



# Investment Review

August 19, 2020

**NEXUS**

# Agenda

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

# Inside Nexus

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

- To be one of Canada's most respected investment counselling firms focused on private clients and foundations

- Our new branding rollout is underway – website refresh coming soon



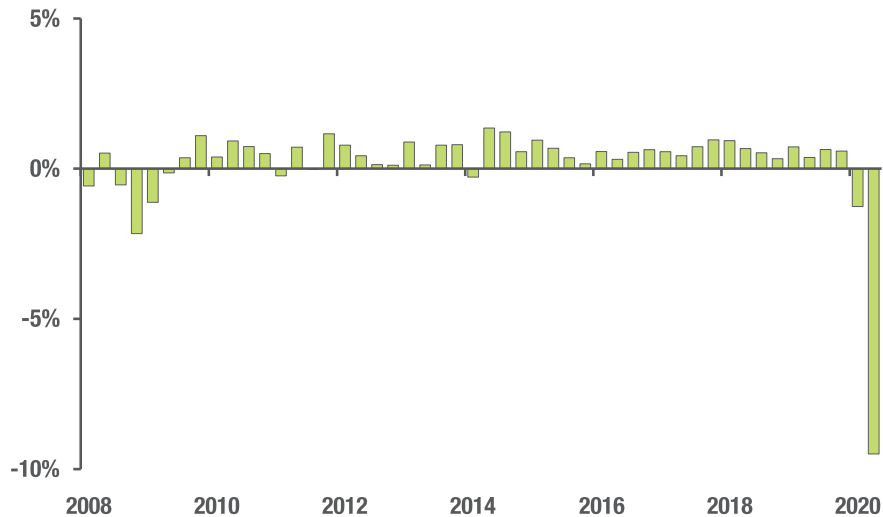
- We have approximately 600 clients with a range of portfolios up to \$100 million in size
- 98% client retention rate <sup>(1)</sup>

- Thankfully, everyone is healthy!
- The majority of our team is working remotely; a small team remains in the office to handle physical documents

<sup>(1)</sup> Calculated as the average annual retention rate from December 31, 2009 to December 31, 2019.

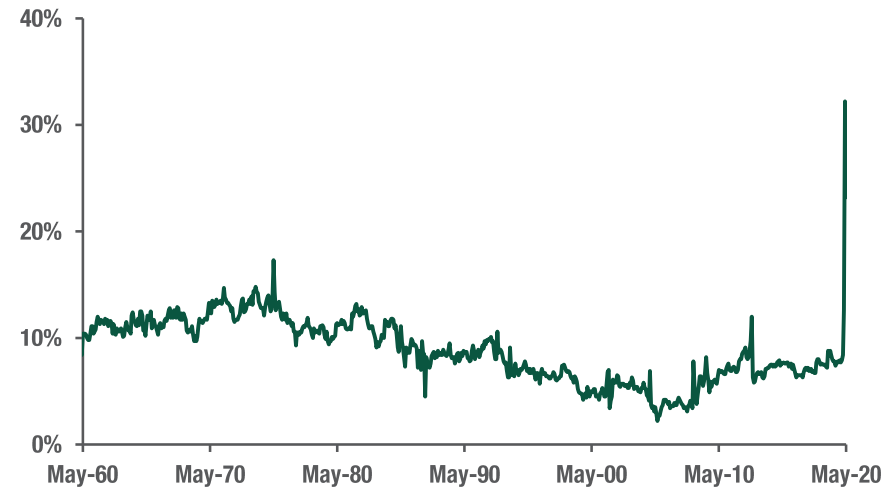
# Current Environment

These are unprecedented economic times



U.S. GDP Growth (% Change from Prior Quarter)

- A recovery requires: fiscal stimulus, monetary stimulus and genuine medical progress

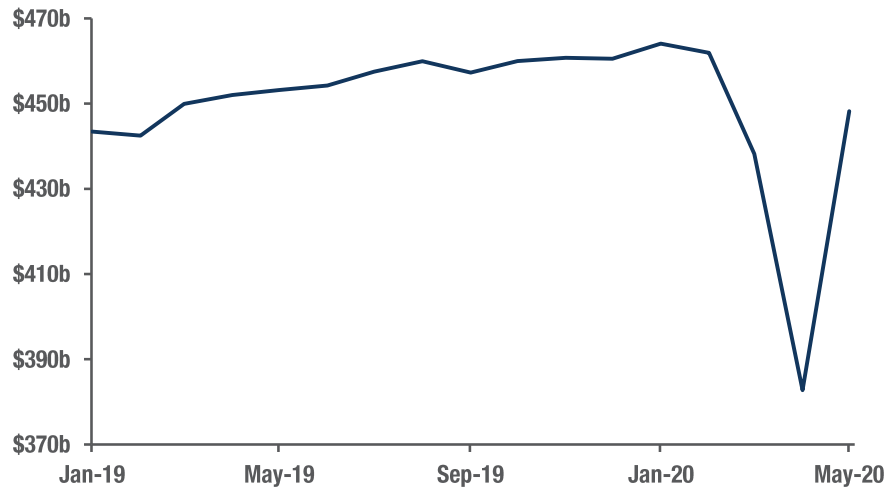


U.S. Personal Saving Rate

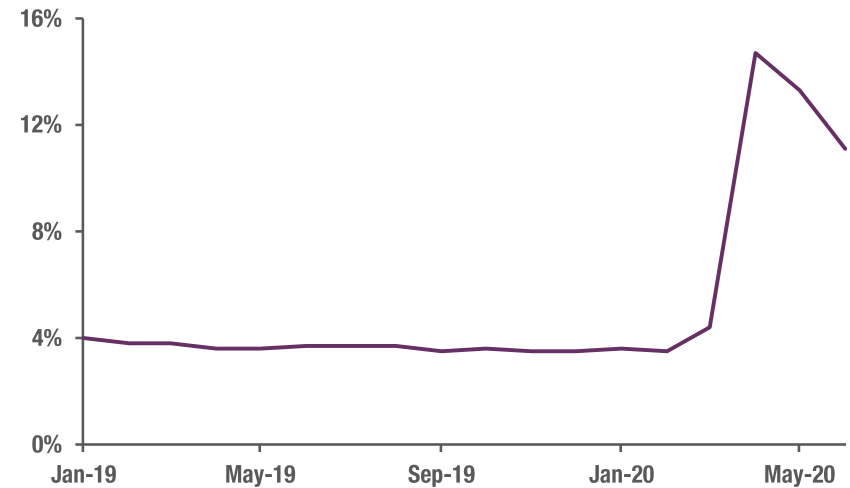
- Record unemployment with record savings?

