



NEXUS

Portfolio Management & Financial Counsel



Investment Review

March, 2019

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

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



⁽¹⁾ Calculated as the average annual retention rate from December 31, 2008 to December 31, 2018.

Trade and politics overhang market...

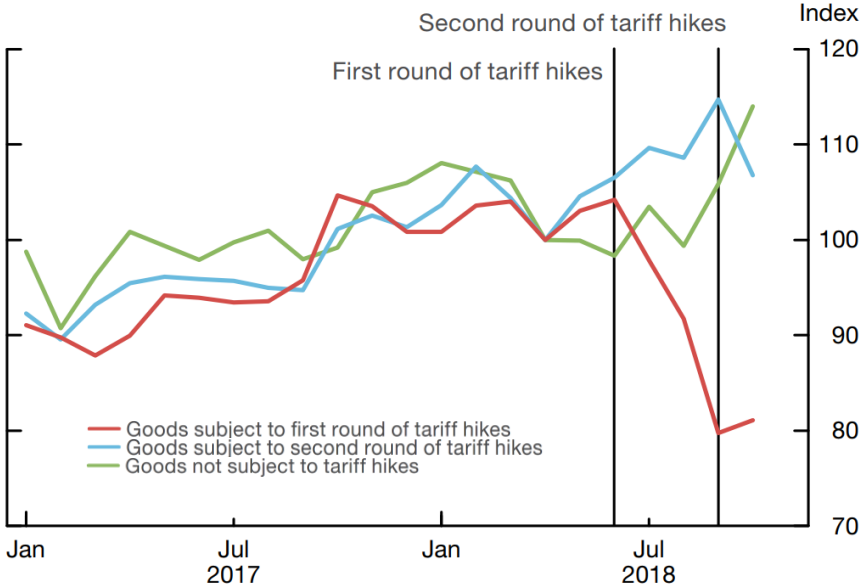
- ◆ USMCA: signed but not ratified
- ◆ China/U.S. agreement progressing... for now
 - China/Canada political tensions heating up
- ◆ Brexit: unresolved and unforecastable
- ◆ Sharply divided Congress and a volatile President lead to political risk

...while rate hikes become less of a worry

"The confluence of trade conflicts, geopolitical tensions and emerging signs of their economic impacts is leading markets to reassess global growth prospects and reprice most asset classes"

Stephen Poloz, Governor of the Bank of Canada
January 9, 2019

Tariffs create a meaningful drag on economic activity

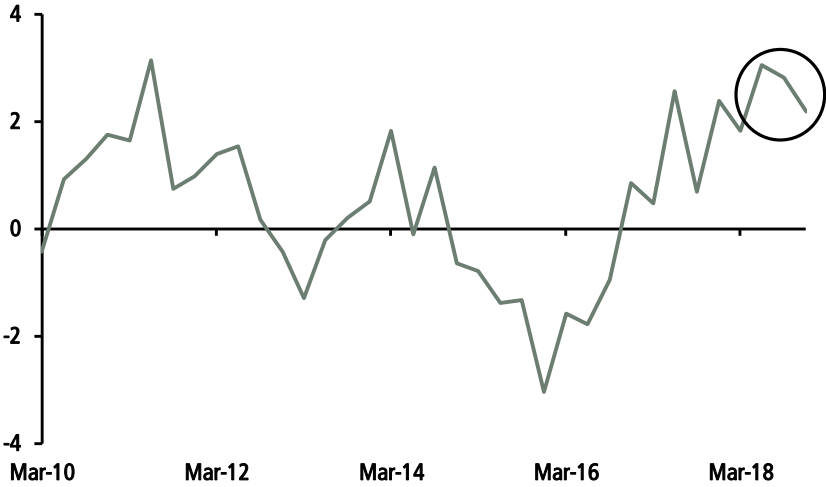


- ◆ The impact of tariffs on trade is measurable
- ◆ Slowing Chinese growth is felt globally

U.S. Imports From China ⁽¹⁾

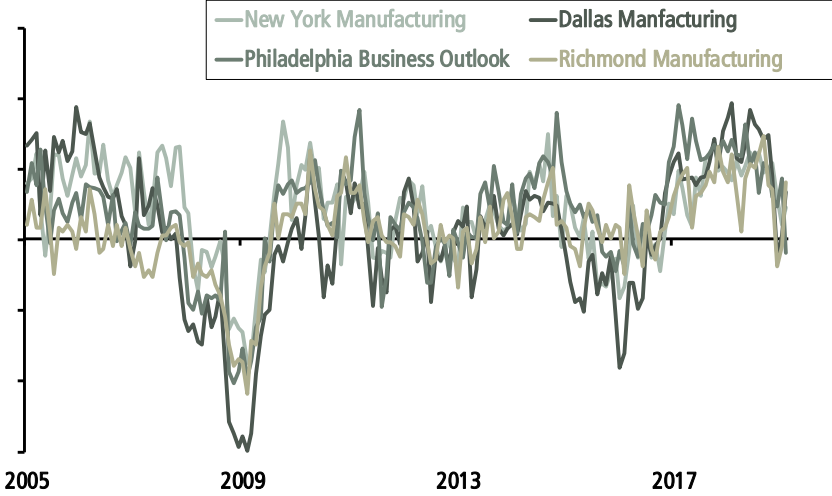
Source: Bank of Canada.
⁽¹⁾ Index: April 2018 to 100, monthly data.

Understandably, business confidence appears to be moderating



Bank of Canada Business Outlook Survey

- Trade uncertainty limits capital investment and optimism

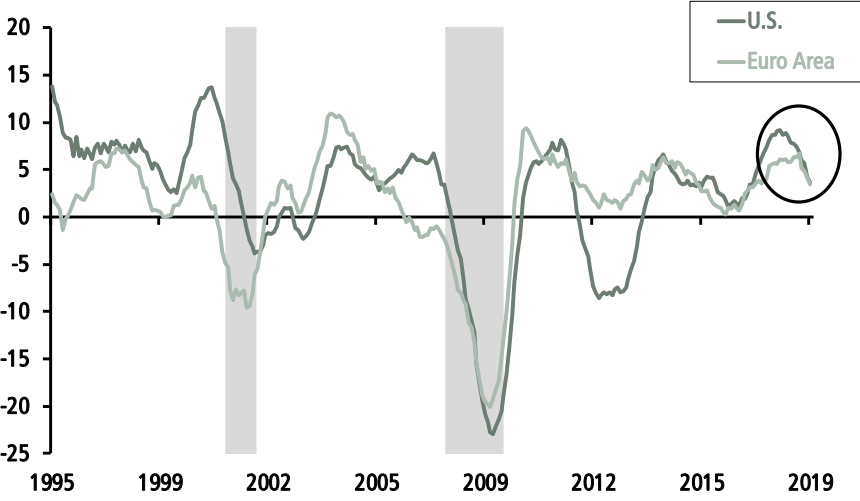


Regional Federal Reserve Bank Surveys ⁽¹⁾

- Sentiment is softer across all regions in the U.S.

