



NEXUS

Portfolio Management & Financial Counsel



Investment Review

February, 2020

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, 2009 to December 31, 2019.

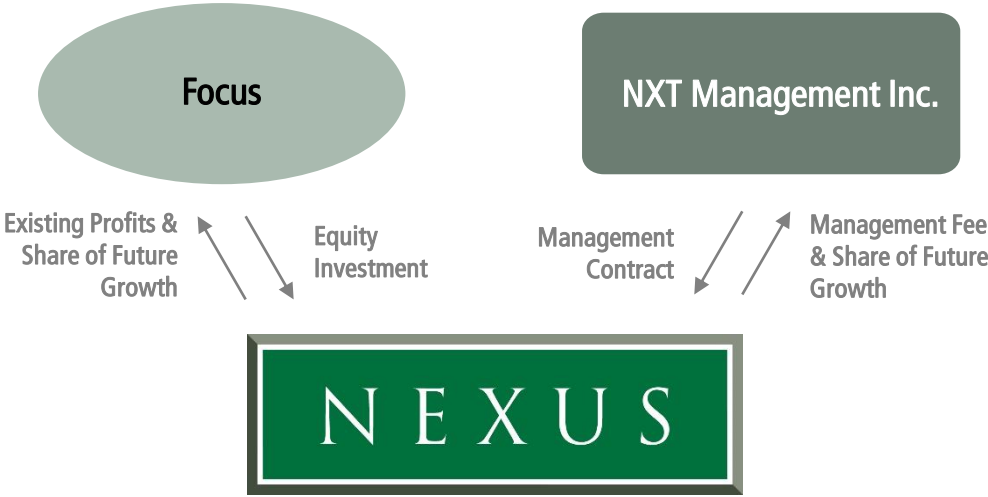
Nexus/Focus relationship will benefit all stakeholders

- ◆ Nexus has entered into an agreement with Focus Financial Partners
 - Focus buys an equity stake in Nexus
 - Nexus employees continue to run all aspects of the Nexus business
 - Closed on February 1

- ◆ Focus has investments in approximately 65 investment firms
 - Vision is to be the Berkshire Hathaway of the investment management industry
 - Each firm continues with its own identity and manages its business independently
 - Partnership network supports the sharing of best practices
 - Focus supports with capital and helps facilitate succession, as needed

- ◆ This agreement ensures Nexus's ongoing independence
 - Focus's investment is passive
 - Facilitates Nexus's long-term management succession to principals of our choice
 - We believe this relationship best supports our clients' and employees' needs

Nexus and Focus share in future success

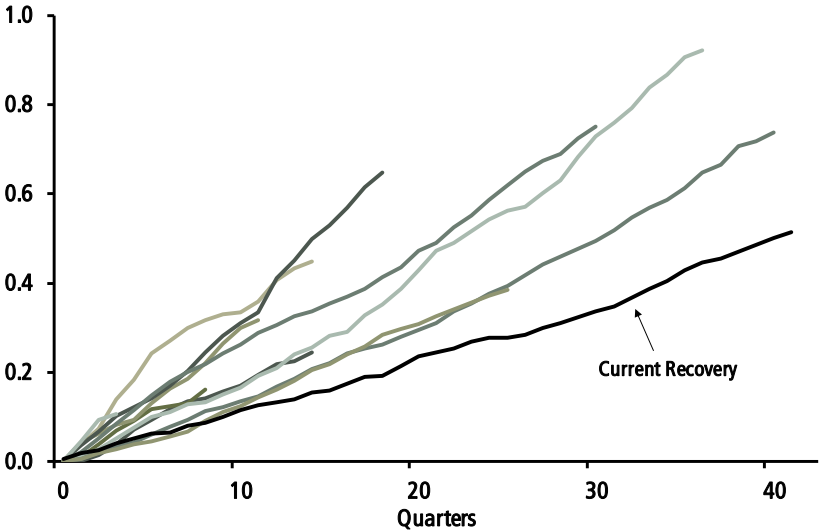


- ◆ Focus acquires an equity interest in Nexus and enters into an agreement with NXT to manage the business
- ◆ Certain Nexus professionals become owners of NXT
 - Initially, 9 professionals
- ◆ Future growth of Nexus’s profits is shared between Focus and NXT

2020 should see minimal economic surprises

- ◆ North American economic outlook not a significant source of concern
 - U.S. economic outlook currently better than Canada's
- ◆ Inflation outlook continues to be a "mixed bag"
 - Inflation is unlikely to drive policy any time soon
- ◆ Business sentiment may be improving
- ◆ Labour markets strong in both Canada and the U.S.
 - Relatively strong U.S. consumer means that positive economic effects are more likely
- ◆ Geopolitical issues aren't going away
 - U.S. election bringing uncertainty
 - Trade negotiations: progressing, but far from resolved
 - Coronavirus

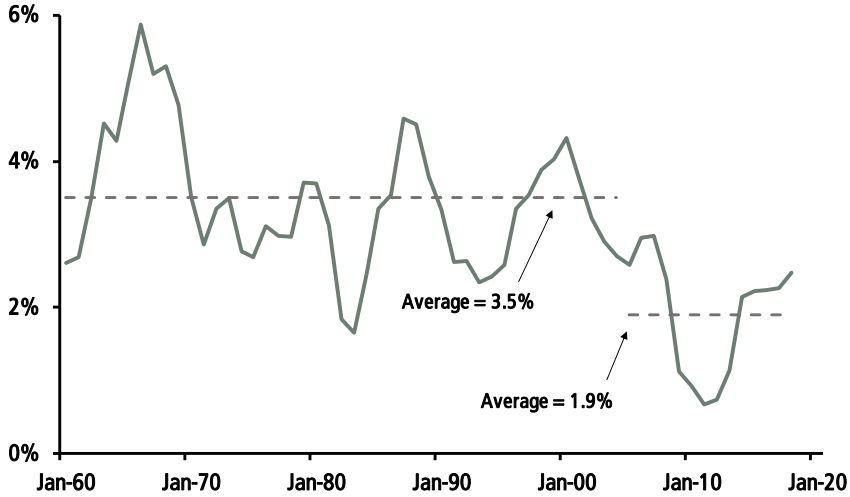
The recovery has been lengthy...



Cumulative U.S. GDP Growth Post-Recessions ⁽¹⁾

- Recovery might persist

...but growth has been muted

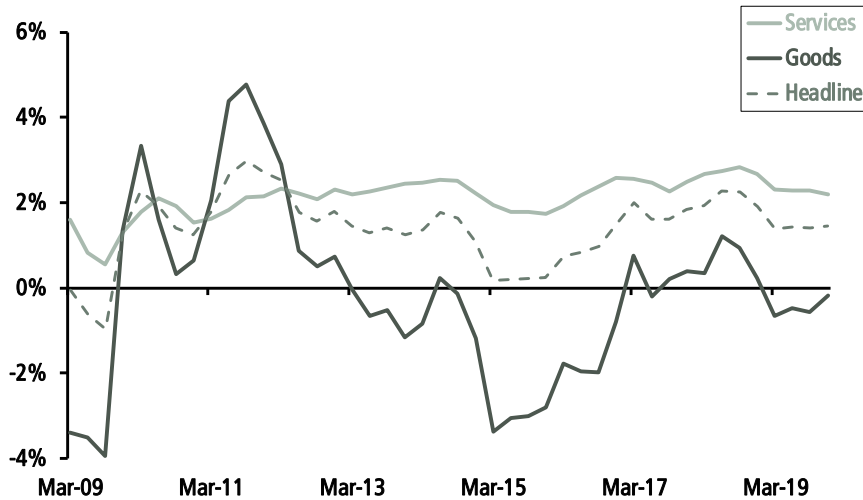


U.S. GDP Growth

- Structural factors have slowed economic growth

Source: Credit Suisse, Bureau of Economic Analysis.
⁽¹⁾ Cumulative nominal GDP during each recovery, indexed to 0.

