



NEXUS

Portfolio Management & Financial Counsel



Investment Review

September, 2019

1. Inside Nexus
2. Current Environment
3. Portfolio Overview
4. Investment Performance
5. Appendices

We continue to build our capability to support our clients and our vision

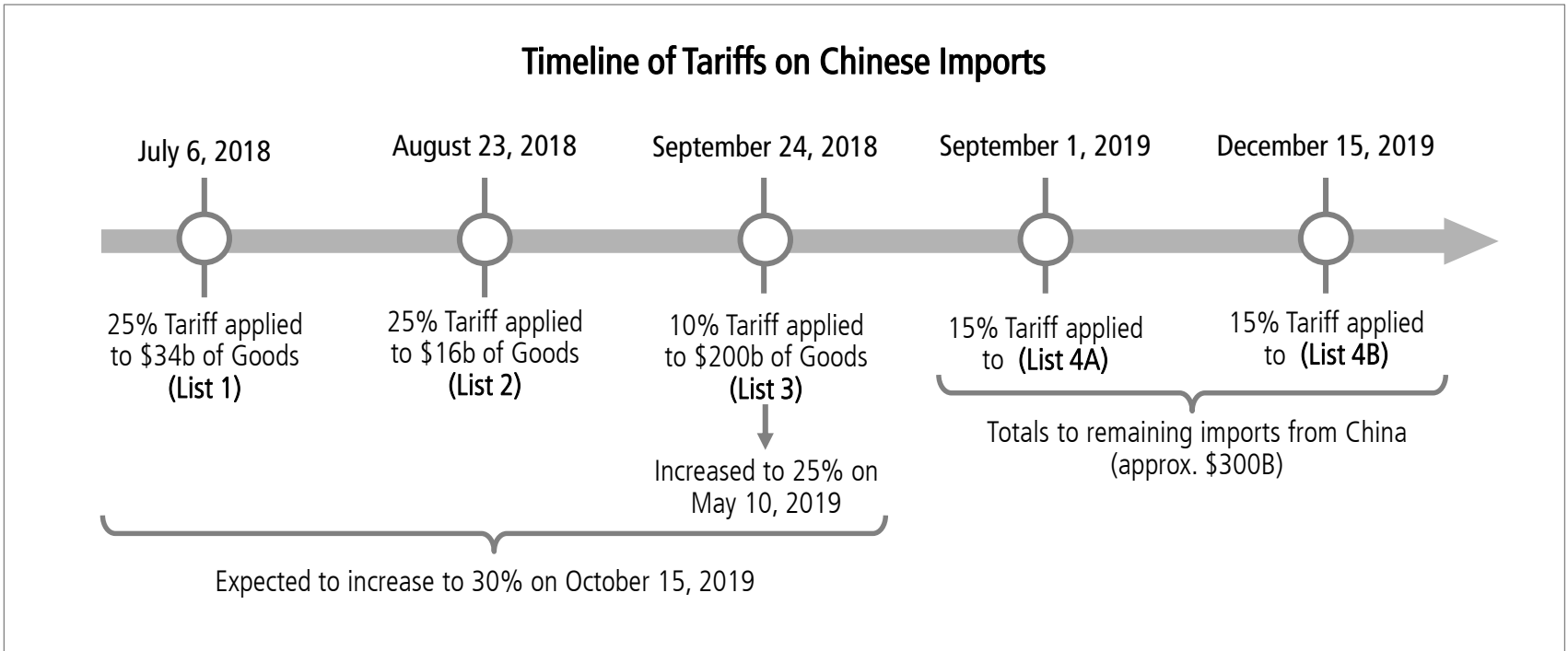


⁽¹⁾ Calculated as the average annual retention rate from December 31, 2008 to December 31, 2018.

Many issues are contributing to heightened uncertainty and confusion for investors

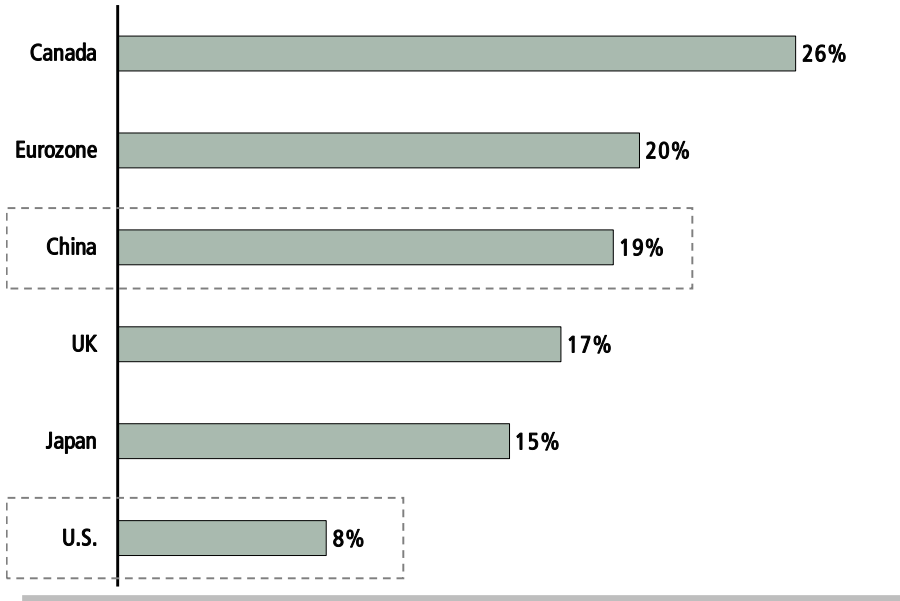
- ◆ Brexit developments
 - Hard Brexit? New election?
- ◆ Hong Kong/China conflict
- ◆ Iran
 - Deviation from existing nuclear agreement has many countries on edge
- ◆ South American instability
 - Argentina and Venezuela currently most acute
- ◆ Ultimately, trade and tariffs continue to be the most important worry

The U.S./China trade war is more than a year old



- Virtually all goods traded between the U.S. and China have tariffs applied to them
- **List 4** targets consumer goods more than previous rounds

But, just how meaningful is trade? (hint: it depends on where you are)



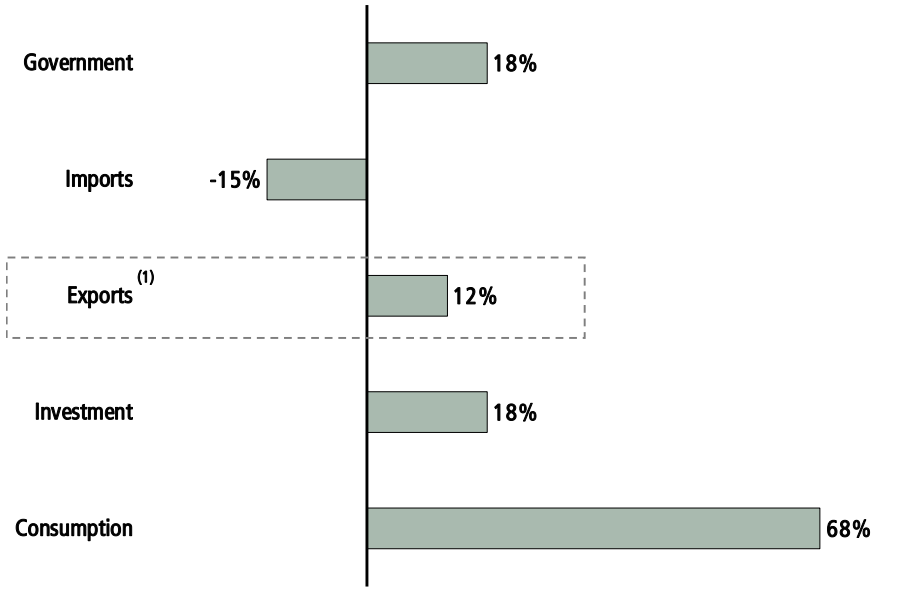
- ◆ China exports more to emerging market countries than to the U.S.
- ◆ For Canada, exports to the U.S. represent 74% of total exports ⁽¹⁾
- ◆ Trade is less important for the U.S.