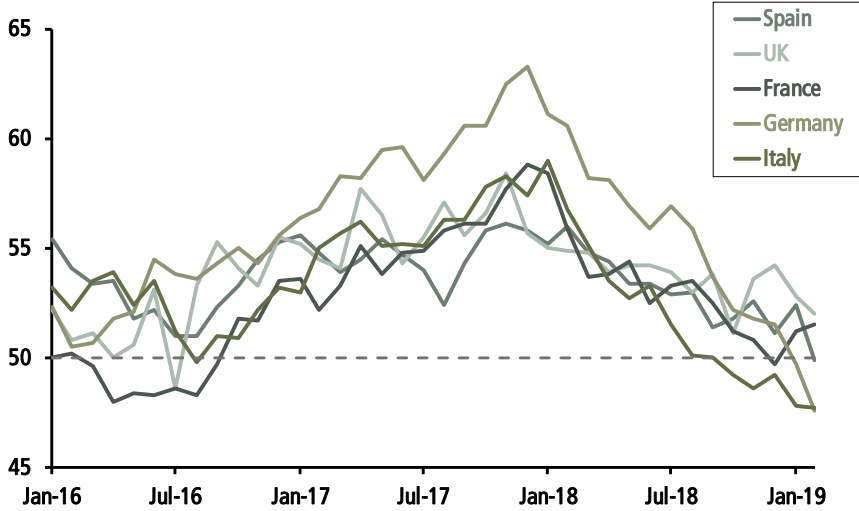
Source: Bloomberg.
⁽¹⁾ Directional scale – the direction is indicative (increase = better; decrease = worse).

A moderating outlook is a global phenomenon



Conference Board Leading Economic Index (YoY Change) ⁽¹⁾

- Leading indicators have softened, but recession risk overestimated



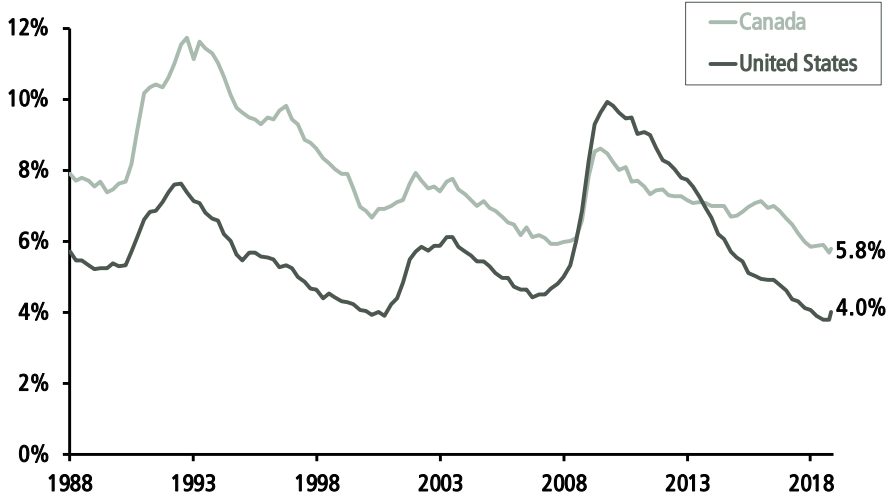
EU Purchasing Managers' Indices (PMI)

- PMI Indices for Spain, Italy and Germany have fallen into contraction territory

Source: Bloomberg.

⁽¹⁾ The index represents a broad range of leading economic indicators accumulated by the Conference Board.

In contrast, the labour market is exceptionally strong

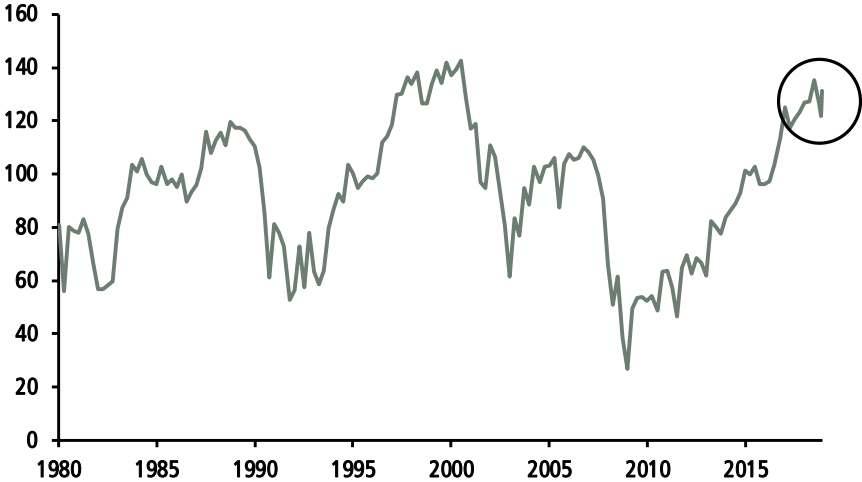


- ◆ Canada and U.S. unemployment both near record low levels
- ◆ U.S. wage growth remains strong (3.2%)
- ◆ Canadian wages are improving steadily (1.8%)

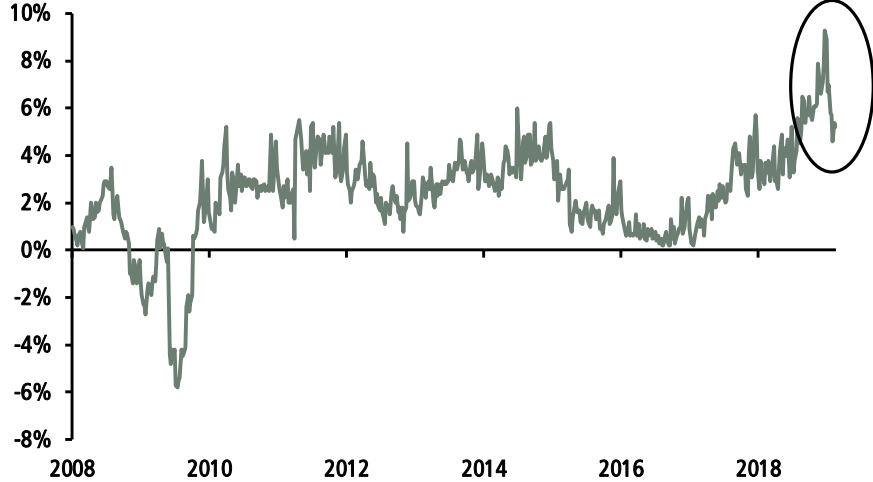
Canada and U.S. Unemployment Rates

As at January 31, 2019

Consumer fundamentals remain strong but recent uncertainty is reflected in behaviour



U.S. Consumer Confidence ⁽¹⁾



Johnson Redbook Index ⁽²⁾

- Consumption is approximately 70% of U.S. GDP

Source: Bloomberg.
⁽¹⁾ Conference Board Consumer Confidence tracks consumer sentiment through surveys of U.S. households.
⁽²⁾ Johnson Redbook Index tracks sales in retail stores and compares same store's results year-over-year.