# Current Environment

After a steep decline, the economy is starting to recover



U.S. Advance Retail Sales (excluding Food Services)

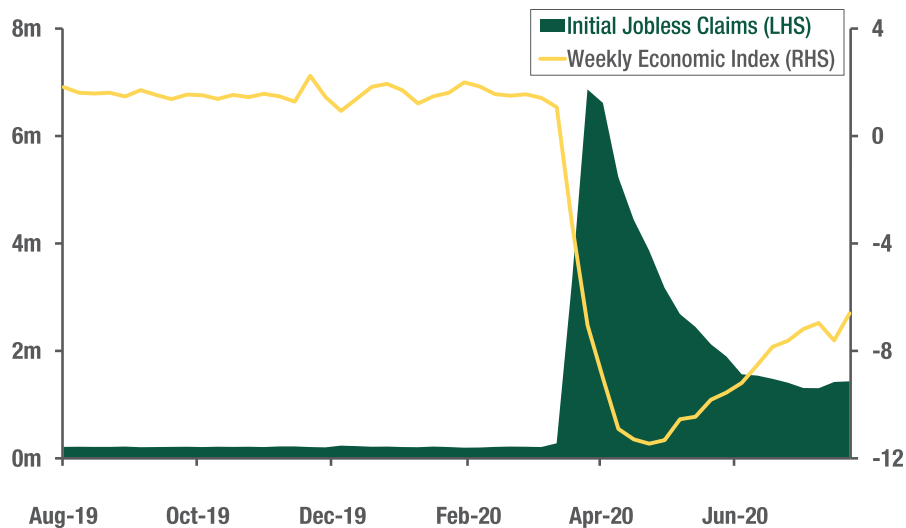


U.S. Unemployment Rate

- Fiscal and monetary response
- Medical progress and safer workplaces

# Current Environment

The initial economic rebound may be moderating



- Second wave worries
- Expiration of government programs

Weekly Economic Index <sup>(1)</sup> and Jobless Claims

# Current Environment

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The longer-term economic outlook faces a number of challenges

- Government spending and borrowing will have limits
- Interest rates now at the “lower bound”
  - Quantitative easing could increase
- Forbearance, deferrals and rent relief won’t last forever

# Current Environment

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Science is brightening the mood in the face of gloomy conditions

- Vaccine progress undeniable
  - 29 in clinical trials, of which 7 already in Phase 3 trials
  - 138 more in preclinical evaluation
  - Russia claims success...
- Managing cases has improved
  - Better patient care
  - Therapeutic advances
  - PPE supplies



# Current Environment

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Many difficult issues are unresolved

- U.S. political dysfunction
  - November 3<sup>rd</sup> election looms
- Deteriorating Chinese relations with rest of world
- Brexit
  - No news is bad news
- Growing government debt burdens

# Portfolio Overview

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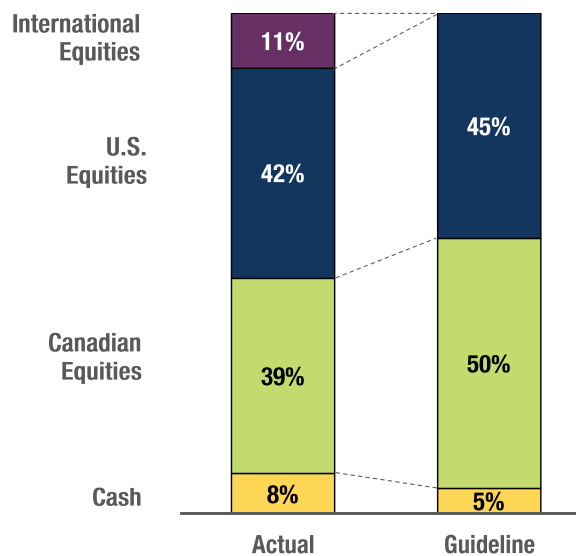
Portfolios remain aligned with our long-term investment approach

- Asset allocations maintain a modestly conservative tilt
- Fixed income portfolios have short durations
  - Concentration in higher-quality credits continues
- A diversified portfolio invested in quality businesses should perform well over time
  - We remain confident in our holdings

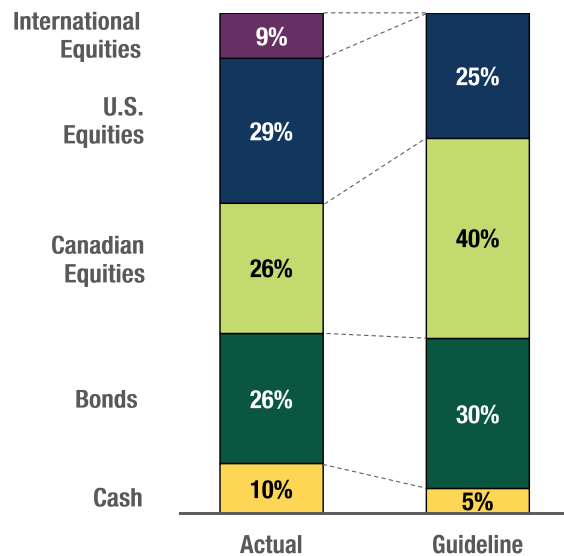
# Portfolio Overview

## Asset Allocation

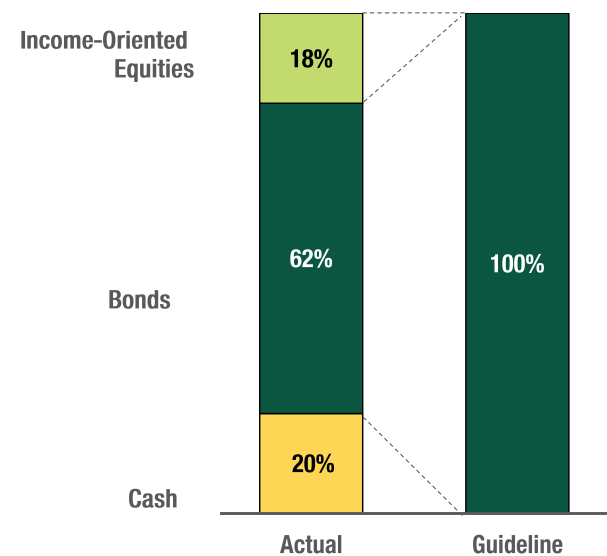
Overall equity allocations remain close to long-term guidelines



Nexus Equity Fund



Nexus Balanced Fund



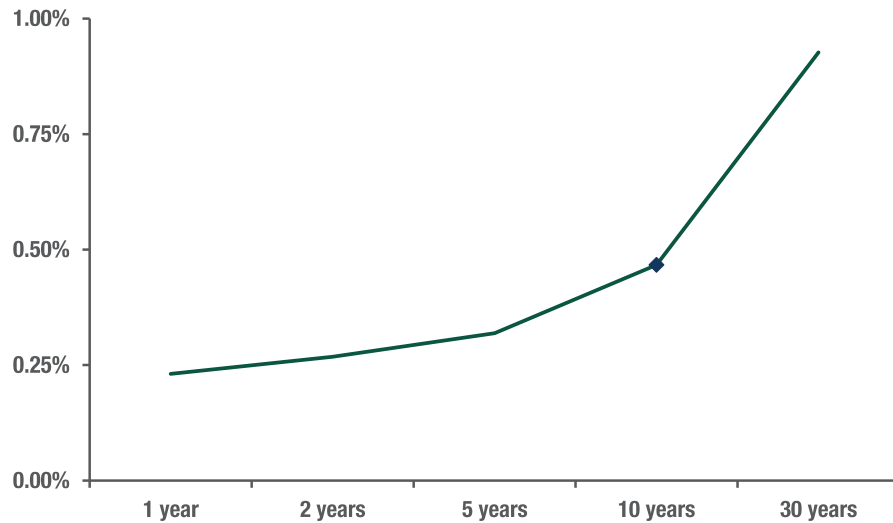
Nexus Income Fund

As at July 31, 2020

# Portfolio Overview

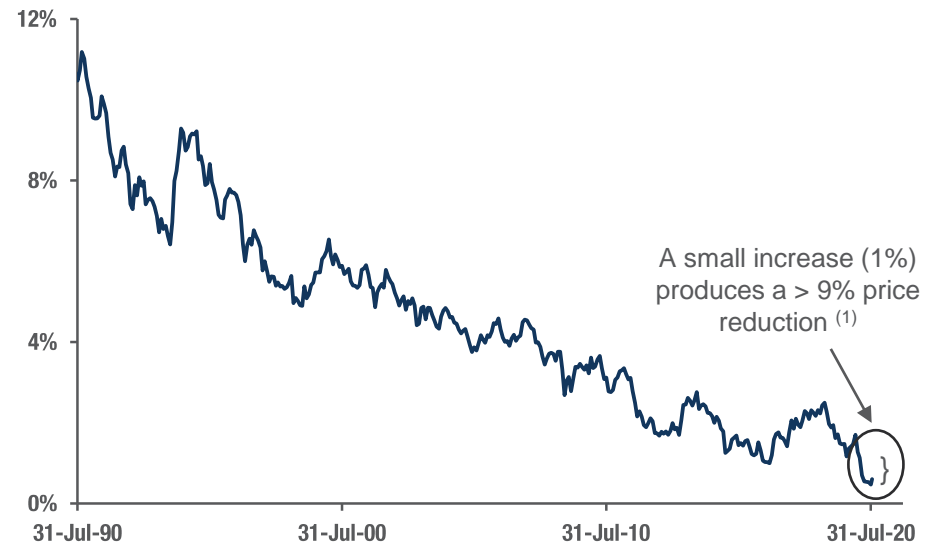
## Fixed Income

Beware return-free risk!