Goods Exports as a Percentage of GDP, 2018

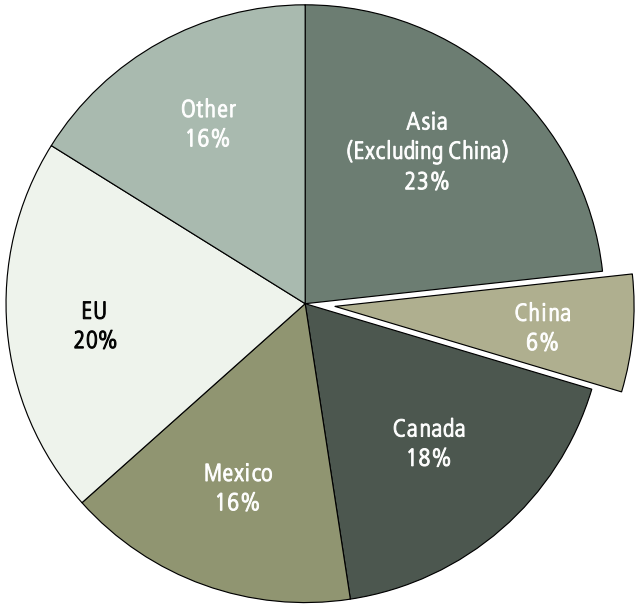
Source: JPMorgan Asset Management.

⁽¹⁾ Based on 2019 year-to-date export numbers from StatsCan, January – July 2019.

Trade dispute with China is less economically important than often assumed



Components of U.S. GDP – Q2 2019



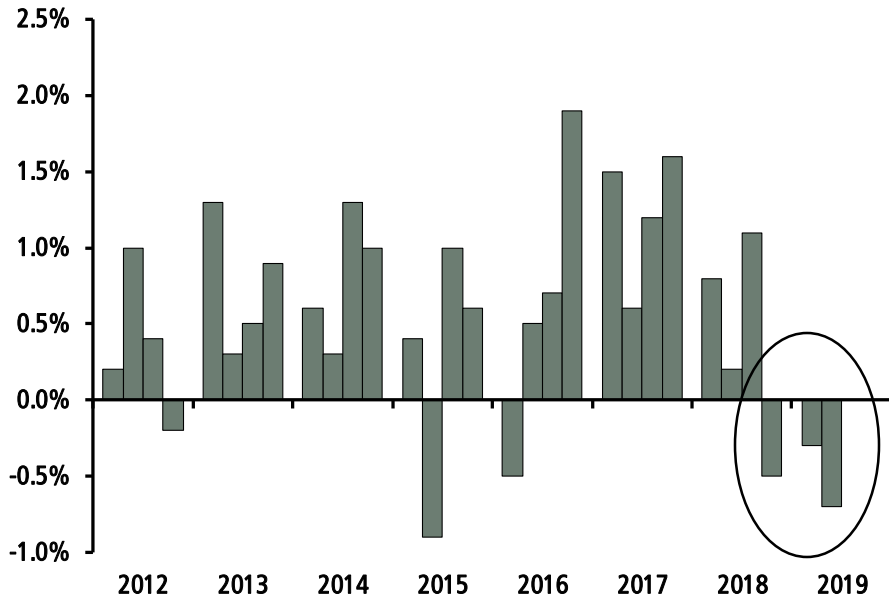
Destination of U.S. Exports

- Exports matter less to U.S. GDP than other sectors, especially consumption

Source: Bureau of Economic Analysis, United States Census Bureau.

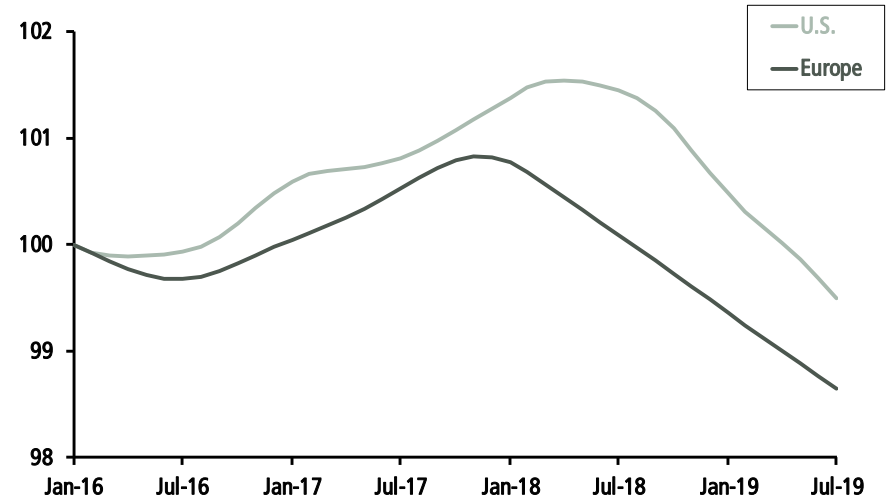
⁽¹⁾ Exports include exports of goods and services.

Global trade volumes have declined...



Global Export Volumes (QoQ change)

...and are contributing to a softening outlook



Leading Economic Indicators ⁽¹⁾

Source: Bloomberg, CPB Netherlands Bureau for Economic Policy Analysis.

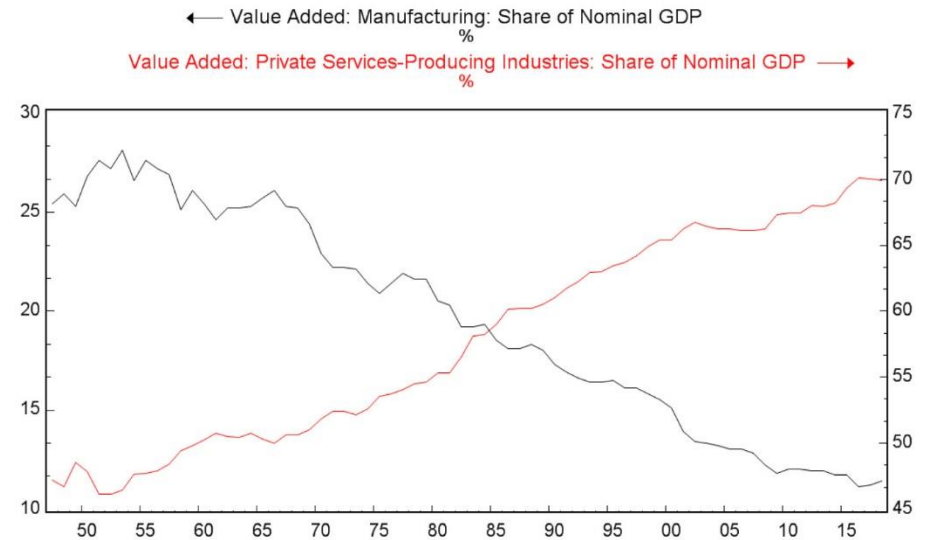
⁽¹⁾ OECD Leading Indicators indexed to January 2016. Based upon a basket of economic indicators with a history of predicting economic shifts.

Trade issues have slowed manufacturing sector...

