

A dark, blue-tinted photograph of a business meeting. Several people in professional attire are gathered around a table, looking at documents. A white mug with the 'NEXUS' logo is visible on the table. The image is overlaid with a dark blue gradient and a light green rectangular frame.

NEXUS

# Annual Client Presentation

December 16, 2020



# Welcome



# Inside Nexus

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We have two great additions to the team



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Preethi Khatri Chetri  
Pooled Fund Administrator



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Tom Wilson  
Vice President, Client Service

## 2020 Vision

From Abnormal to the New Normal

# Agenda

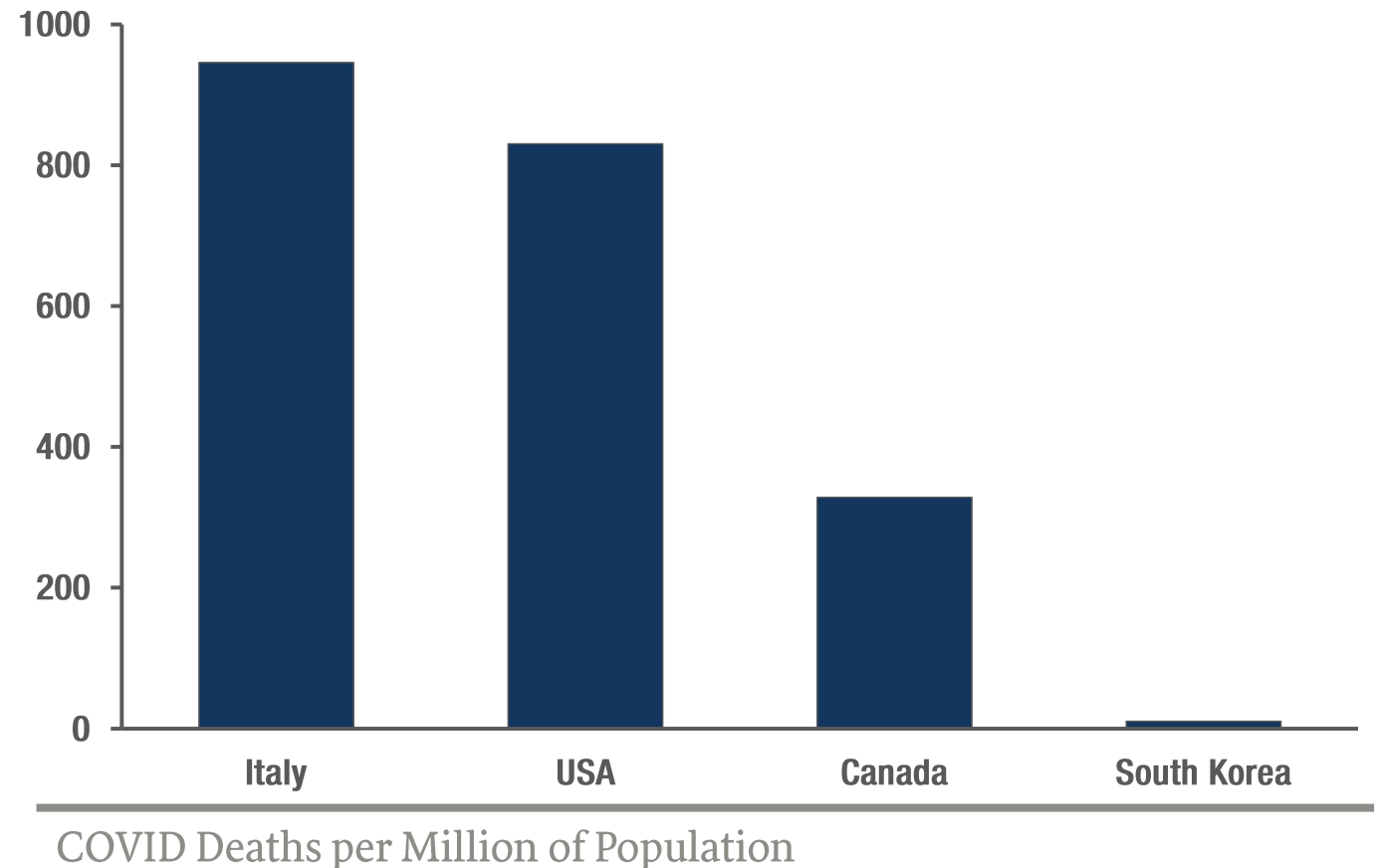
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1. COVID To Date
2. A Resilient World
3. The New Normal
4. The Way Forward for Investors
5. Q&A