Inflation is under control



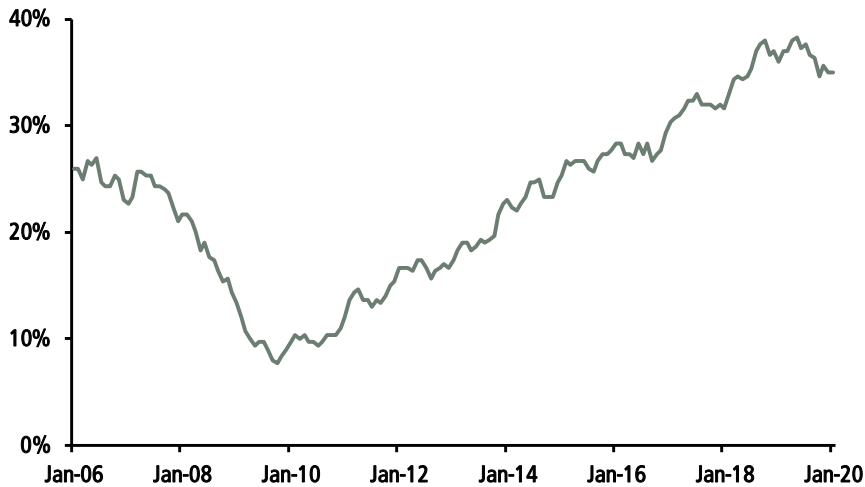
- ◆ Headline inflation continues to be well controlled
 - Headline PCE (1.6%) remains below the Fed's target of 2%
 - A moderate increase will not result in monetary policy change
- ◆ Goods inflation and services inflation differ
 - Tariffs are not increasing inflation
 - Normalization of trade relationships limits risk of goods inflation

U.S. Services Inflation vs. Goods Inflation ⁽¹⁾

Source: Bureau of Economic Analysis.

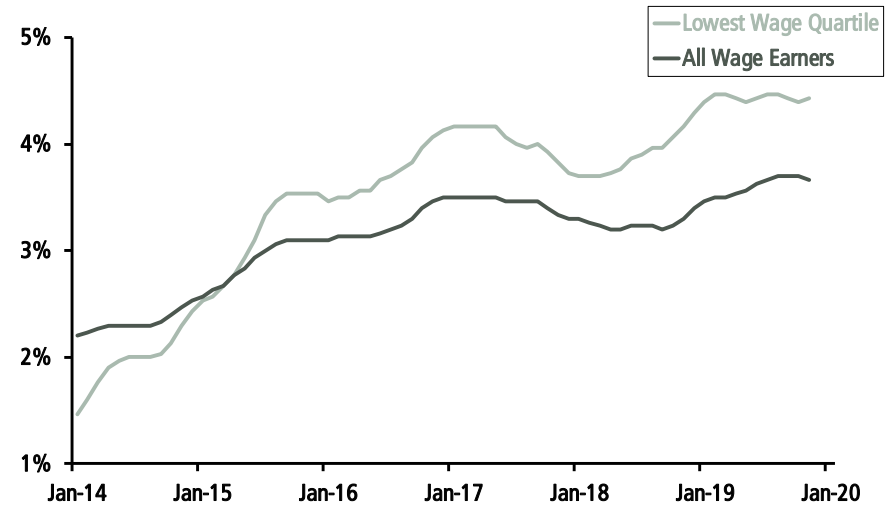
⁽¹⁾ Personal Consumption Expenditures (PCE) is made up of goods and services components.

U.S. labour market remains tight, recently benefitting those with the largest propensity to increase consumption



NFIB Unfilled Job Openings ⁽¹⁾

- 33% of small business owners reported that there were job openings that they could not fill in the month of December



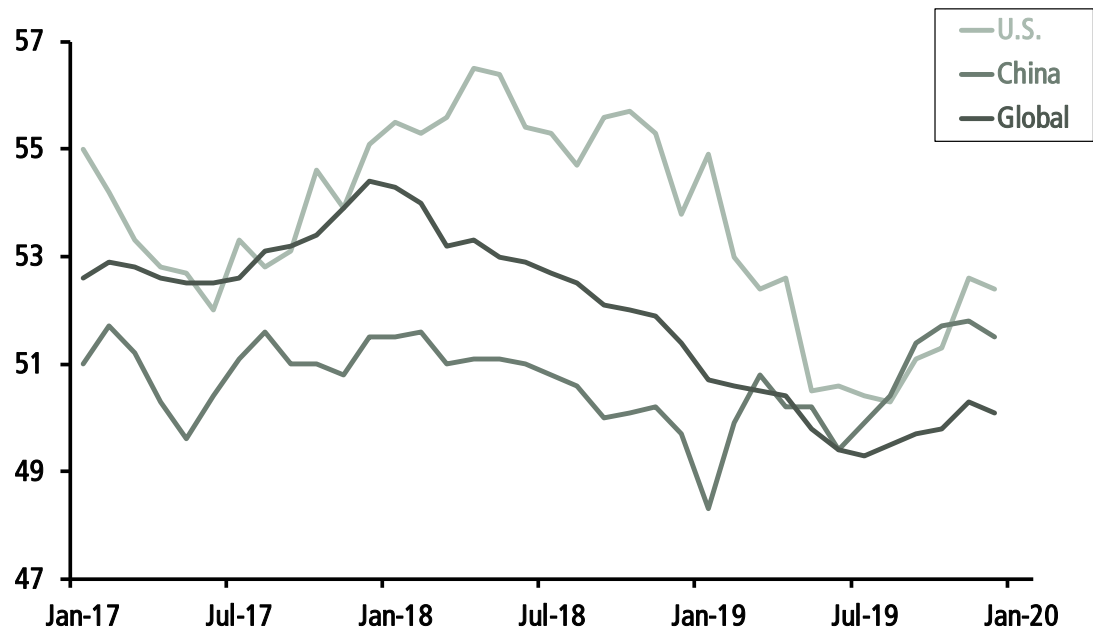
U.S. Monthly Median Wage Growth

- Increase in consumption supports the economic expansion

Source: Bloomberg, Federal Reserve Bank of Atlanta.

⁽¹⁾ Percent of National Federation of Independent Business (NFIB) respondents with unfilled job openings (3 month rolling average).

There are early signs that manufacturing is improving

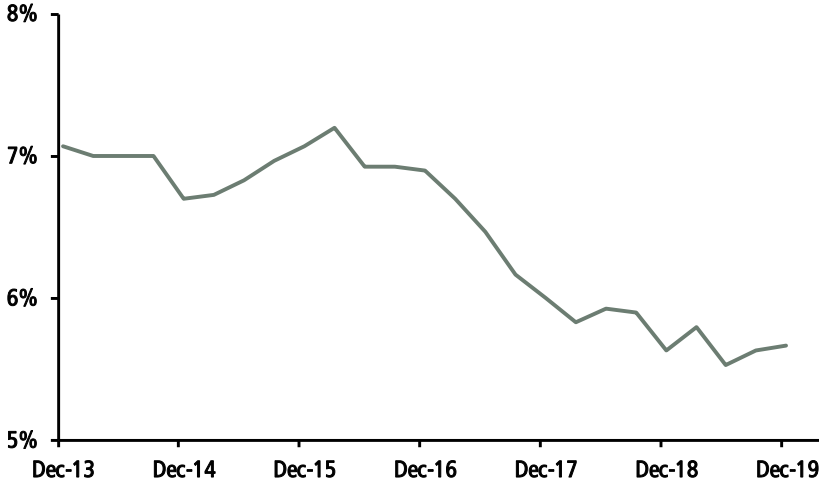


ISM Manufacturing PMI Survey Results ⁽¹⁾

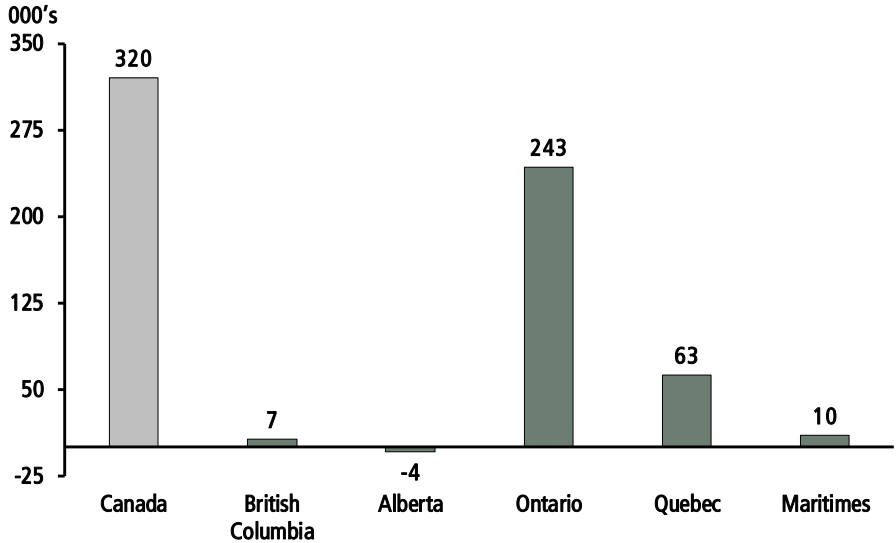
Source: Bloomberg.

