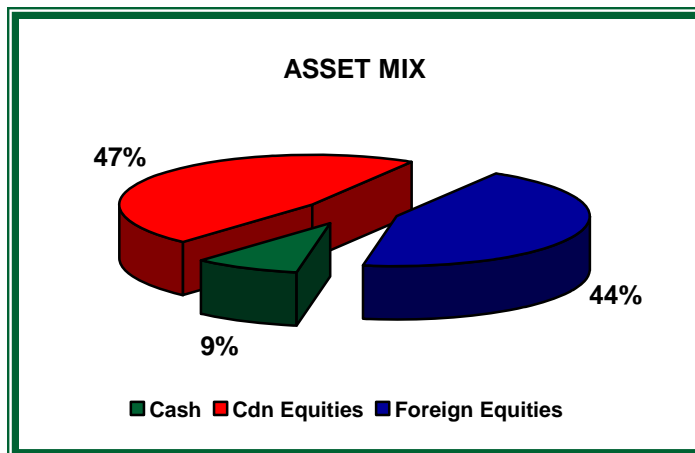


NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT – September 30, 2012

The summer of 2012 turned out to be most rewarding for investors in bond and stock markets alike. While there remain a number of prominent worries that undermine investor confidence, pessimism had perhaps gone a little too far at the end of June. Over the course of this quarter, investor concerns of the direst outcomes receded somewhat, volatility and trading activity in the equity markets subsided, and asset prices rose.



Despite the rebound in returns, the primary sources of investor concern remain unresolved. The tepid economic recovery in the U.S. continues, undermined by ongoing worry about the ability of Americans to put in place policies that will set Washington on the path to fiscal sustainability. While both major parties agree that the deficit must be reined in quickly, until the election is behind us and the balance of power between Republicans and Democrats is understood, it is unlikely that there will be any progress resolving the hard issues of spending reductions and tax increases necessary for a balanced resolution of the issue. For now,

consumers and business decision-makers alike labour under a cloud of political and policy uncertainty and so are reluctant to spend or invest.

Europe remains an important focus of investor political worry and economic concern. However, there has been an improvement to the outlook there, based largely on the European Central Bank's (ECB) willingness to put in place policies that remove the risk of a financial meltdown in countries such as Spain and Italy. First floated in August and then explained more fully in September, the ECB has committed to purchasing the short-term securities of EU member countries that are experiencing abnormally high borrowing rates due to investor risk aversion. Europe's structural economic problems are far from resolved. However, as we have said for some time, a slow resolution is our expectation, and we are not persuaded by the more negative outcomes espoused by some pundits.

Geo-political tensions continue to worry markets. There is risk of disruption throughout the Middle East – especially between Israel and Iran, but also in Syria and places such as Egypt and Libya. Global energy markets would be particularly affected by a further escalation of tensions in this part of the world. In addition to these longstanding worries, tensions have arisen between China and Japan over the uninhabited and economically insignificant Senkaku Islands. It is tempting to dismiss the risk in this disagreement. However, China and Japan are very tightly integrated by trade, and hostility toward Japan in China has already led to the closing of a number of Japanese-owned factories and a steep drop-off in sales of Japanese autos and other goods. A worsening of this situation risks upsetting the global supply chain, so we will continue to pay attention to developments on this issue.

Canada's economic performance remains undermined by the soft economic conditions of our major trading partners and the effect of the strong Canadian dollar on export competitiveness. The Bank of Canada stands apart from every major central bank in the world with its repeated warnings that current easy monetary conditions are unsustainable. This 'hawkish' approach is viewed skeptically by the markets which discount the ability of the Bank of Canada to pursue a tighter monetary policy when every other central bank is re-committing to policies of extraordinary monetary ease¹, and when GDP growth and inflation remain subdued². Nonetheless, this quarter the Canadian dollar rose 3.7%, benefitting from the Bank's rhetoric as well as the relative stability of our economy and financial position that have made Canada an attractive destination for foreign investment.

As we look ahead, we continue to expect a difficult investment environment. Although both economic and profit growth are low, so too is their volatility. However, markets remain concerned about the potential of an extraordinary development such as the dissolution of the EU or a shooting war in the Middle East. As a result, investor unease remains elevated. In the equity markets, risk premia are high (valuations are attractive) and in the bond markets, investor preference for the absolute safety of government bonds has made the extra return available from corporate bonds particularly compelling.

The Fund had an excellent quarter, returning 4.7%.³ For the year-to-date, the return has been +9.0% and in the last 12 months the return has been 17.0%.

Asset Mix

We remain close to fully invested with an allocation to equities of 91% little changed from where the Fund was at the end of the second quarter. Our allocation outside of Canada continues to creep higher, mostly due to share price appreciation.