...but manufacturing not as significant as it used to be

	Aug-17	Aug-18	Most Recent
Global	53.1	52.5	49.5
U.S.	52.8	54.7	50.3
Canada	54.6	56.8	49.1
Japan	52.2	52.5	49.3
UK	57.0	52.9	47.4
Euro Area	57.4	54.6	47.0
France	55.8	53.5	51.1
Germany	59.3	55.9	43.5
Italy	56.3	50.1	48.7
Spain	52.4	53.0	48.8

Markit Manufacturing Purchasing Managers' Index (PMI)

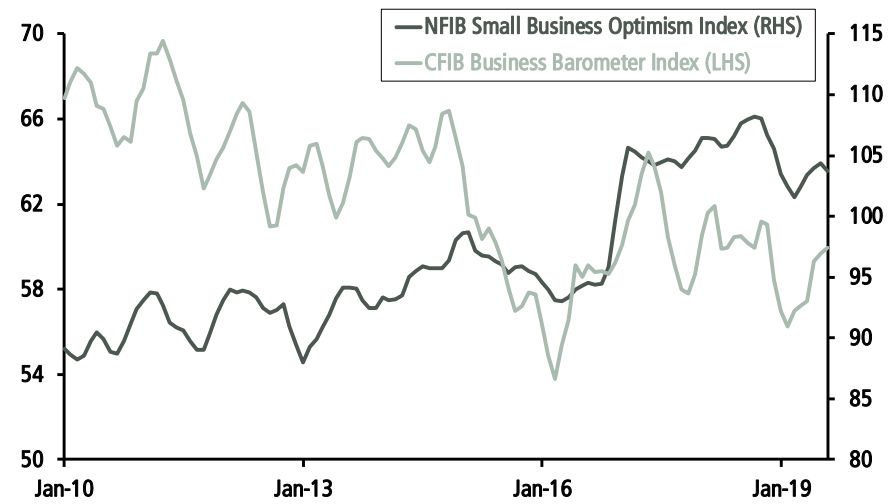
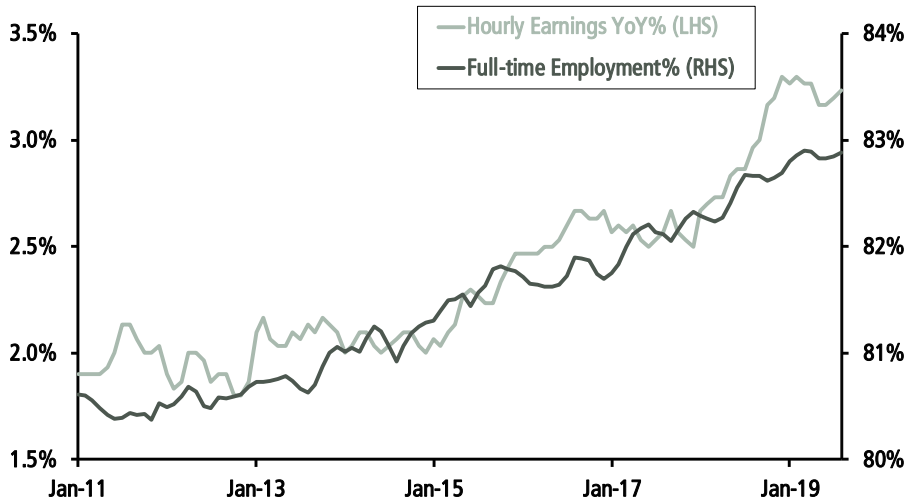


Manufacturing and Services as a % of U.S. GDP

- Since the 1970s, manufacturing has declined from over 20% of GDP to now just over 10%

However, labour markets are still strengthening...

...and small business sentiment is holding steady



U.S. Labour Market Statistics ⁽¹⁾

CFIB (Can) and NFIB (U.S.) Small Business Indices ⁽¹⁾

- Full-time jobs and wage gains are accelerating

Source: Bloomberg.

⁽¹⁾ Data represents three-month rolling average.

Yet, trade continues to dominate headlines (and Twitter feeds)

 **Donald J. Trump** @realDonaldTrump · Aug 23
 ...unfair Trading Relationship. China should not have put new Tariffs on 75 BILLION DOLLARS of United States product (politically motivated!). Starting on October 1st, the 250 BILLION DOLLARS of goods and products from China, currently being taxed at 25%, will be taxed at 30%...

4.1K 15.5K 67.1K

 **Donald J. Trump** @realDonaldTrump
 ...Additionally, the remaining 300 BILLION DOLLARS of goods and products from China, that was being taxed from September 1st at 10%, will now be taxed at 15%. Thank you for your attention to this matter!

5:00 PM · Aug 23, 2019 · [Twitter for iPhone](#)

17K Retweets 73.9K Likes

“Trump’s Trade War Threatens to Drag in IMF Over China’s Yuan”

*BNN Bloomberg
September 6, 2019*

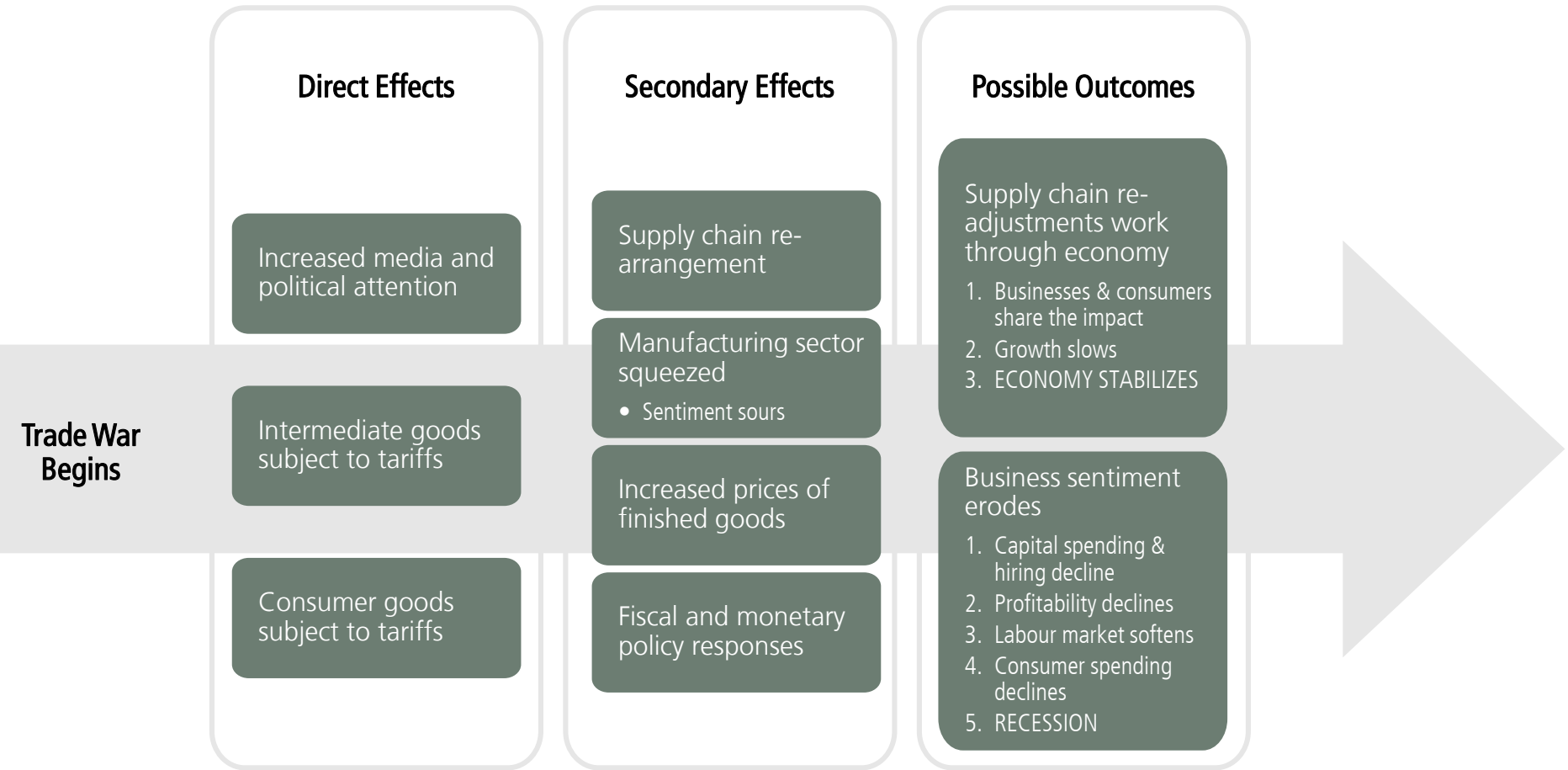
“The Escalating Trade War Will Deepen Global Gloom”

