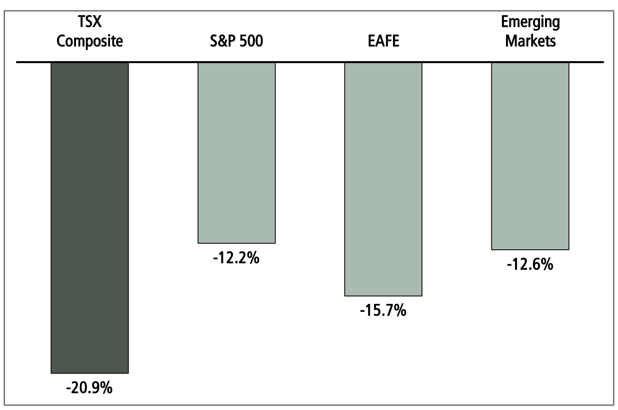
COVID Crisis

The new decade started well. Following a wonderful gain for investment portfolios in 2019, stock prices continued their ascent in January and early February. Both the Dow Jones Industrial Average and S&P 500 hit all-time high levels in mid-February. While investment fundamentals remained solid, some investors felt that a correction was overdue after the longest bull market of all time. No one predicted the carnage that would ensue from the global spread of COVID-19.

At the end of the quarter, the Dow Jones was 23% lower, and the S&P 500 was 20% lower, than at the start of 2020.[1] While each index ended the quarter above its low, they were firmly in bear market territory. In fact, the S&P's plunge of more than 20% from its high was the fastest ever experienced – it took just 19 days to reach bear market status. The previous record was set in 1987 when a bear market was achieved in 38 days. Moreover, it was a market in which there was nowhere to hide. Every sector in the S&P 500 was down at least 10%. The only mitigating factor for Canadian investors was the weak Canadian dollar, which improved U.S. returns by 7.4 percentage points when converted to Canadian dollars.



First Quarter 2020 Stock Market Returns (C$ Total Returns)

The Canadian stock market suffered even more, as the TSX Composite plunged 22% over the quarter, excluding dividends. Canadians faced the same public health crisis and rapidly slowing economy, but we also were blind-sided by a catastrophic oil price war between Russia and Saudi Arabia. The energy sector contributes significantly to Canadian GDP and to Canadian employment and tax revenues. Over the course of the quarter, Canada's benchmark oil price, Western Canada Select, fell from about US$38.50 to slightly more than US$5.00 per barrel.

Uncharted Waters

Three months ago we marvelled that, for the first time since the Civil War, the U.S. economy had gone a full decade without falling into recession. It was the first decade-long stretch of positive job growth since the U.S. Bureau of Labor Statistics began keeping data 80 years ago. Consumer confidence and spending were strong, thanks to the remarkably resilient and robust labour market. The only cautionary sign was that businesses were not as upbeat as consumers. The Trump Administration's penchant for trade wars worried corporate America.

Of course, today, our optimistic comments about continuing economic growth seem so distant. At present, the only thing that matters to investors is trying to understand the COVID-19 public health crisis and the consequences for the economy. COVID-19 has stopped economic growth in its tracks.

We are now all too familiar with the critical need to "flatten the curve" of COVID-19 transmission so that the health care system is not overwhelmed with a patient load it is unable to manage. In the absence of a proven and effective treatment, and without a vaccine to stop the spread, the only public health option available is "social distancing". In economic terms, social distancing means that non-essential businesses must be closed or moved to an online-only format. Stores, restaurants, hotels, airports, and most of the streets in big cities are empty.

The Bureau of Labor Statistics releases a weekly report of new applications for unemployment benefits. This carefully watched series is a real-time indicator of the health of the economy. Until recently, the worst report ever released was in the depths of the 1982 recession when 695,000 new claims were filed. The report released March 26 disclosed 3.3 million Americans made new applications for unemployment benefits in the previous week. We learned on April 2, that an additional 6.6 million Americans filed the following week. Most economists expect that when April labour market statistics are released in early May, the unemployment rate will have risen from 3.5% a couple months ago, to well above 10%.

