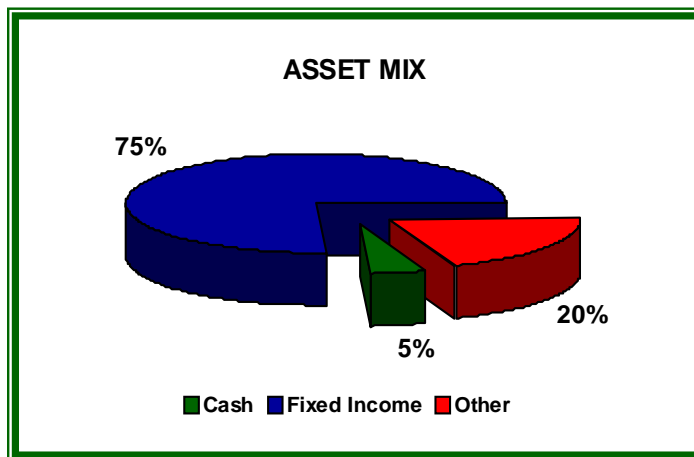


NEXUS NORTH AMERICAN INCOME FUND

QUARTERLY REPORT – March 31, 2012

To the delight of investors around the globe, 2012 has begun strongly. Defying the pessimism that pervaded capital markets at the end of 2011, many stock markets posted double-digit returns in the first quarter. Surprisingly, some of the strongest returns were in the stock markets of countries that had most troubled investors in 2011. In local currency terms, and not accounting for dividends, the German DAX was up 17% and the Japanese Nikkei 225 increased 19%. By contrast, the S&P TSX Composite Index rose just less than 4%. On the other hand, bond markets put in weak performances to start the year. Investor demand for the short-term safety of government bonds has slackened, allowing interest rates to drift higher.



Much of the better mood owes to a perceived decline in the chances of economic catastrophe in Europe as well as improving economic conditions in the U.S. and China.

With respect to Europe, while the risks remain substantial and the problems of over-indebtedness are unresolved, policies have been implemented that should allow the EU enough time to put in place programs and safeguards to forestall economic collapse.

After months of negotiation, a bailout of Greece, funded by both the EU and the IMF was concluded in mid-March. The path to

fiscal stability for Greece remains uncertain, but it is likely that Greece will fall from the headlines for the next 18 months or so. Instead, attention has turned to Spain and Italy, countries with fiscal issues that are less serious than those of Greece, but that, as much larger countries, generate considerable worry in capital markets. In December of 2011, the ECB introduced a Long-Term Refinancing Operation (LTRO) for European banks, and followed up in February with a second round. In this European version of quantitative easing, banks borrow at a fixed rate of 1% from the ECB for a period of three years against 80% of the face value of European sovereign debt that they hold. In effect it has provided the European banking system with the capability, for now, of refinancing the maturity roll-overs and new borrowings of troubled countries such as Spain and Italy. While the ECB provided substantial amounts of monetary ease, politicians were busy creating a new €500 billion rescue fund, called the European Stability Mechanism (ESM). The ESM is meant to deal with future restructurings and re-financings of financially challenged member states and is in addition to €200 billion of unused capacity left over in the European Financial Stability Fund. Between these two programs and the likelihood of additional IMF support, it is hoped that policy-makers can shore up investor confidence and buy sufficient time for over-indebted countries such as Spain and Italy to restructure their economies to be more flexible and competitive.

In the U.S., several indicators show economic recovery is beginning to gain traction. For instance, over the course of the first quarter the unemployment rate has declined from 8.5% to 8.2% and the weekly jobless claims have declined from 380,000 per week to approximately 350,000. Likewise, the closely watched Institute of Supply Management (ISM) monthly sentiment index, which surveys managers about present and future business conditions, continues to reflect optimism in the business sector. The ISM Index at the end of March was 53.4 – its 32nd consecutive month at a level that indicates the expectation of economic expansion. Even housing, which has been such a source of weakness, has steadied away.

While home price data shows that prices for existing homes continue to slide, most of the weakness is being generated by sales of distressed properties (homes in foreclosure). In fact, sale prices of non-distressed homes actually increased slightly in the past year.¹ Even the new-home construction sector of the market is recovering. The National Association of Homebuilders Survey now stands at 28, a level last seen in June of 2007, and up from 21 at the end of 2011.

