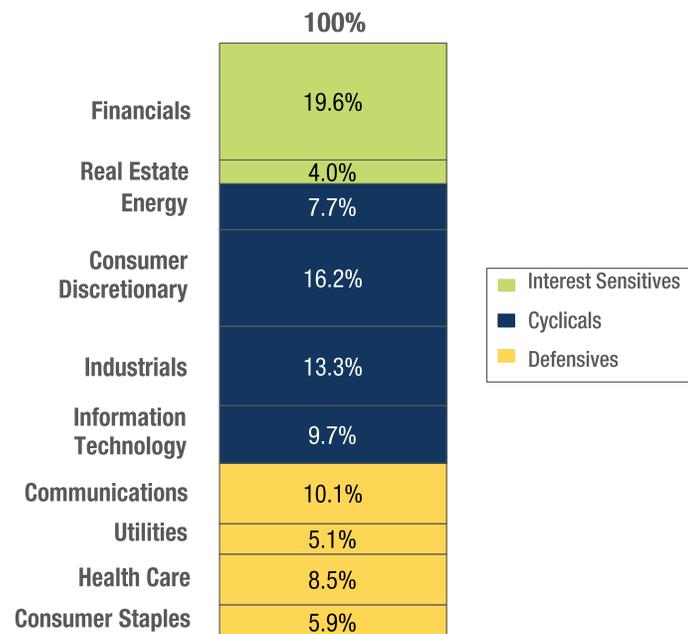
Foreign Equities

12 months ended February 28, 2021

# Portfolio Overview

Positioned for COVID Recovery

The equity portfolio is well diversified, with longer-term potential



- Portfolio is positioned to benefit from the pandemic recovery
  - Cyclical sectors will benefit from economic reopening
- Several stock holdings have good recovery potential
  - Energy, pipelines, value tech
  - Rising yields will benefit banks
- Our portfolio has attractive characteristics compared to the overall market
  - Higher dividend yield
  - Lower valuation

Nexus North American Equity Sector Allocation <sup>(1)</sup>

As at February 28, 2021

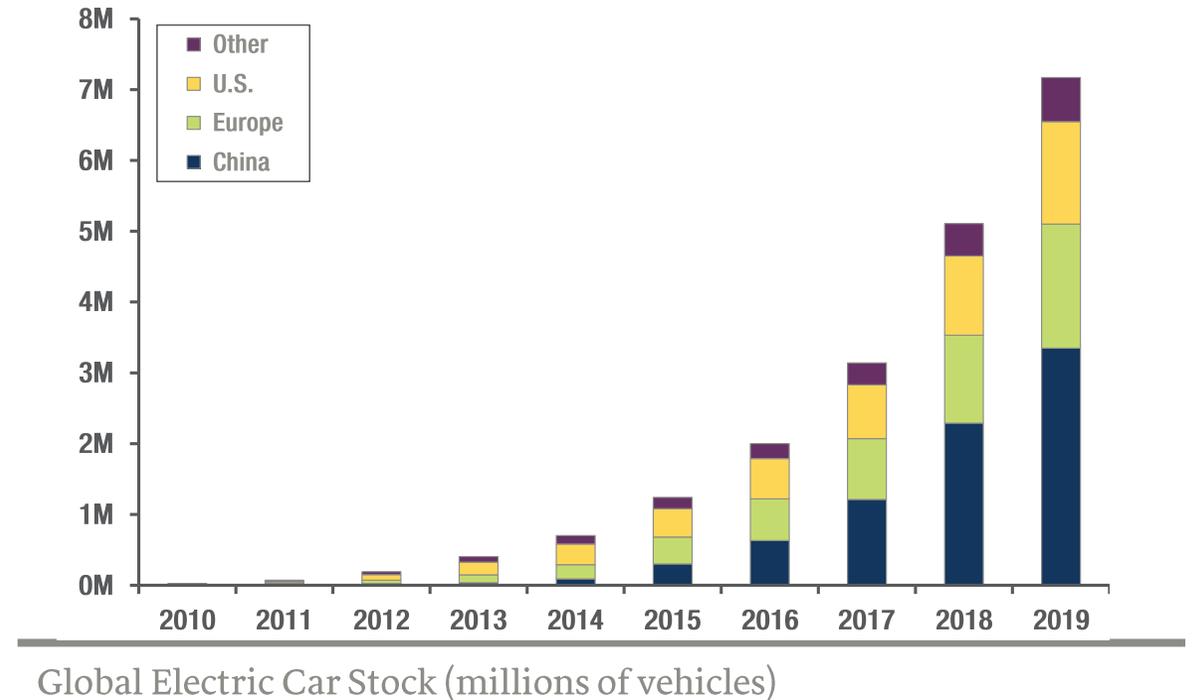
<sup>(1)</sup> Includes Canadian and U.S. equities.

# Portfolio Overview

## The Electrification of Transportation

The transportation industry is rapidly adopting electric vehicles (EVs)

- Rapid growth in EVs, but penetration is still low
  - Of the 1.4 billion cars on earth, only 7.2 million are electric (0.5%)
  - EV challenges: driving range, price, charging infrastructure, charging time
- There are several factors driving EV adoption
  - Supportive government policies
  - Consumer preferences
  - Technology advances
  - Declining costs
- The electrification of transport has broad implications
  - Auto manufacturers, parts suppliers, electric utilities



# Portfolio Overview

## The Electrification of Transportation

Several of our holdings are well-positioned for electrification

- General Motors
  - Developed EV technology for GM vehicles and to sell to others
  - Ultium battery technology expected to eventually cut battery costs by 60%
  - Intends to phase out gas- and diesel-powered vehicles by 2035
- Magna
  - Developing fully electric powertrain systems
  - Partnering with established OEMs and EV startups
- Alphabet (Google)
  - Waymo partnering with Volvo, Jaguar Land Rover, and others on autonomous EVs
- CarMax
  - America's largest used-car dealer; agnostic to propulsion technology



# Portfolio Overview

## The Electrification of Transportation

Our EV-related holdings have attractive valuations

- GM and Magna have performed well, but remain attractively valued
- Pure-play EV companies priced for perfection, with high investor expectations
- “Winner-take-all” outcome unlikely

	Market Capitalization	Revenue	Profit
Tesla	\$540 <sup>(1)</sup>	\$31.5	\$0.8
Nikola	\$6	\$0.0	(\$0.2)
GM	\$79	\$122.5	\$7.1
Magna	\$27	\$32.6	\$1.3

EV-related Company Metrics (US\$, billions)