Trying to estimate economic growth in such a dynamic and uncertain environment is little more than

[1] Returns in this paragraph are price only returns in U.S. dollars.

educated guessing. Suffice it to say that most expect the numbers for the second quarter of 2020 to be abysmal – GDP could fall at something approaching a 25% annual rate, before starting a recovery later in the year.

The good news is that the extent of the economic downturn is not lost on U.S. policy makers. The U.S. Federal Reserve has cut short-term interest rates to near zero and is buying limitless quantities of Treasuries and other securities. Congress has passed the CARES Act, a $2 trillion spending bill, amounting to about 9% of GDP, and additional support for individuals and businesses is on the way. The Fed and Government have thrown the kitchen sink at the problem on a scale never before imagined.

Canada Equally Challenged

The Canadian experience differs little from that in the U.S. Aggressive social distancing policies have caused many businesses to close temporarily and unemployment has skyrocketed. This has been exacerbated by the collapse in energy prices. Since March 16, 2.72 million Canadians have filed Employment Insurance claims – nearly 18% of the Canadian workforce.[2] In early April, the Ivey Purchasing Managers' Survey – which provides insight into the outlook for the Canadian manufacturing sector – plunged to 26.0 from 54.1 a month earlier. This grim result falls far below the level that suggests an economic contraction may lie ahead. It is likely that the economic statistics for Canada will be shockingly weak in the second quarter.

Canadian policy makers have similarly jumped into the fray. The Bank of Canada has cut the Bank Rate to just 0.25% and has launched its first-ever quantitative easing program.[3] The federal government has launched a range of wage subsidy programs as well as other support for businesses. Specific support for the energy sector, and some travel-related companies like the airlines, is also expected. The federal government may well face a budget deficit in excess of $200 billion in 2020. Thankfully, there is one early sign that government action may be helping. The Canadian Federation of Independent Business "Business Barometer" actually rose to 37.7 in April from 30.8 a month earlier. This level remains below the worst of the 1990-1991 recession, as well as the 2008-2009 Global Financial Crisis, but the better reading suggests small businesses are marginally encouraged by the actions being taken.

Investment Outlook

It is important to keep in mind that the current crisis will end. It will ease once treatments for COVID-19 are available, or the rate of contagion slows. It will end for good once a vaccine is developed and is widely available. We don't know how long this will take, but there is more money and collaborative scientific effort focused on a single problem than ever before.

Until one of these milestones is reached, it is virtually certain that stocks will continue to be volatile. At the moment, investor attitude seems to have switched from "fear" to "fear of missing out", as stocks have rebounded strongly from their March low. However, it seems likely that there will be more bad news before the outlook improves.

It is times like these that underscore the importance of each investor's asset mix. In a 10-year bull market it is easy to forget how worrisome it can be when stocks take a tumble. An appropriate allocation to bonds and cash is critical to avoid panic selling at exactly the wrong time.

When the health crisis abates, the economy and markets will recover. The long-term outlook for stocks now is better than it was two months ago. Stock prices are lower and, in many cases, anticipate a worse scenario than is likely to occur. For those with a long time horizon, it is a good time to be investing. Stocks may go lower before finding a final bottom, but the shares of quality companies will reward patient investors well.

We face a grave public health crisis and the risk to our vulnerable family members, friends, and colleagues is worrisome. But there are some amazingly positive things happening in society as well. As Michael Harris wrote in The Globe and Mail, "We are engaged in one of the largest acts of care in human history".[4] Scientists and pharmaceutical companies, typically fierce competitors, are working collaboratively on a single goal in an unprecedented fashion. Families are spending time together. And houses all through Toronto have hand-drawn rainbows in the window – a sign of hope and community solidarity. May these positive consequences not end with the vaccine.

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2 As of April 7, and based on an estimate of the Canadian workforce of 15.45 million. Additional claims are likely to be filed before conditions improve.

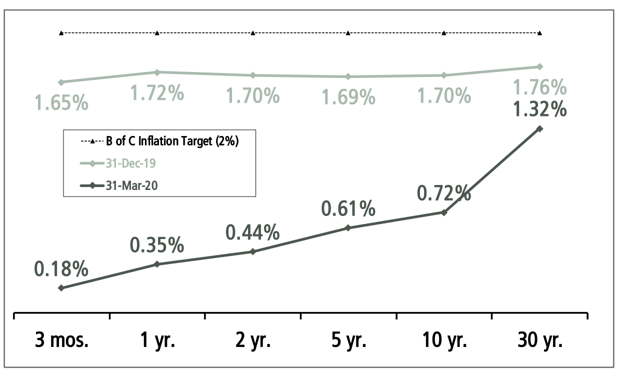
3 Quantitative easing is a monetary policy in which a central bank buys Government bonds and certain other securities to provide liquidity to the market. Canada was one of the few developed countries that did not do this in the Global Financial Crisis.