So while growth is improving in the largest economy in the world, there is also evidence that in the second largest economy, China, a desirable soft-landing of its economy is underway. For many years Chinese growth has been largely driven by export activity, and capital investment in manufacturing equipment and large infrastructure projects. It has led to unwanted imbalances in the global economy, as reflected in trade and current account imbalances between China and the rest of the world. Policy makers around the globe, including those in China, have wanted to encourage slower but more sustainable growth through the development of greater domestic Chinese consumption. It now appears that with incomes rising in China, a culture of consumerism is beginning to develop. In the last five years, exports as a percentage of GDP have declined from 39.4% to 28.7%, while the growth rate of retail spending has accelerated from just less than 12% per year five years ago to almost 19% currently.² China already is a significant importer of merchandise and finished goods from countries such as Korea, Japan and Australia but, as the transition to a more balanced economy continues, billions of Chinese consumers will be creating demand in other developed economies that has been absent up until now.

We are pleased that 2012 has begun as well as it has, but concerns remain. The global economic recovery is still weak, especially by historical comparison, and the issue of government indebtedness and its implications for economic growth are largely unresolved. For now, a sea of liquidity has supported both equity and bond markets, as well as the prices of real assets such as commodities and real estate. But it now runs the risk of generating substantial future inflation. In the long run, we believe this risk is manageable and that investors will be properly rewarded for the risks that exist, but it is likely to continue to be an unsettled investment environment for years to come.

The quarterly return of the Fund was +1.8%³, a result which beat the DEX Universe Bond Index (DUBI) return of -0.2%. This good return was a product of both better bond returns than the DUBI as well as a strong performance from our 'other income-oriented securities' which rose more than 7% over the period. In the last 12 months returns lagged the DUBI, but were very satisfactory on an outright basis - the Fund returned +7.7% and the DUBI increased 9.7%.

Asset Mix

There has been little change to our asset allocation this quarter, although strong equity performance has meant that we had to trim our holdings of 'other income-oriented securities' more than once in order to stay within the 20% maximum. It is a good problem to have. Our cash position remains at 5%.

Fixed Income (75% of Assets)

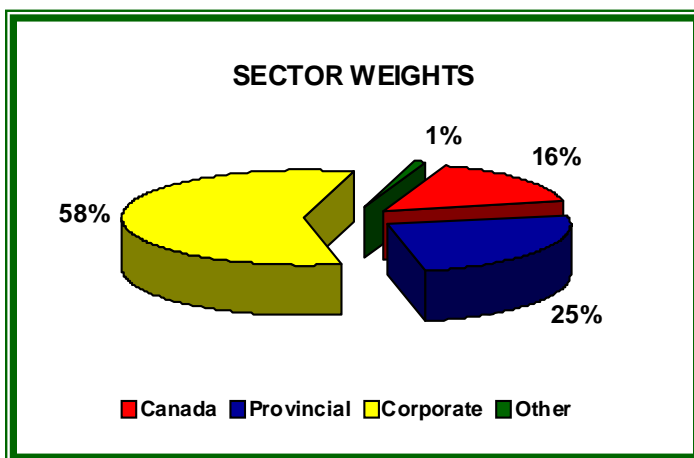
Although bond yields rose slightly this quarter, it remains a golden age for borrowers and, as a result, there continues to be a very active new issue market for governments and corporations alike. Over the course of the quarter, 10-year rates in Canada moved from 1.96% to 2.11%, but remain significantly lower than they were 12 months ago.

In numerous speeches this past quarter, both U.S. Federal Reserve Chairman Bernanke and Bank of Canada Governor Carney have made it well known that they will continue to supply the financial system with extreme amounts of monetary stimulus. Indeed, this is the official policy of the Bank of Japan and the European Central Bank as well. Not one of these institutions would want market forces to begin to pressure interest rates higher. However, it is beginning to appear that bond markets are concerned about the long-term inflationary effect of the generous amounts of monetary liquidity that have been injected into the global financial system. Headline inflation in Canada is running at 2.6%, and at 2.9% in the U.S. Inflation in less developed economies such as India, China and Brazil is higher still. Whether imports from these economies will continue to dampen pricing pressures in the developed world, as they have for many years, is now in question.