As at March 8, 2021

# Investment Performance

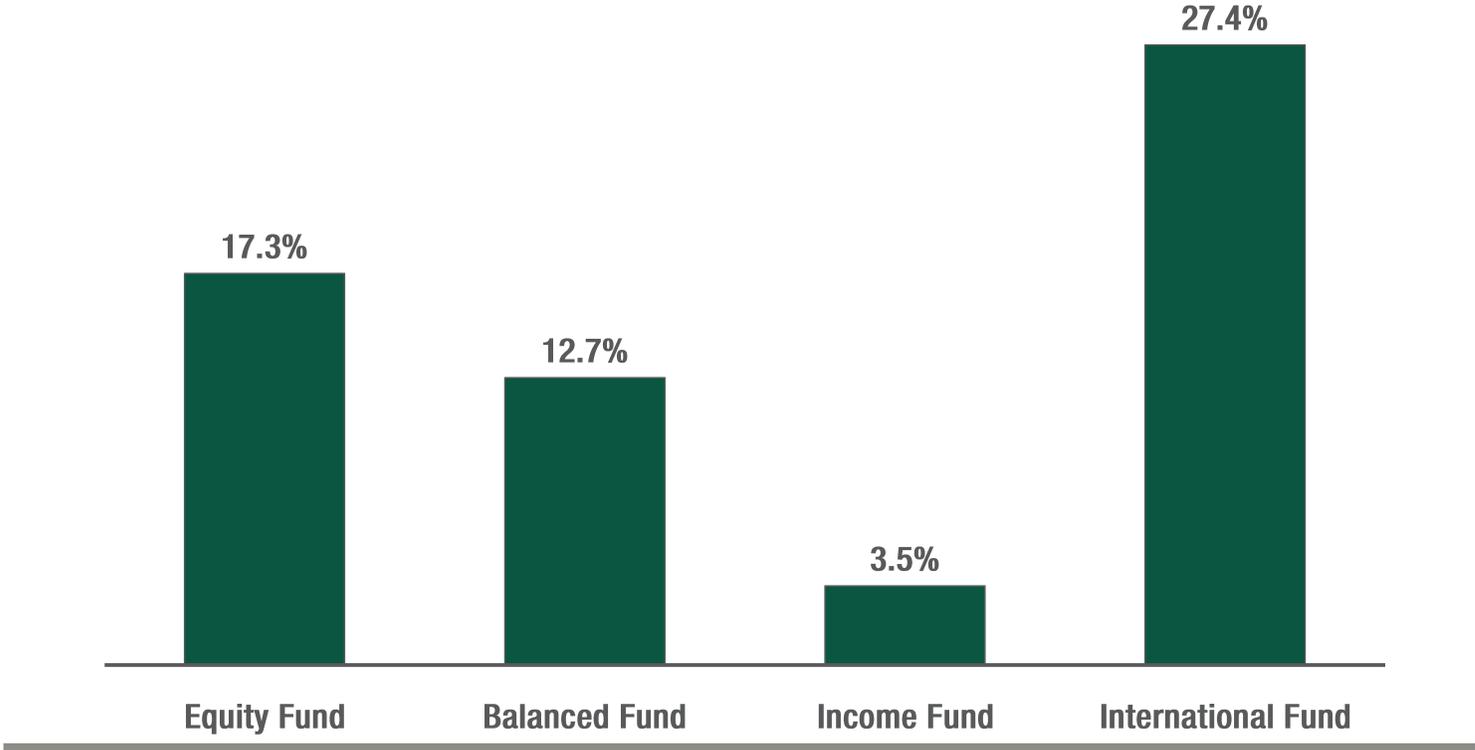
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Fuelled by COVID vaccine progress, stock markets surged higher in recent months

- 12-month returns are strong in all Nexus Funds
  - Bond returns strong, but expect less in 2021
  - U.S. and International equity returns are both remarkably good
  - Canadian equities have been weaker than non-Canadian ones
- Canadian stock market frustrating for many investors
  - The TSX index performance was driven by a handful of stocks in 2020 (Shopify and Gold stocks)
  - Many Canadian stocks have not fully recovered from their COVID-19 lows
  - Like many other investors, Nexus's 12-month Canadian returns trailed the benchmark
- Longer-term risk / return characteristics are attractive
  - Our approach differs from the indices – performance will inevitably diverge at times
  - Nexus's returns compare favourably to other managers
  - Long-term up- and down-market capture ratios are strong

# Investment Performance

12-month returns are strong in all Nexus Funds



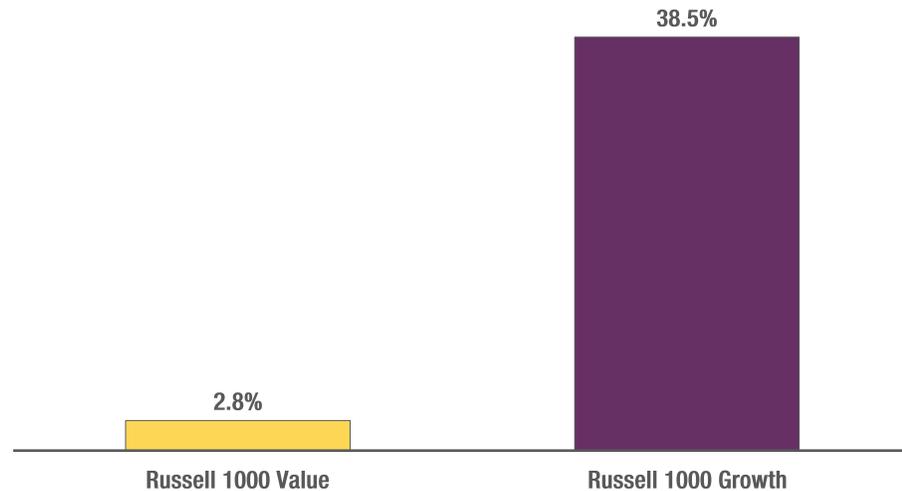
12-Month Returns of Nexus Funds <sup>(1)</sup>

12 months ended February 28, 2021

<sup>(1)</sup> Nexus return is shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

# Investment Performance

Dividend-oriented, established economy stocks lagged behind growth stocks in 2020



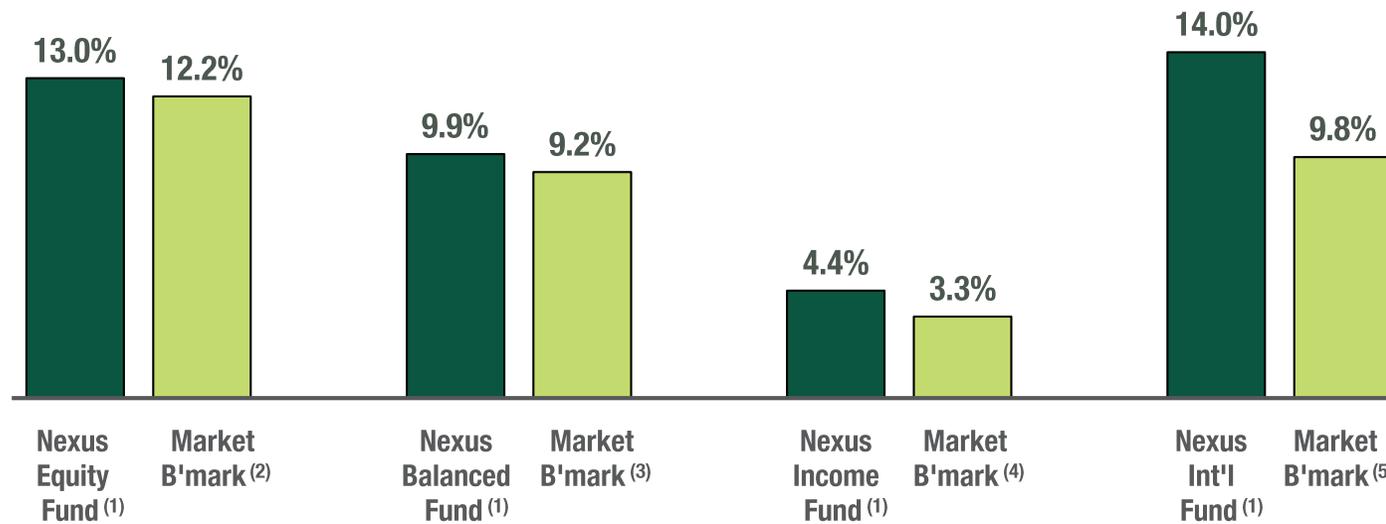
2020 Value vs. Growth Return (in US\$)

- Nexus's approach emphasizes quality
  - It's not Value
  - But closer to Value than Growth
- Growth's outperformance has been extreme
  - Atypical in a downturn
  - Continuation of an unusually long period
  - Even more extreme than in the tech bubble (1999 – 2000)