4 *The Globe and Mail*, April 4, 2020.

Asset Class Investment Review

Fixed Income

Interest rates around the globe fell precipitously last quarter, led lower by a "flight to safety" response in capital markets and by the central banks, which are infusing monetary stimulus to prop up the decelerating global economy. The Bank of Canada initially moved more slowly than many of its counterparts. In late January, it left the Bank Rate at 1.75%, where it had been for more than a year. In the Monetary Policy Report accompanying that decision, growth in 2020 was forecast to be almost 2%, faster than the pace in 2019. In addition, the Bank felt that loosening monetary policy at that time risked sparking further consumer indebtedness and a continued run-up in house prices. Both issues were deemed to present risks to the financial stability of the economy. Things changed quickly as the repercussions of COVID-19 became better understood. At its March 4th meeting the Bank began rapidly cutting rates, moving 1.75% to 1.25% then, to 0.75% in mid-March, and finally to 0.25% on March 27th. At this level interest rate-based monetary policy is effectively at what economists consider to be the "lower bound".



Government of Canada Yield Curve

Over the quarter, as shown in the chart, two-year yields fell 126 basis points (from 1.70% to 0.44%), while 10-year yields fell 98 basis points (from 1.70% to 0.72%).[5] Although record low Government of Canada bond yields captured the attention, behind the scenes yields on bonds issued by Federal Government agencies, provinces and corporations all widened in spread relative to Canada yields. In fact, many investment-grade corporate bond yield actually rose (prices fell) as investors worried about financial solvency and corporate defaults. With a sense that credit markets were seizing up and that needed capital would not flow to viable, solvent businesses, the Bank of Canada also announced a wide range of asset purchase programs and credit facilities to maintain the provision of credit and buy time until confidence is restored.

Programs for buying bankers acceptances, provincial treasury bills and even commercial paper, in both the new issue and secondary markets, have been put in place to support market liquidity. Perhaps most importantly, for the first time ever, the Bank of Canada has launched a true "quantitative easing" program by committing to buy $5 billion of Government of Canada bonds every week. In the press release that accompanied this development, Governor Poloz stated, "We will keep this program going until it's clear the economic recovery is well underway".[6]

Considering the outlook, we'll take the Governor at his word – short-term interest rates will stay at record lows and significant intervention will be used to support fixed income prices. However, funding the fiscal support programs introduced by the provinces and Ottawa will eventually pressure longer-term interest rates higher, and the monetary liquidity in the global financial system risks rekindling inflation when aggregate demand eventually recovers. This means that future real returns (that is, after factoring in inflation) from owning long-maturity bonds could well be negative. At current levels, maintaining a shorter-duration portfolio makes the most sense.

Our holdings are concentrated in shorter-maturity securities and higher-quality issuers. The duration of our portfolio is 3.5 years as compared to the FTSE Canada Universe Bond Index (Index) of 7.9 years. On the credit front, 80% of our holdings are rated AA or better and only 2% of our holdings are in BBB-rated securities.[7] Our portfolio is designed to hold up during difficult markets. Due to our shorter-maturity profile, we missed some of the benefit from the collapse in government interest rates. But our high-quality emphasis reduced the negative effect of wider credit spreads. The bond return in our Income Fund was 1.2% for the quarter, while the Index returned 1.6%. Over the last 12 months, our bond holdings returned 3.0%, which trailed the 4.5% Index return.

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5 A basis point is one-hundredth of one percent.

6 Opening Statement to the March 27th Bank of Canada Press Conference.

7 Returns and credit information are for the bond portion of the Nexus North American Income Fund, which acts as the model for all bond portfolios at the firm.