*Financial Times
September 6, 2019*

“China and the U.S. Will Hold High-Level Trade Talks in Early October”

*Wall Street Journal
September 5, 2019*

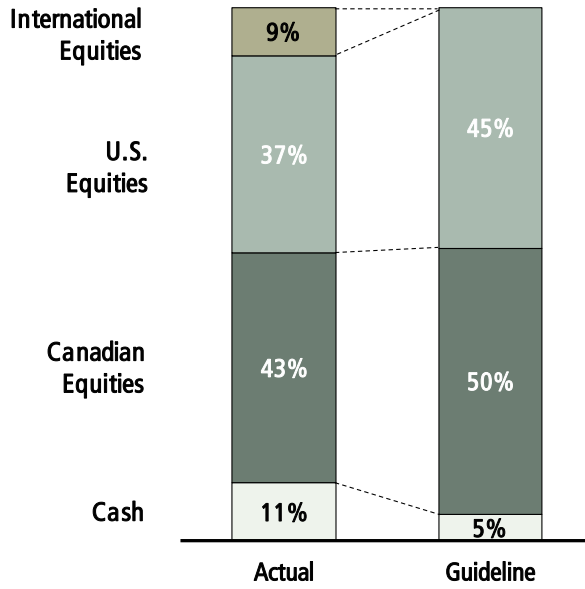
Direct effects of the trade war may be overestimated, but secondary effects could be significant



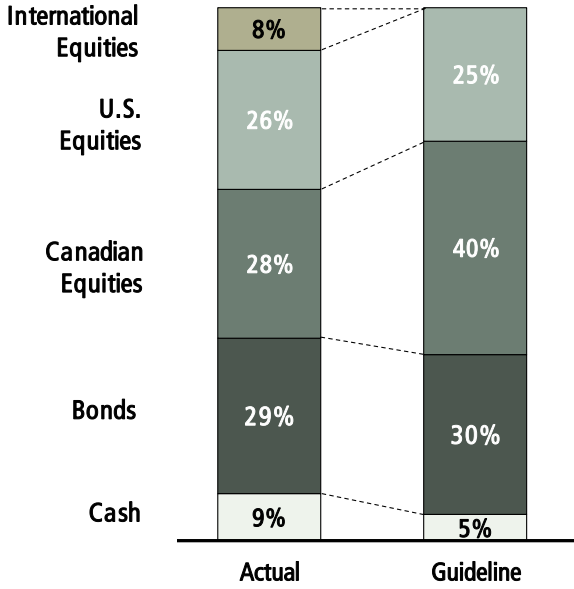
Portfolios are constructed to withstand periods of volatility

- ◆ After a period of strong performance, we have slightly reduced our equity exposure
 - Proactive trimming of some higher-valuation equity holdings
 - Overweight position in cash
- ◆ Fixed income portfolios emphasize safety
 - Concentration in higher-quality and shorter-maturity bonds
- ◆ Equity portfolios are positioned to deliver growth in the long term and preserve capital in down markets

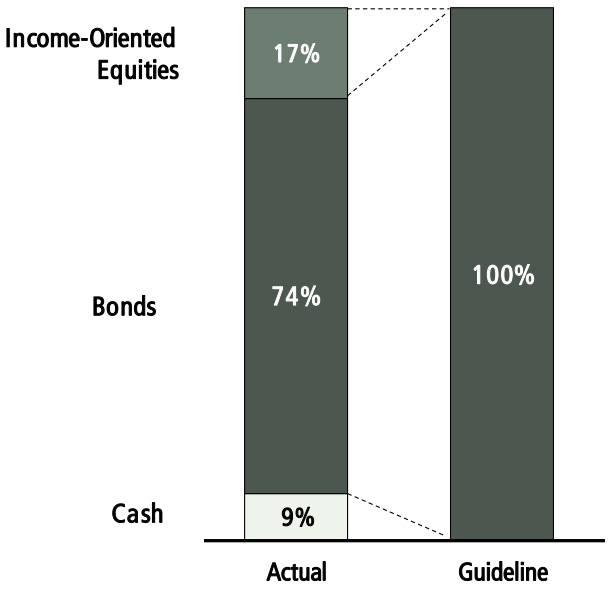
We have slightly reduced equity exposure



Nexus Equity Fund

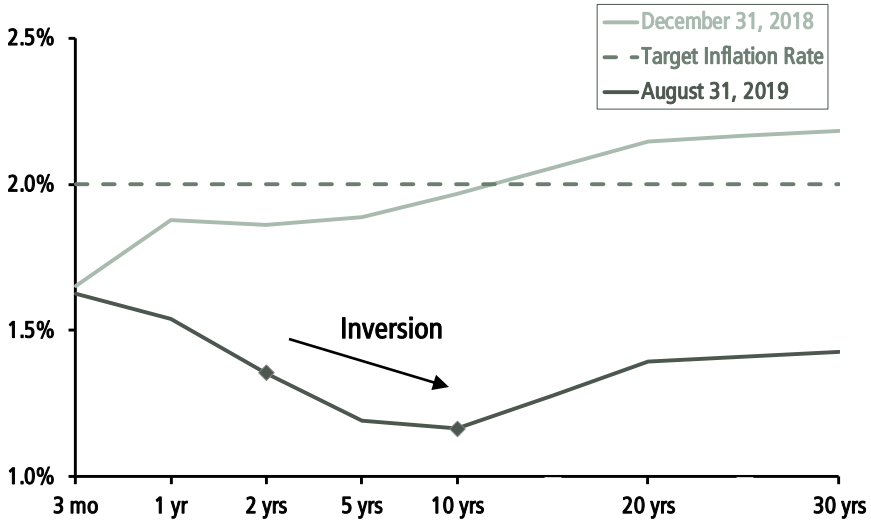


Nexus Balanced Fund



Nexus Income Fund

Current yields provide no inflation protection



- ◆ An inverted yield curve can signal a looming recession
- ◆ However, certain technical reasons could be driving the inversion
 - Massive central bank involvement has distorted natural supply/demand dynamics
 - Canadian bonds attractive to foreign investors

Government of Canada Yield Curve

Equity Portfolio Changes

Equity turnover remains low – some trimming to address elevated valuations

Buy

—

Sell

—

Buy

Facebook

Sell

Walmart

Add

Cenovus
Enbridge
Thomson Reuters

Trim

Selected overweight stocks

Add

—

Trim

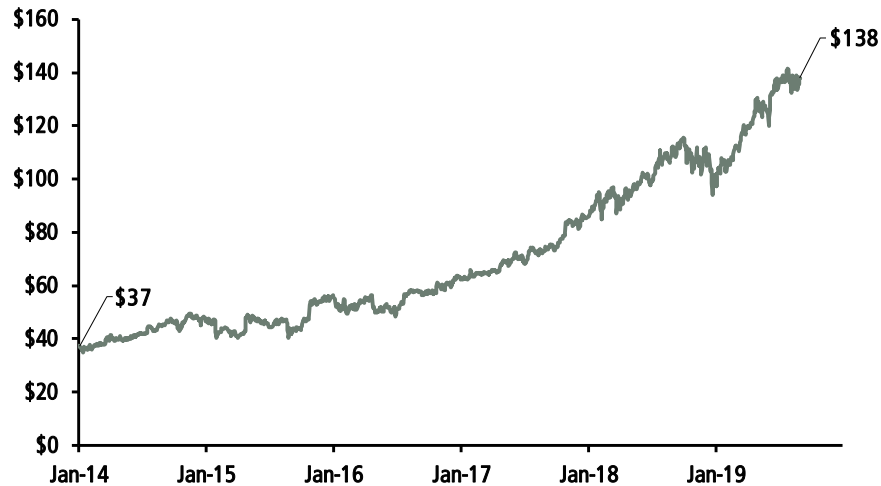
Selected overweight stocks

Canadian Equities

Foreign Equities

12 months ended August 31, 2019

Microsoft: a remarkable story of adaptation in the fast-changing tech sector



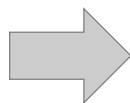
- ◆ Share price has more than tripled since 2014 under CEO Satya Nadella
- ◆ Market capitalization exceeds \$1 trillion
- ◆ Successful reinvention as a cloud services company