Canada Yield Curve

- Central banks have suppressed yields



Historic Canada 10-Year Yields

- Short-maturity bonds of highly rated corporates and government agencies should deliver positive returns – without the risk of capital loss

As at July 31, 2020

<sup>(1)</sup> A 1% yield increase reduces the price of Canada 1.25% June 01, 2030 from \$106.06 to \$96.75.

# Portfolio Overview

## Equity Portfolio Changes

We have executed some trades, but they are minor in the overall portfolio context

### Buy

George Weston Limited  
Northview REIT <sup>(1)</sup>

### Sell

Thomson Reuters  
Northview REIT <sup>(1)</sup>

### Buy

United Parcel Service

### Sell

HP Inc.  
General Electric

### Add

—

### Trim

Selected overweight stocks

### Add

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### Trim

Selected overweight stocks

## Canadian Equities

## Foreign Equities

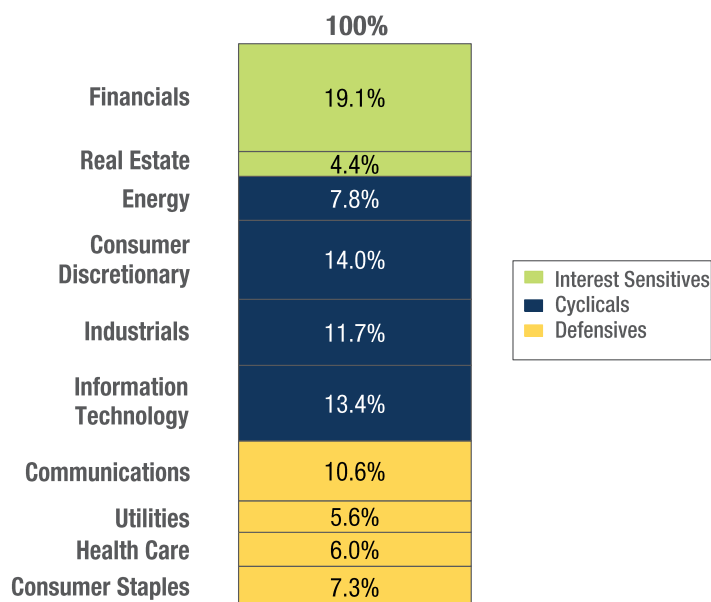
12 months ended July 31, 2020

<sup>(1)</sup> Purchased and sold with a gain.

# Portfolio Overview

## COVID-19 Effect

The equity portfolio is well diversified, with longer-term potential



Nexus North American Equity Sector Allocation <sup>(1)</sup>

- We avoided most of the direct hits
  - No direct travel and hospitality holdings
  - GE (sold) and CAE were hurt by airline groundings
- Some holdings are well insulated from COVID
  - Consumer staples, healthcare, communication services
  - Some typically defensive stocks moderately affected – utilities (lower volumes), telecom (bad debts)
- Some cyclicals doing surprisingly well
  - Apple, Microsoft, Dollar General, CarMax, UPS
- Several holdings have good recovery potential
  - Some info tech, industrials, energy / pipelines, real estate and banks
  - GM and Magna down, but strong balance sheets

As at July 31, 2020

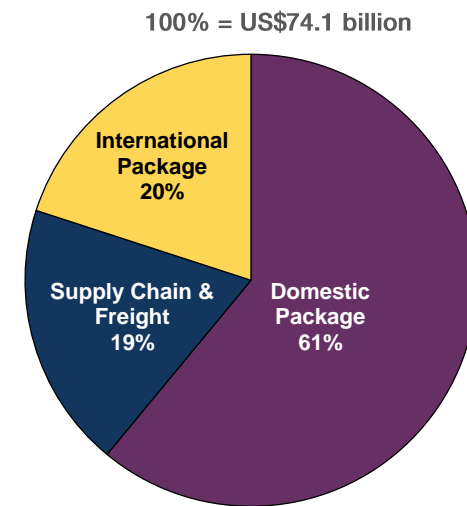
<sup>(1)</sup> Includes Canadian and U.S. equities.

# Portfolio Overview

United Parcel Service

We have followed UPS for a long time

- UPS is the world's largest package delivery carrier
  - Also offers supply chain & freight services
  - Operates in 220 countries with 500,000 employees
  - Fleet of 570 planes and 125,000 vehicles
- Reputation as a formidable, disciplined operator
  - Solid cash flow and dividend record
  - 5-year dividend growth of 7.1% per year
- Some challenging characteristics
  - Economically cyclical; disruptive seasonal swings
  - Competes with postal services that may underprice
  - Heavily unionized and significant fuel costs
- Potential beneficiary of eCommerce
  - Amazon a major customer and competitor
  - Valuation declined as potential not realized



2019 Revenue Mix

# Portfolio Overview

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United Parcel Service

We purchased UPS at the end of February

- With COVID-19, UPS's stock price was hit, declining 23% since Jan 1
  - Concerns about global supply chain disruptions
  - At purchase, trading at 12x 2019 EPS, with a 4.3% dividend yield
- eCommerce upside finally here?
  - COVID-19 drives acceleration of eCommerce
  - Better discipline with pricing
  - Operationally strong – modern fleet and investment in automation
  - Temporary oil price tailwind
- So far, so good
  - New CEO announced early March
  - Promising volume and margin trends



# Investment Performance

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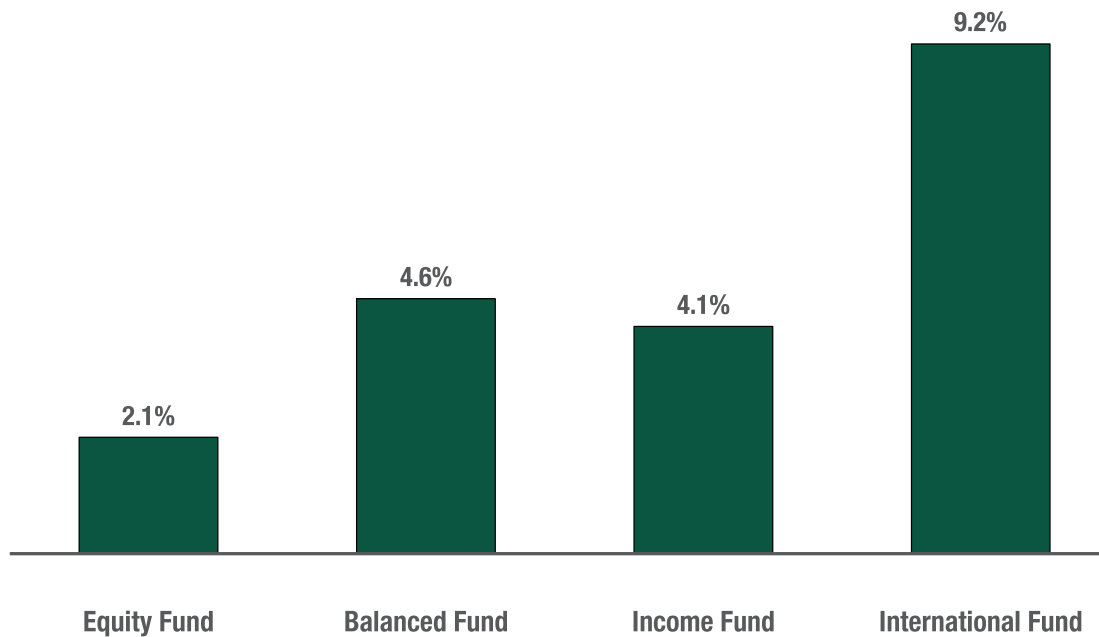
## Financial markets continued their recovery in July