Despite elevated headline risks, modest investment returns most likely

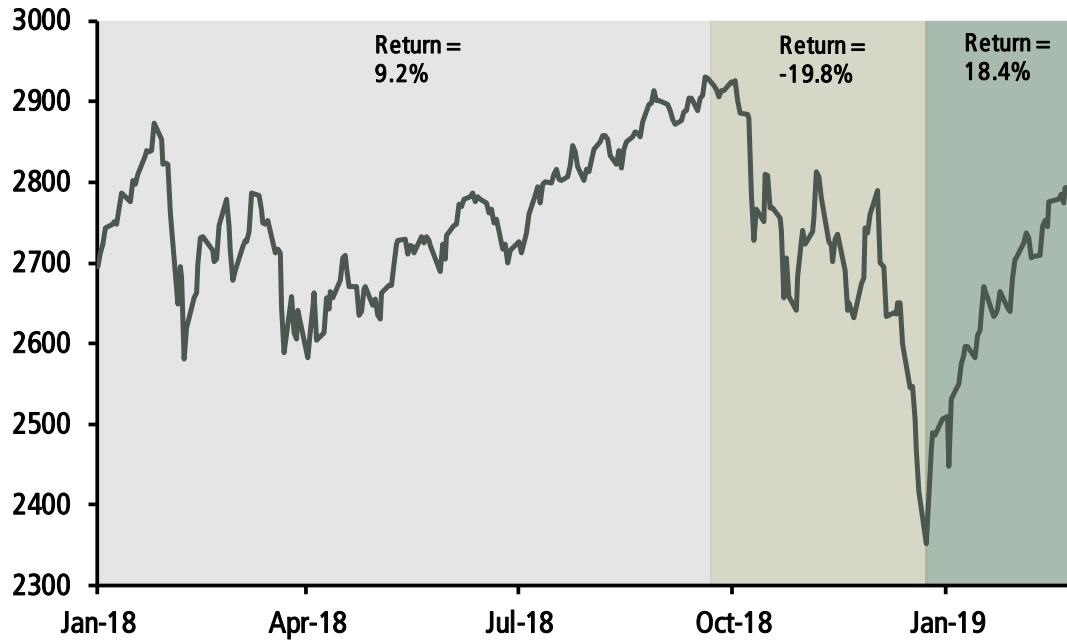
- ◆ Global trade tensions are both an economic and market concern
 - Real economy – Businesses, and now consumers, are increasingly uneasy
 - Capital markets – Bouts of equity volatility and persistence of low rates betray a similar unease

- ◆ Imminent recession unlikely
 - Economic growth has decelerated
 - Low interest rates and strong employment remain supportive

Our portfolios remain positioned for the long term

- ◆ Allocation to equities and fixed income close to guidelines
- ◆ Fixed income portfolios are characterized by shorter maturities and higher quality
- ◆ Equity portfolios emphasize quality, with a combination of defensiveness and growth
 - We remain optimistic about the prospects for our holdings, despite the recent market turmoil

Recent market volatility has been extreme



S&P 500 Index ⁽¹⁾

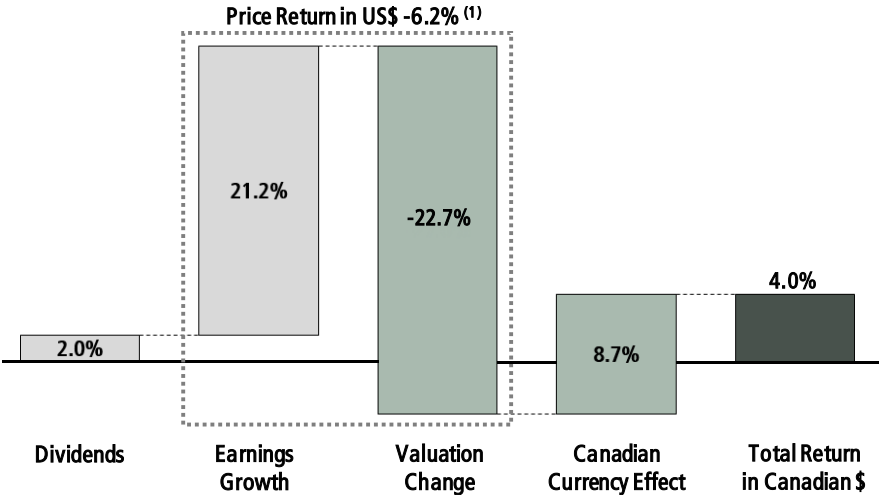
Source: Bloomberg.

⁽¹⁾ Returns presented are in US\$.

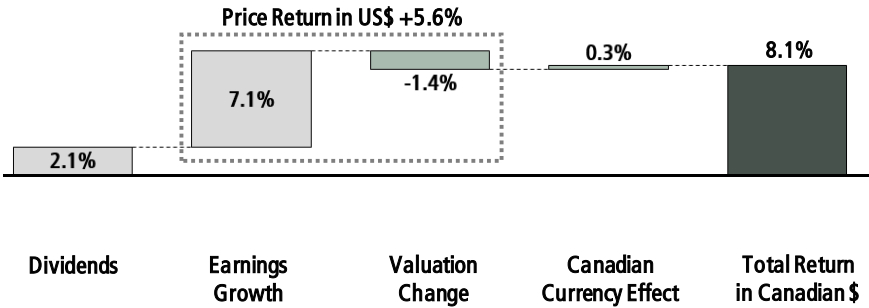
Asset Allocation Considerations

Short-term returns are driven by markets...

...Long-term returns are driven by company economics



S&P 500 1-Year Return Composition



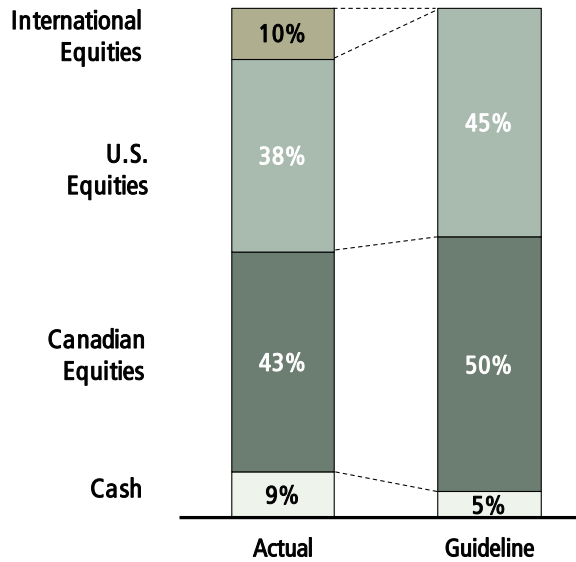
S&P 500 15-Year Annual Return Composition

Periods Ending December 31, 2018

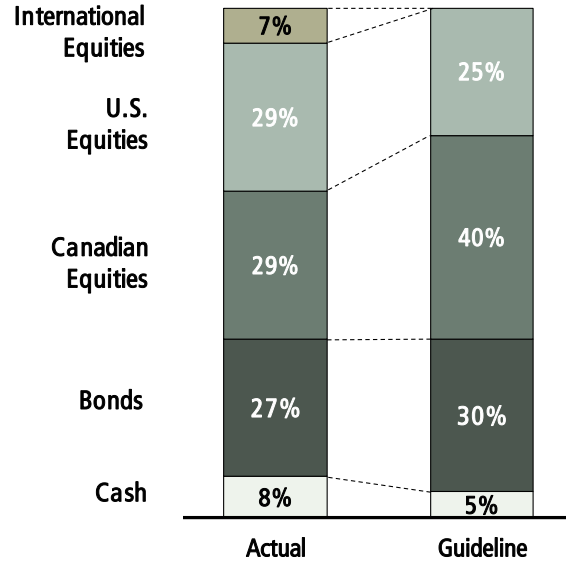
Source: Bloomberg, Bank of Canada.

