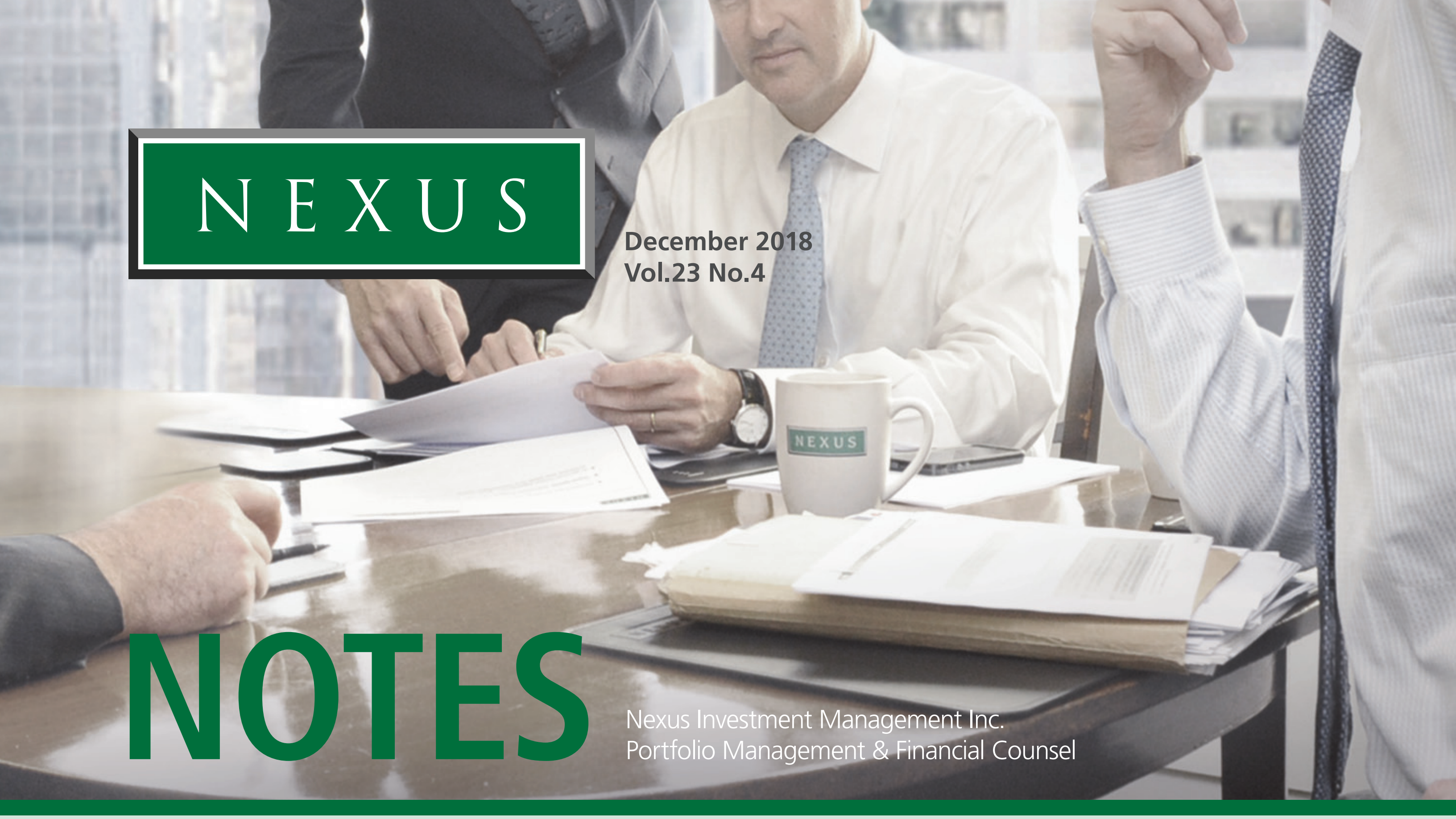

NEXUS

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NOTES

Nexus Investment Management Inc.
Portfolio Management & Financial Counsel

Inside Articles

- 2018: Changing Tides
- What Our Clients Are Asking
- Celebrating Nexus at 30
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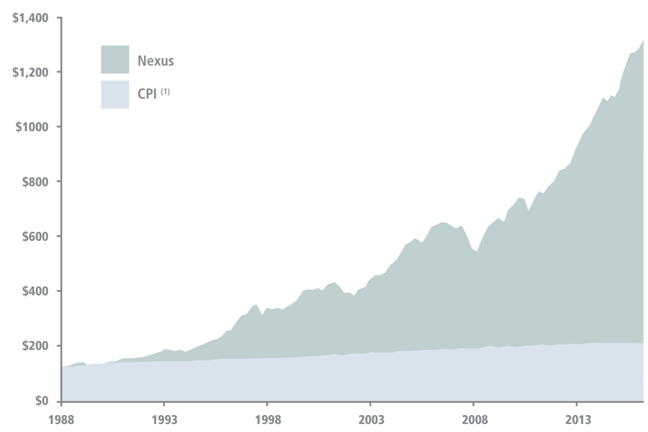
Building Value for Clients

Since its establishment in 1988, Nexus has pursued an investment approach which concentrates on real growth in client wealth over the long term. The chart illustrates the impact of this long-term investment thinking – a $100 investment in a balanced portfolio in 1989 has grown to $1,338 at December 31, 2017.

(1) CPI is the "all-items" Consumer Price Index for Canada, not seasonally adjusted.

$100 Investment with Nexus in 1989



2018: Changing Tides

Headlines in 2018 have been dominated by trade tensions and rising interest rates. Volatility has returned to the equity market, which is not unexpected.

We are also entering the 10th year of a bull market and we don't have a crystal ball to see how long the current market cycle will last. While the world continues to be a troubling place, and no one can predict the future, we continue to focus on the things we have always focused on: a quality, disciplined investment approach, coupled with financial planning for clients.

In November this year, our annual client presentation celebrated the firm's 30th anniversary. 1988 was the year Bill Berghuis decided to begin, from the ground up, what is now Nexus. You can read more about our founder and his illustrious career in this edition of *Nexus Notes,* as Alex Jemetz had the opportunity to interview Bill. In the presentation we decided to describe two periods of crisis that marked the last 30 years: the technology boom and bust of 1999/2000 and the 2008/2009 financial crisis. You don't grow a business like ours without learning a few things along the way and managing through these crises helped confirm some of our core beliefs, which still guide us today. These core