- 1-Year returns modestly positive in all Funds
  - Canadian equities are notably weak
  - Bond returns remarkably strong, but lower than index
  - U.S. and International equity returns excellent on an outright and relative basis
- Canadian stock market frustrating for many investors
  - A few star performers mask an otherwise challenging environment
  - Many stocks have recovered only modestly from their COVID-19 lows
  - While Nexus returns trail the TSX significantly, they compare favourably to other managers
- Longer-term returns now more modest
  - Nexus fund returns in line with their benchmarks
  - Long-term up- and down-market capture ratios remain attractive

# Investment Performance

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The 1-Year return in each of our Funds is now positive



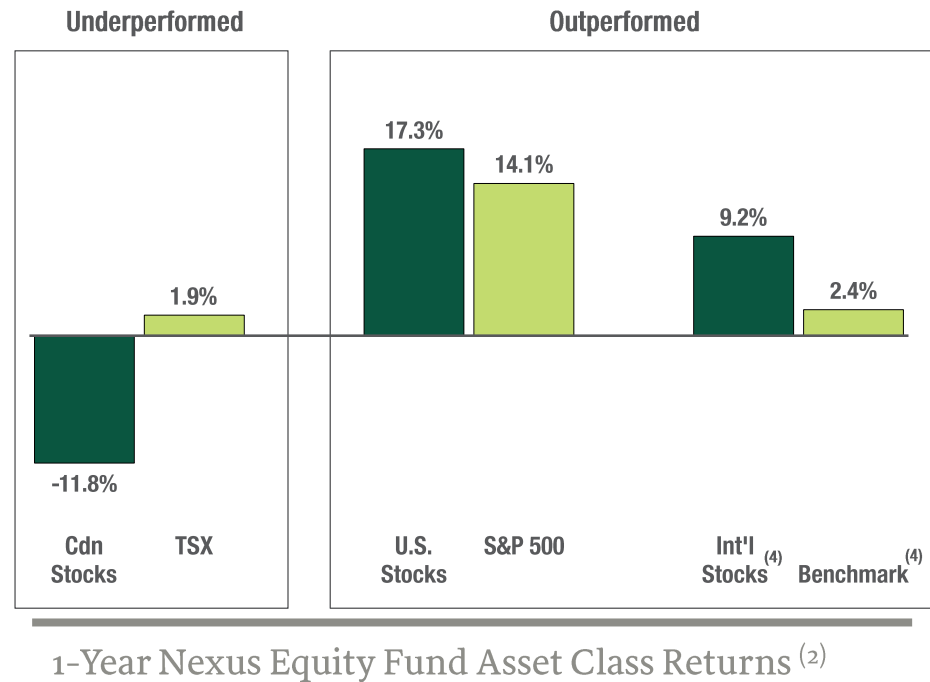
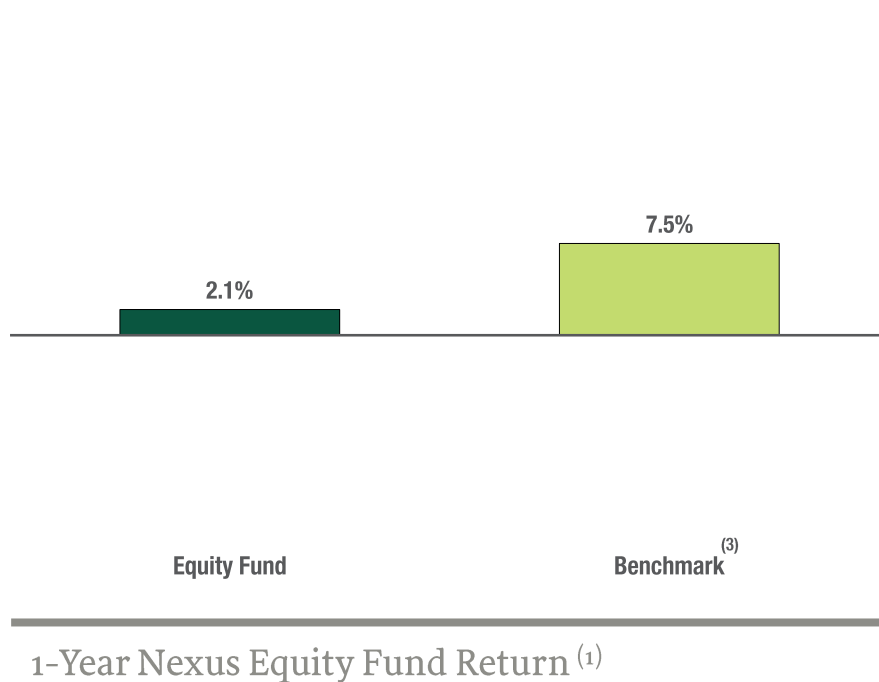
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1-Year Returns on Nexus Funds <sup>(1)</sup>

12 months ended July 31, 2020

# Investment Performance

Equity Fund underperformance in the last year is entirely because of Canadian equities



12 months ended July 31, 2020

<sup>(1)</sup> Equity Fund return is shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results.

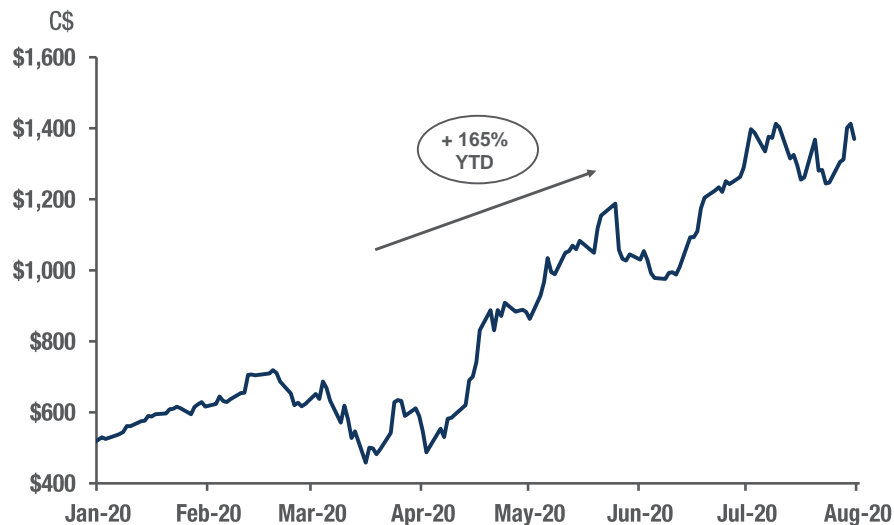
<sup>(2)</sup> Nexus return is shown *prior* to the deduction of all fees and expenses. Past performance is not indicative of future results.

<sup>(3)</sup> Equity Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 50% TSX, and 45% S&P 500 (in C\$); rebalanced monthly.

<sup>(4)</sup> Nexus International Fund and its benchmark used as proxy. International Equity Fund market benchmark is 75% MSCI EAFE and 25% MSCI Emerging Markets indices (both in C\$); rebalanced monthly.