(1) Percentage returns must be combined by multiplying, not adding. For example, a 21.2% gain and a 22.7% loss are combined using $(1 + 21.2\%) \times (1 - 22.7\%) - 1 = -6.2\%$.

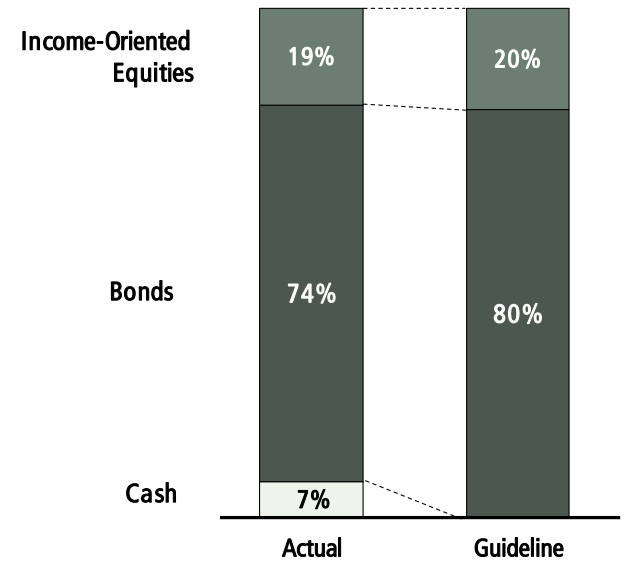
Overall equity allocations are close to long-term guidelines



Nexus Equity Fund

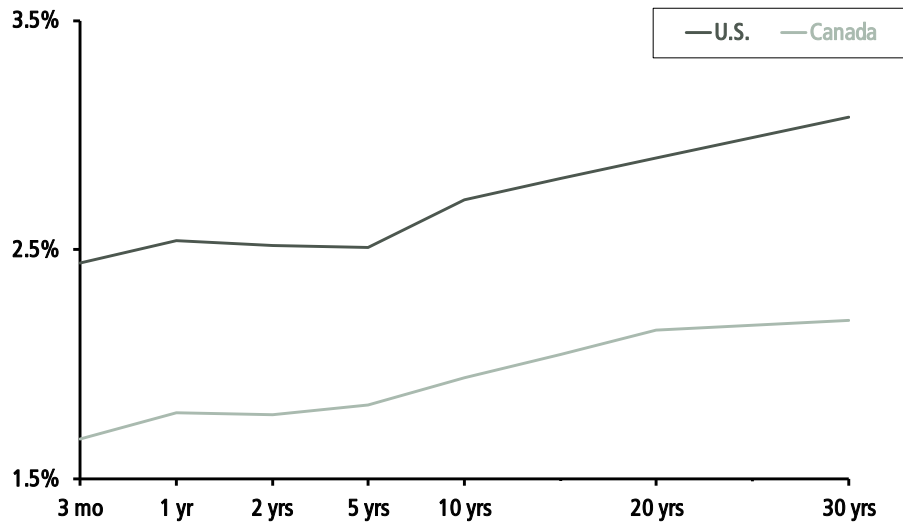


Nexus Balanced Fund



Nexus Income Fund

Central banks on hold



“In light of global economic and financial developments and muted inflation pressures, the Committee will be patient as it determines what future adjustments to the target range for the federal funds rate may be appropriate.”

Jerome Powell, Chair of the Federal Reserve
January 30, 2019

Canadian and U.S. Yield Curves

- Investors no longer expect rate hikes
- Nominal returns are uninspiring

As at February 28, 2019

Equity Portfolio Changes

Given Nexus’s long-term approach, limited trading is the norm

Buy

Sell

Buy

Sell

Magna International

—

Facebook
General Motors

Walmart

Add

Trim

Add

Trim

Cenovus
Enbridge
Thomson Reuters

—

—

U.S. tech stock trims ⁽¹⁾

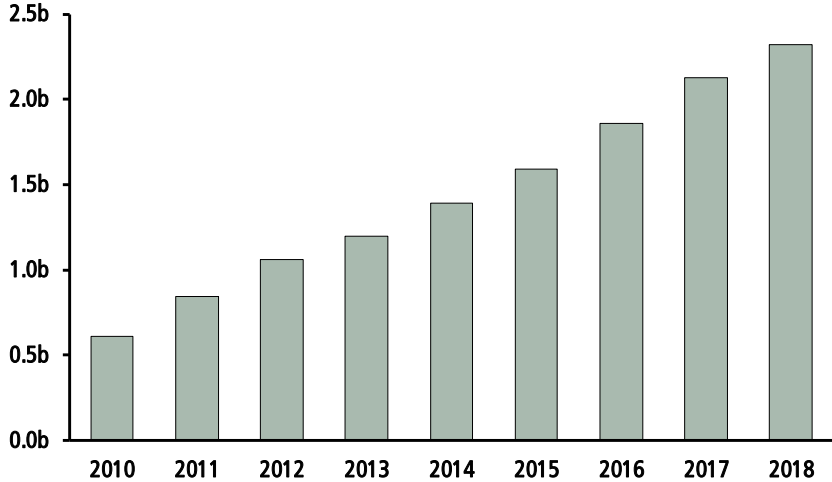
Canadian Equities

Foreign Equities

12 months ended February 28, 2019

⁽¹⁾ Trims of selected “overweight” stocks.

The world's largest social network

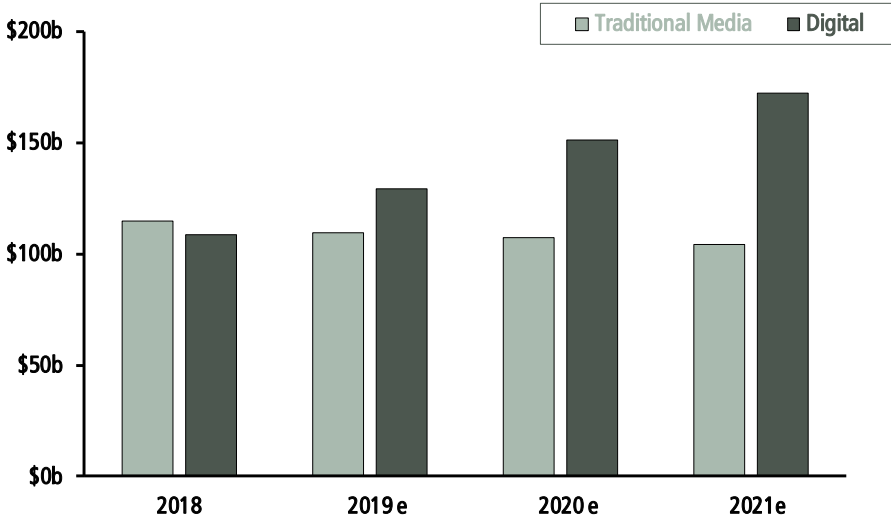


- ◆ Multiple platforms
 - Social media (Facebook, Instagram)
 - Messaging (WhatsApp, Facebook Messenger)
- ◆ High level of user engagement

Facebook's Monthly Active Users

- Over 2.3 billion monthly active users (U.S. population 327 million)

Almost all of Facebook’s revenue comes from selling ads



- ◆ Facebook is capitalizing on the shift to online advertising
- ◆ Targeted ads based on user information
 - Return on investment for advertisers is compelling
- ◆ Facebook’s success in selling ads is apparent
 - Revenue growth averaged 46% over the past three years ⁽¹⁾
 - 80%+ gross margins
 - Generated \$15 billion in free cash flow in 2018

U.S. Advertising Spending

Source: eMarketer.