beliefs will help us tackle both the opportunities and challenges we face in the future. After all, history doesn't repeat itself, but it does rhyme! We also looked into the future to highlight where we see opportunities and challenges in the changing world we live in. While there are many, we focused on the impact of the growing and aging world population, which we dubbed "Planet of the Aged". The presentation finished with a discussion on "Strategies for Success". In a world of overwhelming change and uncertainty, we feel that it is more critical than ever to have a long-term financial plan in place.

If you missed our presentation, you can view a shortened version on our website at www.nexusinvestments.com/client-presentations. The presentation ended with an opportunity for clients to ask questions. In this edition of *Nexus Notes,* we have shared a few of those questions along with our answers. We have included a question about the recent volatility and what changes we have made in the portfolio given the current environment. It was no surprise to get asked a question about cannabis companies in Canada and our thoughts on this early-stage industry. Finally, we were asked if we had any regrets and the lessons learned over the years.

As a client service business, Nexus is defined by its people and its clients. It is no secret that Nexus would not be where it is today without our clients – so thank you for your support and remarkable loyalty. All of us here at Nexus wish you and yours a healthy, happy holiday season.

DCW

What Our Clients Are Asking

Throughout the year we have hosted a variety of client events from our Quarterly Investment Reviews, our Women & Wealth series, regular client portfolio reviews and of course, our Annual Client Presentation.

Holding these events gives us not only valuable time to connect with attendees, but also an opportunity to hear what's on our clients' minds.

We've highlighted three questions that came from our audience last month at our Annual Client Presentations that we feel may be of interest to our readers.