Microsoft Share Price

Microsoft's strategy has successfully evolved over time

Bill Gates / Steve Ballmer Era

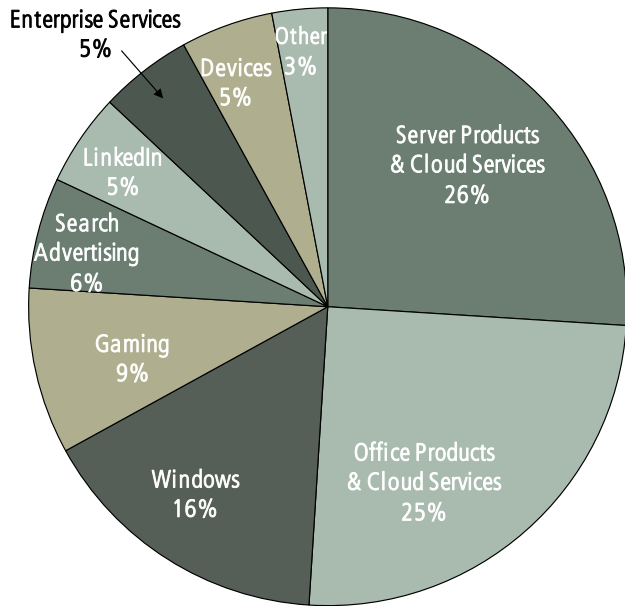
- ◆ Windows as the dominant operating system on PCs
- ◆ Focused on the consumer
- ◆ Sold software on disks in boxes
- ◆ Perceived as having "missed" mobile



Satya Nadella Era

- ◆ Leading cloud services company
- ◆ Focused on the enterprise
- ◆ Sells subscriptions to cloud-based software suites
- ◆ Perceived as a winner in cloud

Change in strategy is visible in revenue mix and financial characteristics



- ◆ Revenue mix has shifted to cloud services
 - #2 player globally in cloud services behind AWS (Amazon)
- ◆ More recurring revenue
- ◆ Multi-decade tailwind as businesses of all sizes move to the cloud

Revenue by Product & Service (Year-ended June 30, 2019)

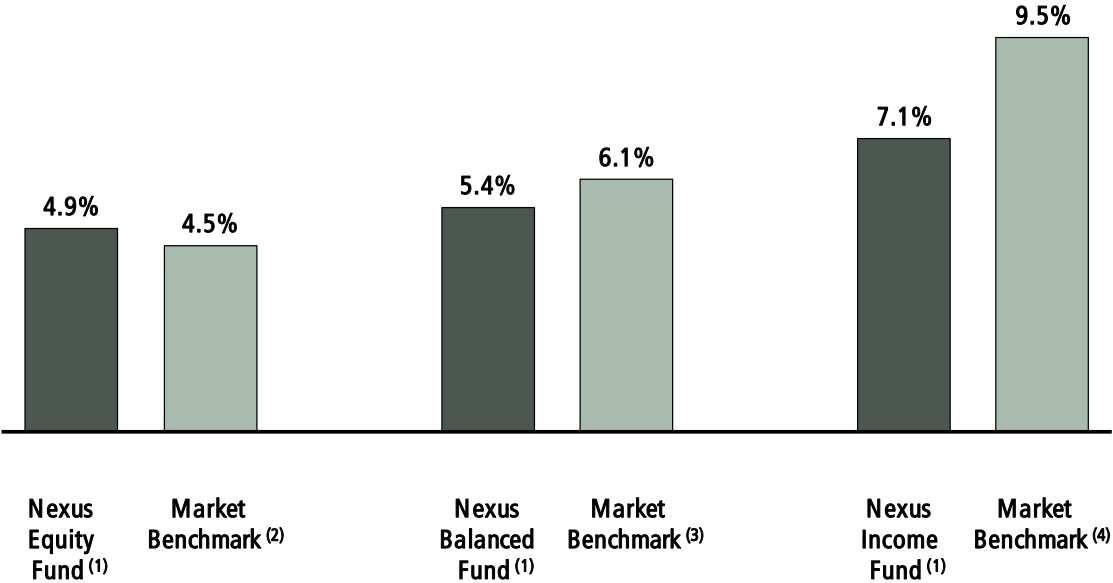
Financial markets have been strong in 2019

- ◆ 1-Year returns modest as a result of a tough end to 2018
 - Nexus's Canadian equities have generated good returns and outperformed the TSX
 - U.S. equities more modest and trailed the S&P 500 slightly
 - International equity returns also modest, but excellent compared to indices

- ◆ 1-Year fixed income returns were remarkably strong
 - Central bank intervention has driven yields lower
 - Nexus fixed income strategy generated good returns, but lower than benchmark

- ◆ Over the long term, Nexus portfolios have performed well
 - Long-term up- and down-market capture ratios remain excellent

Tumult in global markets led to fixed income outperforming equities



1-Year Returns on Nexus Funds

12 Months ended August 31, 2019

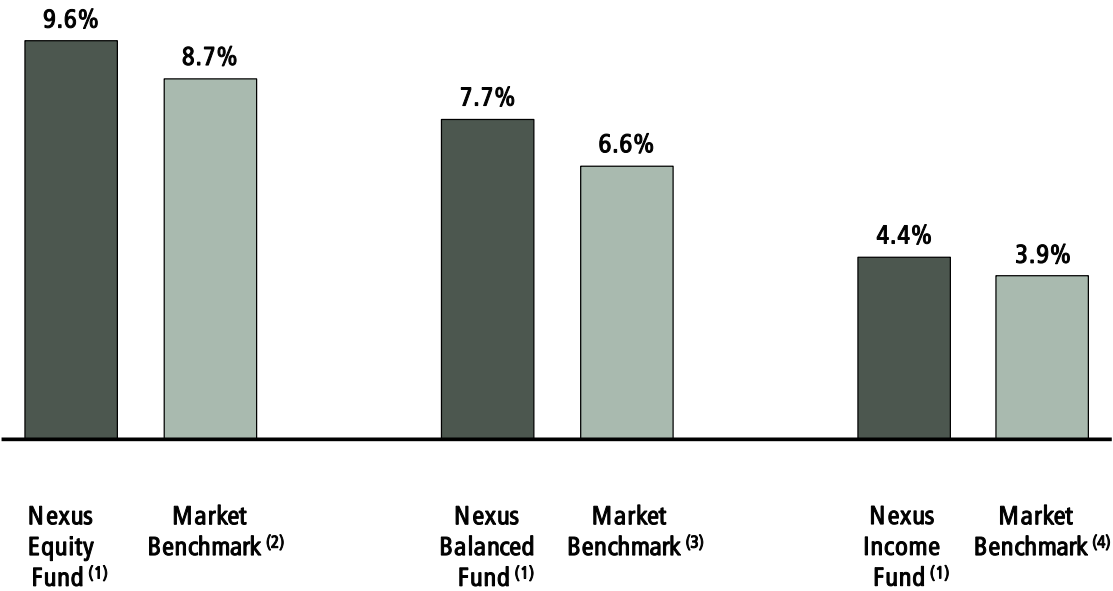
⁽¹⁾ Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

⁽²⁾ Equity Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

⁽³⁾ Balanced Fund market benchmark is 5% FTSE TMX Canada 91 Day TBill Index, 30% FTSE TMX Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

⁽⁴⁾ Income Fund market benchmark is the FTSE TMX Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

