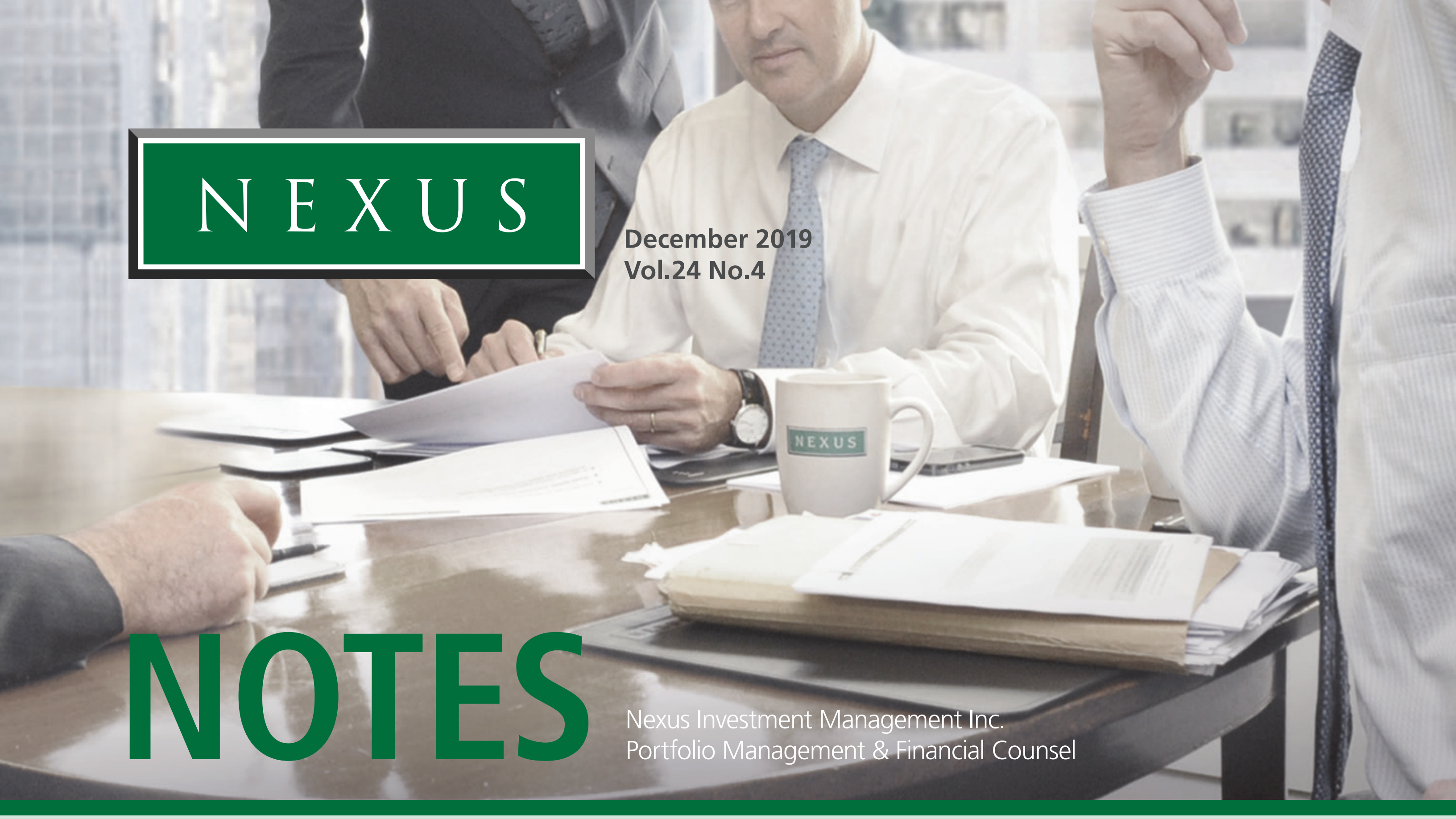

NEXUS

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NOTES

Nexus Investment Management Inc.
Portfolio Management & Financial Counsel

Inside Articles

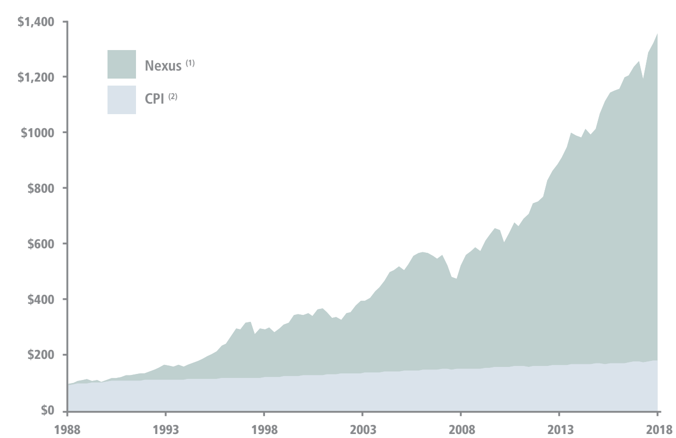
Building Value for Clients

Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term. The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,340 at September 30, 2019.

(1) "Nexus" reflects the performance of a composite of Nexus accounts managed to a balanced mandate (until September 30,1997) and the Nexus North American Balanced Fund (thereafter). Returns shown prior to the deduction of investment management fees.

(2) CPI is the "all-items" Consumer Price Index for Canada, not seasonally adjusted.

$100 Investment with Nexus in 1989



Planning for the Future

Another year has flown by and we are another year older. Lately, John, Geoff, Fergus, Denys and I are being asked,

more often than not, about our succession plans – as they notice our hair turning greyer (or at least this is the case for some of my partners) and wondering what our retirement plans looks like. We would be remiss if we did not acknowledge that the future success of Nexus is dependent on a succession plan that will result in a smooth transition of management, leadership and ownership to the next generation. It will not be a surprise to hear that we are taking a long-term approach with our planning. Succession of a business does not happen overnight. It takes time to assemble and prepare the next generation of professionals to lead the firm into the future and it requires capital to transition ownership.

You may have noticed that over the past several years we have hired a number of younger professionals. The firm today looks different than it did seven years ago, with six professionals hired over that time who are all younger than we are. You can expect this trend to continue. By now, you will also be aware that we have announced a partnership with Focus Financial Partners. Focus is making a significant, but passive, investment in Nexus. You may be thinking, why Focus, why now, and how does this affect me?

As we considered our plan, we realized there are three things most important to us as business owners. We are confident that the Focus partnership fulfills all of them. We want to maintain the firm's independence and ensure that any ownership change will ultimately be good for our clients and good for our employees. In our estimation, the best part of this transaction is that the Nexus team retains full control to manage the business as we always have. The timing made sense because we still have plenty of runway ahead of us before we retire to develop the next group of Nexus leaders. Finally, since Focus is an arm's-length investor, the Nexus client experience, our investment philosophy and the financial planning service we provide will remain unchanged.

For those that want to know more about Focus Financial Partners, I have included a link to their website: focusfinancialpartners.com. They are a New-York based firm that has investments in more than 60 investment management firms much like Nexus. Most are in the U.S., but Nexus will be the third Focus firm in Canada. If you have any questions, we encourage you to call us.

In this issue of *Nexus Notes*, we have a recap of our 2019 Annual Client Presentation, which was held in November. As is the norm at our events, clients had the opportunity to ask questions at the conclusion of the presentation, so we have shared a few of those questions along with our answers. In addition, we also have an article about the concept of time in the investment process and how important it is for investment success.

As the year draws to a close, we are grateful for your continued support and we are excited about what lies ahead. We wish you and yours the best of the holiday season.