As at December 31, 2020

# Investment Performance

5-Year returns are strong in each of the Funds



5-Year Annualized Returns

Five Years ended February 28, 2021

<sup>(1)</sup> Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

<sup>(2)</sup> Equity Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

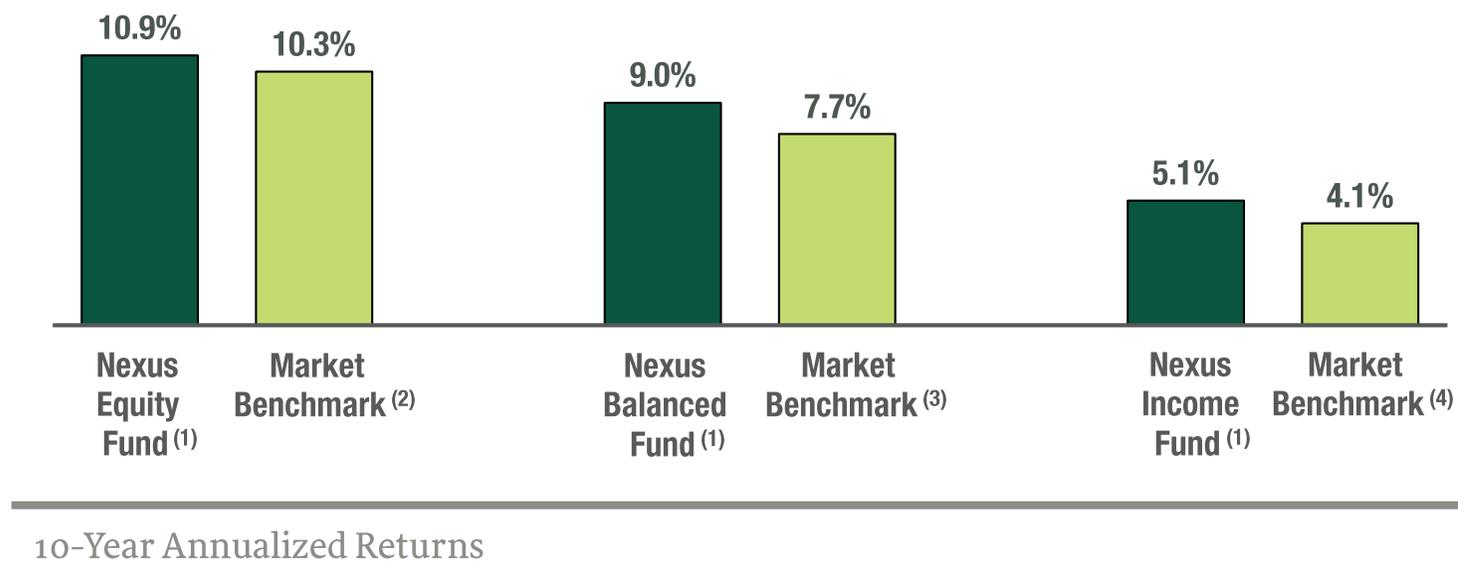
<sup>(3)</sup> Balanced Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

<sup>(4)</sup> Income Fund market benchmark is the FTSE Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

<sup>(5)</sup> International Equity Fund market benchmark is 75% MSCI EAFE and 25% MSCI Emerging Markets indices (both in C\$); rebalanced monthly.

# Investment Performance

Fund and benchmark returns over the last decade remain good compared to long-term averages



Ten Years ended February 28, 2021

<sup>(1)</sup> Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

<sup>(2)</sup> Equity Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

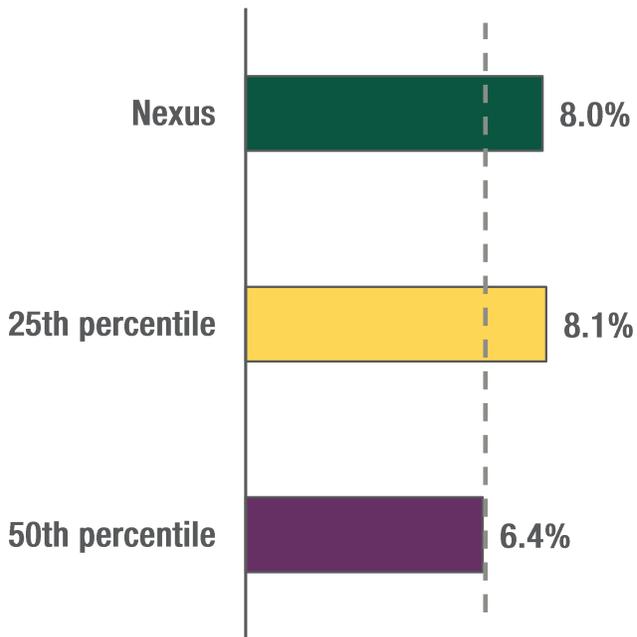
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# Investment Performance