⁽¹⁾ The Institute of Supply Management (ISM) Purchasing Managers Index (PMI).

While Canadian employment is strong, it is not evenly spread across the country



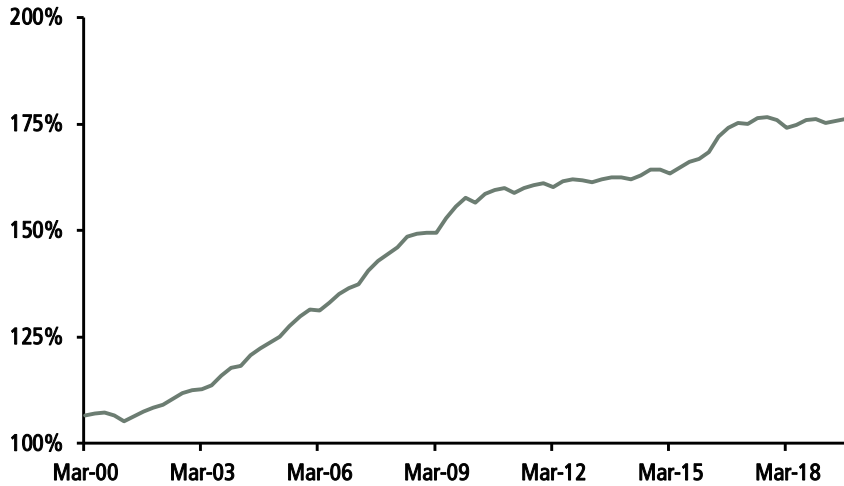
Canadian Unemployment Rate



2019 Change in Employment by Province

- Job gains were concentrated in central Canada

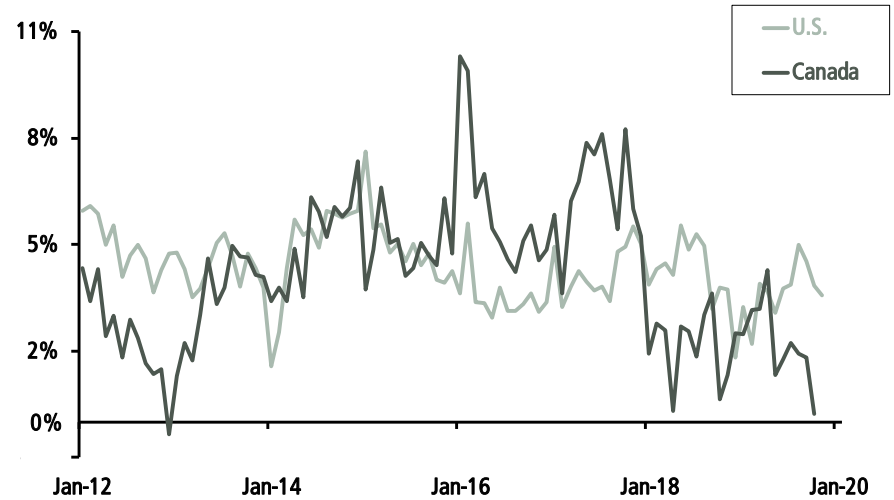
In Canada, debt levels are high...



Debt to Income Ratio for Canadian Households

- Canadian savings rate improving, but still just 3.9%
- In contrast, U.S. consumers save 7.9%

...which is limiting spending growth

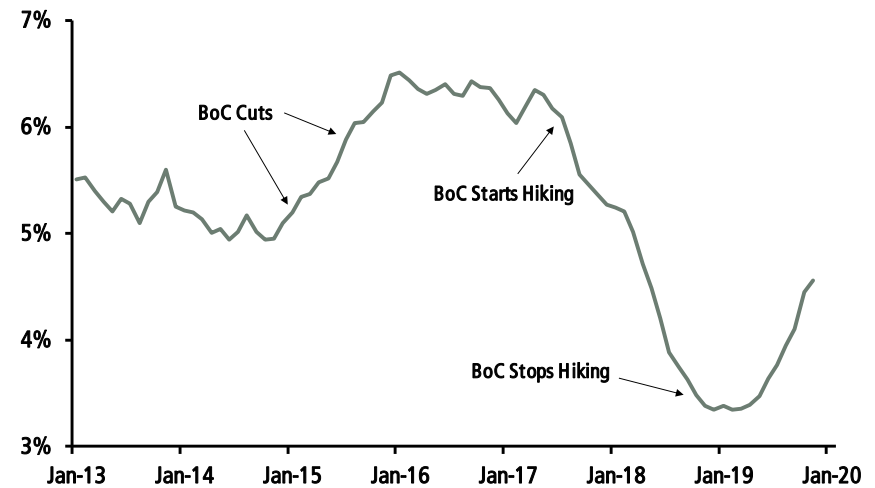


Retail Sales (Ex-Gasoline Stations) YoY Change

- Debt reduction is positive for the consumer, but over the short term can be negative for the economy

Bank of Canada is “boxed-in” by opposing forces

- ◆ Current monetary policy still stimulative
 - Despite inflation at target and improving global economy
- ◆ Yet higher rates not justified by slowing domestic economy
- ◆ But lower rates risk fueling more borrowing and housing speculation



Canadian Household Credit Growth (YoY)

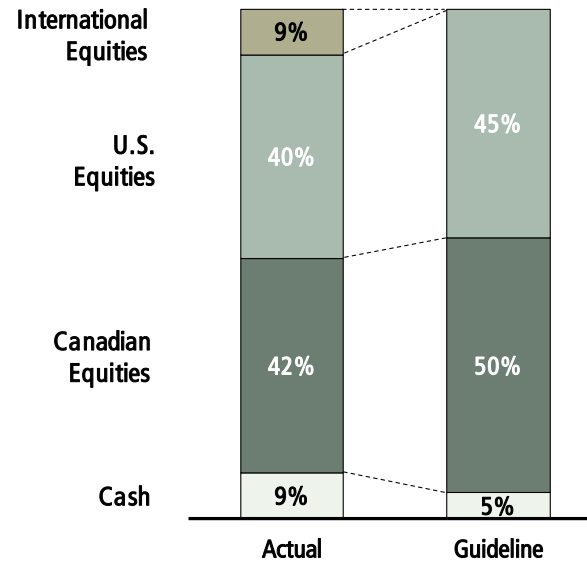
We expect ongoing geopolitical noise in 2020

- ◆ U.S. election brings uncertainty
 - Attention to the election and potential outcomes is likely to increase as the election draws near
- ◆ Trade negotiations: progress made, but far from resolved
 - Phase 1 done, more to come
 - CUSMA done, Europe next?
 - Brexit done, trade details unknown
- ◆ Civil unrest and political turmoil continues
 - Hong Kong, Iran/Iraq, Venezuela, Chile, North Korea...
- ◆ Coronavirus?
 - Direct impact not likely to be material, but fear and other knock-on effects may be