5-Year returns strong on an outright basis and better than benchmark



5-Year Annualized Returns on Nexus Funds

Five Years ended August 31, 2019

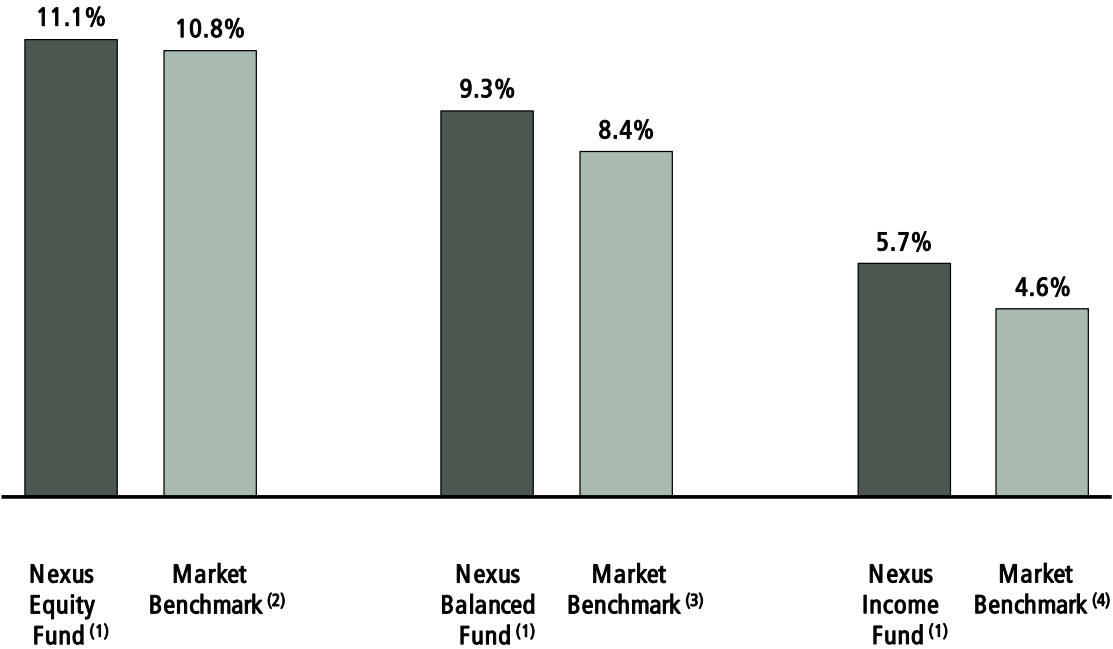
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⁽⁴⁾ Income Fund market benchmark is the FTSE TMX Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

Fund and benchmark returns over the last decade remain well above long-term averages



10-Year Annualized Returns on Nexus Funds

Ten Years ended August 31, 2019

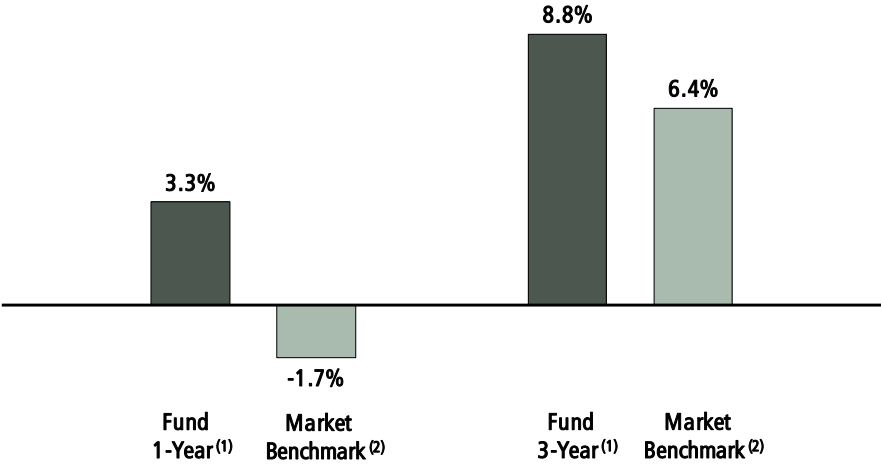
⁽¹⁾ Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

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⁽⁴⁾ Income Fund market benchmark is the FTSE TMX Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

The International Equity Fund has performed well relative to its benchmark



◆ International adds diversification and potential return to North American investors

Returns on Nexus International Equity Fund

Periods ended August 31, 2019

(1) Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results. The International Equity Fund's inception date is September 2015.

(2) International Equity Fund market benchmark is 75% MSCI EAFE and 25% MSCI Emerging Markets indices (both in C\$); rebalanced monthly.