Canadian Equities (47% of Assets)

TEN LARGEST HOLDINGS	
Bank of Nova Scotia	3.8%
Toronto Dominion Bank	3.5%
Royal Bank of Canada	3.2%
H&R REIT	3.2%
Allied Properties REIT	2.7%
Alimentation Couche-Tard	2.7%
Encana	2.1%
Enbridge Inc.	2.1%
Thomson Reuters	2.0%
Suncor	1.9%

A recent addition to the portfolio is Allied Properties REIT. Allied is a Class I property manager, specializing in 'brick and beam' properties. Allied's properties are predominantly commercial and typically cater to smaller and mid-size tenants such as legal, medical and other professionals. Allied is concentrated in Toronto and Montreal but expanding in other Canadian cities as they grow.

Generally speaking, Class I buildings are located close to a city's downtown core and have previously been used for light-industrial or warehouse purposes. Re-development requires new wiring, new HVAC, and new public spaces. These buildings typically have limited space devoted to parking and rent for lower amounts than Class A properties. Allied offers the opportunity of upgrading run-

down, but well located property, to higher use on the edge of a city's central business district. As compared to the business mix of many other REITs, there is more 'landlording' required. But, as a result, the price at which properties can be acquired is more attractive than is the case with large office buildings.

In our opinion, Allied will benefit from a trend, encouraged by city planners, to intensify urban development. The redevelopment of these low-rise (3 to 8 stories) buildings costs less than other urban construction. As the density of cities increases, there is an increase in rents when street-level space can be converted to retail. This re-urbanization trend helps Allied because many of its properties are located close to new condominium developments (young professionals), hospitals (highly paid professionals) and new luxury hotels (wealthy tourists). Allied's strategy is a niche approach that will generate growth and results that should be less directly linked to broad market trends.

On an outright basis the Fund's Canadian positions had a good quarter, returning 4.9%, against the TSX return for the same period of 7.0%. However, our returns in the last 12 months are well ahead of the TSX. In the last year, we have a wide margin of outperformance when compared to the TSX, with our selections having returned 17.7% when the TSX rose 9.2%.

U.S. Equities (34% of Assets)

In the first half of the year we established a small position in Microsoft and we have recently added to it. Almost everyone knows the story of the stock's glory days, followed by an extended purgatory. Over the past many years the stock price did not perform, but its earnings grew significantly. Today, Microsoft is a juggernaut, generating around \$30 billion of free cash flow each year from its portfolio of software and services for consumers and businesses. It also has a hardware division. Products include Windows, MS Office, business server software and the Xbox. Since initiating a dividend in 2003, Microsoft has increased it seven times, yet still holds over \$60 billion of cash. The stock yields an appealing 3.1% and is attractively valued. As always, concerns remain, but the company continues to grow.

TEN LARGEST HOLDINGS

Apple	3.5%
Wal-Mart Stores	3.0%
Pfizer	2.9%
Google	2.8%
DaVita	2.6%
Covidien	2.5%
Cisco Systems	2.5%
J.M. Smucker	2.4%
CarMax	2.1%
JP Morgan	1.7%

Besides adding to Microsoft, we also added to our holdings of both JP Morgan and Citigroup. Since first establishing the positions in these two securities 12 months ago their share price movements have been volatile. However, the underlying business of both banks, as well as their regulatory capital levels, continue to strengthen and, in particular, their exposure to loan losses has been tremendously improved. Both banks trade at valuations that reflect investor worry about continued litigation exposures arising from mortgage lending and securitization practices before the crisis in 2008. However, current valuations do not reflect the upside potential from improving asset quality, especially in the housing market, and their leverage to a gradual improvement in the U.S. economy.

We had excellent U.S. equity returns last quarter. Our holdings returned 6.5% (in C\$) and these results beat the S&P 500 Index which rose 2.7% over the same period. Investing in U.S. stocks has been stunningly rewarding in the last 12 months: our U.S. equity holdings rose 24.9%, while the Index advanced 23.3%.

Other Investments (10% of Assets)

We continue to believe that diversification, through international investing, remains an important component of a well-constructed investment portfolio. Our two holdings in this area, The JPMorgan EQIT Fund (international developed markets) and the JPMorgan EMEC Fund (international emerging markets) each provided a modest positive return, advancing 3.2% and 2.9%, respectively. The equity holdings of both Funds are still priced attractively, with price / earnings ratios of less than 10x forward earnings and dividend yields greater than 3%. We have high expectations for the long-term returns from each of these positions.

1 Over the course of the second quarter, the Bank of Japan, the U.S. Federal Reserve, the People's Bank of China, the Bank of England and the European Central Bank all re-committed to monetary ease or increased the level of monetary stimulus in their respective countries.

2 Canadian Headline CPI for August 2012 was 1.2% and the GDP YoY growth rate for Q2 was 2.5%.

3 Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.