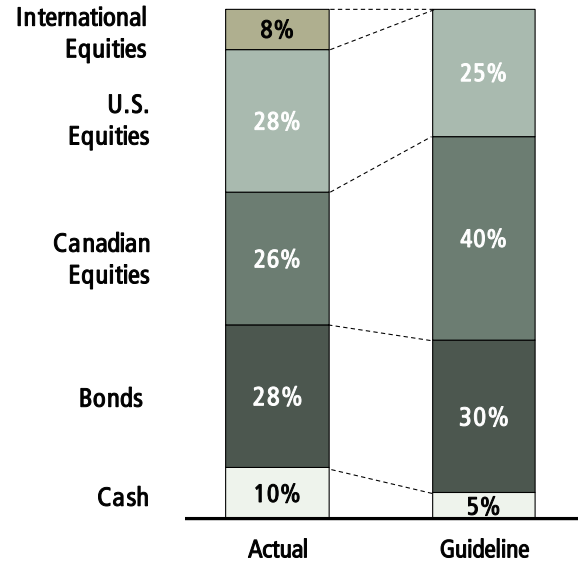
Portfolios are positioned for moderate growth

- ◆ After strong gains in 2019, our allocation to equities and fixed income remains close to guidelines
 - Trimming and outright sale of equities that were richly valued
 - Overweight position in cash
- ◆ Fixed income portfolios reflect our preference for quality
 - Concentration in higher-quality and shorter-maturity bonds
- ◆ Equity portfolios emphasize defensive stocks with long-term growth potential

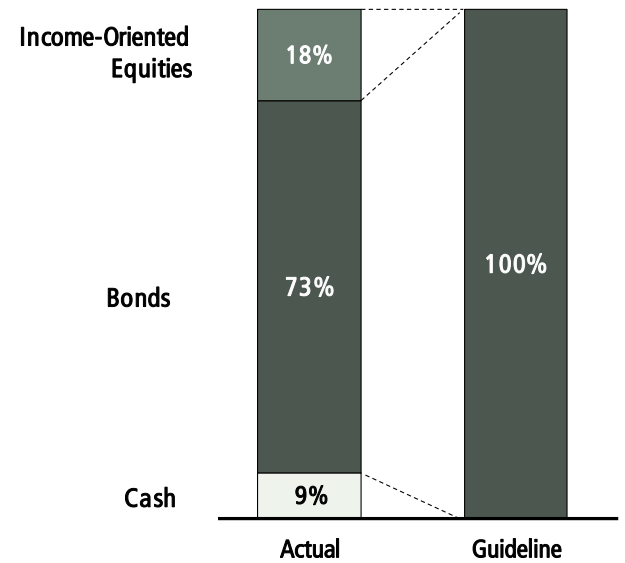
Overall equity allocations remain close to long-term guidelines



Nexus Equity Fund

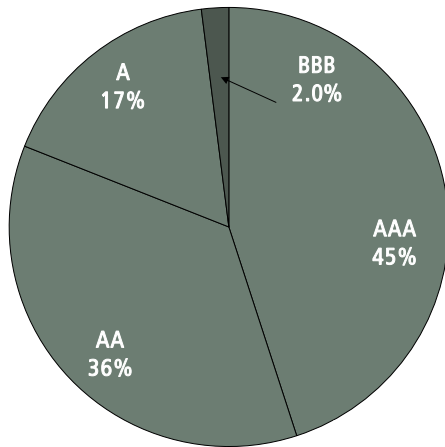


Nexus Balanced Fund



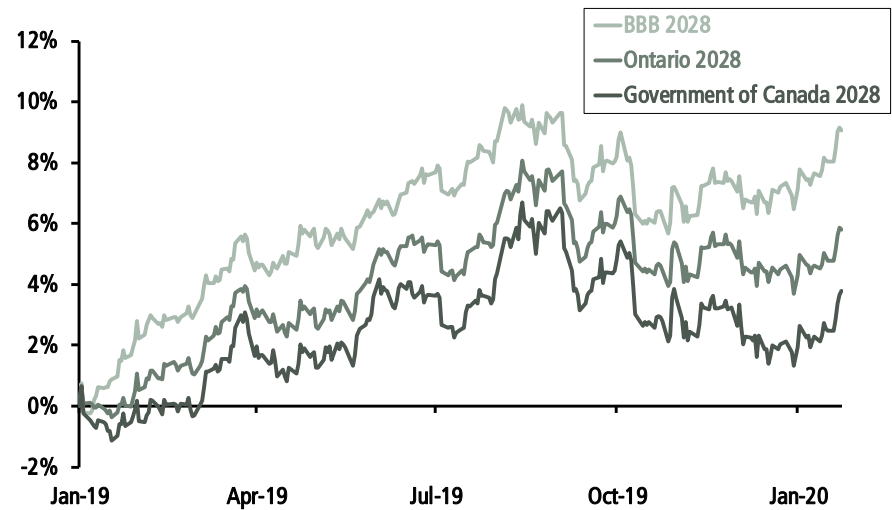
Nexus Income Fund

Our portfolio is biased to quality...



Income Fund Credit Exposure ⁽¹⁾

...but lower quality has outperformed recently



Percent Price Increase of Various Bond Credits

Source: Bloomberg.
⁽¹⁾ As at January 31, 2020.

Equity Portfolio Changes

Low turnover during an exceptionally strong period for stocks – some trims and sells due to high valuations