# COVID

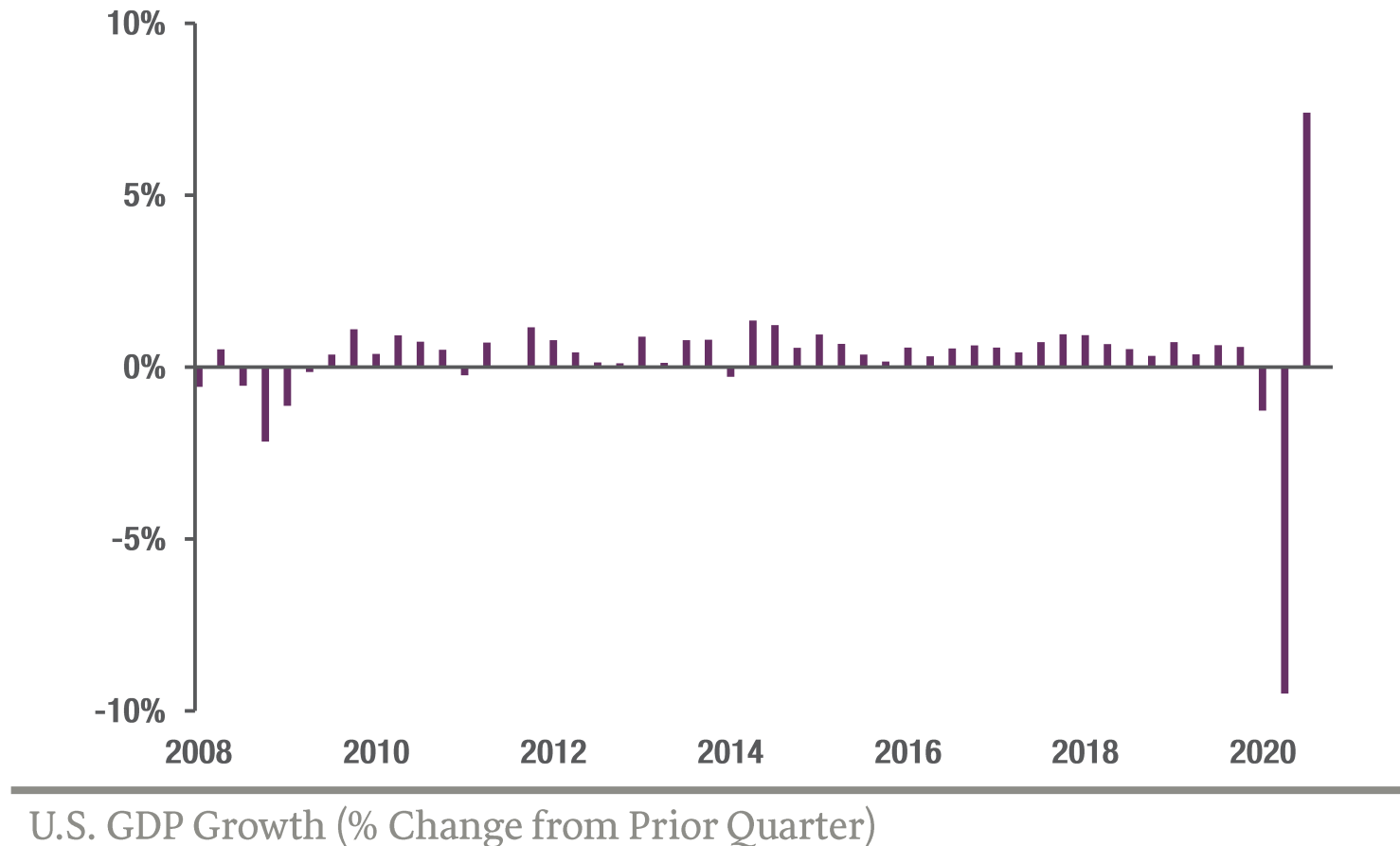
COVID has had a devastating impact on human health

- More than 1.5 million deaths
- The country / regional experience has varied widely
- Now in a 2<sup>nd</sup> wave