DCW

What Our Clients Are Asking

Throughout the year we have hosted a variety of client events from our Quarterly Investment Reviews, our Women & Wealth series, regular client portfolio reviews and of course, our Annual Client Presentation. Holding these events not only gives us valuable time to connect with attendees, but also gives us an opportunity to hear what's on our clients' minds.

The title of this year's Annual Client Presentation was *A Brave New World – The Rise of Artificial Intelligence.* We began by describing what artificial intelligence ("AI") is. Unlike computers and robots that automate a specific routine task, AI "applies computer systems to tasks that once required human intelligence". In its simplest form, data is gathered, whether from people browsing the internet, or from cameras and sensors on self-driving cars. From this data, and a feedback loop which continually improves the computers' ability to make correct predictions, actions are automatically initiated. Hence, when you Google search "Florida golf", you are welcomed by ads to Florida golf resorts for weeks on end. And in the case of a self-driving car, it gets better and better at identifying obstructions in its way and applying appropriate braking and/or avoidance techniques.

We welcomed questions about AI and any other subject from those attending. We've highlighted three questions that came from our audience last month (and one that didn't), that we feel may be of interest to our readers.

1. How is Nexus using AI in its investment process?

More and more, our investment team is being offered (at a price) analyses and research reports that are products of AI systems. Of note, there is a particularly persistent firm out of New York City that uses satellite imagery and AI to determine what photographs of Wal-Mart parking lots across the United States can tell us about consumer spending trends and its broader economic implications. We are judicious with our research dollars and feel that, in this case, the information about short term trends is not complementary to our long-term approach. But there may be a time (and price) when an AI-inspired piece of research will aid us in our investment decision process.

2. How is AI affecting Nexus and the investment management industry in Canada?

There has been a great deal of attention given of late to the rise of robo-advisors and investment products that are driven by AI and machine learning. Virtually all of these entrants arrived on the scene after the financial crisis of 2007/08. Would these systems have properly anticipated the "black swan" nature of the dramatic sell-off experienced at that time? Would they have properly responded to the absence of buyers in the market and backed off their algorithmic selling, or made it worse by hitting every bid in sight? We think that such strategies will require a full market cycle before they can be judged to be a success.

In terms of the competitive impact on Nexus, we feel that we provide more than just investment performance at a reasonable price. (And we believe that the convenience of making investment commitments on your phone while you're waiting for the bus, is overvalued and misjudged.) At Nexus, along with the personal relationships, integrated financial planning and the high touch service that we share with our clients, we feel that our clients also value knowing that our hand is "on the rudder", and that our disciplined investment approach has yielded solid performance for over 30 years.

What Our Clients Are Asking *cont.'d*

3. With all of the turmoil that we are seeing in the United States, has it had a bearing on the allocations of Canadian, U.S. and global shares in the portfolios?

As "bottom-up" investment managers, we build a concentrated portfolio of quality stocks based on their company-specific characteristics and valuations. We do not allocate to specific geographies based on their geopolitical and economic outlook (assuming we could get that right). Keep in mind that the North American companies that we own, and are chosen by our in-house investment team, are, for the most part, very global in their scope and so derive revenues from around the world. The investment management team at JP Morgan that manages the holdings in our international funds similarly screen for quality characteristics in companies that, to a large extent, are not dependent only on their home market. While specific regions in the world may suffer unforeseeable slowdowns, the portfolios at Nexus purposely have broad geographic and sector diversification to reduce volatility.

So what question weren't we asked this year? For the first time in the last three years, we weren't asked once if we would be investing in cannabis stocks. Funny that.

JEH

If you weren't able to attend our annual events this November, you can view a shortened version of the presentation (with our Nexus commentary) on our website: nexusinvestments.com/client-presentations.

"Those are for Santa, and these are for the Amazon drone."