Buy

—

Sell

Thomson Reuters

Buy

Facebook

Sell

—

Add

—

Trim

Selected overweight stocks

Add

—

Trim

Selected overweight stocks

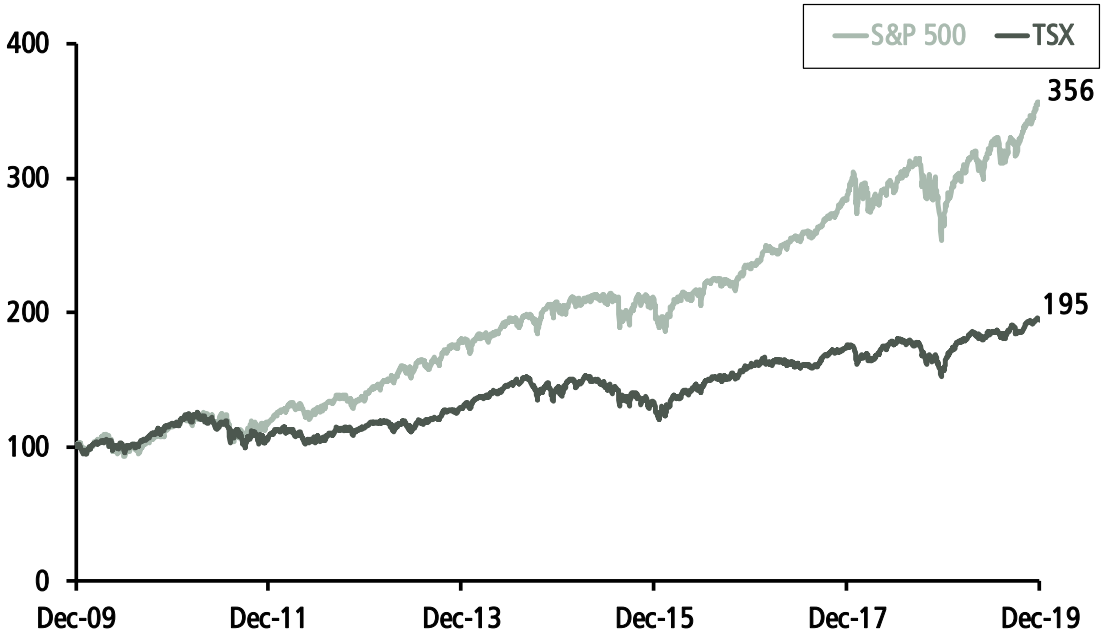
Canadian Equities

Foreign Equities

12 months ended January 31, 2020

Retrospective on the Decade

The U.S. market has far surpassed Canada over the last decade



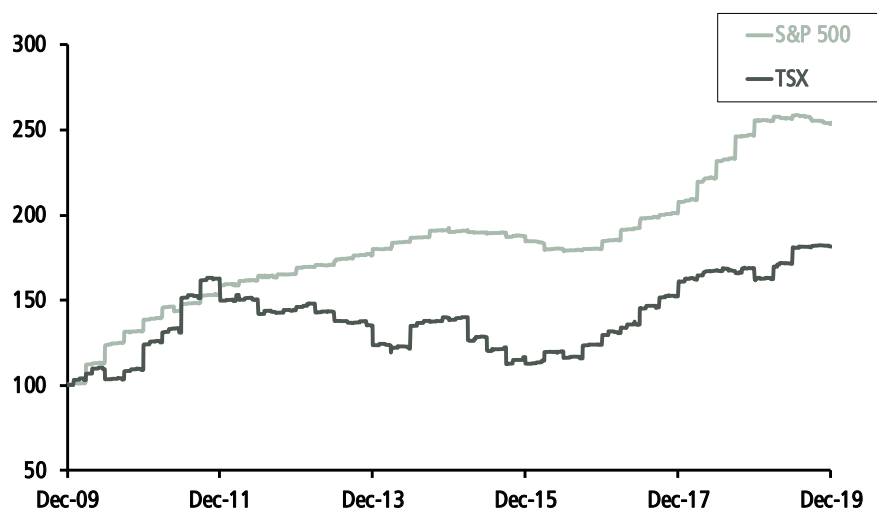
Total Return Index (2009 to 2019) ⁽¹⁾

Source: Bloomberg.

⁽¹⁾ Total return data for the S&P 500 and TSX are in local currency terms.

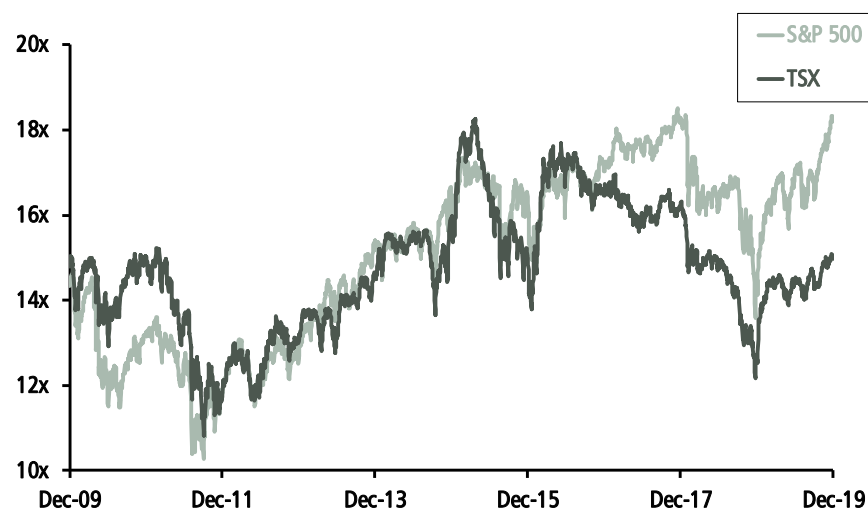
Retrospective on the Decade

U.S. companies delivered higher earnings growth and were rewarded with higher valuation multiples...



Earnings Per Share Index ⁽¹⁾

- Earnings per share (EPS) is a key driver of stock market returns
- U.S. EPS grew at an annualized rate of 9.8% while Canadian EPS grew at only 6.1%



Forward Price/Earnings Ratio ⁽²⁾

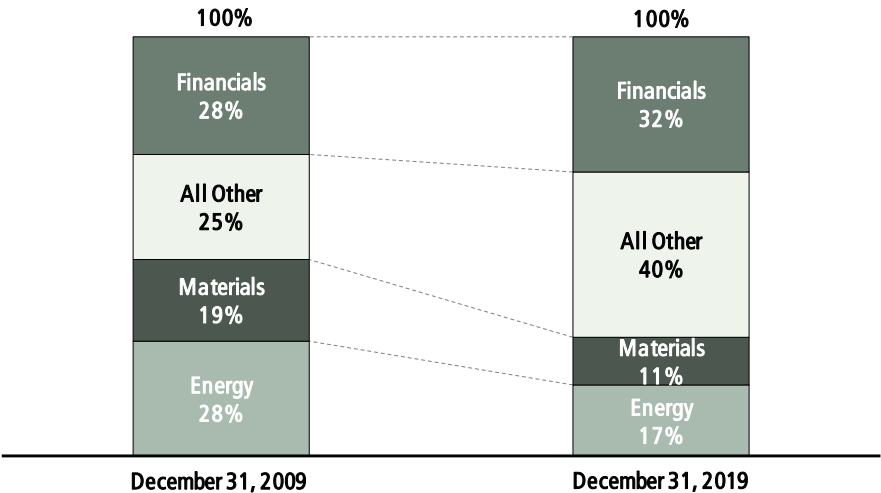
- Valuation multiples favoured the U.S. in the latter years of the decade

Source: Bloomberg.

⁽¹⁾ The sum of the most recent 12 months earnings per share, aggregated for all equities in the S&P 500 and TSX, respectively. Data is indexed to 100 at December 31, 2009.

⁽²⁾ The "Forward Price/Earnings Ratio" is based on Bloomberg consensus estimates for the subsequent 12 month periods. Prices are daily, based on the last available closing price of each index.

...while Canada's commodity sectors stumbled badly



Sector	10-Year Annualized Total Return
Materials	-0.6%
Energy	0.6%
Health Care	1.9%
Information Technology	7.2%
Utilities	8.7%
Financials	10.4%
Consumer Discretionary	12.0%
Communication Services	13.0%
Real Estate	13.4%
Industrials	14.2%
Consumer Staples	15.0%

TSX Composite – Sector Weightings

- Lower Chinese growth dampened demand for commodities
- Energy prices declined with new supply from U.S. shale reserves

TSX Returns by Sector (2009 – 2019) ⁽¹⁾

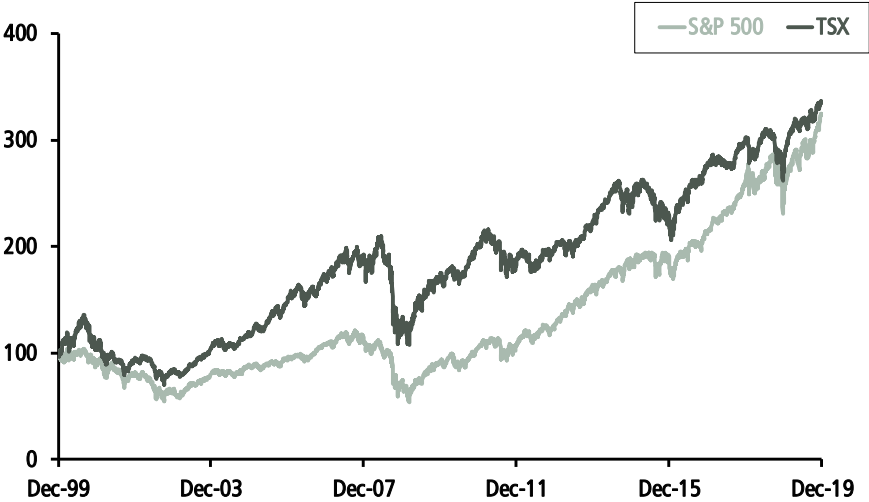
- Two of the three largest TSX sectors delivered lackluster returns

Source: Bloomberg.

⁽¹⁾ Total returns are measured in C\$ and represent the annualized return between December 31, 2009 and December 31, 2019.

Retrospective on the Decade

Markets don't move in sync, but tend to normalize over time



Total Return Index (1999 to 2019) ⁽¹⁾

	Canada (TSX)	U.S. (S&P 500)
1999 – 2009	5.6%	-0.9%
2009 – 2019	6.9%	13.6%
1999 – 2019	6.2%	6.1%

Annualized Total Returns ⁽¹⁾

- Our bottom-up North American approach reduces volatility

Source: Bloomberg.

⁽¹⁾ Total return data for the S&P 500 and TSX are in local currency terms.