Equities

After a strong 2019, the first quarter of 2020 was abysmal. The Equity Fund was down 17.8%, trailing the 15.9% loss for the market benchmark. For the past 12 months, the Equity Fund lost 8.4%, compared with a 7.6% loss for its benchmark.[8]

The cash in the portfolio and the decline in the Canadian dollar cushioned the loss, as the TSX Composite Index in the quarter gave up 20.9% and the S&P 500 in U.S. dollars fell 19.6%.

Our stock portfolio, although well diversified, has not been spared from the economic effects of COVID-19 and the decline in energy prices. Whilst we have no holdings, such as cruise lines, travel and restaurant companies, that are "direct hits" from COVID-19, many of our holdings have had their business affected and almost all have seen their stock prices decline. Holdings with an immediate business impact include suppliers to the above industries (such as CAE and GE), the energy companies (Suncor, Ovintiv and Cenovus), and those associated with consumer discretionary goods (such as General Motors and CarMax). More indirectly, we also have banking, real estate and energy pipeline holdings, which could be affected in a more drawn-out economic recession. We will continue to monitor all holdings as circumstances evolve.

Canadian Equities

Nexus's Canadian stocks declined 25.8% in the quarter and declined 19.8% for the 12 months. This is worse than the TSX's 12-month decline of 14.2%.

Our Canadian holdings that have declined the most include in the industrial sector, CAE and Finning; in real estate, H&R REIT; in the energy sector, Cenovus Energy and Suncor Energy; and in the consumer sector, Magna. Even typically defensive companies such as TELUS and Alimentation Couche-Tard declined. Only one of our Canadian holdings, the grocer Metro, had a positive return in the quarter.

These are all large companies with strong competitive positions in their respective sectors. They all have substantial businesses in Canada and internationally. (Only Metro is fully domestic.) The COVID-19 effects on the economy and our companies are real, but the health crisis will pass and normalcy will return.

U.S. Equities

Our U.S. equity portfolio declined 13.3% in the first three months of 2020 and is up 3% over the past 12 months. While we trailed the S&P 500 slightly in the quarter, our 12-month return was ahead of the S&P 500, which declined 1.2%.[9]

In the quarter, the Canadian dollar weakened substantially, as is typical in a difficult economic environment. This weakness tempered the decline in the U.S. portfolio.

As with Canada, there were big declines across many of our holdings. These companies are leading competitors in their respective sectors, with strong management teams and solid track records. Only Gilead Sciences, Microsoft and Dollar General had a positive return in the quarter (measured in Canadian dollars).

During the quarter we sold HP Inc., as it had held up relatively well in the market selloff due to a takeover offer from Xerox. We were concerned that this deal would not go through, so we redeployed the funds into United Parcel Service, which we thought had fallen more than was warranted. UPS is a global parcel delivery and logistics company. Its business-to-business delivery network is suffering in the current economic slowdown, but it has some offsetting benefits from its e-commerce delivery to consumer business and lower fuel costs.

Other Equity Investments

We remain invested in two non-North American equity holdings within our Balanced and Equity Funds. These are externally-managed pooled funds called EQIT (international developed market equities) and EMEC (emerging market equities).[10]

As a global pandemic, no geographic region has been spared. In the quarter, EQIT declined 15.9% and EMEC declined 16.6%. Over the 12 months, their returns were -6.6% and -8.7% respectively. With both funds, the manager, J.P. Morgan Asset Management, did better than their comparable market indices. For more information on EQIT and EMEC, please see the Nexus International Equity Fund section of this report.

[8] All the return data in the Equities section are total returns for the Equity Fund. Equity returns within the Balanced Fund were similar. For more specific performance, please refer to the Fund reports in this document or your client specific report.

[9] Except where indicated, all U.S. and international returns are measured in Canadian dollars.

[10] Both funds are managed by teams from J.P. Morgan Asset Management in London, England.

Pooled Fund Reports

Nexus North American Equity Fund

During a very challenging quarter for equity markets, the Nexus North American Equity Fund declined 17.8%. Performance over the last 12 months was also negative, although less severe, aided by the strong gains achieved in the last three quarters of 2019. From a longer-term perspective, our returns remain near or above the benchmark and have been healthy on an absolute basis.

More detail on the Fund's performance is presented in the table below.