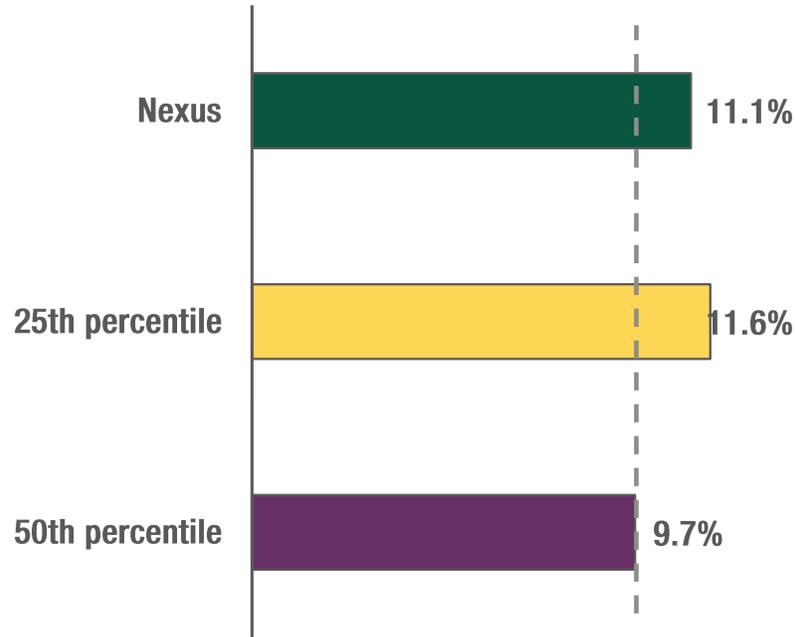
Equity Fund

Nexus compares well to other active managers



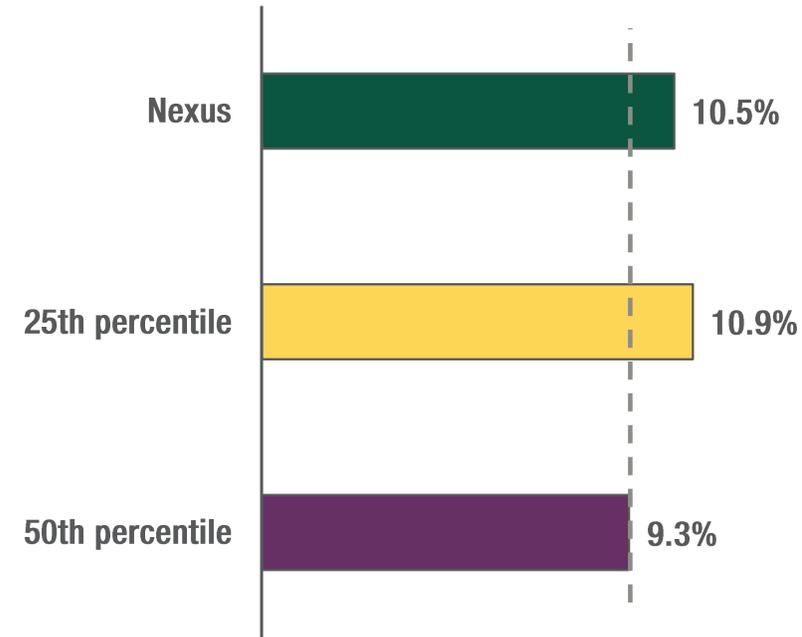
Nexus Equity Fund vs. Peers

3-Year Return <sup>(1,2)</sup>



Nexus Equity Fund vs. Peers

5-Year Return <sup>(1,2)</sup>



Nexus Equity Fund vs. Peers

10-Year Return <sup>(1,2)</sup>

As at January 31, 2021

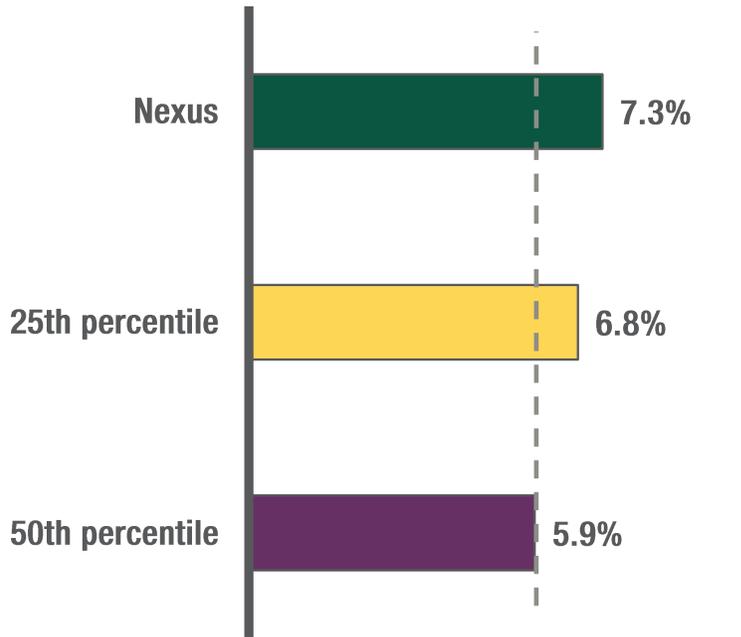
<sup>(1)</sup> Nexus and comparable manager returns are shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

<sup>(2)</sup> Canadian Plus Equity Universe from Global Manager Research Institutional Performance Report.

# Investment Performance

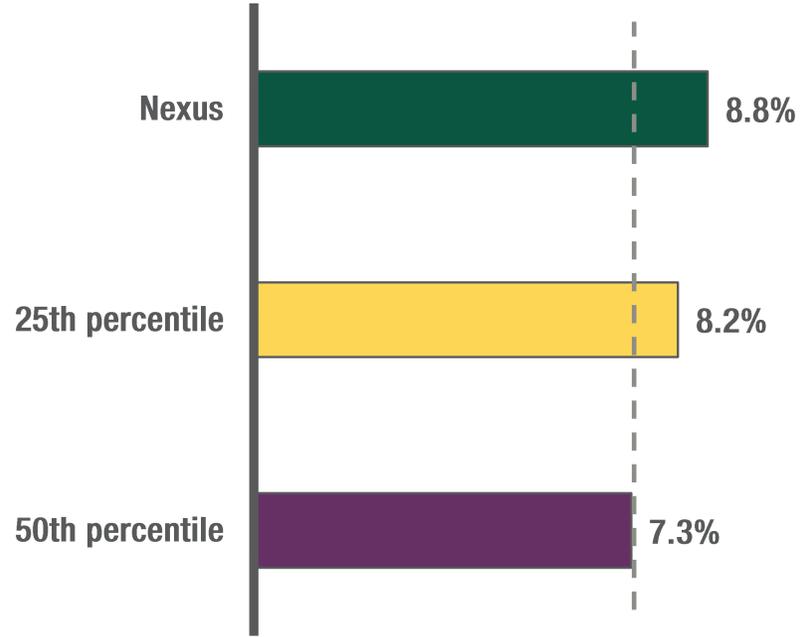
Balanced Fund

Nexus compares well to other active managers



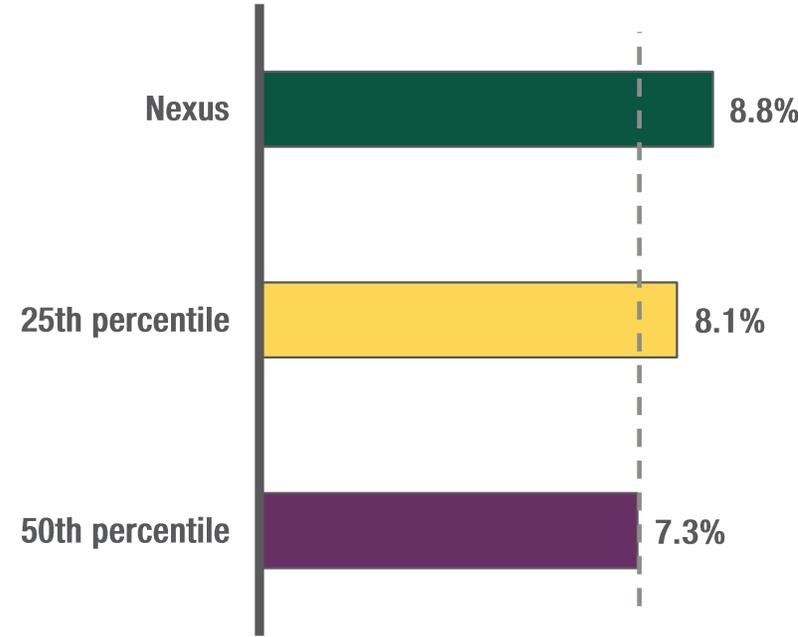
Nexus Balanced Fund vs. Peers

3-Year Return <sup>(1,2)</sup>



Nexus Balanced Fund vs. Peers

5-Year Return <sup>(1,2)</sup>



Nexus Balanced Fund vs. Peers

10-Year Return <sup>(1,2)</sup>

As at January 31, 2021

<sup>(1)</sup> Nexus and comparable manager returns are shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

<sup>(2)</sup> Balanced Universe from Global Manager Research Institutional Performance Report.

# Investment Performance

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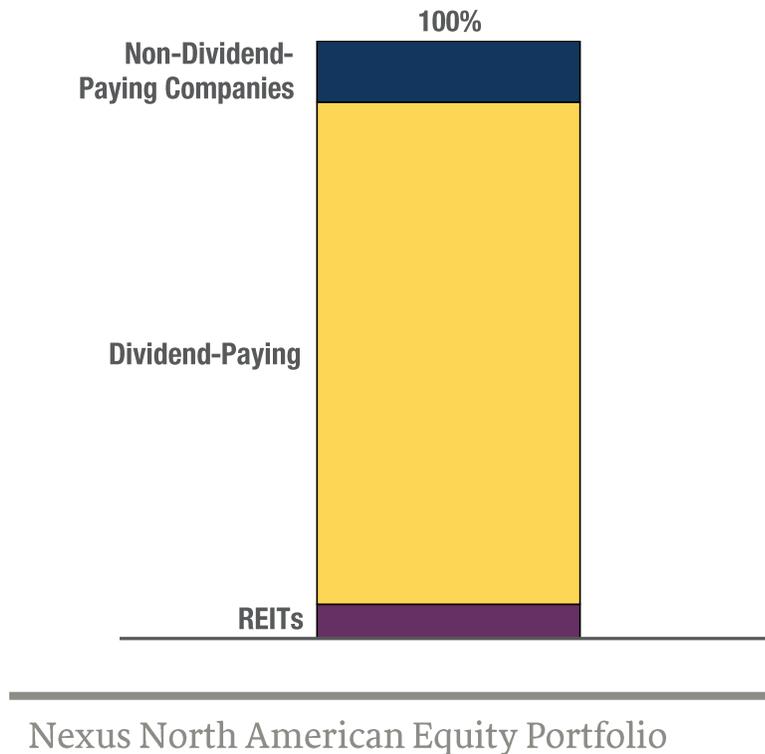
## We like the prospects for our portfolios