⁽¹⁾ Revenue increased at a compound annual growth rate of 46% between 2015 and 2018.

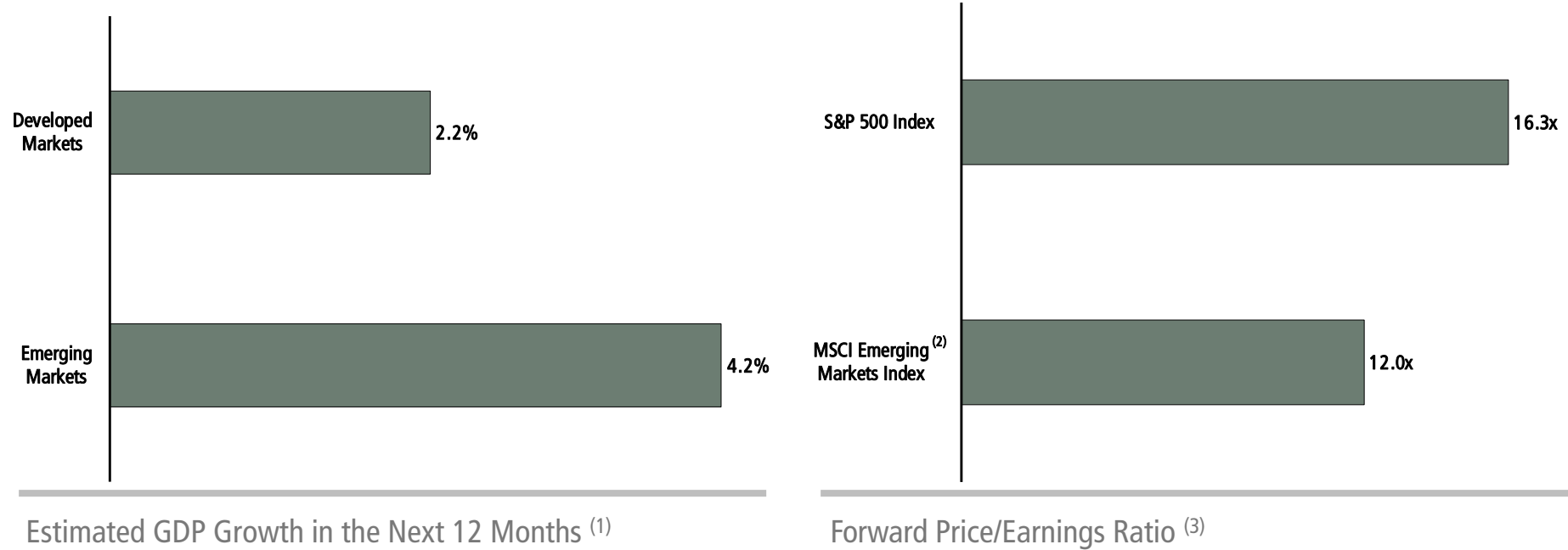
Privacy concerns are real, but surmountable

- ◆ Management is serious about improving data privacy and security
- ◆ Negative publicity has had a limited effect on user engagement
- ◆ Controversy lowered valuation and created an attractive opportunity for Nexus
 - Initial position established at a forward P/E of 17.7x ⁽¹⁾



⁽¹⁾ The “forward P/E” is the ratio of the stock price divided by Facebook’s estimated earnings per share for 2019.

Emerging markets are growing faster than developed markets and valuations are more attractive



- Emerging markets represent 42% of our International exposure

Source: JPMorgan Asset Management.

(1) As at December 31, 2018.

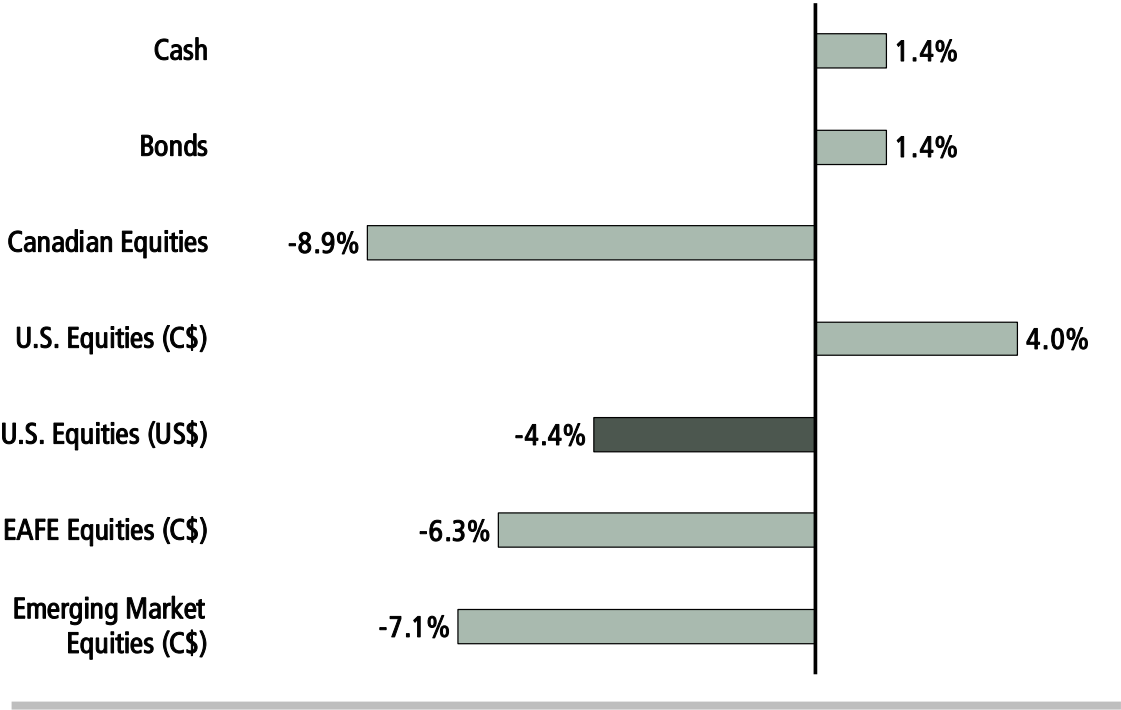
(2) MSCI EM is the principal equity index for emerging markets.

(3) The "Forward Price/Earnings Ratio" is a bottom-up weighted average for the next 12 month period. Prices as of February 22, 2019.