# COVID

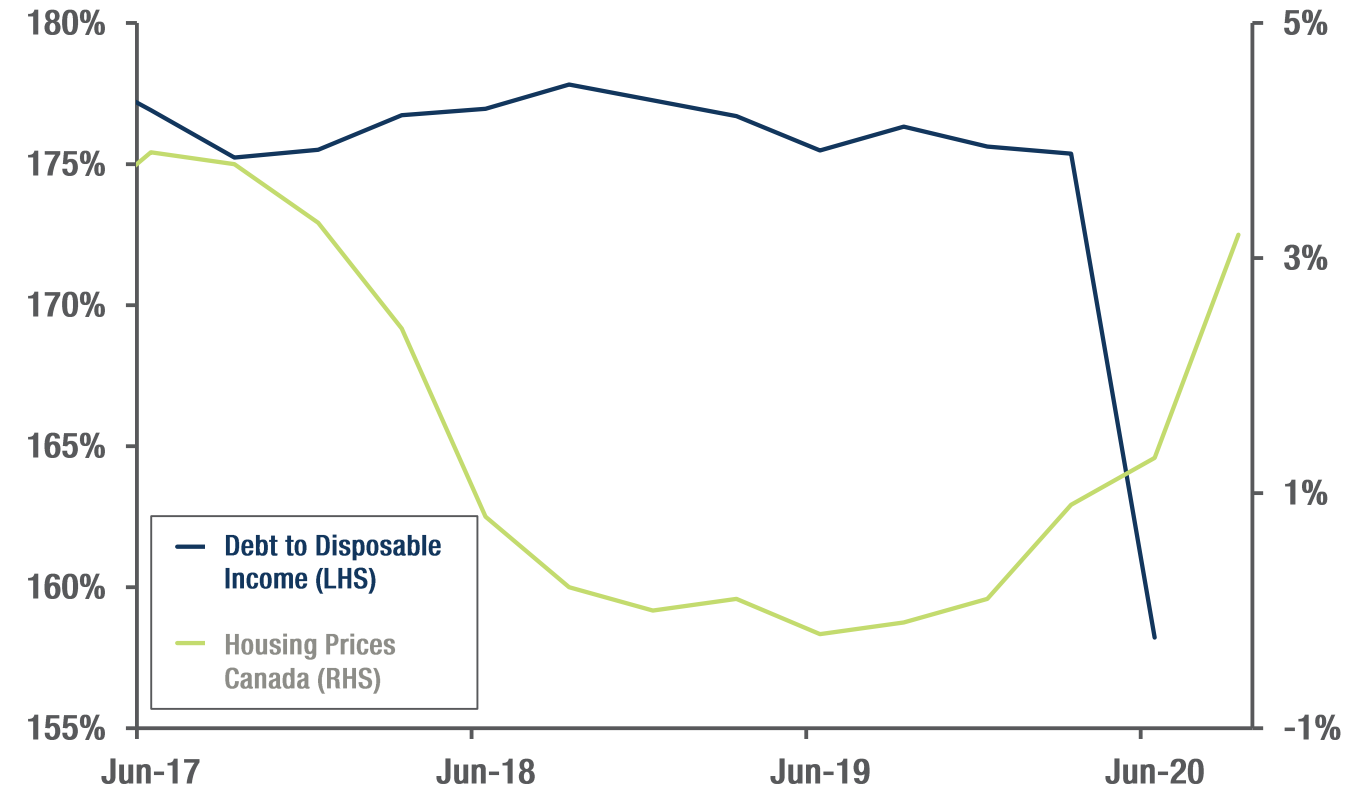
The effect on the economy has been dramatic



# COVID

Not all economic adjustments were expected

- Home prices have strengthened
- Household debt burden has improved
- And savings rates are a record levels (14%)