- Bond portfolio contains quality holdings with limited price risk
  - Income-oriented equities in the Income Fund should add value over time
  - Dividend yield exceeds bond yield, with superior long-term growth and inflation protection
- North American equity portfolio is comprised of quality stocks with attractive prices
  - Established, dividend-oriented stocks
  - Modest valuations add margin of safety
  - Recovery potential post COVID
- International equities continue to add diversification

# Appendix

# Portfolio Overview

Our North American equities combine defensiveness and growth



- 5 stocks
- Average EPS growth of 18% per year over 5 years
- 23x average forward P/E multiple <sup>(1)</sup>
  
- 29 stocks <sup>(2)</sup>
- 2.7% average dividend yield
- Average dividend growth of 7.8% per year over 5 years
- 16x average forward P/E multiple <sup>(1)</sup>
  
- 2 Real Estate Investment Trusts
- Average distribution yield of 4.8%
- Average Price/NAV of 70%

As at December 31, 2020

Source: Bloomberg.

<sup>(1)</sup> The “forward” year is the current fiscal year estimate for each company; excludes data points that are not meaningful.

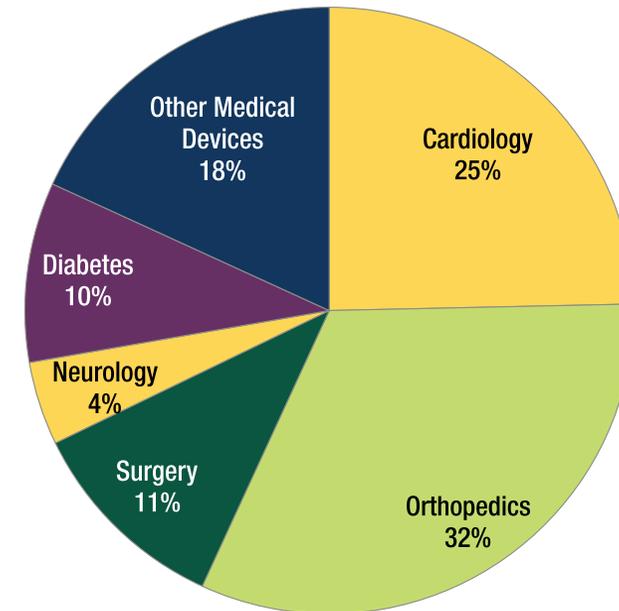
<sup>(2)</sup> Of the 29 stocks, four have temporarily suspended their dividends during the coronavirus pandemic.

# Portfolio Overview

## Medical Device Industry

The medical device industry has strong long-term growth potential

- Rising demand
  - Favourable trends from an aging population
  - Emerging markets are a growth frontier
- Product innovation drives growth
  - New devices improve health outcomes for patients
  - Easier for doctors to use
  - Large R&D investments driving device innovations
- COVID-19 led to a deferral of elective surgeries
  - Pressured Medical Device stocks' valuations = opportunity
  - Some risk of a repeat of Q2 hospital shutdowns, but unlikely due to better hospital preparedness

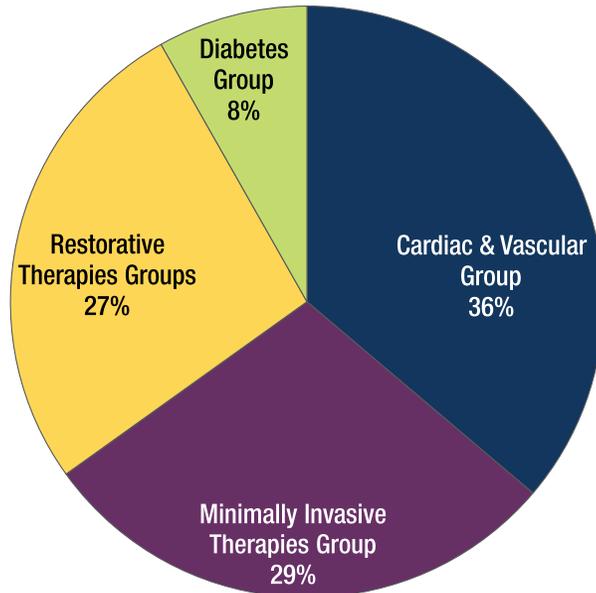


Medical Device Market Segments

# Portfolio Overview

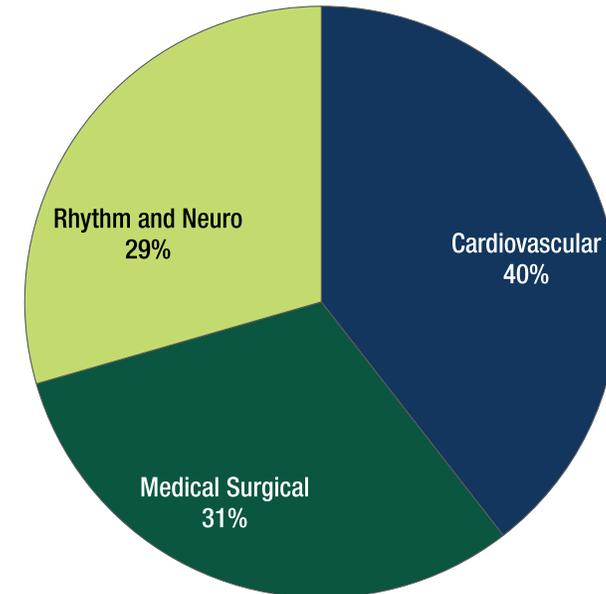
## Medical Device Industry

We recently purchased positions in two leading medical device manufacturers



Medtronic Fiscal 2020 Revenue of \$28.9 billion

- Established market leader with strong balance sheet
- New management reinvigorating growth