Our Canadian holdings were not impervious to the broad downward pressure on markets. Our holdings, although well diversified, generated a 25.8% loss, with pressure concentrated in suppliers to the hard-hit airline and energy industries (such as CAE and Finning) as well as energy producers themselves (Cenovus Energy and Suncor Energy). In addition, some of our real estate investment trust investments (H&R REIT) weakened due to concerns about the duration of the pandemic and the implications for office and retail tenants.

In the U.S., our holdings declined 13.3% in the quarter. As is typical during downturns, the Canadian dollar weakened substantially, which helped to cushion the decline in the U.S. portfolio from what otherwise would have occurred.

Several of our stocks performed well, including pharmaceutical company Gilead which has developed an antiviral that shows promise as a treatment for COVID-19. Microsoft, Dollar General and our new purchase of UPS also performed well. However, these positives were overwhelmed by pressure in cyclical industries like Financials and Consumer Discretionary, where our holdings including Citigroup, CarMax and GM suffered.

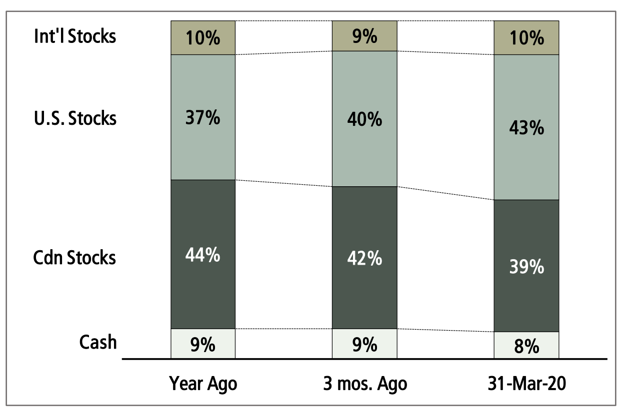
The economic impacts of COVID-19 are global, and our international holdings were not spared from the equity market declines that characterized this quarter. The developed markets fund, EQIT, fell 15.9% in the quarter and the emerging markets fund, EMEC, fell 16.6%.

At the end of the quarter, the Fund's cash position was 8%. Our allocation to Canadian stocks was 39%, while U.S. stocks represented 43% of the mix. The remaining 10% is allocated to geographies outside of North America, which expresses our view that exposure to international markets will provide long-term diversification benefits to the Equity Fund.

	Equity Fund	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter				
Fund	-17.8%	-25.8%	-13.3%	-15.9%
Benchmark	*-15.9%*	*-20.9%*	*-12.2%*	
One Year				
Fund	-8.4%	-19.8%	3.0%	-7.2%
Benchmark	*-7.6%*	*-14.2%*	*-1.2%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Canada 91Day TBill, 50% TSX, and 45% S&P 500 (in C$) (rebalanced monthly); (b) for Cdn Stocks: TSX; and (c) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at March 31, 2020



Equity Fund Asset Mix

Nexus North American Balanced Fund

The Nexus North American Balanced Fund declined 11.2% in the first quarter, amid very challenging economic conditions. Performance over the last 12 months was also negative, although less severe, aided by the equity gains achieved in the last three quarters of 2019, as well as positive returns from our bond holdings. From a longer-term perspective, our returns remain near or above the benchmark and have been healthy on an absolute basis.

More detail on the Fund's performance is shown in the table below.

Fixed income markets rose during the quarter, reflecting investor demand for safety. Our bonds rose 1.3% in the period.

The major impact, however, came from the equity holdings in the Balanced Fund which detracted from performance in the quarter. Our Canadian holdings declined 24.6% and our U.S. stocks fell 12.2% (due to the weakening of the Canadian dollare, this decline was less than it otherwise would have been).