Debt to Income and Home Price Changes (YoY) – Canada



# COVID

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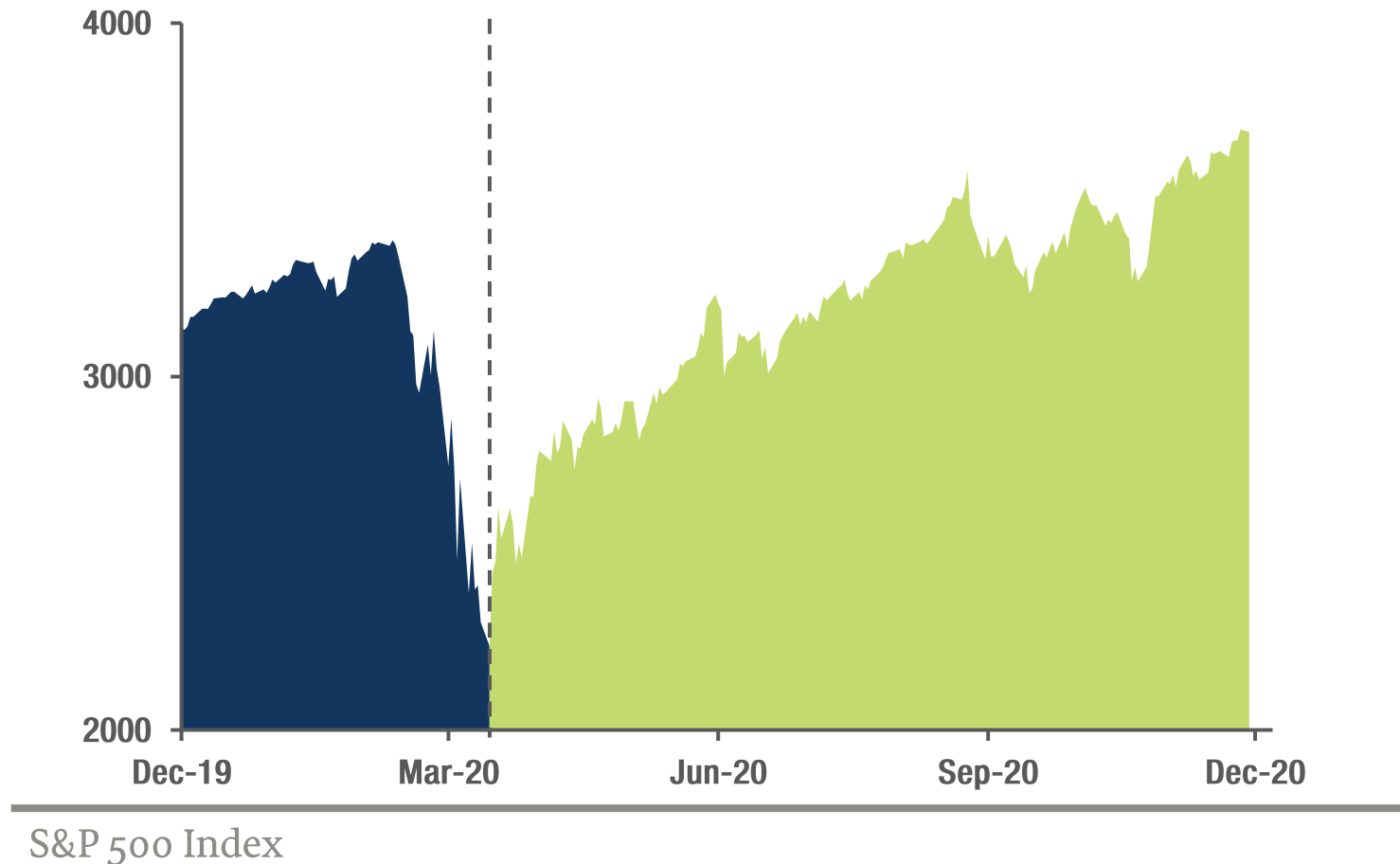
Amidst much hardship, there were some surprising changes to people's behaviour