1. Given the recent volatility in the markets, have you made any recent changes in the portfolios?

The tremendous run-up in the share prices of U.S. technology stocks meant that by early 2018 our holdings in this area had become too large a proportion of our equity holdings. While we remained confident that our stocks still exhibited prospects and valuations validating our continued investment, we trimmed our holdings in this area to maintain a more prudent exposure to the group. While we had trimmed these stocks to what we would consider to still be "full" positions, their continued outperformance throughout the first half of 2018 meant that they, once again, regained their outsized status in the portfolios and we trimmed again, as a matter of discipline. With the proceeds from these trims, along with regular dividend and interest income that flows into the portfolios, we were on the lookout for stocks which we felt satisfied our quality and "growth at a reasonable price" criteria. As a result, earlier this year, we initiated positions in both General Motors and Magna. We feel that these two companies have each undergone dramatic transitions that position them well for the disruptive forces in the personal transportation space. At the time of their purchase, both GM and Magna traded at significantly more attractive yields and price-earnings valuations than the tech stocks that we trimmed but continue to hold.

With respect to fixed income holdings in the portfolio, we have been anticipating higher interest rates for some time. As a result, the duration of our bond holdings, at 3.9 years, is significantly shorter than that of the Canadian Universe Bond Index, which is at 7.4 years. As our bonds trend towards maturity, we will be able to re-invest at higher rates. As well, our bond holdings are all investment grade and have a safer credit rating profile than the benchmark.

2. What's next for cannabis stocks?

As we have often stated in the past, while cannabis companies in Canada are exhibiting spectacular growth in their businesses and revenues, they do not currently meet our investment criteria when it comes to profitability, cash flow, seasoned management teams and, notably, valuations. We acknowledge that the industry is here to stay. But it is difficult to pick out the individual winners and losers as companies face continued and growing competition, intellectual property threats and branding challenges. At this early stage, we are unable to know whether, well down the road, the cannabis industry will resemble the global beer and spirits industry, where various economies of scale favour its largest players, or if it will more closely resemble the wine industry, which is very fragmented, and not that profitable. As with any investment opportunity, we will monitor the cannabis industry as it evolves – but we cannot justify involvement in any of the companies at this early stage.

(Continued on p.6)

Celebrating Nexus at 30: An Interview with Bill Berghuis, Founder

Berghuis Investment Counsel Ltd. in 1990: Peter Turner (left), Bill Berghuis (right) and Susan Trites (centre)

2018 rang in the 30th anniversary of Nexus Investment Management. Our founder, William W. Berghuis, has spent his entire career in the investment industry, not only building a successful investment counselling firm, but also serving as a governor of the Toronto Stock Exchange and president of the CFA Society Toronto. Bill is a graduate of Princeton University and the Harvard Business School, and is a military veteran, having served with the U.S. Army in Japan.

In 1988, Bill Berghuis hung out his Bay Street shingle at 141 Adelaide Street West. Joined by Susan Trites as office administrator, they became Berghuis Investment Counsel Ltd. A few years later, M.A. (Peter) Turner came on board as a portfolio manager and continued to work with Bill until his retirement.

My, how times have changed! Bill still comes into the office – but instead of being greeted by two, he's greeted by eighteen. The firm has grown in other ways as well… this year we reached $1.9 billion in assets under management! Regardless of whether you think we are now a big small firm or a small big firm, our growth from a combination of new clients, additional funds from existing clients and market appreciation has continued to be strong and steady.

So, recorder in hand, this interviewer sat down with Bill to gain some wisdom and listen to the story of an interesting life.

1. How did your interest in investing start?

I was in my early years in Princeton and became aware of the success of companies like Standard Oil and Ford Motor. My father would write me a cheque for my expenses for the year, and said "you manage it." So while I had to budget this money for school, I also discovered it was a means to invest. It wasn't a lot, but that's how I got going.

After I graduated from Harvard, I went into the army as a First Lieutenant and was headed for Japan. This move broadened my view of the world, as it made me aware of an economy that had been devastated by a war. Japanese companies were selling for pennies on the dollar, and their recovery over the late 50s and 60s was staggering. But you had to be patient and take a long-term view.