# Investment Performance

## Shopify remains the star stock on the TSX Composite



Shopify Stock Price (YTD to July 31, 2020)

- Shopify is by far the biggest contributor to TSX returns in 2020
- Shopify's \$158 billion market value makes it the biggest on the Toronto Stock Exchange <sup>(1)</sup>
- A compelling business, but the share price and valuation metrics have always been high <sup>(2)</sup>
  - EV / Revenue ratio: 39x
  - P/E ratio: 499x
- Large gains recently leave little margin of safety

Source: Bloomberg.

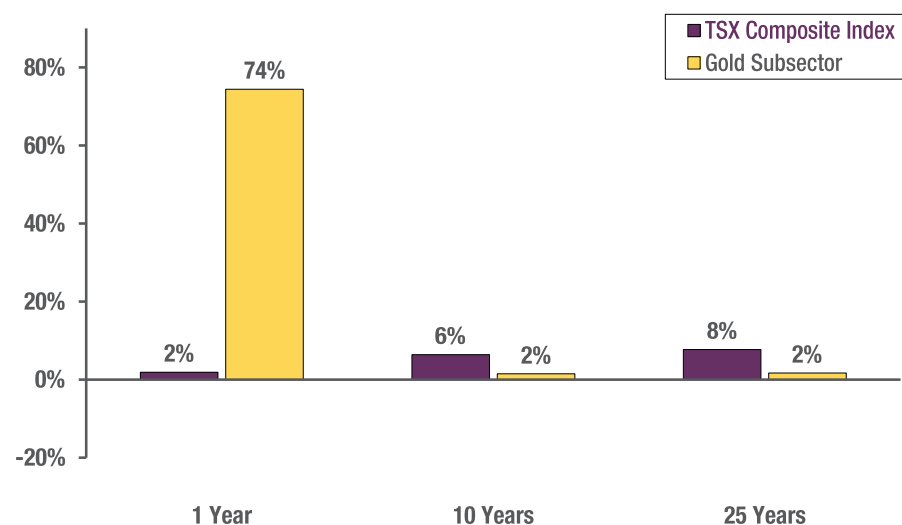
<sup>(1)</sup> In the last 20 years, only four public companies have exceeded the market value of Royal Bank of Canada: Nortel Networks (2000), BlackBerry (2007), Valeant Pharmaceuticals (2015) and Shopify (2020).

<sup>(2)</sup> Valuation metrics sourced from Bloomberg as of August 13, 2020.

# Investment Performance

The Gold sector remains the star sector of the TSX Composite

TSX Rank <sup>(1)</sup>	Company	YTD Gain
2	Barrick Gold	62%
3	Wheaton Precious Metals	89%
4	Franco-Nevada	60%
6	Kinross Gold	103%
7	Agnico Eagle	34%
12	Kirkland Lake Gold	29%
13	B2Gold Corp	79%
14	Pan American Silver	64%
15	Yamana Gold	71%



## YTD Gold Stock Contribution to TSX Composite

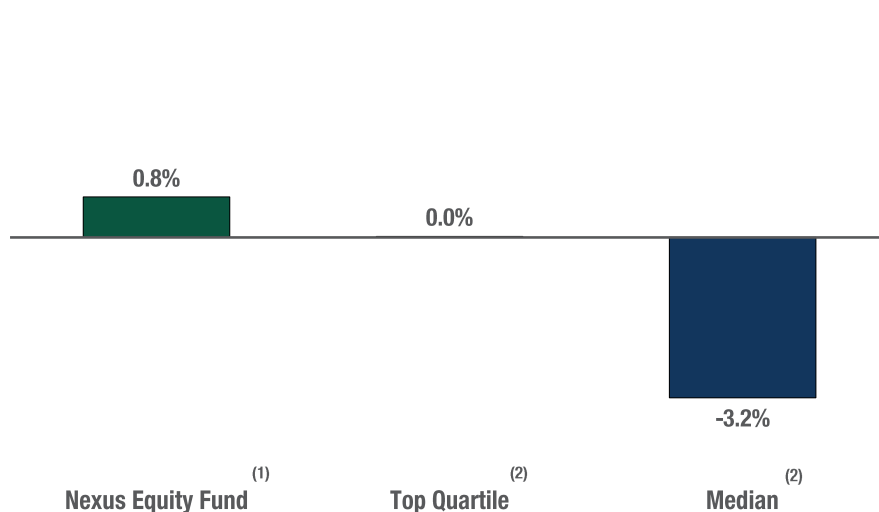
- Nine of the 15 biggest TSX contributors in 2020 were gold stocks

## Total Return Compound Annual Growth Rates

As at July 31, 2020

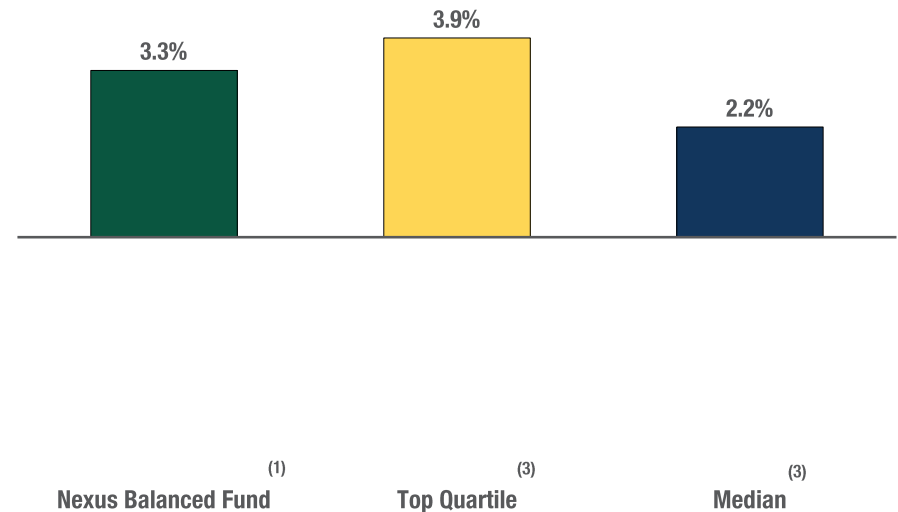
# Investment Performance

Nonetheless, Nexus funds still compare well to the universe of other funds in Canada



## Equity Fund – 1-Year Return

- Equity Fund return is 1st quartile for 1 year, and 1st quartile for 5 years



## Balanced Fund – 1-Year Return

- Balanced Fund return is 2nd quartile for 1 year, but remains top quartile for 5 years

