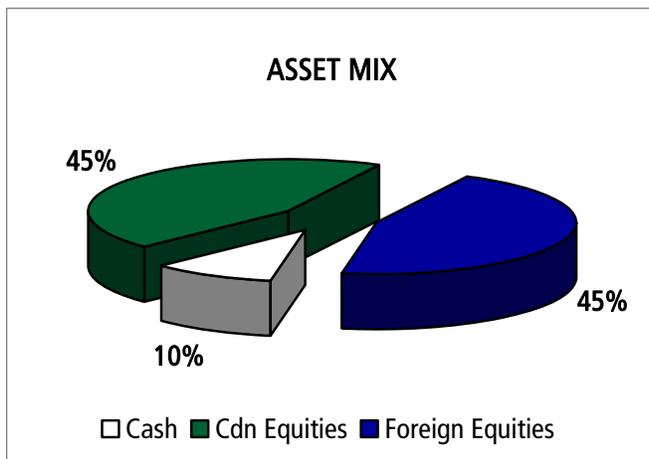


NEXUS NORTH AMERICAN EQUITY FUND

QUARTERLY REPORT – December 31, 2012

At the conclusion of the third quarter of 2012, capital markets faced a number of important uncertainties that darkened the investment outlook. Worries of European political stability, the prospects of an uncoordinated approach in Washington to managing the ‘fiscal cliff’, as well as the uncertainty of the outcome of the U.S. election were but a few of the concerns that kept investors in a state of unease as we entered the 4th quarter. Yet, despite these and other uncertainties, the final quarter of 2012 was, in the end, another rewarding quarter for investors in bonds and stocks alike. Looking back at the full year, 2012 produced modestly positive bond returns and very satisfactory equity returns. Thankfully, the Fund was positioned well to take advantage of the strength in markets over the past year and, as we look at what is to come in 2013, there is cause to believe that positive returns in the coming year are achievable.



On the economic front, there is no clear evidence that the tepid global economic recovery is either accelerating or sliding back into recession. Canada’s economic performance was disappointing last year, with GDP growth again decelerating.¹ Several factors are to blame. One area of economic weakness in Canada is the housing sector, where prices and sales activity have clearly moderated in the last year. Moderation in this sector is the result of deliberate policy changes in Ottawa that have made accessing mortgage financing more demanding and have been intended to prevent bubble conditions such as occurred in the U.S.

After many years when net exports were a prop to the economy, the trade account has been a drag on economic growth in the last year. Softer demand and weaker prices for energy, particularly natural gas, have been large contributors to a weaker export sector. In addition, strength in the Canadian dollar (C\$) has had a negative effect on our international competitiveness. Due largely to foreign capital flows into our bond market², the C\$ has strengthened almost 5% from where it was at mid-year.

On the brighter side, there have been some positive economic developments, particularly with respect to the United States and China, the two largest economies in the world. There is evidence that both of these major economies have bottomed and that economic growth is set to improve. In the instance of the United States, low interest rates and the demographic effect of more normal household formation have finally begun to generate a recovery in the housing sector. Better housing conditions (resales, new starts and pricing) improve consumer balance sheets, create good quality jobs and eventually will contribute to a stronger consumer sector. Additionally, U.S. employment growth in the second half of the year has consistently been ahead of forecasts and data on job openings shows a marked improvement, although filling those jobs is hampered by a shortage of workers with the required skills.³

At mid-year, a slowdown in the Chinese economy was a widespread worry, with fears that GDP growth would not match the official target of 7.5%. Instead, a combination of monetary ease (lending incentives, lower interest rates) and fiscal stimulus (infrastructure spending) have put the Chinese economy back on a better growth track. An index of leading indicators in China, which had been positive, but declining, for the last two years has shown improvement in its last three releases and, in November, for the first time in 13

months, the Chinese Manufacturing Purchasing Managers Index rose above 50, marking an acceleration of growth in this important sector of the global economy.

Europe remains an important focus of investor concern. However, there is some stabilization of the situation there, although a return to more normal economic and political conditions remains years away in our estimation. One of the brighter developments last quarter was the retirement of more than €20 billion of Greek debt through a buy-back operation in early December. Essentially Greece was able to use €10 billion of EU and IMF rescue funds to purchase from private holders more than €30 billion of Greek bonds at one third of their face value. Elsewhere across Europe there is evidence that sentiment is beginning to improve. In December, a survey of economic sentiment in Europe increased for the second month in a row, moving to its highest level in 5 months. This survey data, as well as the German Ifo business confidence data, which also improved in November and December, hold out hope that European economic conditions may have seen their worst.⁴ Also this quarter, government bond yields in peripheral countries continued to fall, reflecting capital market confidence that the ECB's OMT program, which commits the ECB to stand behind the debt markets of countries like Spain and Italy, was having its intended effect. From their highest levels in July, when worries of European prospects were most bleak, rates on Spanish and Italian government bonds have declined sharply and each government has been able to conduct successful auctions and roll over their maturing debts without incident. Since July, interest rates of two-year Spanish bonds have fallen from more than 6.6% to 3.0% and rates on Italian two-year bonds declined from just over 5.0% to 2.0%.

As we look ahead, we continue to expect a difficult investment environment. The deal to avert the worst of the 'fiscal cliff' underwhelmed the markets, and there will be more unease between now and February, as Washington deals with spending cuts and the extension of the debt ceiling. Despite the strong rally of the last month, equity markets remain attractively valued. Bond yields continue to reflect investor preference for short-term safety, but offer very unattractive returns for longer holding periods. As we have stated many times, discipline, sensible diversification and a steadfast refusal to be distracted by short-term noise will be essential for long-term investment success.