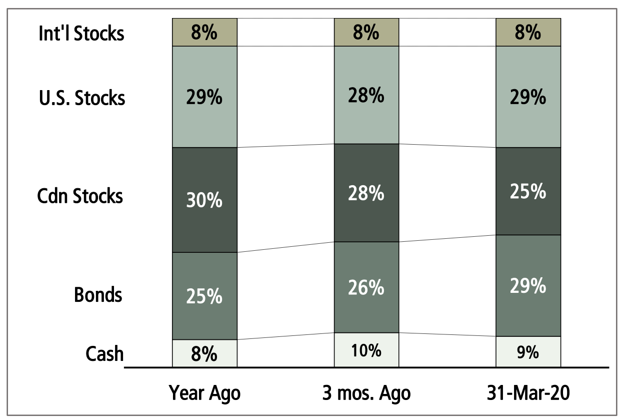
Our international holdings also declined, with the developed markets fund, EQIT, falling 15.9% and the emerging markets fund, EMEC, falling 16.6%. The broad-based economic effects of COVID-19 and the decline in energy prices were the main factors behind the negative returns for equities. Although we avoided any "direct hits" in industries such as cruise lines, travel and restaurants, a range of our holdings have had their businesses affected and almost all have seen their stock prices decline in the market.

At the end of the quarter, cash represented 9% of the Fund's asset mix, bonds were 29% and stocks accounted for the remaining 62%. These asset allocations continue to remain close to the Fund's long-term guideline.

	Balanced Fund	Bonds	Cdn Stocks	U.S. Stocks	Int'l Stocks
Quarter					
Fund	-11.2%	1.3%	-24.6%	-12.2%	-16.2%
Benchmark	*-11.1%*	*1.6%*	*-20.9%*	*-12.2%*	
One Year					
Fund	-3.6%	3.1%	-18.4%	4.0%	-7.5%
Benchmark	*-4.5%*	*4.5%*	*-14.2%*	*-1.2%*	

Returns are presented before deduction of management fees. Benchmarks are (a) for the Fund: 5% FTSE Cda 91 Day TBill, 30% FTSE Cda Universe Bond, 40% TSX, and 25% S&P 500 (in C$) (rebalanced monthly); (b) for Bonds: FTSE Cda Univ. Bond; (c) for Cdn Stocks: TSX; and (d) for U.S. Stocks: S&P 500 (in C$).

Investment Returns – As at March 31, 2020



Balanced Fund Asset Mix

Nexus North American Income Fund

The Nexus North American Income Fund declined 2.4% in the first quarter. Positive returns from our bond holdings were more than offset by weakness in our income-oriented equities. In the last 12 months, the Fund has held its value, generating a positive total return of 1.0%. From a longer-term perspective, our returns remain near or above the benchmark and have been healthy on an absolute basis.

More detail on the Fund's performance is displayed in the table below.

Our fixed income holdings are focused on high-quality securities, which proved to be positive positioning in the turmoil of the quarter. However, even high-quality spreads (A-rated corporates, Provincial, and Canada Housing Trust Bonds) experienced significant spread-widening pressure versus Government of Canada Bonds.

Our focus on shorter-maturity bonds meant we did not get as much capital appreciation from the fall in yields (rise in prices) as was the case for bonds of longer maturity, such as those held in the benchmark.

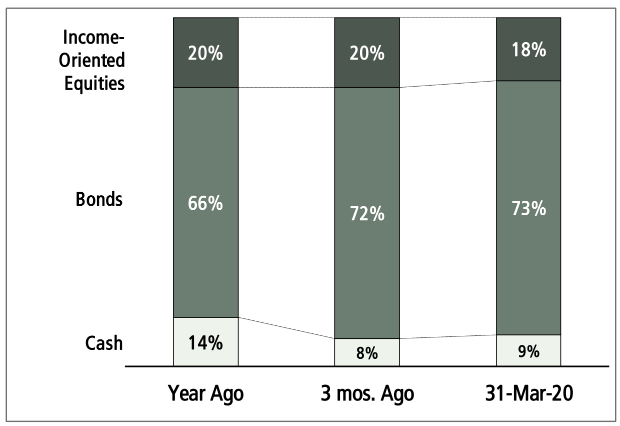
Our holdings of income-oriented Canadian and U.S. equities detracted from performance this quarter, after an extended period in which they have added to the returns of the Income Fund.

At the end of the first quarter, the Fund's cash position was 9%, income-oriented equities accounted for 18% and the balance, 73%, was in our core bond holdings.