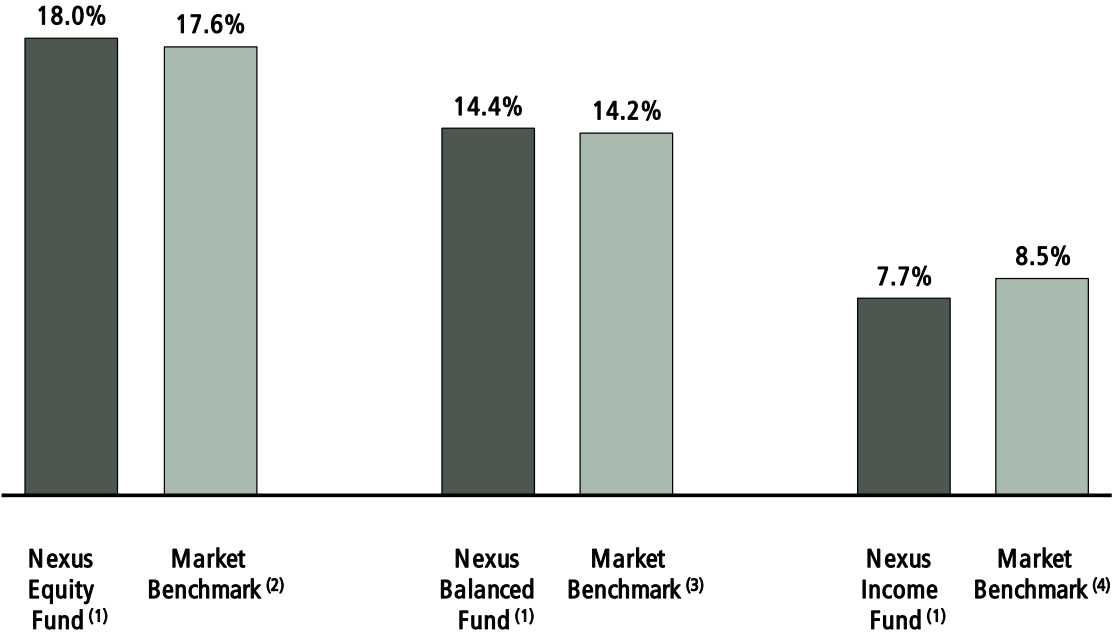
Stock and bond markets have continued to rise in early 2020

- ◆ 1-Year returns excellent across all asset classes
 - Nexus's Canadian equities generated good returns roughly in-line with the TSX composite
 - U.S. equity returns were extraordinary, and significantly better than benchmark
 - International equity returns also strong, and significantly better than 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

Both stock and bond markets have been remarkably strong in the last year



1-Year Returns on Nexus Funds

12 Months ended January 31, 2020

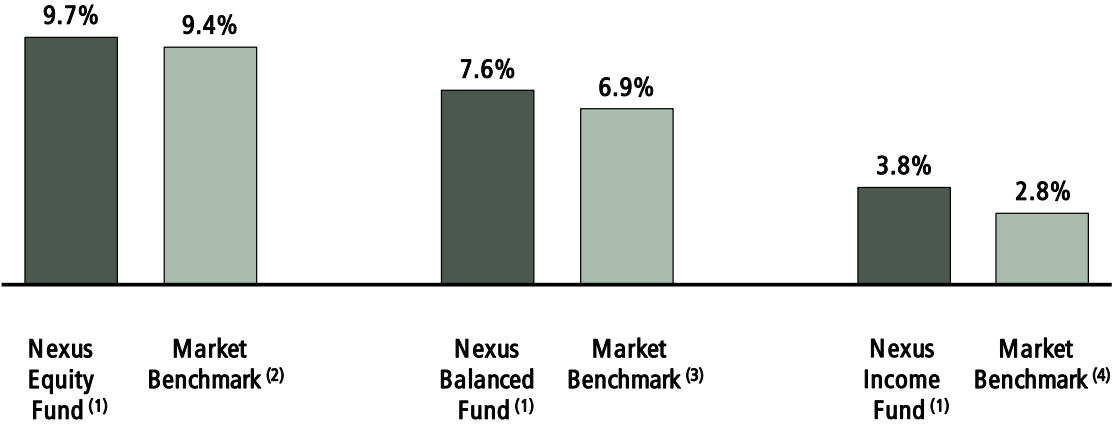
(1) Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

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

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

(4) Income Fund market benchmark is the FTSE 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 January 31, 2020

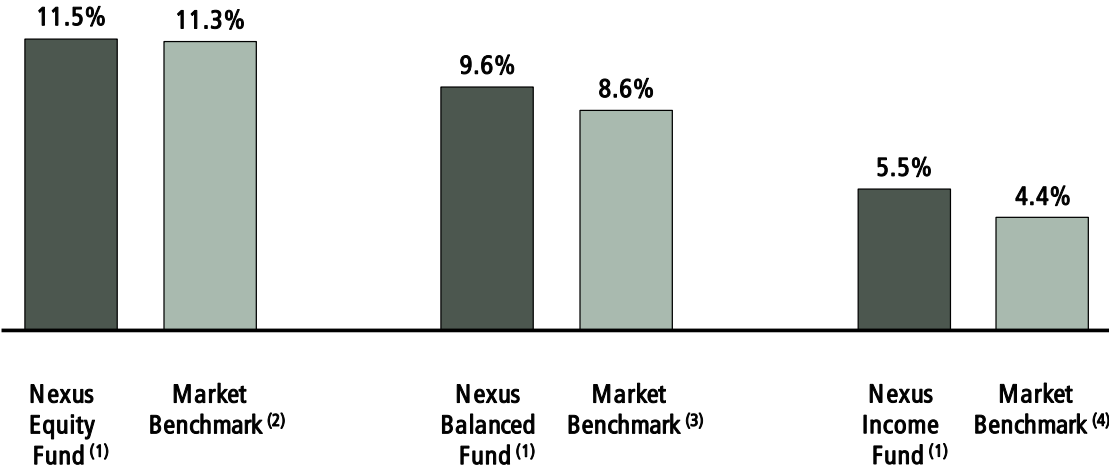
(1) Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

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

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

(4) Income Fund market benchmark is the FTSE 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

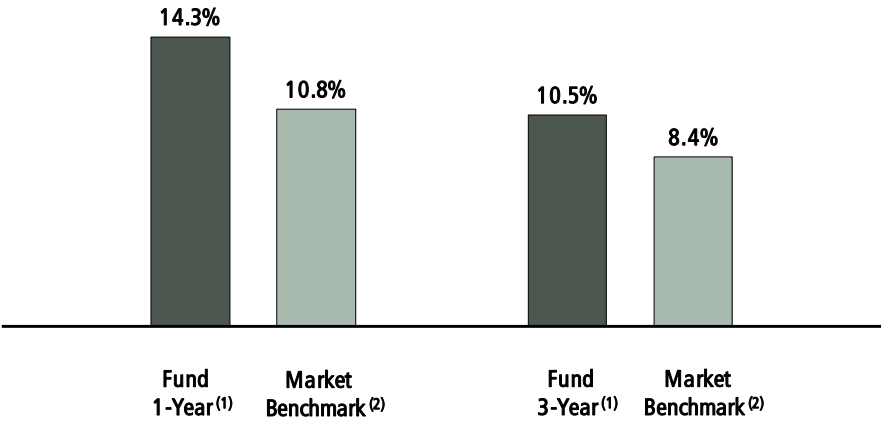


10-Year Annualized Returns on Nexus Funds

Ten Years ended January 31, 2020

⁽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 Canada 91 Day TBill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.
⁽³⁾ Balanced Fund market benchmark is 5% FTSE Canada 91 Day TBill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.
⁽⁴⁾ Income Fund market benchmark is the FTSE 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 January 31, 2020

(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.