As at June 30, 2020

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

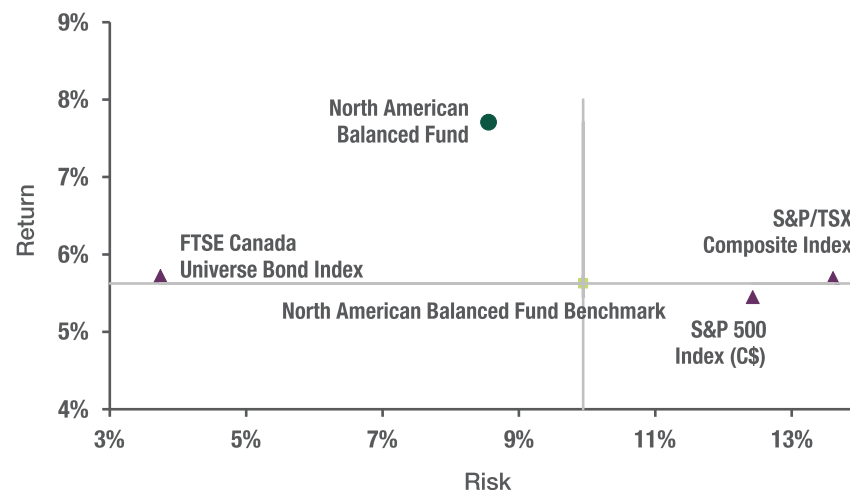
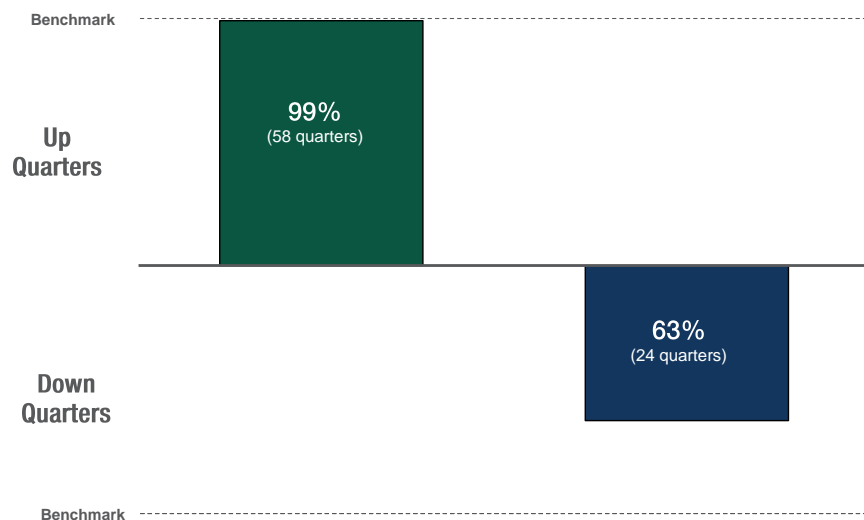
<sup>(2)</sup> Canadian Plus Equity Universe from Global Manager Research Institutional Performance Report.

<sup>(3)</sup> Balanced Universe from Global Manager Research Institutional Performance Report.

# Investment Performance

## Balanced Fund

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



Balanced Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>

Risk / Return Profile Since January 1, 2000 <sup>(2,3,4)</sup>

Period ending June 30, 2020

<sup>(1)</sup> 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.

<sup>(2)</sup> Nexus returns are presented *prior to the deduction of investment management fees*. Past performance is not indicative of future results.

<sup>(3)</sup> Balanced Fund benchmark is 5% FTSE Canada 91 Day T-Bill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

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# Appendix



# Inside Nexus

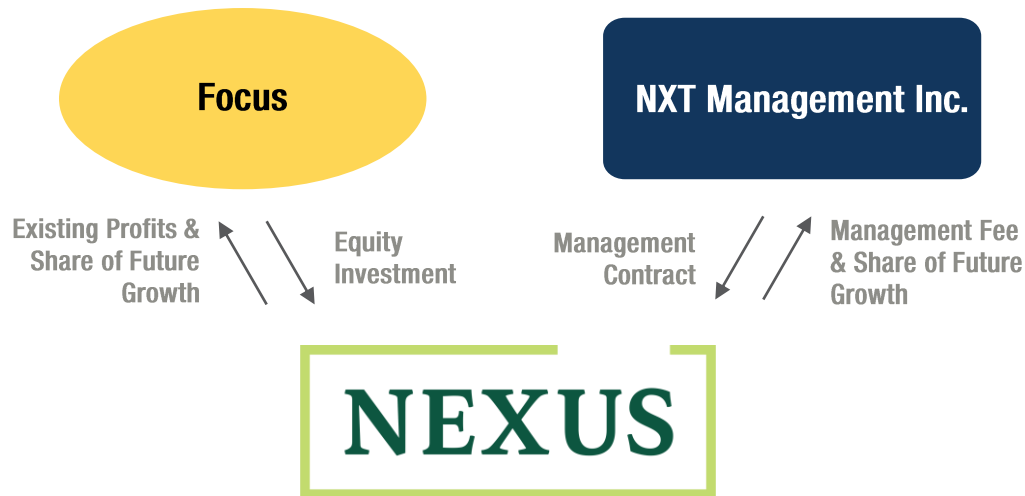
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## Nexus/Focus relationship will benefit all stakeholders

- 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

# Inside Nexus

## Nexus and Focus share in future success

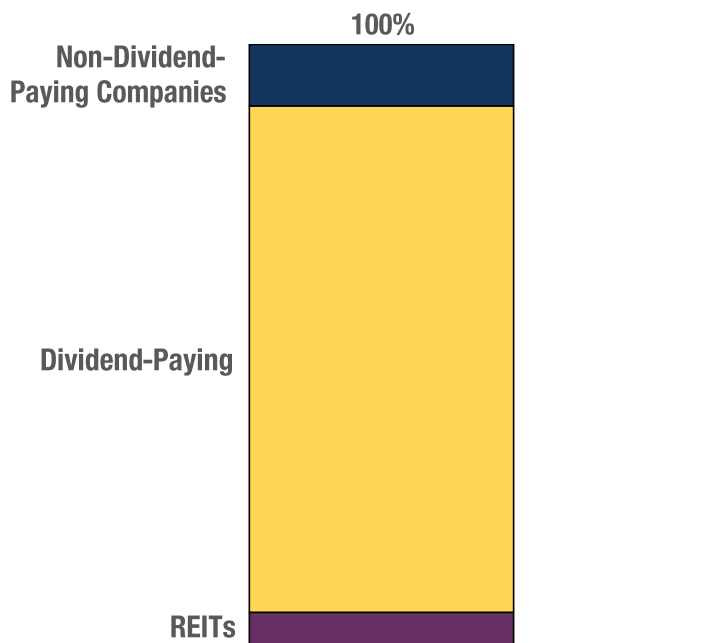


- Focus acquires an equity interest in Nexus and enters into an agreement with NXT to manage the business
- Certain Nexus professionals become owners of NXT
  - Initially, 9 professionals
- Future growth of Nexus's profits is shared between Focus and NXT

# Portfolio Overview

## Equities

Our North American equities combine defensiveness and growth



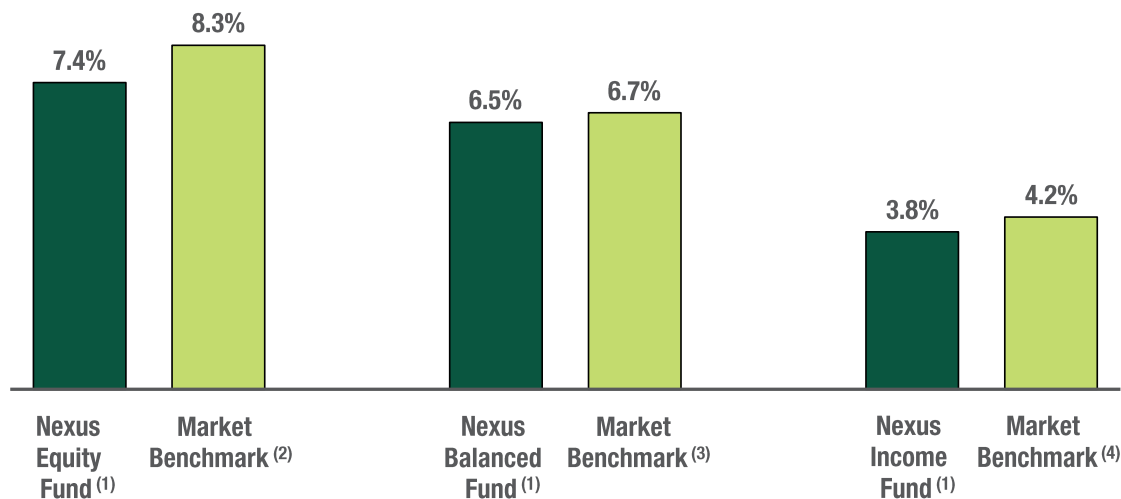
- 4 stocks
- Average EPS growth of 17% per year over 5 years
- 26.1x average forward P/E multiple <sup>(1)</sup>
- 29 stocks
- 3.0% average dividend yield
- Average dividend growth of 9.2% per year over 5 years
- 17.5x average forward P/E multiple <sup>(1)</sup>
- 2 Real Estate Investment Trusts
- Average distribution yield of 5.0%
- Average Price/NAV of 63%

Nexus North American Equity Portfolio

As at June 30, 2020

# Investment Performance

## 5-Year returns have moderated



### 5-Year Annualized Returns

Five Years ended July 31, 2020

<sup>(1)</sup> 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.