Investors have enjoyed strong gains in equity markets in 2019

- ◆ 1-Year Equity and Balanced Fund returns positive, but lagging benchmark
 - Canadian equities strong on an absolute and relative basis
 - U.S. equities positive, but underperformed
 - International equities a significant drag
- ◆ Fixed income returns were surprisingly positive in the last 12 months
 - Moderating economic growth has kept interest rates low
- ◆ Over the long term, Nexus portfolios have performed well
 - Long-term up- and down-market capture ratios remain good

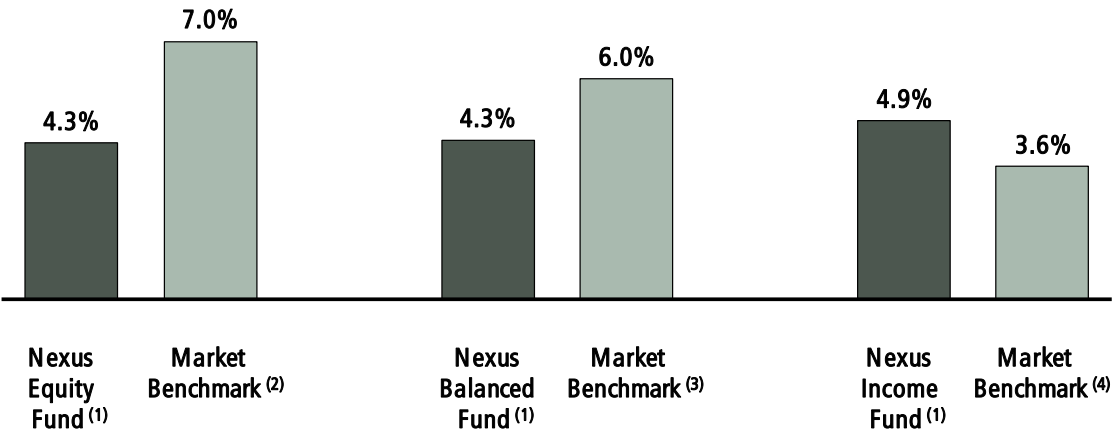
2018 turned out to be a difficult year for investors



Index Returns – 2018 ⁽¹⁾

⁽¹⁾ Total returns based on the following indices: FTSE TMX Canada 91 Day TBill Index (Cash), FTSE TMX Canada Universe Bond Index, S&P/TSX Composite (Canadian Equities), S&P 500 (U.S. Equities), MSCI EAFE and MSCI Emerging Markets.

One-year Equity and Balanced Fund returns have rebounded, but trail benchmarks



1-Year Returns on Nexus Funds

12 Months ended February 28, 2019

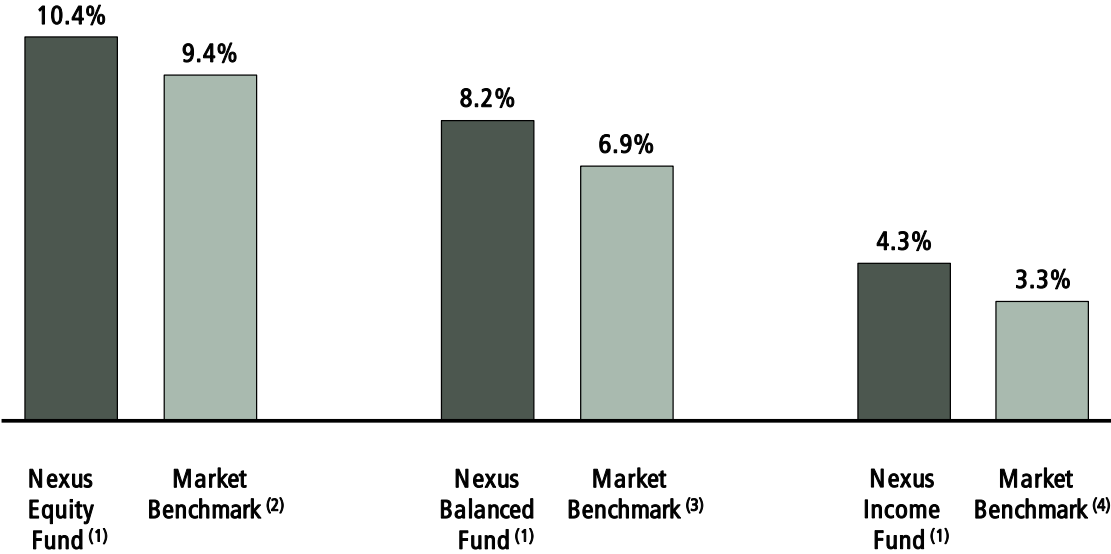
(1) Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

(2) Equity Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

(3) Balanced Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 30% FTSE TMX Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

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

5-Year returns strong on an outright basis and better than benchmark



5-Year Annualized Returns on Nexus Funds

Five Years ended February 28, 2019

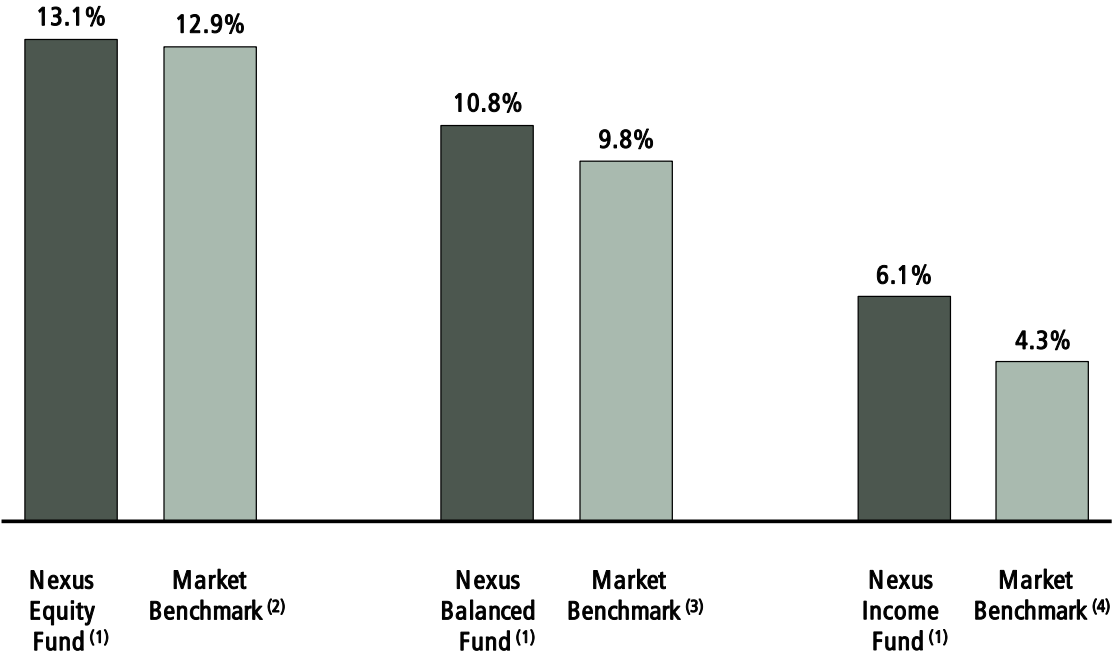
⁽¹⁾ Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