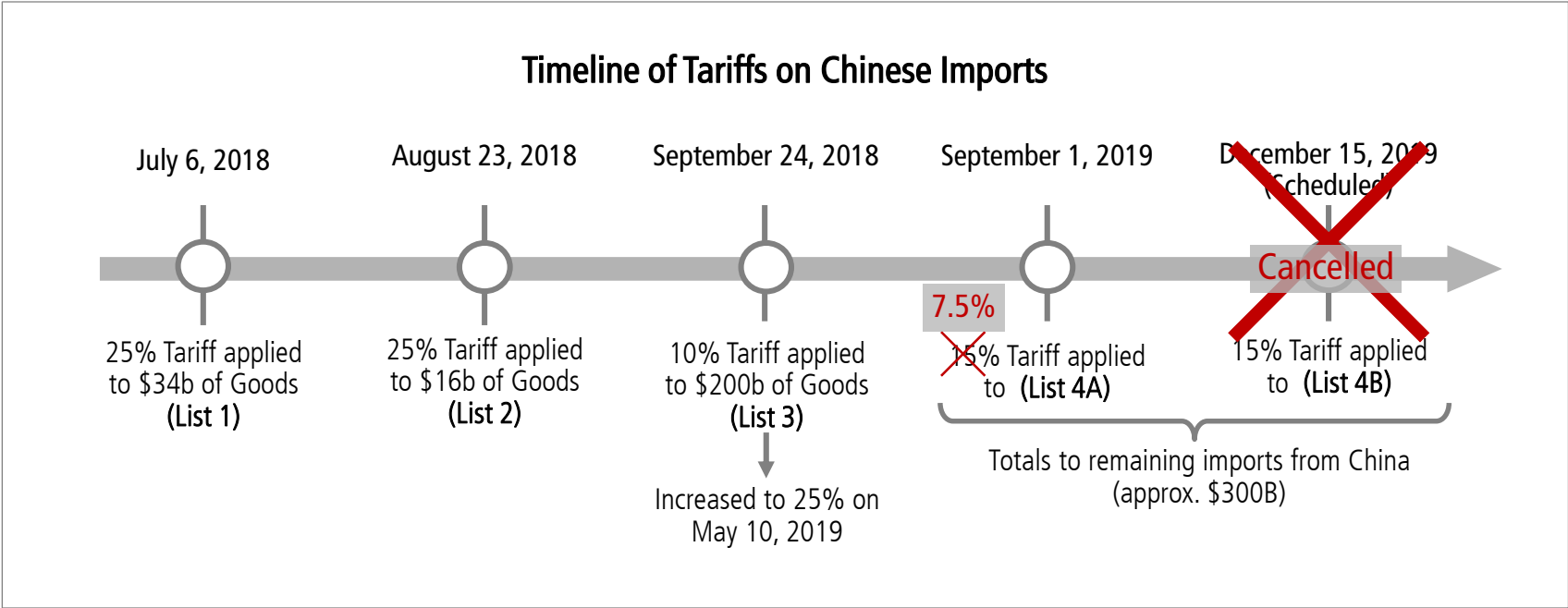


NEXUS

Portfolio Management & Financial Counsel

Appendices

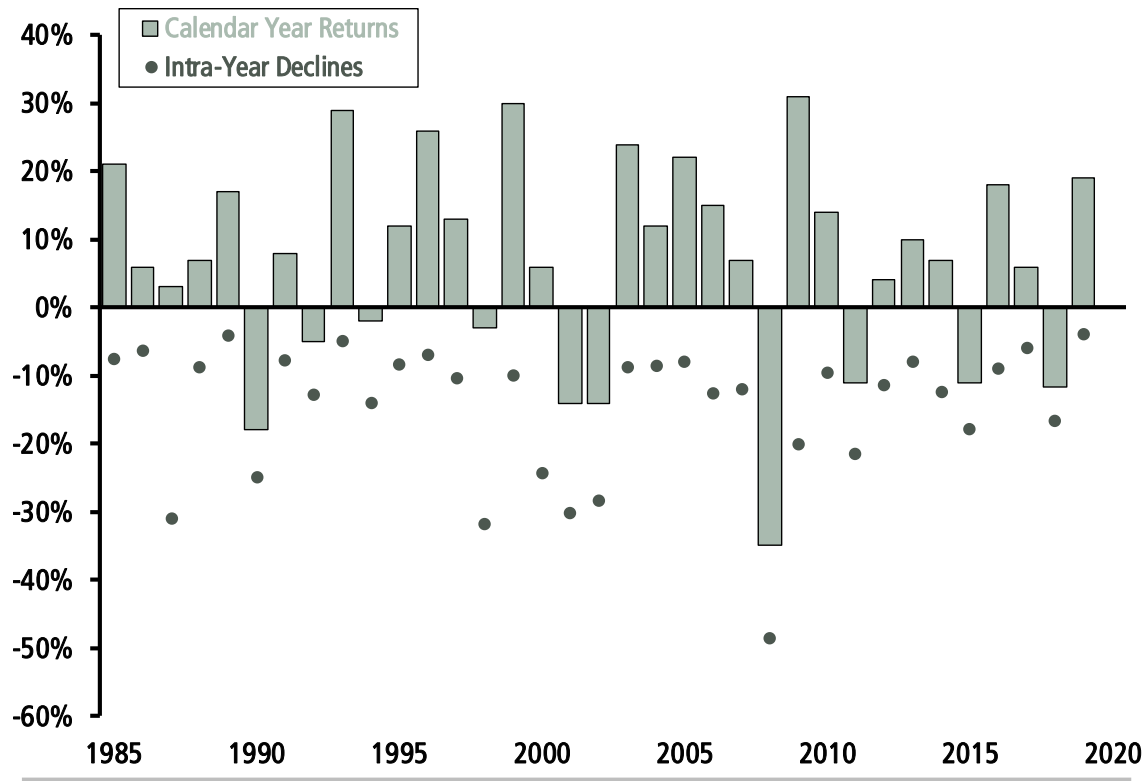
Following a Phase 1 trade deal, tensions have cooled but resolution remains unclear



- An initial "Phase 1" trade deal was signed on January 15th
- Significant details remain outstanding, including specifics on IP laws and technology
- While some tariffs have been rolled back, tariffs on over \$250b of imports remain
- We could continue to see trade talks between the U.S. and several of their trading partners over the coming months

Asset Allocation Considerations

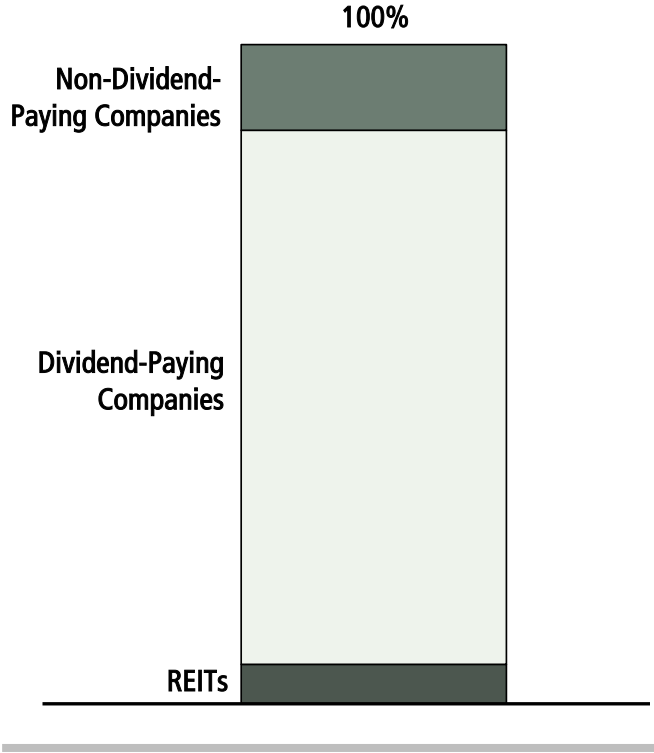
Equity market volatility is the norm



◆ Despite average intra-year declines of 15%, annual returns were positive in 25 of 35 years

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

Our North American equities combine defensiveness and growth



Nexus North American Equity Portfolio

- 4 stocks
- Average EPS growth of 20% per year over 5 years
- 22.1x average forward P/E multiple ⁽¹⁾