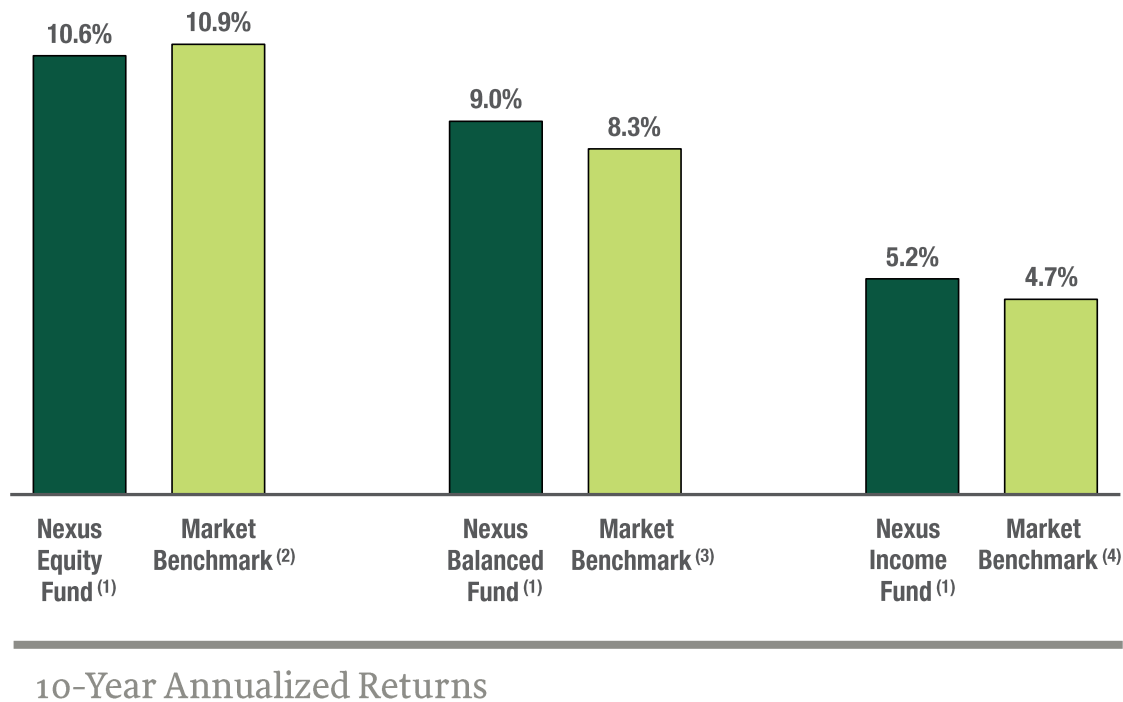
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<sup>(3)</sup> Balanced Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

<sup>(4)</sup> 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.

# Investment Performance

Fund and benchmark returns over the last decade remain good compared to long-term averages



Ten Years ended July 31, 2020

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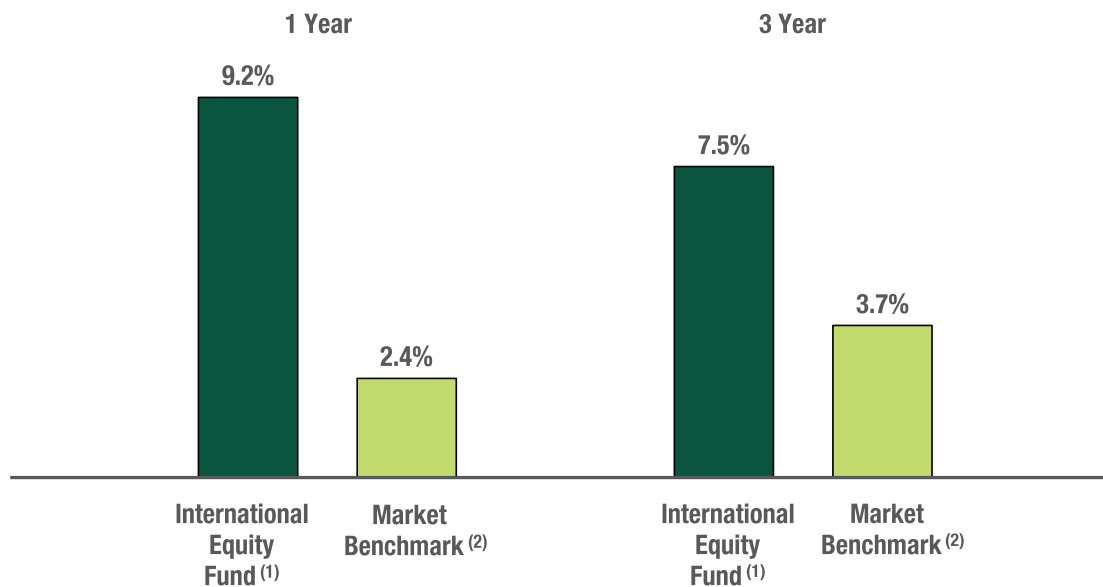
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# Investment Performance

The International Equity Fund has performed well relative to its benchmark



Nexus International Equity Fund

Periods ended July 31, 2020

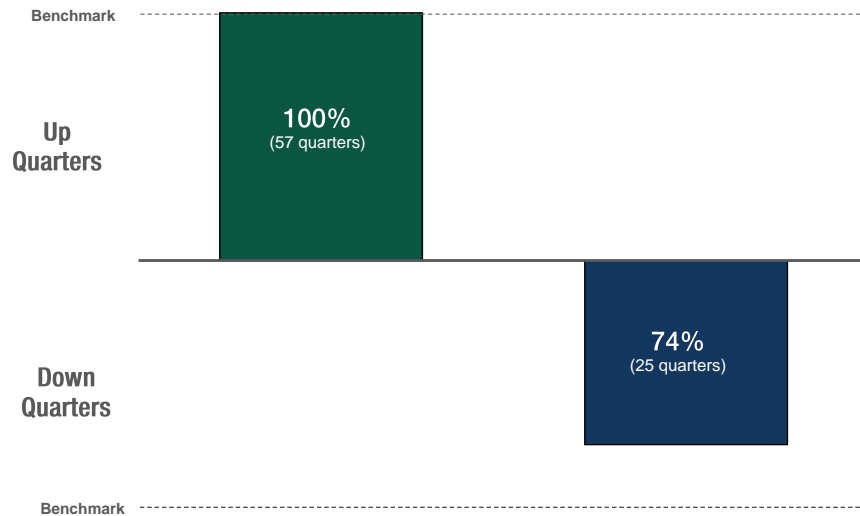
<sup>(1)</sup> Nexus return is the compound average annual return shown *prior* to the deduction of management fees, but *after* deduction of all other expenses. Past performance is not indicative of future results. The International Equity Fund's inception date is September 2015.