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⁽³⁾ Balanced Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 30% FTSE TMX Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

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

Fund and benchmark returns above long-term averages

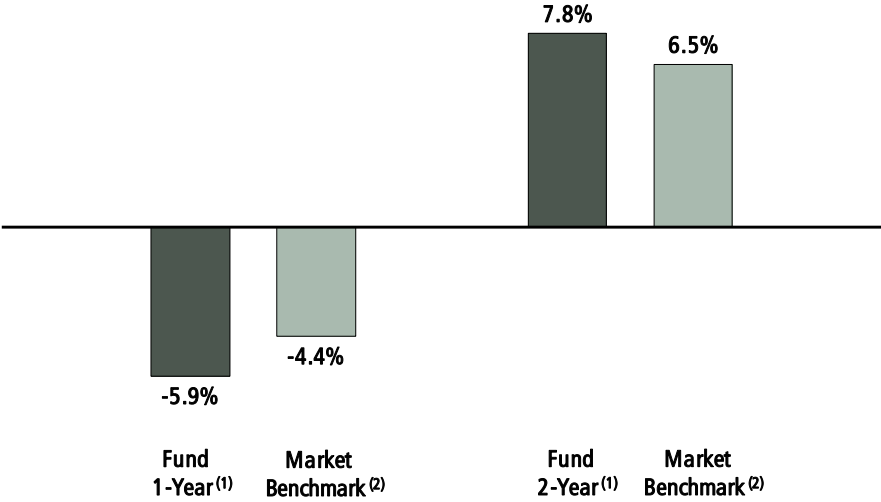


10-Year Annualized Returns on Nexus Funds

Ten Years ended February 28, 2019

⁽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.
⁽²⁾ Equity Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.
⁽³⁾ Balanced Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 30% FTSE TMX Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.
⁽⁴⁾ Income Fund market benchmark is the FTSE TMX Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

Despite a tough 2018, the International Equity Fund's 2-Year return has been good



- ◆ International adds diversification and potential return to North American investors

Returns on Nexus International Equity Fund

Periods ended February 28, 2019

⁽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.

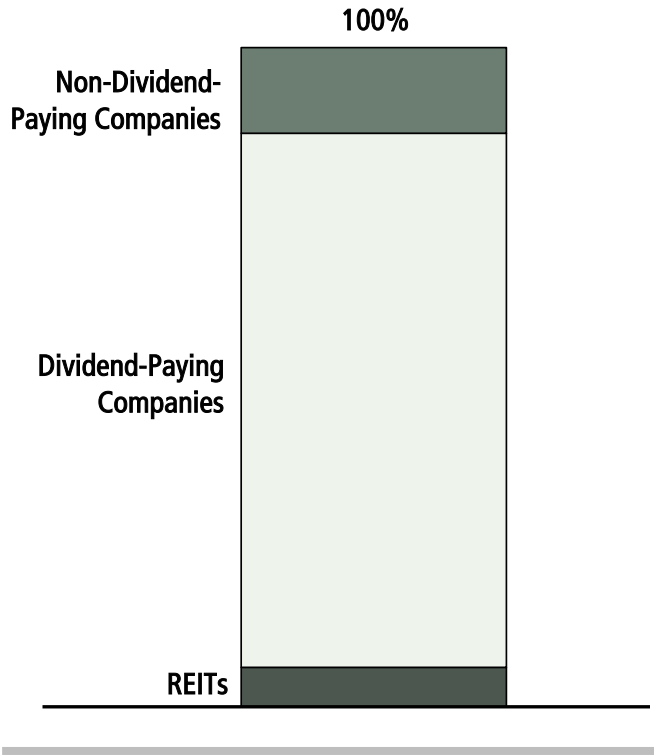


NEXUS

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Appendices

Our North American equities combine defensiveness and growth



Nexus North American Equity Portfolio

- 4 stocks
- Average EPS growth of 25% per year over 5 years
- 18.7x average forward P/E multiple ⁽¹⁾

- 30 stocks
- 3.0% average dividend yield
- Average dividend growth of 9.0% per year over 5 years
- 12.7x average forward P/E multiple ⁽¹⁾

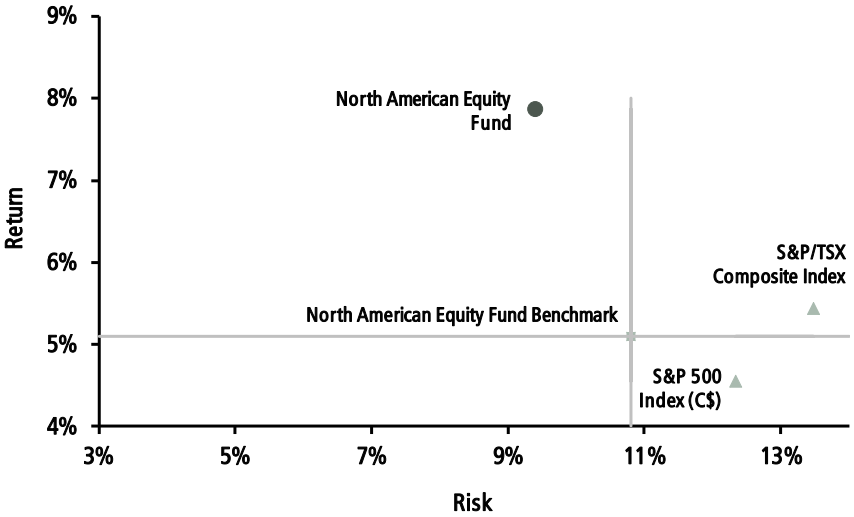
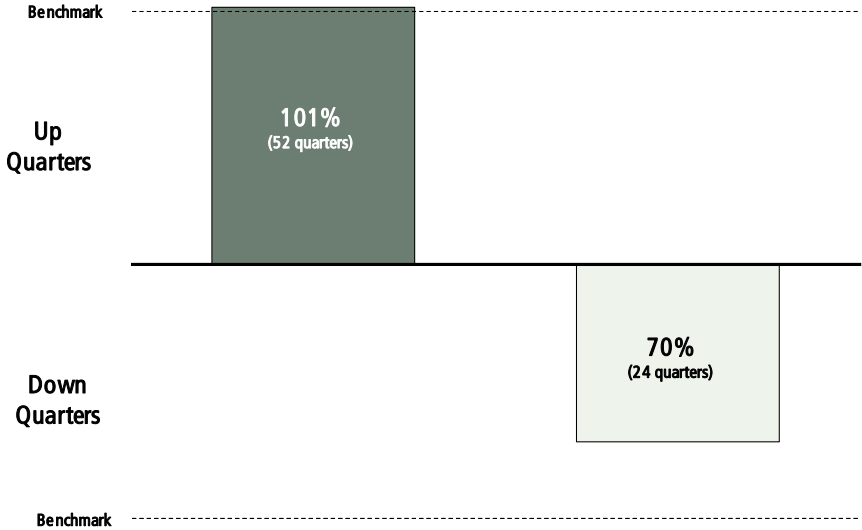
- 2 Real Estate Investment Trusts
- Average distribution yield of 4.7%
- Average Price/NAV of 96%

As at February 28, 2019

Source: Bloomberg.