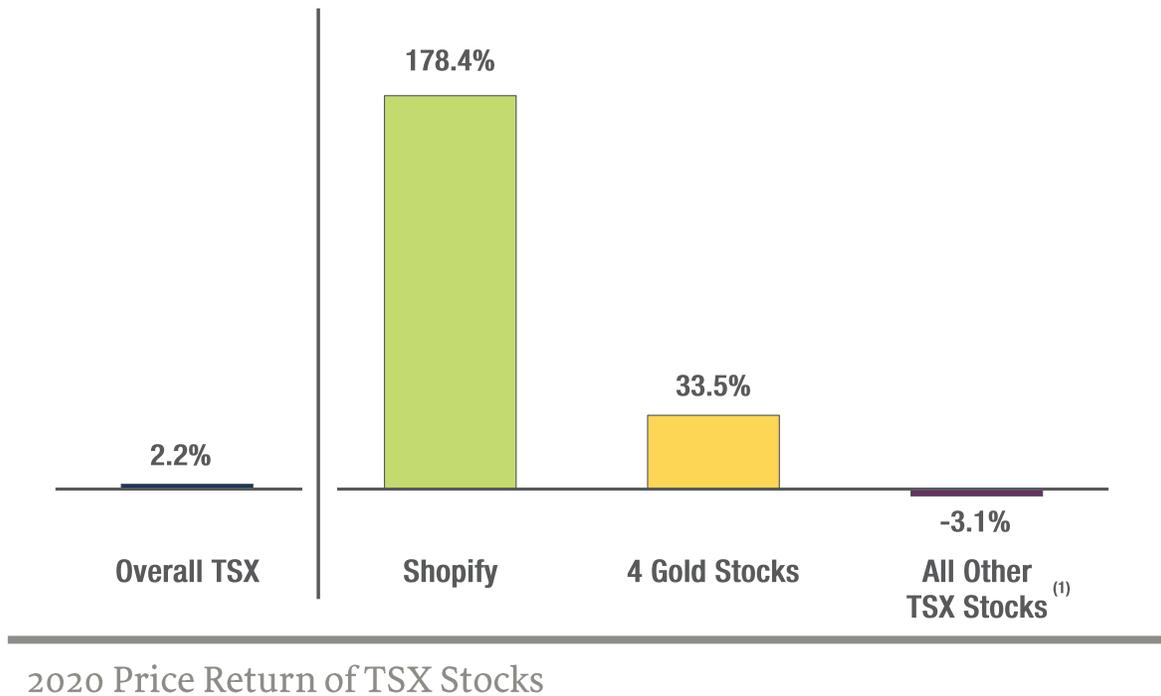


Boston Scientific Fiscal 2019 Revenue of \$10.7 billion

- Focused on faster growing subsegments
- Growth from acquisitions, venture investments, R&D

# Investment Performance

The Canadian underperformance stems largely from 5 stocks in the TSX



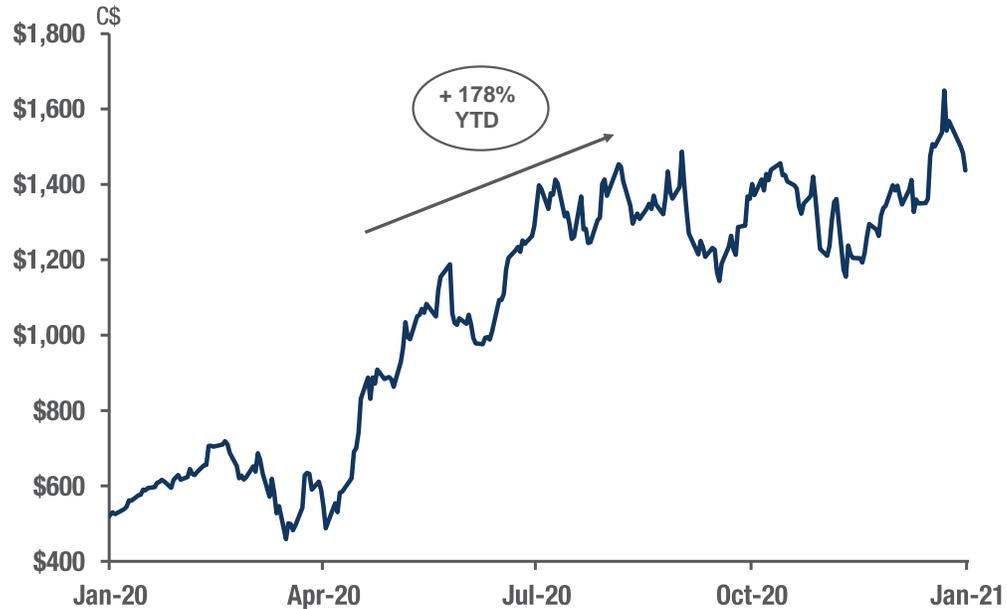
- These stocks don't fit well with Nexus's investment approach
  - Shopify has a high valuation
  - Gold stocks have been poor investments over the long term

As at December 31, 2020

<sup>(1)</sup> Simple average return of the four precious metals stocks that contributed the most to the TSX's overall return.

# Investment Performance

## Shopify remains the star stock on the TSX Composite



Shopify Stock Price for 2020

- By far the biggest contributor to TSX returns in 2020
- \$185 billion market value makes it the biggest on the Toronto Stock Exchange
- A compelling business, but the share price and valuation metrics have always been high <sup>(1)</sup>
  - EV / Revenue ratio: 37x
  - P/E ratio: 301x
- High valuation leaves little margin of safety

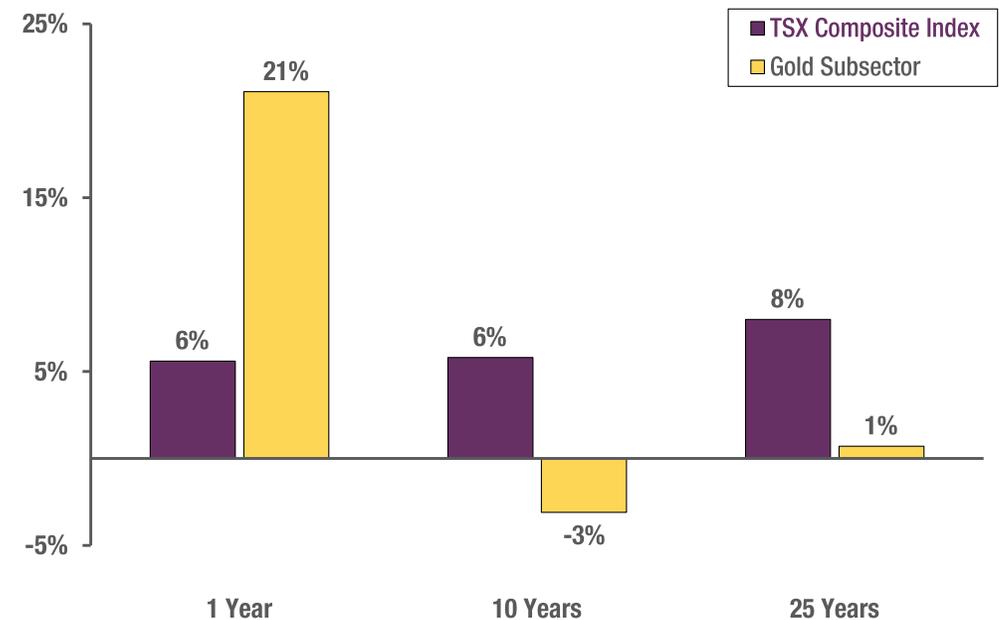
As at December 31, 2020

Source: Bloomberg.  
<sup>(1)</sup> Both metrics are calculated using 2021 consensus estimates from Bloomberg.

# Investment Performance

The Gold sector remains the star sector of the TSX Composite

TSX Rank <sup>(1)</sup>	Company	2020 Gain
4	Barrick Gold	22%
7	Wheaton Precious Metals	39%
11	Franco-Nevada	20%
13	Kinross Gold	53%