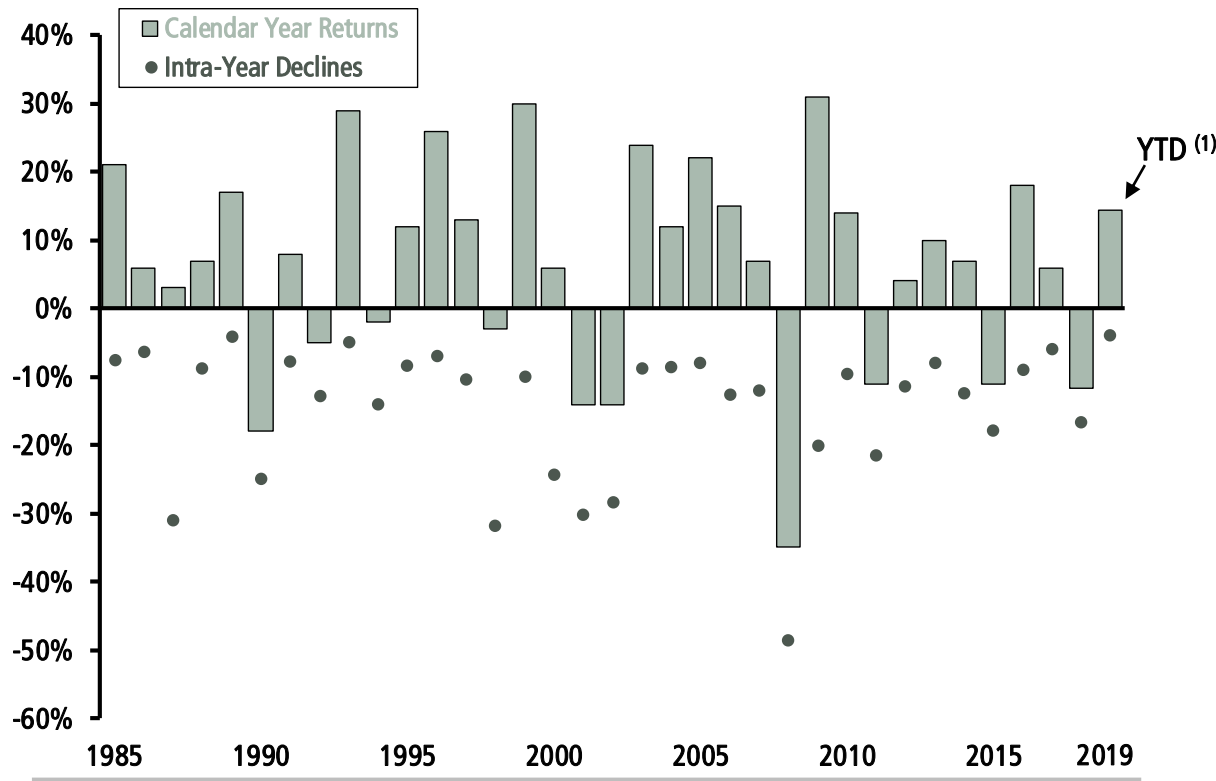


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Appendices

Equity market volatility is the norm



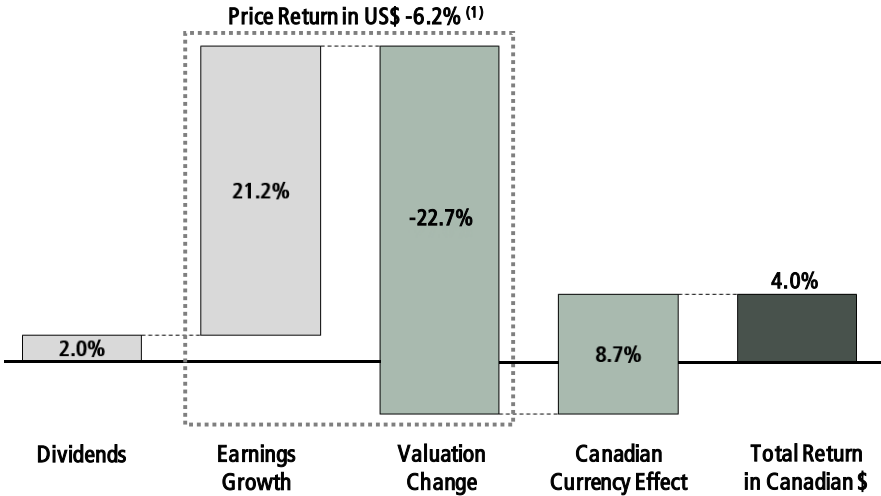
◆ Despite average intra-year declines of 15%, annual returns were positive in 24 of 34 years

S&P/TSX Composite Intra-Year Declines vs. Calendar Year Returns

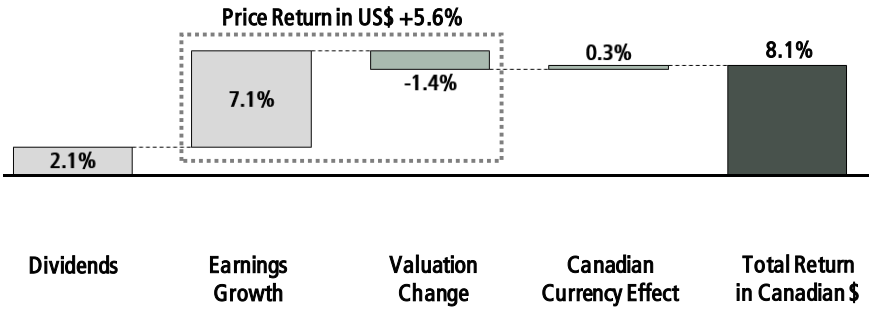
Asset Allocation Considerations

Short-term returns are driven by markets...

...Long-term returns are driven by company economics



S&P 500 1-Year Return Composition



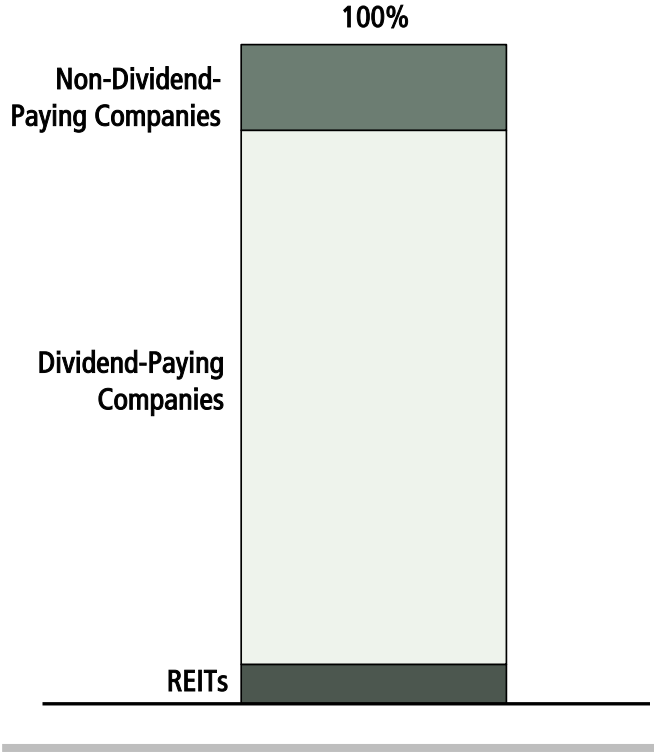
S&P 500 15-Year Annual Return Composition

Periods Ending December 31, 2018

Source: Bloomberg, Bank of Canada.

(1) Percentage returns must be combined by multiplying, not adding. For example, a 21.2% gain and a 22.7% loss are combined using $(1 + 21.2\%) \times (1 - 22.7\%) - 1 = -6.2\%$.

Our North American equities combine defensiveness and growth



Nexus North American Equity Portfolio

- 4 stocks
- Average EPS growth of 23% per year over 5 years
- 19.1x average forward P/E multiple ⁽¹⁾

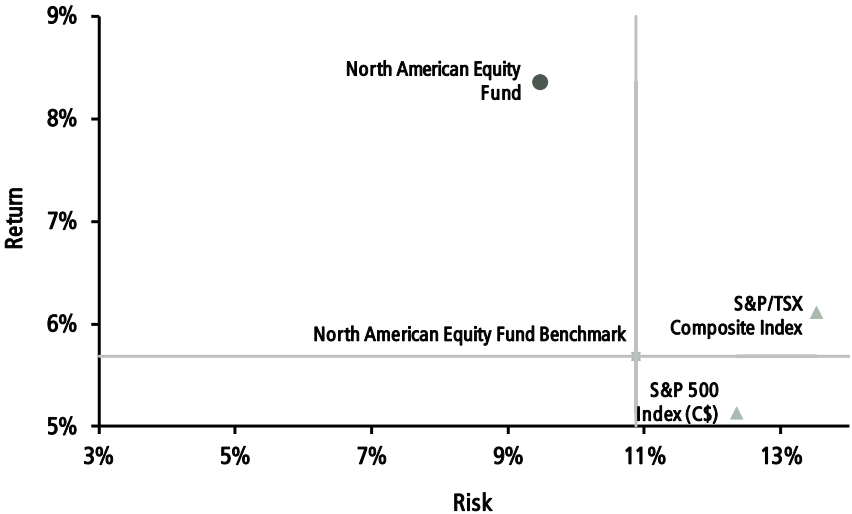
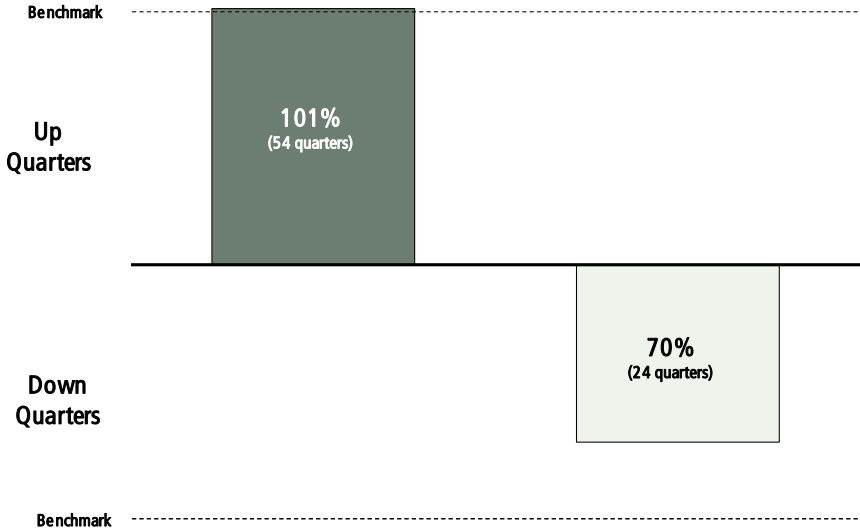
- 30 stocks
- 2.9% average dividend yield
- Average dividend growth of 9.6% per year over 5 years
- 14.1x average forward P/E multiple ⁽¹⁾

- 2 Real Estate Investment Trusts
- Average distribution yield of 4.6%
- Average Price/NAV of 103%

As at June 30, 2019

Source: Bloomberg.
⁽¹⁾ The "forward" year is the current fiscal year estimate for each company; excludes data points that are not meaningful.