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

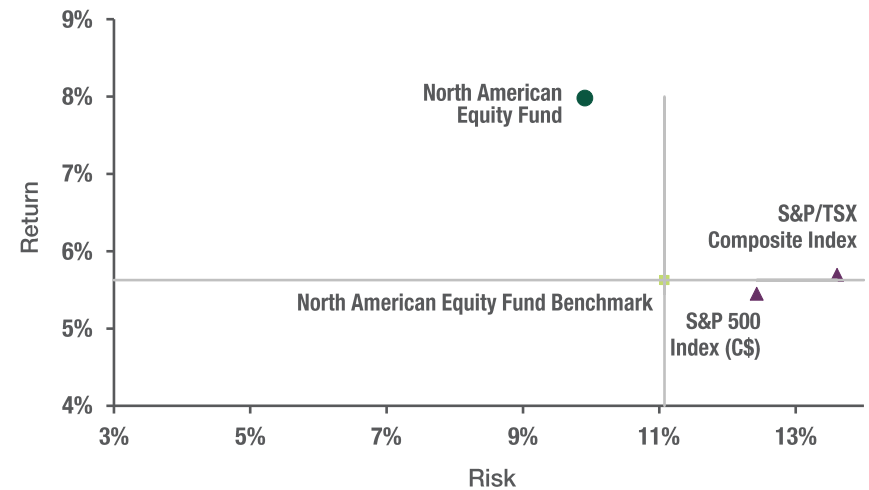
# Risk Management

## Equity Fund

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



Equity Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>



Risk / Return Profile Since January 1, 2000 <sup>(2,3,4)</sup>

Period ending June 30, 2020

<sup>(1)</sup> 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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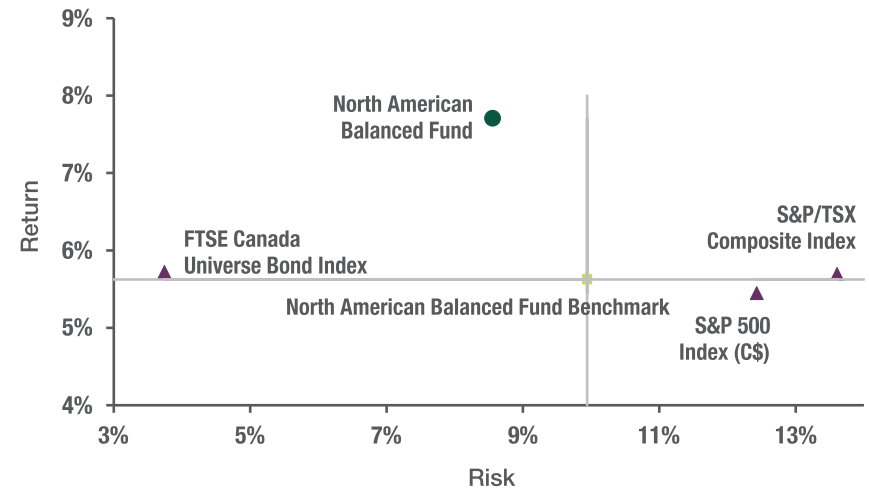
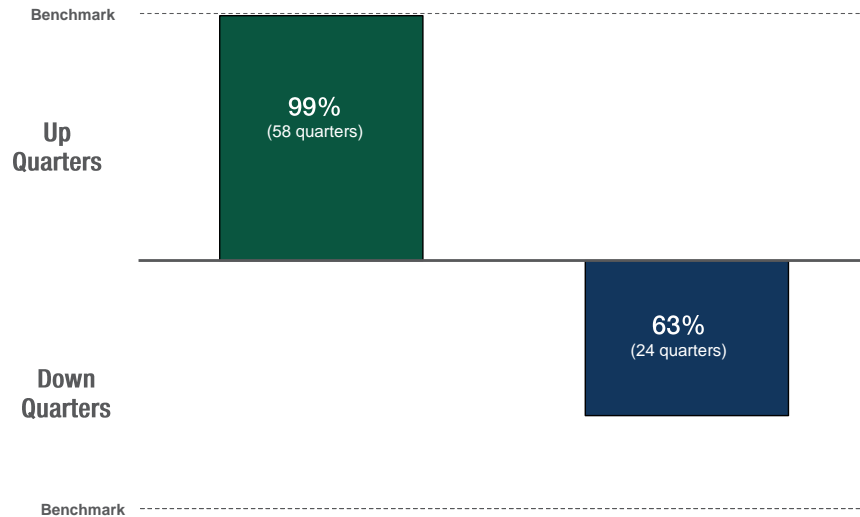
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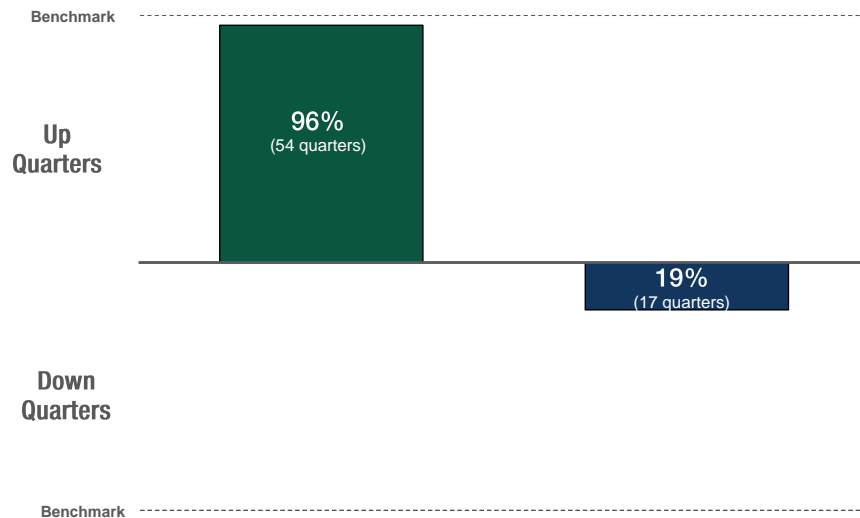
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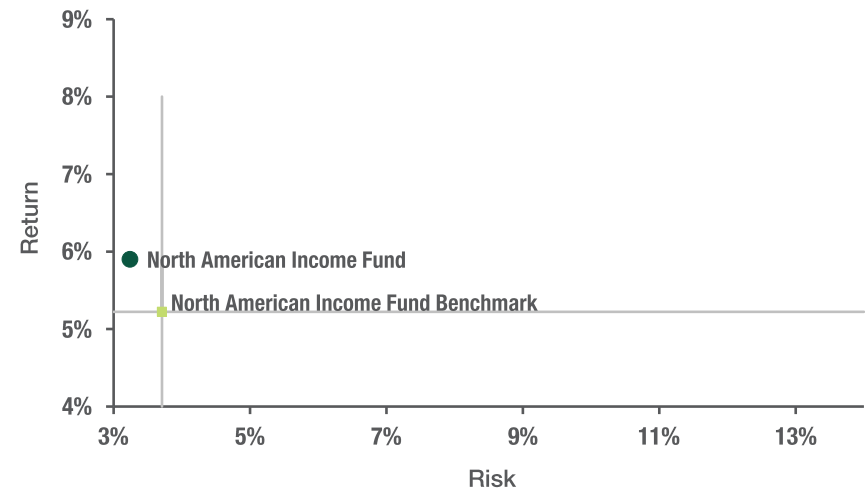
# Risk Management

## Income Fund

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Income Fund Up- & Down-Market Capture Ratios <sup>(1,2,3)</sup>



Risk / Return Profile Since October 1, 2002 <sup>(2,3,4)</sup>

Period ending June 30, 2020

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# Thank you

**NEXUS**

[www.nexusinvestments.com](http://www.nexusinvestments.com)

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Guiding investors  
with *thoughtful*  
wealth planning.