Image used with permission: Emily Flake, The Cartoon Bank/ The New Yorker Collection

It's About Time

Over the last 25 years, we have written frequently about time. In fact, in 2010, our annual client presentation carried the same title as this article: "It's About Time". Typically, our message has been about staying focused on the long term and avoiding having one's emotions roiled by short-term crises in the daily news grind. Several weeks ago, an article in *The Globe and Mail* touched on this topic again in a way that resonated strongly.

The Globe and Mail article quoted John Huber from a firm called Saber Capital Management in Raleigh, North Carolina.[1] Mr. Huber observed that potential clients often ask him what his edge, or advantage, is over other managers. They are almost always looking for some kind of informational edge or analytical insight that others don't have, and the market is not aware of. The problem is that such advantages don't exist any more. There is almost limitless financial and corporate information available to any professional investor, and battalions of brilliant analysts pouring over the data to develop special insights. Mr. Huber believes that every time he has seen someone develop a view they believe is unique, it is almost always understood by many other market participants.

The only sustainable edge, according to Mr. Huber, is to have a time horizon that is different from others. Specifically, it is to have a time horizon that is longer than others. Much of the investment industry is focused on generating short-term results. This is driven by the human desire to belong to a crowd – to invest in the things that are currently popular. It is driven by the desire for instant gratification. And it is driven by investment consultants in the institutional investment world who focus intently on what happens each quarter and think of long-term results as what happened in the last year. In fact, there are so many people, with so many skills, focused on the short term, it is nearly impossible to do better than average for a sustained period. But this obsession with the short term actually creates opportunities for those focused on a longer time horizon. To capture these opportunities one needs a contrarian mindset and to avoid the popular themes of the day, but it is the only approach that can reasonably be expected to offer better returns than average over time.

The Globe and Mail article also was published during the period when we were preparing our annual client presentation on artificial intelligence ("AI"). At each of our three presentations a client asked about how AI was likely to affect the investment management industry. While we recap our answer to this question more fully in the previous article on page 3 in this edition of *Nexus Notes*, an important element of the answer is this same idea of time. Just as lots of bright young analysts work feverishly to predict corporate earnings for the next quarter, so, too, is AI mostly focused on finding a short-term edge. So far, the long term remains the domain of investors like Nexus who apply judgement and patience to the information available to achieve something a little different: a superior long-term result, rather than the prediction of a short-term outcome. Of course, future generations of AI may change the investment industry at its core. But today, a human with good judgement and a long time horizon can still be successful.

The concept of time in the investment process also reminds me of the key message that my partner, Devin Crago, relayed to some of our younger clients, and prospective clients, a few years ago. He also published a blog earlier this year, reminding us how valuable time is as an

[1] Ian McGugan, *The Globe and Mail*, October 24, 2019.

It's About Time cont.'d

asset (nexusinvestments.com/a-million-dollar-blueprint-for-a-25-year-old). As Albert Einstein famously said, "Compound interest is the 8th wonder of the world." The wonder is revealed in a very simple example Devin presented. A 25-year-old who saves and invests $7,450 per year and earns 5% per year on the savings will amass $1 million by the time he or she is 65. If the savings starts at age 35 rather than 25, only $550,000 is saved. Compounding this saving over 30 years rather than 40 years almost doubles the nest egg. Time is an asset that is valuable to someone of my age, but exponentially more valuable to my children. One of the most important things we can teach the younger generation is to understand the valuable asset that they own. After declaring compound interest the 8th wonder of the world, Einstein went on to say, "He who understands it, earns it. He who doesn't, pays it."

The good news implied by Mr. Huber's comment is that you don't actually have to be a genius to achieve investment success. There are many geniuses in the investment world who are unsuccessful. You just have to understand that the most powerful tool in an investor's arsenal is not special information, or proprietary analysis… it is time. Don't waste it, harness it and enjoy the 8th wonder of the world.