⁽¹⁾ The "forward" year is the current fiscal year estimate for each company; excludes data points that are not meaningful.

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



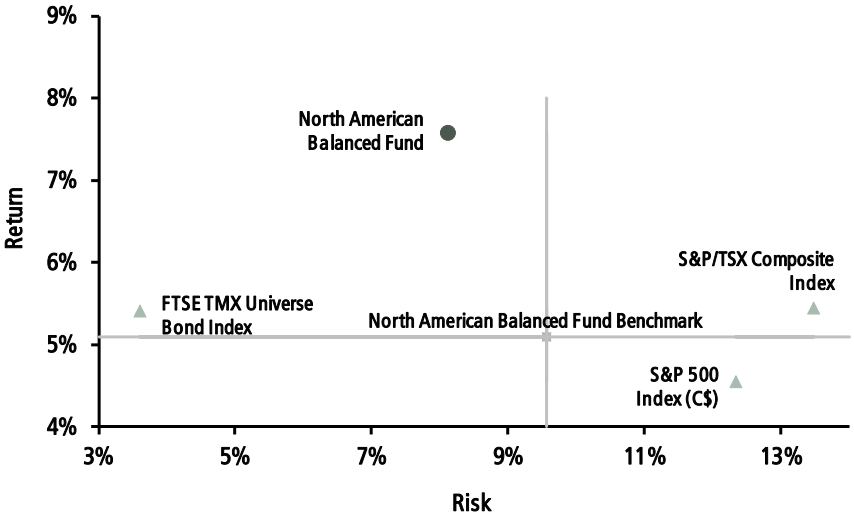
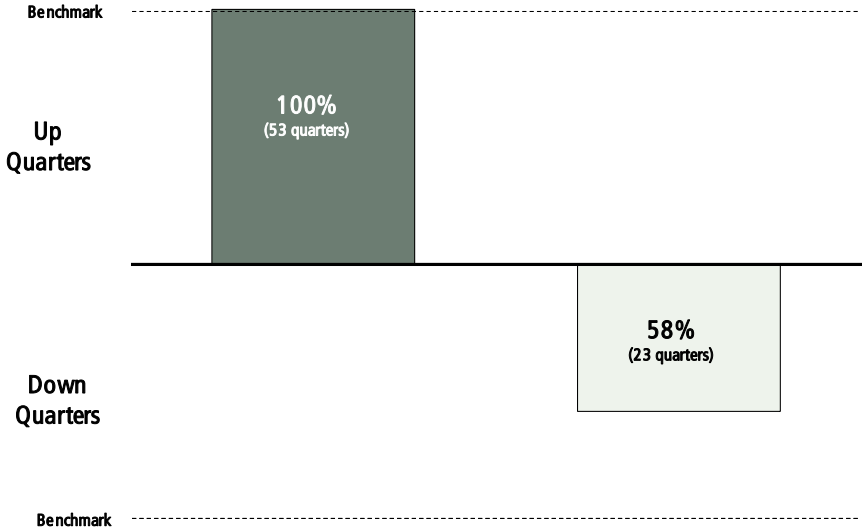
Equity Fund Up- & Down-Market Capture Ratios ^(1,2,3)

Risk / Return Profile Since January 1, 2000 ^(2,3,4)

Period Ending December 31, 2018

(1) 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.
 (2) Nexus returns are presented *prior to the deduction of investment management fees*. Past performance is not indicative of future results.
 (3) Equity Fund benchmark is 5% FTSE TMX 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.
 (4) Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

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



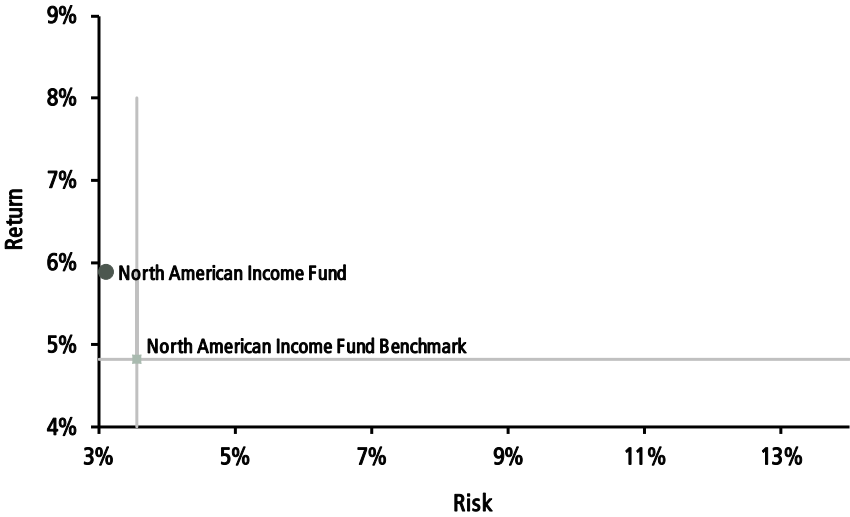
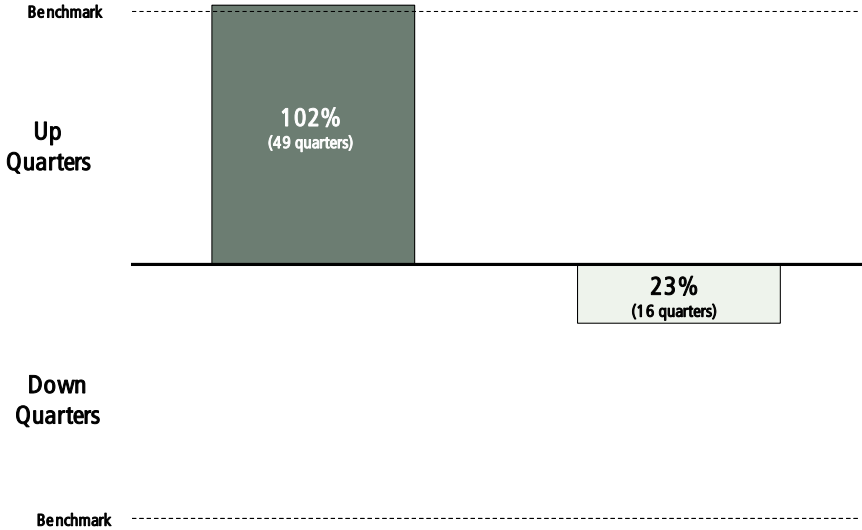
Balanced Fund Up- & Down-Market Capture Ratios ^(1,2,3)

Risk / Return Profile Since January 1, 2000 ^(2,3,4)

Period Ending December 31, 2018

⁽¹⁾ 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.
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⁽³⁾ Balanced Fund benchmark is 5% FTSE TMX 91 Day TBill Index, 30% FTSE TMX Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.
⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

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



Income Fund Up- & Down-Market Capture Ratios ^(1,2,3)

Risk / Return Profile Since October 1, 2002 ^(2,3,4)

Period Ending December 31, 2018

⁽¹⁾ 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.
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⁽³⁾ Income Fund benchmark is the FTSE TMX Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.
⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since October 1, 2002.