For now though, interest rates remain at generational low levels and there is the illusion of substantial demand in both the U.S. Treasury market as well as the Government of Canada bond market. In our opinion this will prove to be passing rather than permanent. In the case of the U.S., data from 2011 show that the U.S. Federal Reserve purchased 61% of net Treasury issuance last year and foreign and private demand fell by substantial percentages.⁴ In Canada, direct evidence is hard to come by, but anecdotally we know that foreign central bank accumulation of Canada bonds has been a significant support for ultra-low interest rates. This will not continue forever.

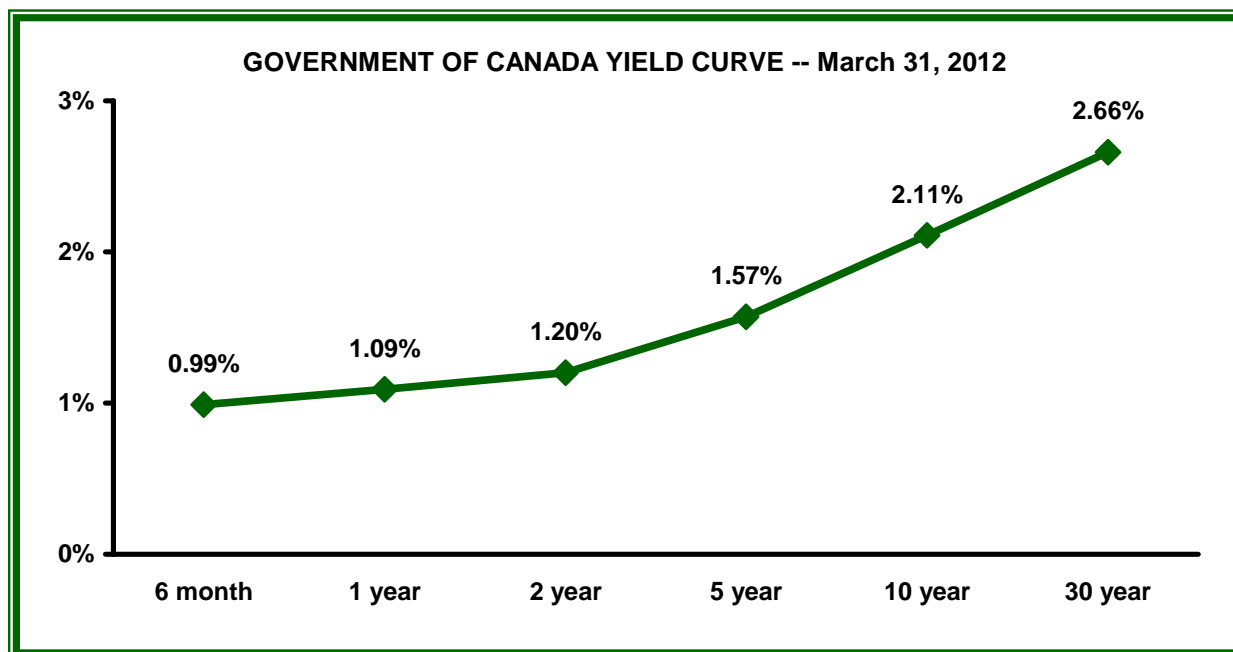
When traditional market forces re-assert themselves, yields will move substantially higher. Given this outlook, our strategy continues to emphasize holdings in the three to eight year area of the curve so as not to expose our investments to significant capital loss should bond yields revert to historically more normal (and higher) levels.

Last quarter, our bond portfolio generated a positive return of +0.3%, while the DEX Universe Bond Index (DUBI) declined -0.2%. In the last 12 months, our bonds generated a return of +8.2% while the DUBI was up 9.7%.



Other Income-Oriented Securities (20% of Assets)

It was another strong quarter for income-producing, stable companies and our holdings increased in value by 7.3%. We continue to have a strong belief that there is better long-term opportunity with these securities than there is in the bond market. It remains a sensible way to add to long-term returns without introducing undue risk to the portfolio.



¹ "Ready to Rebound", *Barron's*, March 19th, 2012.

² China: Global Rebalancing in Action, *BMO Capital Markets*, March 23rd, 2012.

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

⁴ "Demand For US Debt is Not Limitless", *The Wall Street Journal*, March 27th, 2012.