- Golf has become fashionable again
- Pet ownership has exploded
  - The Toronto Humane Society has received over 10,000 applications for adoption since the pandemic began
- Cosmetic dentistry is undergoing a “Zoom Boom”
  - Teeth whitening and “Invisalign” teeth straightening demand has been strong



# COVID

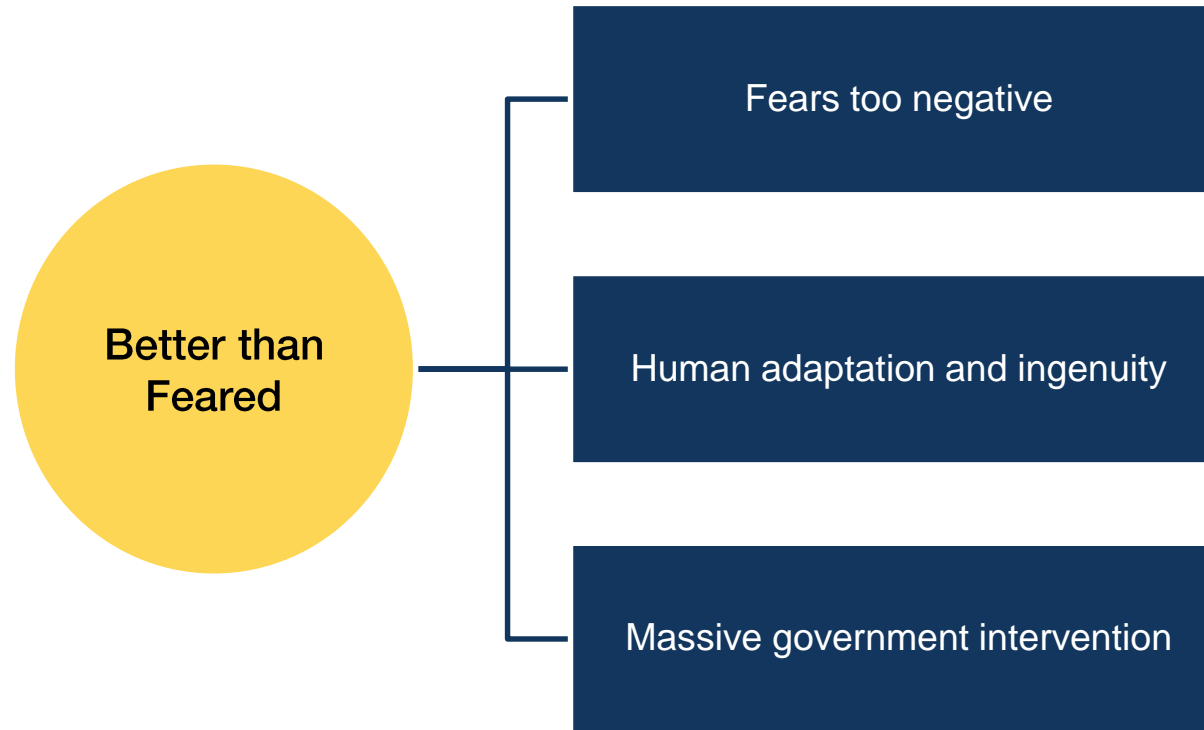
Stock markets collapsed, then recovered



# A Resilient World

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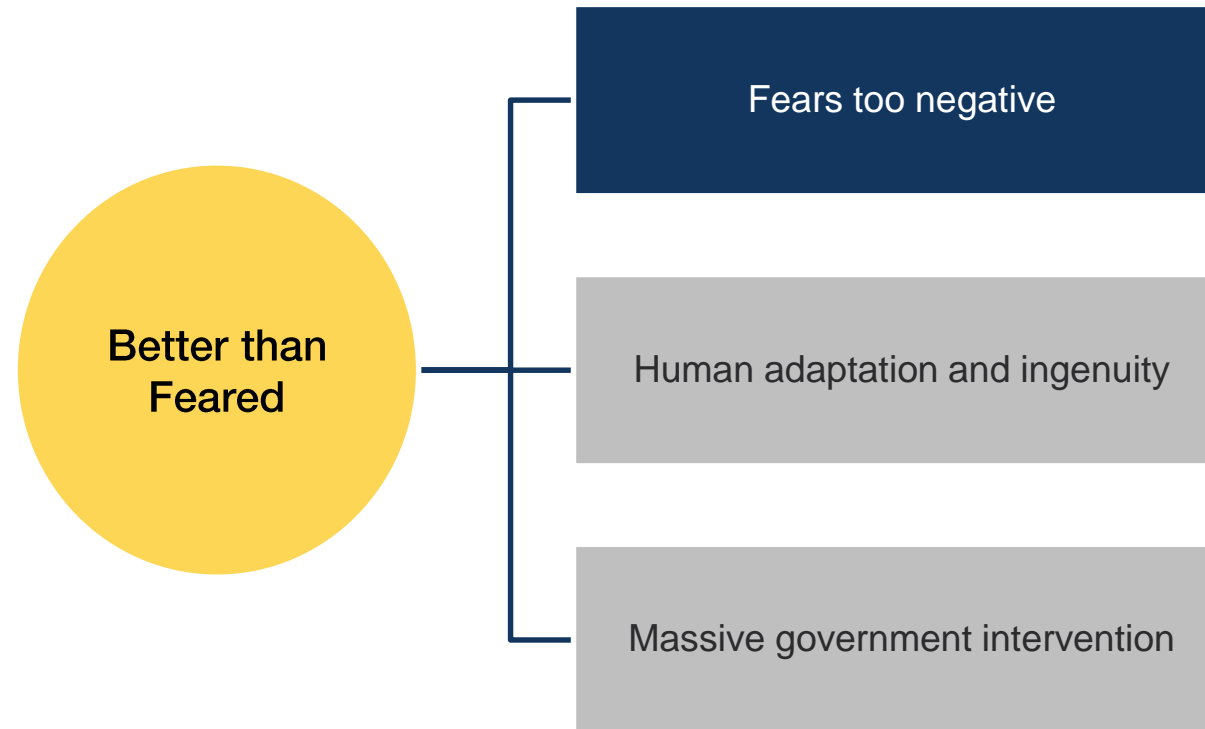
Why have the negative effects of COVID been better than feared?



# A Resilient World

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Why have the negative effects of COVID been better than feared?