Our approach has worked over the long term, with good downside protection



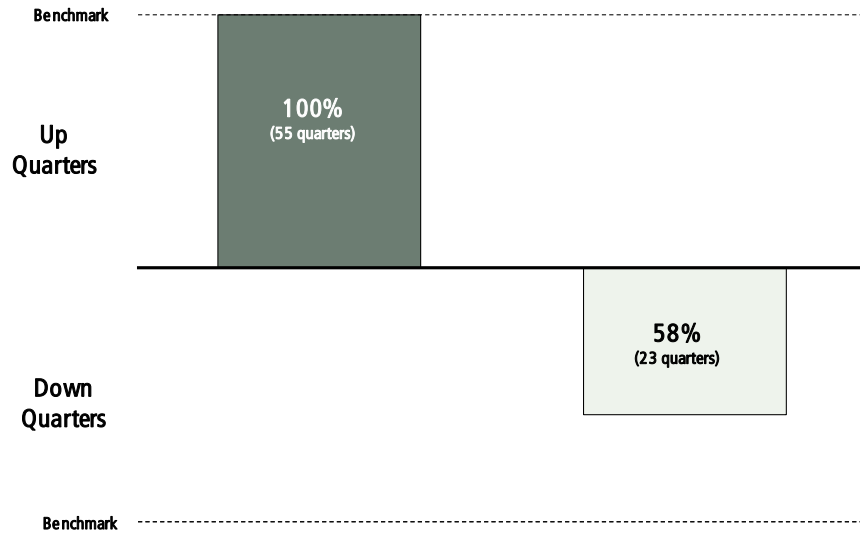
Equity Fund Up- & Down-Market Capture Ratios ^(1,2,3)

Risk / Return Profile Since January 1, 2000 ^(2,3,4)

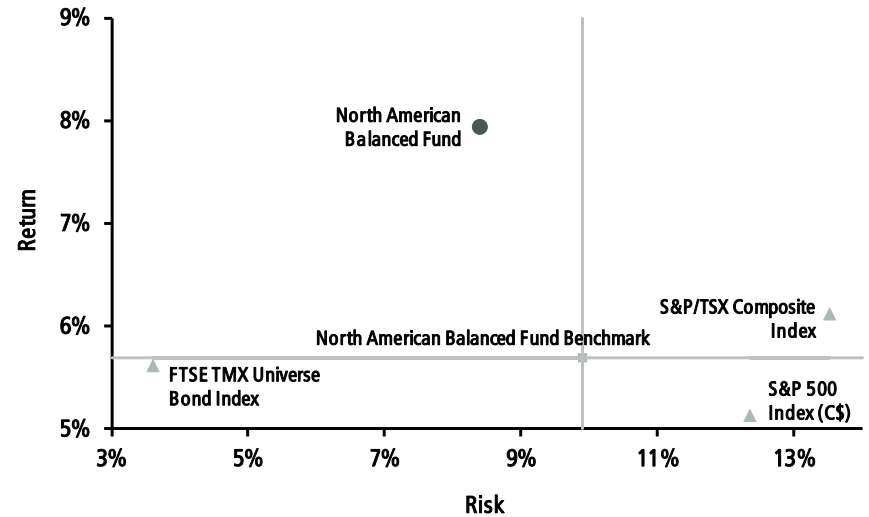
Period Ending June 30, 2019

(1) Each quarter since January 1, 2000 is defined as an "up" or "down" quarter based on whether the benchmark return for the quarter was positive or negative. For up (down) quarters, the capture ratio is the ratio of compound average rates of return for the Fund and its benchmark for such quarters.
 (2) Nexus returns are presented *prior to the deduction of investment management fees*. Past performance is not indicative of future results.
 (3) Equity Fund benchmark is 5% FTSE TMX 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.
 (4) Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

Our approach has worked over the long term, with good downside protection



Balanced Fund Up- & Down-Market Capture Ratios ^(1,2,3)



Risk / Return Profile Since January 1, 2000 ^(2,3,4)

Period Ending June 30, 2019

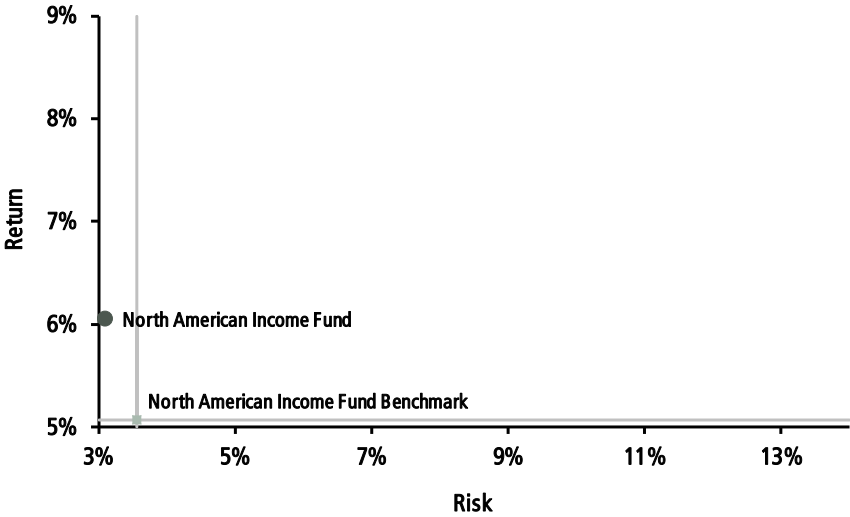
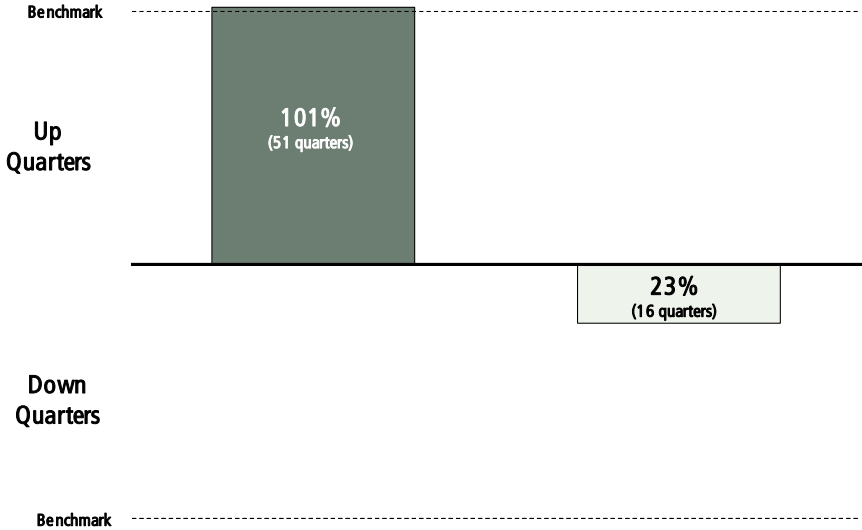
⁽¹⁾ Each quarter since January 1, 2000 is defined as an "up" or "down" quarter based on whether the benchmark return for the quarter was positive or negative. For up (down) quarters, the capture ratio is the ratio of compound average rates of return for the Fund and its benchmark for such quarters.

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⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

Our approach has worked over the long term, with good downside protection



Income Fund Up- & Down-Market Capture Ratios ^(1,2,3)

Risk / Return Profile Since October 1, 2002 ^(2,3,4)

Period Ending June 30, 2019

⁽¹⁾ Each quarter since October 1, 2002 is defined as an “up” or “down” quarter based on whether the benchmark return for the quarter was positive or negative. For up (down) quarters, the capture ratio is the ratio of compound average rates of return for the Fund and its benchmark for such quarters.
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⁽³⁾ Income Fund benchmark is the FTSE TMX Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.
⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since October 1, 2002.