## YTD Gold Stock Contribution to TSX Composite

- Four of the 15 biggest TSX contributors in 2020 were gold stocks

## Total Return Compound Annual Growth Rates

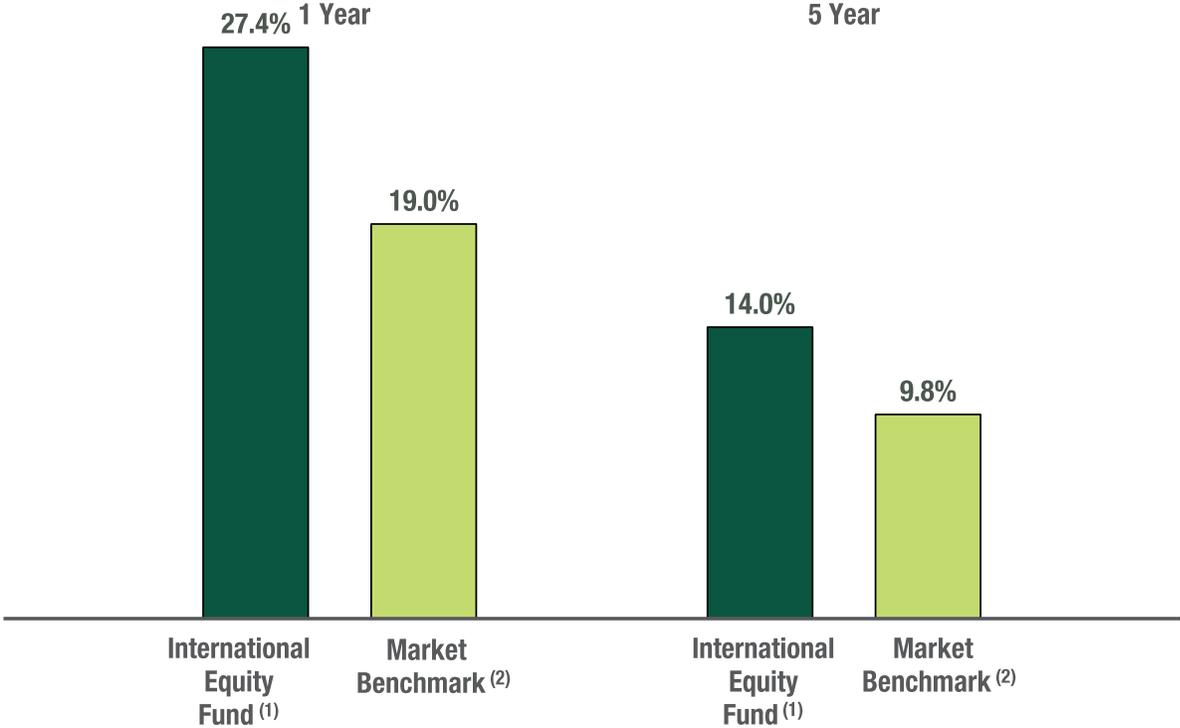
As at December 31, 2020

Source: Bloomberg, TD Securities.

<sup>(1)</sup> Ranked by the amount of positive contribution to TSX performance in 2020 YTD. Shopify, of course, was the #1 contributor by a wide margin.

# Investment Performance

The International Equity Fund has strong returns and performed well relative to its benchmark



Nexus International Equity Fund

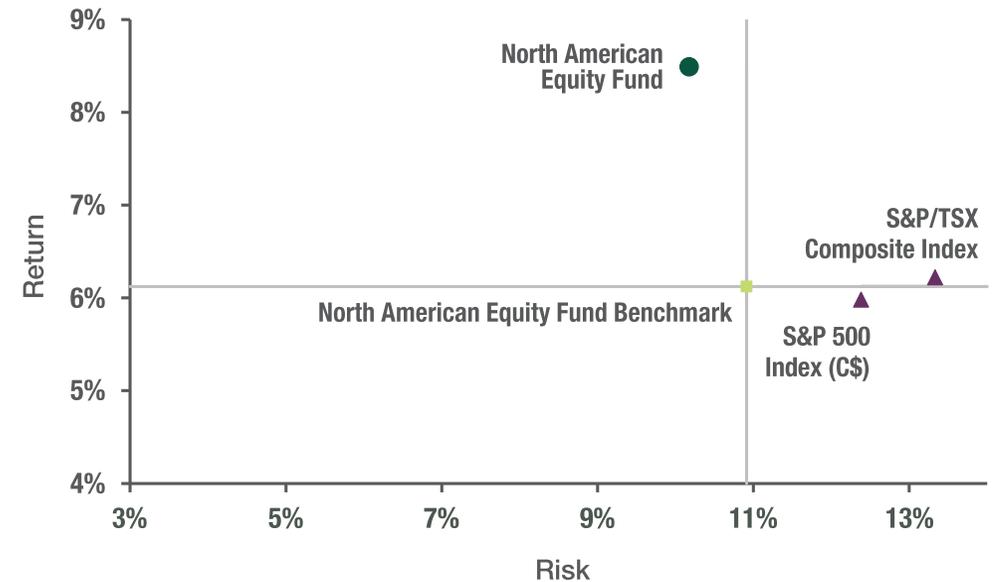
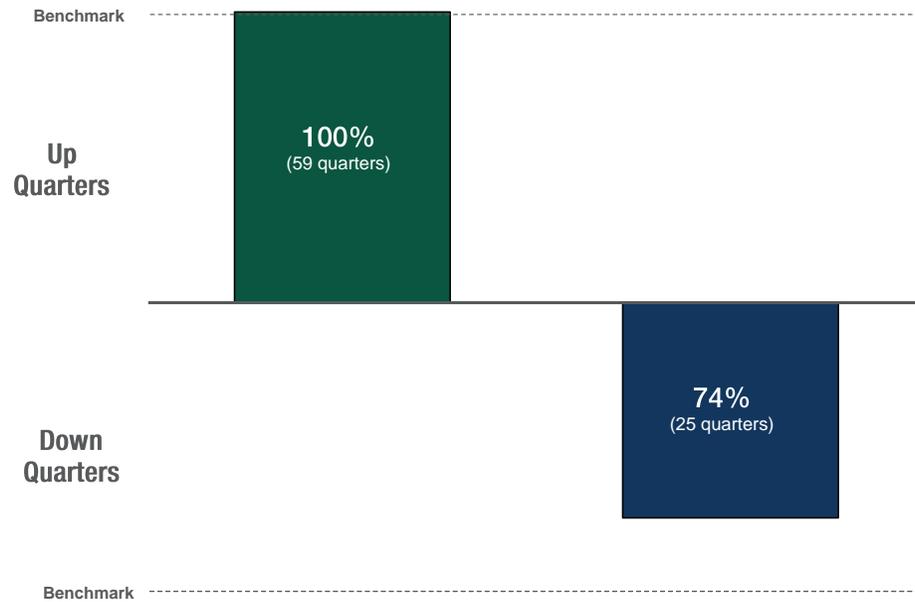
Periods ended February 28, 2021

(1) Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results. The International Equity Fund's inception date is September 2015.

(2) International Equity Fund market benchmark is 75% MSCI EAFE and 25% MSCI Emerging Markets indices (both in C\$); rebalanced monthly.

# Investment Performance

Our approach has worked over the long term, with good downside protection



Equity Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>

Risk / Return Profile Since January 1, 2000 <sup>(2,3,4)</sup>

Period ending December 31, 2020

<sup>(1)</sup> Each quarter since January 1, 2000 is defined as an “up” or “down” quarter based on whether the benchmark return for the quarter was positive or negative. For up (down) quarters, the capture ratio is the ratio of compound average rates of return for the Fund and its benchmark for such quarters.

<sup>(2)</sup> Nexus returns are presented prior to the deduction of investment management fees. Past performance is not indicative of future results.