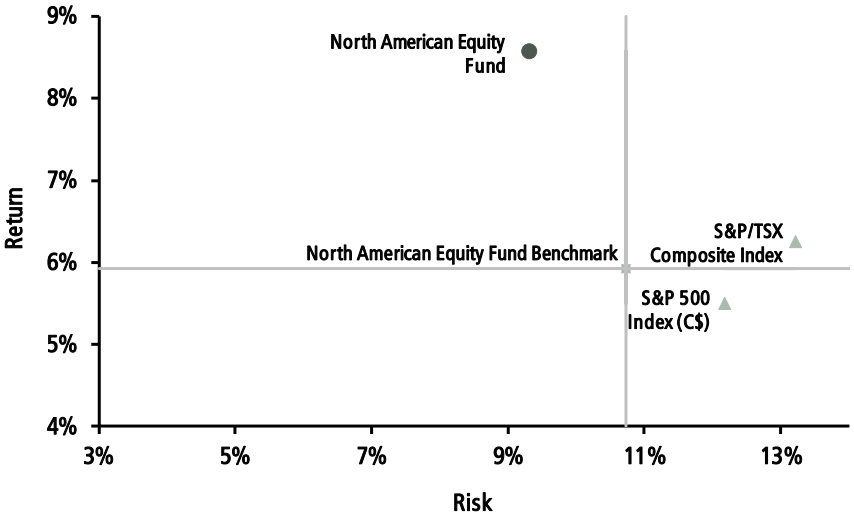
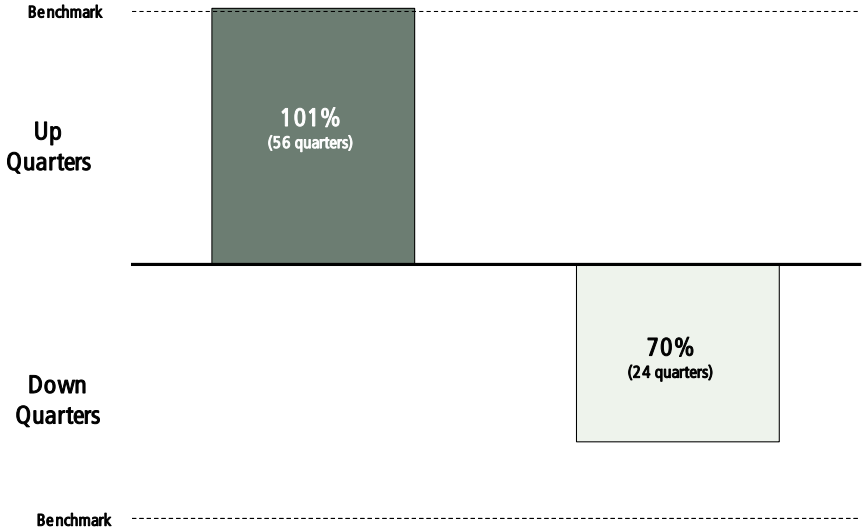
- 29 stocks
- 2.9% average dividend yield
- Average dividend growth of 7.3% per year over 5 years
- 15.6x average forward P/E multiple ⁽¹⁾

- 2 Real Estate Investment Trusts
- Average distribution yield of 4.8%
- Average Price/NAV of 103%

As at December 31, 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



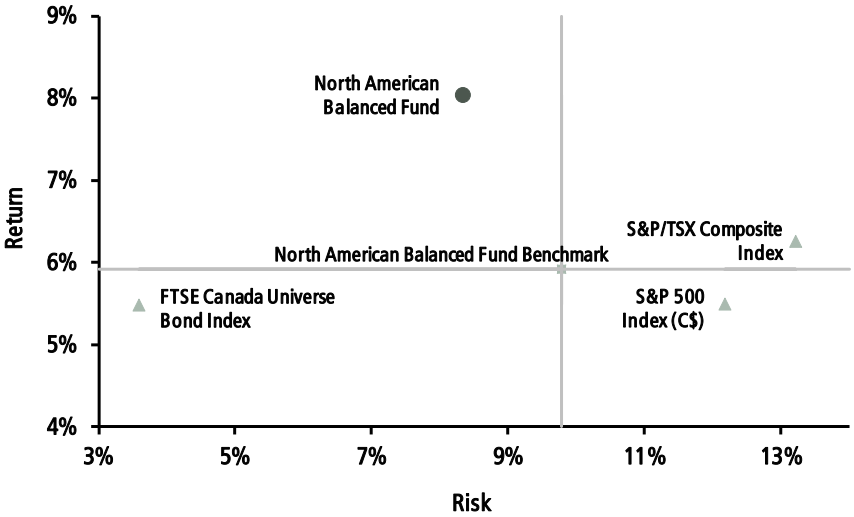
Equity Fund Up- & Down-Market Capture Ratios ^(1,2,3)

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

Period Ending December 31, 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 Canada 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



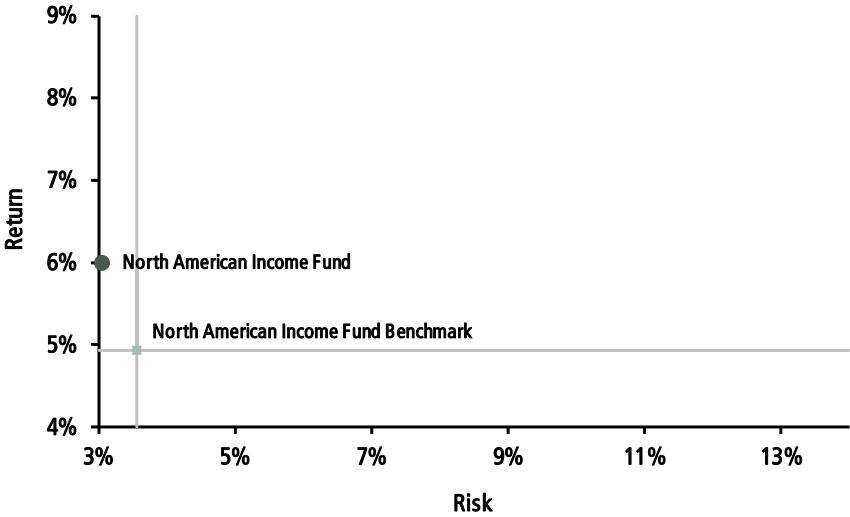
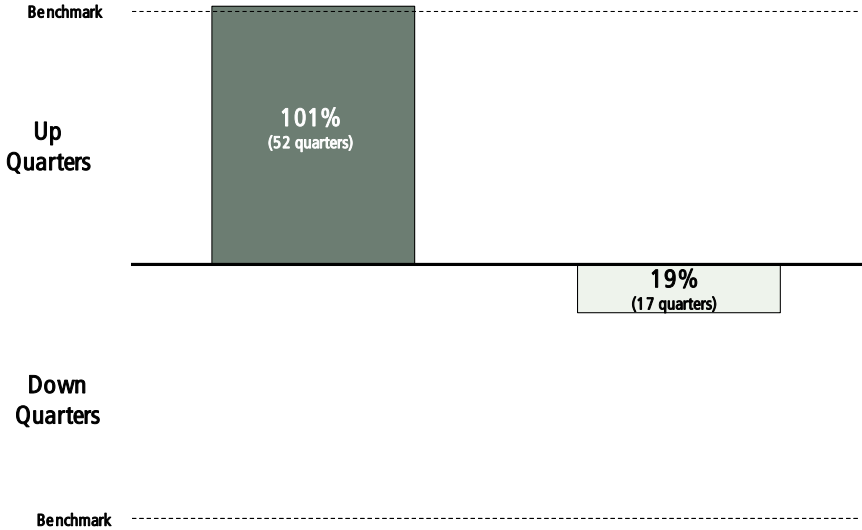
Balanced Fund Up- & Down-Market Capture Ratios ^(1,2,3)

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

Period Ending December 31, 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⁾ Balanced Fund benchmark is 5% FTSE Canada 91 Day TBill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% 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



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

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

Period Ending December 31, 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.
⁽²⁾ Nexus returns are presented *prior to the deduction of investment management fees*. Past performance is not indicative of future results.
⁽³⁾ Income Fund benchmark is the FTSE Canada 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.