The Fund had another strong quarter, rising 3.0%.⁵ Over the last 12 months, the return has been 12.3%.

Asset Mix

Our allocation to equities is 90%; split evenly between Canadian and international holdings. At 10%, our cash position leaves room to add to any new opportunities that arise early in the year.

Canadian Equities (45% of Assets)

TEN LARGEST HOLDINGS	
Bank of Nova Scotia	3.8%
Toronto Dominion Bank	3.3%
Royal Bank of Canada	3.1%
H&R REIT	2.8%
Alimentation Couche-Tard	2.6%
Allied Properties REIT	2.5%
Enbridge Inc.	2.2%
Metro Inc.	1.8%
Encana	1.8%
Suncor Energy	1.8%

A key portion of our Canadian holdings is ownership of the three largest banks in Canada – listed in the adjacent table. Banking is a complex business at the best of times, and the recent credit crisis damaged the competitive positions of many of the world's largest and previously most successful banking franchises. The consequences of the damage wrought by the credit crisis are still being felt in the market today as many of the largest global banking players re-focus their efforts more narrowly and, in many instances, shrink their business in order to preserve capital. For a number of reasons, as well as some good fortune, Canadian banks came through the worst of the crisis mostly undamaged and now have a very favourable competitive position to expand their business. A good example of this is Scotiabank's recent purchase of ING

Direct Canada, a jewel of the global financial conglomerate ING, but made expendable by ING's need to raise capital. In another manner, both Bank of Montreal and the TD Bank have been able to expand their retail banking footprint in the U.S. at the expense of weakened competition. The BMO was able to purchase the 400 branch Marshall and Ilsley banking business and graft it on to their established, but sub-critical mass, BMO Harris banking operation to achieve necessary scale in the U.S. Mid-West. TD has been able to accelerate its branch expansion along the eastern seaboard of the U.S., as well as purchase loan and asset management businesses on terms more favourable than what would normally be expected. For its part, RBC

has been able to take advantage of a shrinking commitment to investment banking and syndicated lending by a number of European banks. This has allowed it to hire good people and, where needed, use the flexibility of its balance sheet to establish many client relationships without the requirement of 'buying the business' that newcomers often feel pressured to do.

These favourable circumstances will continue for some time yet. The global banking industry continues to adjust to more stringent capital requirements and greater regulation. Canadian banks have kept excellent capital positions and should continue to opportunistically grow their businesses, particularly outside of our borders. At a recent conference of Canadian bank CEOs, we came away with a strong feeling that the industry (and particularly our three holdings) is in good hands and, more importantly, that opportunities remain for each of our holdings to grow their earnings and dividends for a number of years to come.

The Fund had an excellent quarter. Our Canadian equity portfolio returned 3.2% against the TSX return for this period of 1.7%. Over longer periods, we maintain a wide margin of outperformance. In the last year our portfolio rose at almost double the rate of the TSX, gaining 13.1% while the TSX increased 7.2%.

U.S. Equities (35% of Assets)

This marks the second year that U.S. equity performance well exceeded the returns from the Canadian market. In fact, the returns of the TSX Index are still slightly negative over the last two years, while the S&P 500 (in C\$) is up almost 20% in total for the same period. There are two conclusions worth noting. The first is the futility of relying too much on 'timing' markets and/or top-down forecasting. It would have seemed foolhardy 24 months ago to predict or expect that the U.S. would outperform the TSX by such a wide margin. A second conclusion is just to remind ourselves that most of the reason we invest in U.S. companies is that there is a breadth of opportunities there that are unavailable in Canada. Not only do you find companies with attractive business outlooks and valuations not offered in Canada, but also the entire portfolio benefits from the diversification. Most of our U.S. holdings, and particularly our representation in the healthcare sectors, have no substitutes in our local market.

TEN LARGEST HOLDINGS	
Pfizer	2.8%
CarMax	2.7%
Citigroup	2.6%
DaVita Healthcare Partners	2.6%
Wal-Mart Stores	2.6%
Apple	2.6%
J.M. Smucker	2.5%
JP Morgan	2.5%
Cisco Systems	2.5%
Google	2.5%

We had excellent U.S. equity returns again last quarter and last year. Last quarter, our holdings returned 2.2% (in C\$) and these results exceeded the S&P 500 Index, which rose 0.8% over the same period. In the last 12 months, our U.S. equity holdings rose 14.7%, while the Index advanced 13.5%.

Other Investments (10% of Assets)

As we look back 12 months and consider all the difficult issues that Europe and Asia have faced, it is a little hard to believe that our EQIT (international developed markets) holding would have rise 18.3% - with a very strong return in the 4th quarter of 9.3%. Our EMEC holding (international emerging markets) also fared well since we first established a position in late June. In the last quarter it returned 7.7%. We continue to believe that diversification, through international investing, remains an important component of a well-constructed investment portfolio.

¹ According to a Bloomberg survey of 21 economists, Canadian real GDP was 3.2% in 2010, 2.6% in 2011 and is estimated to be 2.0% in 2012 and only 1.8% in 2013.

² Foreign investors purchased \$99.3 billion of Canadian securities in the 12 months ended October 31, 2012. Source: BMO Capital Markets.

³ The ratio of unemployed people to job openings has moved from 6.7 at the worst of the recession to 3.3 currently. A figure of between 1 and 3 is common in a healthy labour market. Source: U.S. Bureau of Labor Statistics.

⁴ European Commission Economic Sentiment Index (ESI) for December increased 1.3 to 87.0. The German Ifo Business Climate Index rose 1.0 to 102.4 in December.

⁵ Fund returns are shown before the deduction of management fees but after the deduction of direct expenses.