# A Resilient World

Fears Too Negative

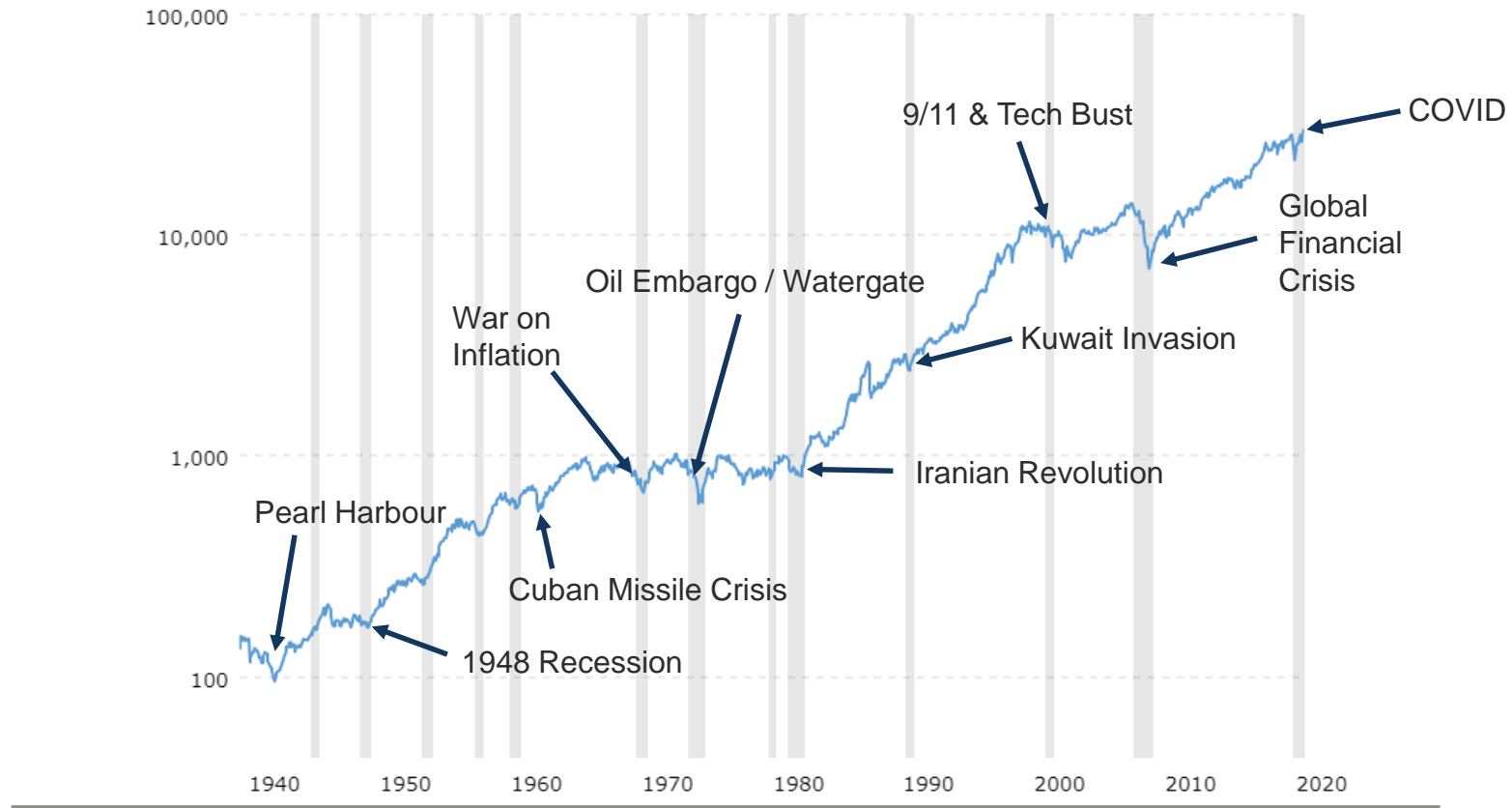
COVID's effects have not been as bad as feared

Fear		Reality
Death Rate	Death rate as high as 15%	Death rate <2% and likely lower
Health System	Hospitals overrun, shortages	Health care system stressed, but managing
Societal	Homelessness, hunger, elevated crime	Hardships for many, but social fabric intact
Economic	Devastating unemployment, bankruptcies, GDP shrinkage	Rapid recovery
Markets	Bear market and credit markets freeze	Abrupt recovery and markets liquid