	Income Fund	Bonds	Cdn Stocks	U.S. Stocks
Quarter				
Fund	-2.4%	1.2%	-17.5%	-14.2%
Benchmark	*1.6%*	*1.6%*		
One Year				
Fund	1.0%	3.0%	-9.6%	2.2%
Benchmark	*4.5%*	*4.5%*		

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: FTSE Canada Universe Bond; (b) for Bonds: FTSE Canada Universe Bond. In addition to bonds, up to 20% of the Fund's portfolio may be invested in equities.

Investment Returns – As at March 31, 2020



Income Fund Asset Mix

Nexus International Equity Fund

The Nexus International Equity Fund ("NIEF") holds two underlying funds: EQIT (invested in international developed market equities) and EMEC (invested in emerging market equities).[11]

Like other equity markets, international returns suffered under the strain of COVID-19 and the decline in energy prices during the first quarter. NIEF was not spared from these declines and fell 16.2%, with both EQIT and EMEC declining in nearly equal measure. Performance over the last 12 months was also negative, although less severe, aided by the gains achieved in the last three quarters of 2019. Longer-term returns for both EQIT and EMEC remain positive, despite the recent decline, with EQIT up 1.3% per year and EMEC up 3.8% per year over the past three years.

More detail on the Fund's performance is presented in the table below.

In recent quarters there were positive developments in international developed markets including a potential thawing of the U.S./China trade dispute and the UK's progress on Brexit. However, in the quarter positive sentiment around these developments was swept aside by the pandemic and its negative implications for economies and businesses. We expect the trajectory of the virus and, importantly, the success of government responses will determine the direction of most markets until greater clarity on outcomes is achieved.

Emerging market (EM) equities proved equally vulnerable to the negative developments this quarter. Smaller emerging economies remain highly dependent on the state of global trade and the virus-induced slowdown will naturally reduce the economic benefits of trade for these regions. While almost all companies will face lower demand in the period ahead, we believe some businesses will navigate the crisis better than others. The manager of the funds focuses on companies with strong balance sheets, distinct competitive advantages and long-term structural tailwinds – all factors which we believe have never been more important than they are today.

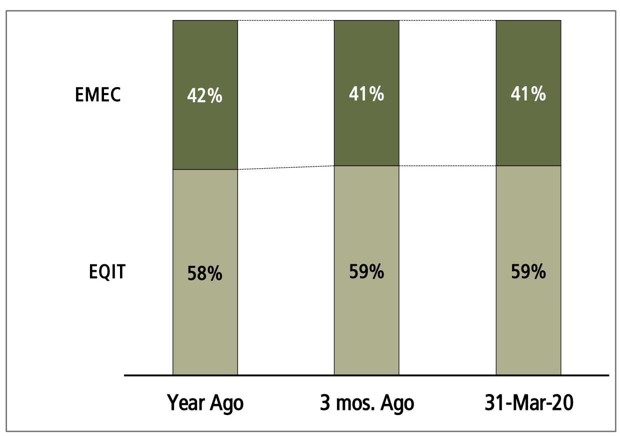
We anticipate that our international investments will persevere through this difficult period and produce attractive returns over the long term. By investing outside of North America, we expect to add important diversification benefits to the portfolio, as well as access companies operating in economies with above-average long-term growth prospects, that are often available at discounted valuations.

At the close of the first quarter, the International Equity Fund's investment in EQIT accounted for 59%, while EMEC accounted for 41%.

	International Equity Fund	EQIT	EMEC
Quarter			
Fund	-16.2%	-15.9%	-16.6%
Benchmark	*-15.9%*	*-15.7%*	*-16.5%*
One Year			
Fund	-7.5%	-6.6%	-8.7%
Benchmark	*-9.9%*	*-9.1%*	*-12.6%*

Returns are presented before deduction of management fees. Benchmarks are (a) for Fund: 75% MSCI EAFE (in C$) and 25% MSCI Emerging Mkts (in C$) (rebalanced monthly); (b) for EQIT: MSCI EAFE (in C$); and (c) for EMEC: MSCI Emerging Mkts (in C$).

Investment Returns – As at March 31, 2020



International Equity Fund Asset Mix

[11] International developed markets or "EAFE" includes Europe, Australasia and the Far East. Emerging markets include 26 developing countries. EQIT and EMEC are managed by JPMorgan Asset Management in the UK. The Nexus Balanced and Equity Funds have held EQIT and EMEC for some time and continue to do so.