JCAS

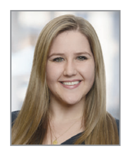
New Year. New Look

When Nexus was formed in 1996 by merging Berghuis Investment Counsel and

Vantage, we implemented our current logo and classic brand. While it has served us very well over the years, everything has a shelf life, and so, over the course of this past year, we have developed an updated brand that reflects our firm's current and future profile. We are excited to announce that in 2020 we will launch our new look.

At Nexus, we always aspire to exceed our clients' expectations of personalized service, long-term results and trust – it is what our firm was founded on. Our new look will preserve these principles, while portraying a more modern Nexus brand that reflects who we are, and our commitment to our clients.

In 2020 we will launch our new visual identity, and you will start to see some changes on the website, at our events, and in the reporting materials you receive from us. In the meantime, we have a short video on our website (bit.ly/Nexus2020) introducing our new logo and a sneak peek at how our brand will evolve. As always, if you have any questions, please don't hesitate to get in touch.


NMW

Pearls of Wisdom

Reading is one of the principal occupations in our profession. As we digest a wide range of material, interesting ideas and surprising facts – some serious and some light-hearted – rise to the surface. We attempt to share a few of those with you in each of our issues of Nexus Notes.

DMC

BLACK FRIDAY SHOPPING SHIFTS ONLINE

For many of us, Black Friday shopping brings to mind crowded stores and the occasional dust-up among shoppers fighting to get that last big-screen TV. However, the popularity of crowded stores is waning as more people turn to online shopping. This year, digital sales on Black Friday set a record of $7.2 billion in the U.S. Of those sales, a remarkable 56% were finalized on a mobile device (tablet or phone). While the convenience of online shopping has been a benefit to consumers, it has pressured holiday retail employment. The trends in the number of employees hired to work in retail stores in the busy October-December shopping season has declined from a peak of 787,000 in 2013 to 629,000 last year, reflecting the expansion of online ordering.

(*"Record Black Friday Sales: 14% Growth To $7.2B In Digital Revenue",* Forbes, November 30, 2019.)

PLANT-BASED BURGERS: POPULARITY AND CONTROVERSY

In response to perceived consumer demand, McDonalds recently announced a 28-store trial in southwestern Ontario of a Beyond Meat sandwich called the PLT – plant, lettuce, tomato – which is intended to test consumer appetite for a plant-based burger. Marketed as healthier and just as tasty, these "meat alternatives" appear to be gaining traction: in the 12 months ended in October, U.S. retail meat sales fell 0.4%, while newer meat alternatives grew 8%. However, alternative meats have also kicked up some resistance from incumbent ranchers. According to the Wall Street Journal, "Over the past two years, the beef industry has pushed legislation that restricts terms like "beef" and "meat" to the kind raised on the hoof, not products derived from plants or future ones developed using animal cells in labs." In fact, 45 bills have been introduced in 27 states to prevent plant-based food producers from using the terms "meat" and "milk" on their packaging.

(*"America's Cattle Ranchers Are Fighting Back Against Fake Meat",* The Wall Street Journal, November 27, 2019.)

Nexus Investment Management Inc. provides discretionary investment management and financial counselling services to private clients, trusts, estates and foundations.

- ☐ **Exceptional client service and objective advice:** tailored to the client's individual needs.
- ☐ **Superior investment performance [1]:** long-term record of superior after-tax returns and capital preservation.
- ☐ **Disciplined investment approach:** *"Growth at a Reasonable Price"* philosophy, using research and patience.
- ☐ **Alignment with clients' interests:** as the Firm is wholly owned by its principals, we are committed to your financial success.
- ☐ **Cost-effective management:** our services are accessible directly, without the costs of branding and distribution.

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Publication Mail Agreement 40033917.

[1] The Nexus North American Balanced Fund has earned 9.2% per annum, pre-fees for 10 years. The return from a notional investment in market indices in the following weighting was 8.2% over the same period: T-Bill (5%), Bonds (30%), TSX (40%) and S&P 500 (25%).