# A Resilient World

Fears Too Negative

In uncertain times, investors' tend to fear for the worst

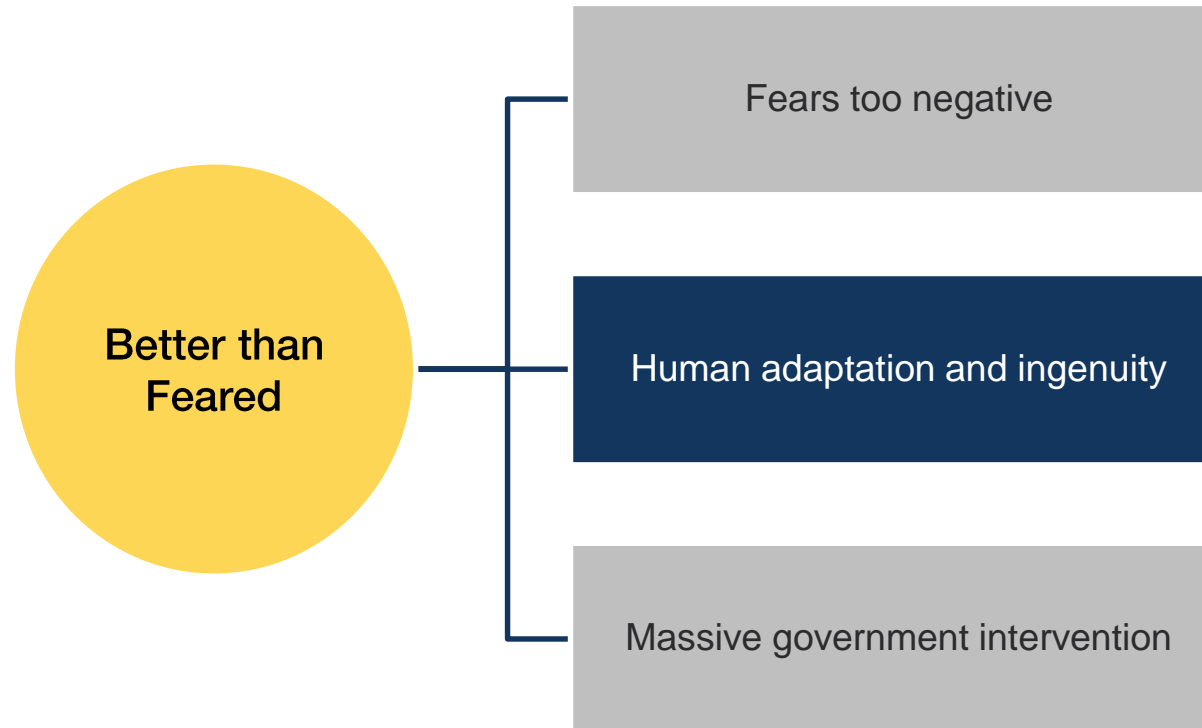


Dow Jones Industrial Average <sup>(1)</sup>

# A Resilient World

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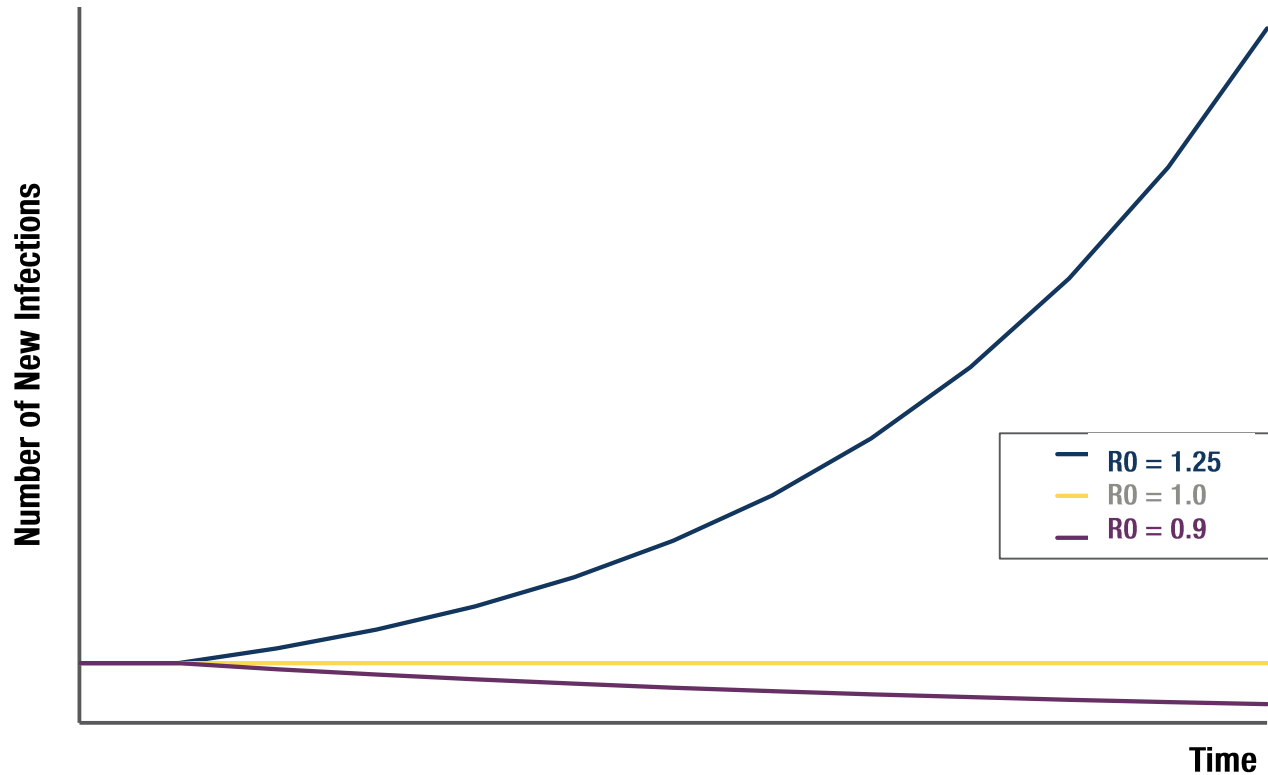
Why have the negative effects of COVID been better than feared?