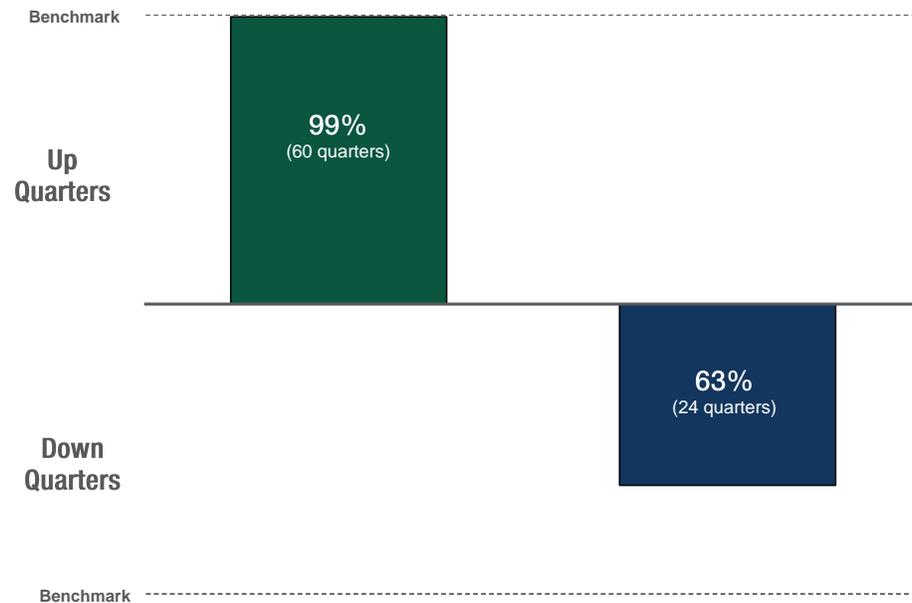
<sup>(3)</sup> Equity Fund benchmark is 5% FTSE Canada 91 Day T-Bill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

<sup>(4)</sup> Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

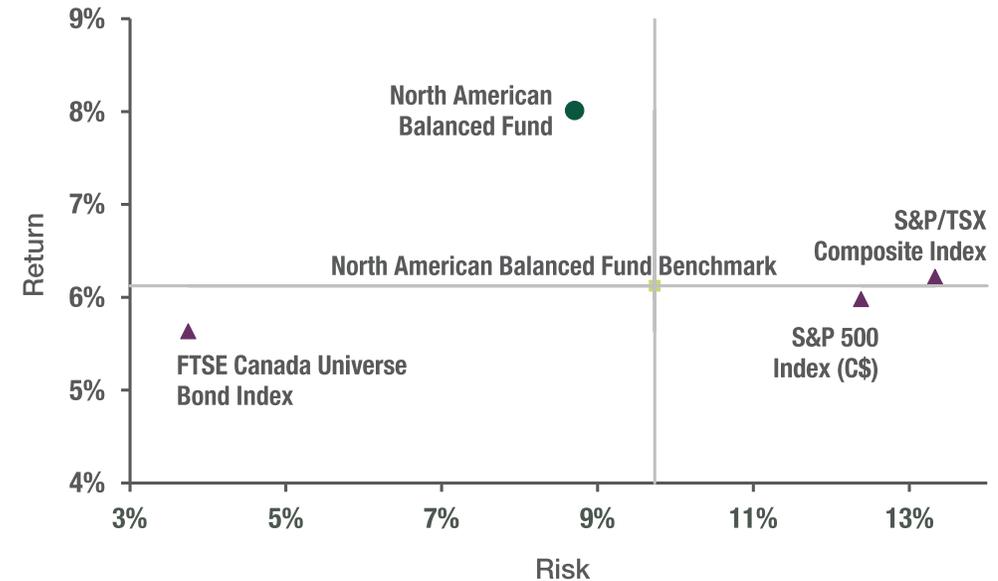
# Investment Performance

## Balanced Fund

Our approach has worked over the long term, with good downside protection



Balanced Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>



Risk / Return Profile Since January 1, 2000 <sup>(2,3,4)</sup>

Period ending December 31, 2020

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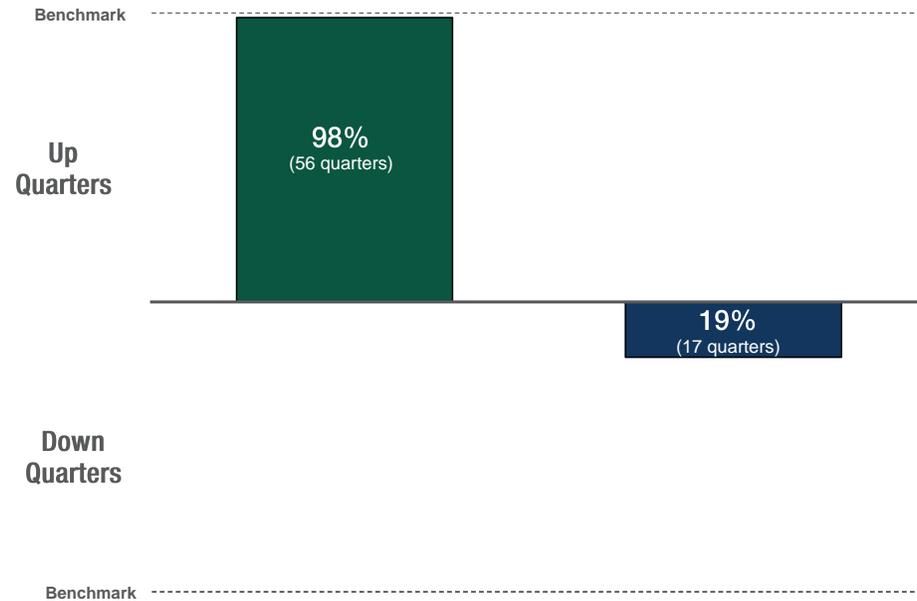
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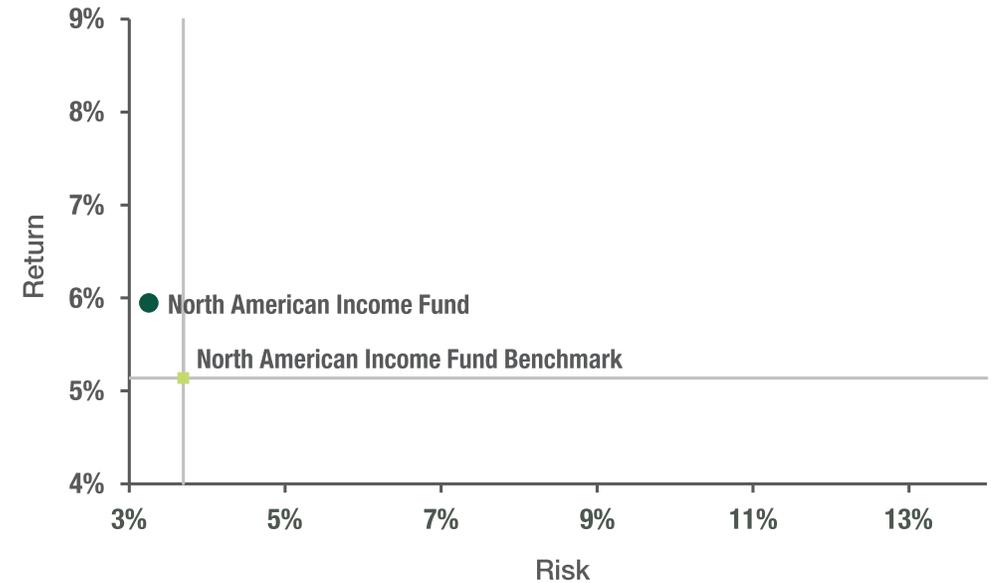
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# Investment Performance

Our approach has worked over the long term, with good downside protection



Income Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>



Risk / Return Profile Since October 1, 2002 <sup>(2,3,4)</sup>

Period ending December 31, 2020

<sup>(1)</sup> Each quarter since October 1, 2002 is defined as an “up” or “down” quarter based on whether the benchmark return for the quarter was positive or negative. For up (down) quarters, the capture ratio is the ratio of compound average rates of return for the Fund and its benchmark for such quarters.

<sup>(2)</sup> Nexus returns are presented *prior to the deduction of investment management fees*. Past performance is not indicative of future results.

<sup>(3)</sup> Income Fund benchmark is the FTSE Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

<sup>(4)</sup> Risk is calculated as the annualized standard deviation of monthly returns since October 1, 2002.

**NEXUS**

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**Invest Thoughtfully™**