2. How did your professional investment career begin?

After my tour of duty ended in 1959, I decided to work for my father-in-law's firm, Jones Heward & Company (JH&Co) in Montreal. Working there gave me a chance to acclimatize to Canada and learn about the Canadian economy and its major industries.

I stayed in Montreal until the early 60s when the firm opened up a Toronto office and asked me to run it. And over the next decade, I came to operate and develop the Jones Heward business here.

3. When did you start thinking about opening your own firm?

When I was with JH&Co running the Toronto operation, the principal function was to attract brokerage business. But individuals were earning money again and they were looking for a place to invest it. Mutual funds became big actors, and I left JH&Co. to explore what was out there. I worked for AGF for five years running its Japan Fund, and then joined Hodgson Roberton Laing on the institutional side. Throughout this time I continued to manage a number of individual accounts which had come with me from my JH&Co. days. So, when I finally summoned the courage to hang out my shingle, virtually all of the clients came with me. And that is when I started Berghuis Investment Counsel Ltd. (BICL).

4. When you started BICL, where did the investment philosophy come from? What was your mission?

JH&Co. was a different kind of broker; it was very early in managing brokerage accounts on a portfolio-type basis. Really quite an advanced approach for that day and age. I learned a lot from that experience.

My philosophy was to identify growth and income stocks, but primarily growth stocks. My objective was to help an individual or family by putting them into decent names. This meant a fair amount of quality, and the important thing there is what I call the "management factor". The key is to identify superior management teams.

5. Lately we have written and presented a lot on wealth transfer and passing on family values. You have four children – each successful in their own right. What family values did you and Faith establish and how did you pass them on to your children?

From the early days, when the kids came home from school it was upstairs, get the homework done and then we'd all have supper together. Family communication was important to us. We'd talk about our day, and what was going on in the world. I credit Faith for all of that activity! As the kids got older, and reflecting my interests, there was a lot of talk about what makes a company work and what some of these companies were doing. I think they learned a lot during those times.

All the kids had paper routes for the cottagers, and the girls were very involved in taking care of the horses. That was the beginning of the development of their work ethic. We couldn't have them swim in the river all day. After all, they had a paper route to deliver at four o'clock, and water to be pulled and horses to be brushed at five!

It was not even a question of whether the kids would go to university, so education was a particularly important family value. I learned my lesson early in life, going into my grade twelve year, sitting at the lunch table with my mother, father and grandmother. At some point I said, "I'm not so sure I want to go to university. I'd like to go out and see the world or work for a bit." Oh my God… my father hung his head and my mother left the room crying. They were both university graduates themselves, and to have their oldest child talk about not going to university, well that was real heresy. I had to go downtown to have lunch with my father the next day. It was terrible!

6. So what do you think of Nexus now?

Nexus is about people, and I think they're first class. At this stage one would be hard-pressed to put together a team that is working as well as this one. The pillars are in place: investment management, financial counselling, client service, operations and marketing/business development. And, we've reached critical mass where, from here on, I suspect it's simply building on those pillars in the future just as we have in the past – by hiring outstanding people.

Readers with a keen eye will have picked up on a few familiar terms, straight from the mouth of our founder: "long-term", "patient", "growth", "income", "quality", "superior management". Many things have changed over the thirty years of this company, but some of the most important have stayed remarkably the same.

Thank you, Bill, for the wisdom you have imparted to so many, the positive contribution you have made to this industry, and for the fine business you have created in Nexus. To the next 30 years!

AOJ

What Our Clients Are Asking *cont.'d*

3. After 30 years, any regrets?

Nobody's perfect. Even the best hitters in baseball are expected to strike out every once and a while. And over the years, we've had a few names in the portfolios which haven't worked out – but importantly, by learning from our mistakes, we reduce the likelihood of making similar ones. As we quoted Mark Twain in our presentation, "History doesn't repeat itself, but it often rhymes." In the late 90s we invested in the shares of Mark's Work Wearhouse. At the time, it was an aggressive retailer, growing through new store openings and acquisitions. Although it performed well for us initially, in the early 2000s, the company's fortunes slowed while the stock market was reeling from the "Tech Wreck". As we tried to sell our position, we were disadvantaged by the illiquid nature of the shares and so we were price-takers. Lesson learned: sell when you can, not when you want to. Conversely, our long-term performance record would suggest that our winners have more than offset the regrettable situations along the way. For example, Alimentation Couche-Tard has proven to be a tremendous success for our clients over the many years that we have held it in portfolios, and some of our earliest clients from 30 years ago hold bank shares that have a cost base that is below these stocks' current annual dividends.

"I got out of tulips after the market collapsed, but I'm slowly getting back in. Especially pink ones."

Image used with permission: Peter Steiner, The Cartoon Bank / The New Yorker Collection

JEH

If you weren't able to attend our annual events this November, you can view a shortened version of the presentation (with our Nexus commentary) on our website: www.nexusinvestments.com/client-presentations

Pearls of Wisdom

Reading is one of the principal occupations in our profession. As we digest a wide range of material, interesting ideas and surprising facts – some serious and some light-hearted – rise to the surface. We attempt to share a few of those with you in each of our issues of Nexus Notes.

DMC

Post-College Underemployment

The facts are stark: 43% of U.S. college grads are "underemployed", meaning that their job doesn't require a college degree. Think of the unfortunate holder of a Bachelor's degree who winds up working at Starbucks for their first job. This can be hugely disappointing for those who put in the hard work to attain a degree, only to find that the time, toil and expense required go unrewarded in the job market. In financial terms, this matters because the average starting salary for a job that requires a degree is $46,000 versus only $36,000 earned by those in the underemployed category. To avoid disappointment, college applicants may want to avoid majors in Homeland Security and Law Enforcement, which had a 65% probability of underemployment. Conversely, and perhaps not surprisingly, engineering majors fared best, with only a 29% chance of winding up underemployed.

(Burning Glass Technologies, "Choosing the Right Major with the Underemployment Risk Indicator", October 26, 2018)

Perspective on the Past and Future

You've often heard us discuss the importance of behavioural biases in determining investor success or failure. One common pitfall, known as the "recency bias", is the tendency to recall and emphasize events that happened in the recent past over older information. This error is compounded when investors wrongly forecast that the future will closely resemble the recent past. In our reading, we came across an eloquent and insightful summary of the pitfalls of interpreting the past and predicting the future: "In reality, the future and the past are false constructs. The future is little more than our faulty guesses about one outcome out of many possibilities; the past is an error-riddled set of recollections, filled with selective retention and ego-driven biases."

(Bloomberg, "The Next Financial Crisis Is Staring Us in The Face", October 8, 2018)

Nexus Investment Management Inc. provides discretionary investment management and financial counselling services to private clients, trusts, estates and foundations.

- ☐ **Exceptional client service and objective advice:** tailored to the client's individual needs.
- ☐ **Superior investment performance [1]:** long-term record of superior after-tax returns and capital preservation.
- ☐ **Disciplined investment approach:** *"Growth at a Reasonable Price"* philosophy, using research and patience.
- ☐ **Alignment with clients' interests:** as the Firm is wholly owned by its principals, we are committed to your financial success.
- ☐ **Cost-effective management:** our services are accessible directly, without the costs of branding and distribution.

Nexus Investment Management Inc.
111 Richmond Street West, Suite 801
Toronto, Ontario M5H 2G4

Tel: (416) 360-0580 or 1 (888) 756-9999
Fax:(416) 360-8289
email: invest@nexusinvestments.com
website: nexusinvestments.com

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Publication Mail Agreement 40033917.

[1] A composite of Nexus accounts, managed to a balanced mandate, has earned 7.8% per annum, pre-fees for 10 years ended December 31, 2017. A composite of notional returns from a weighted average of the following indices: T-Bill (5%), Bonds (35%), TSX (35%) and S&P 500 (25%) earned a return of 6.3% over the same period.