# A Resilient World

## Adaptation

A pandemic spreads exponentially, necessitating control measures



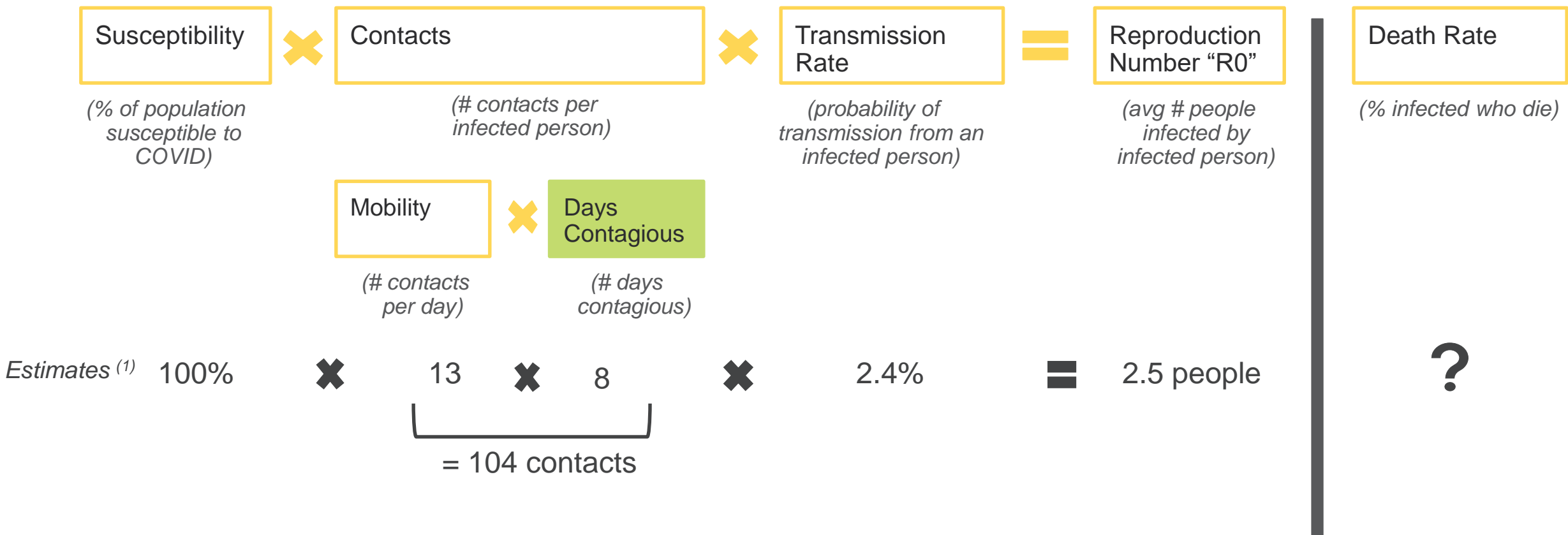
Infection Progression Scenarios

- $R_0$  is the natural reproduction number
  - Average number of new infections per infected person
- $R_0$  varies by disease
  - Measles is high
  - SARS was low
- $R_e$  is effective rate after control efforts



# A Resilient World

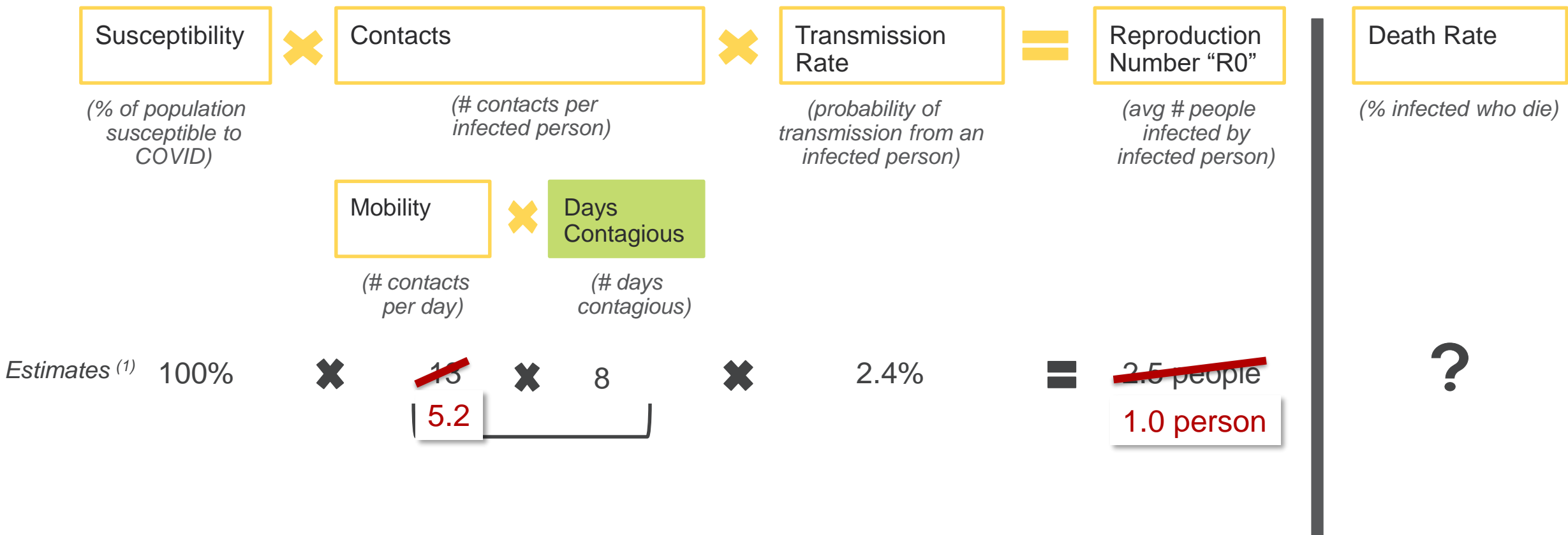
Several key factors drive the health impact of COVID



(1) Various, including Imperial College London, JPMorgan.

# A Resilient World

Several key factors drive the health impact of COVID

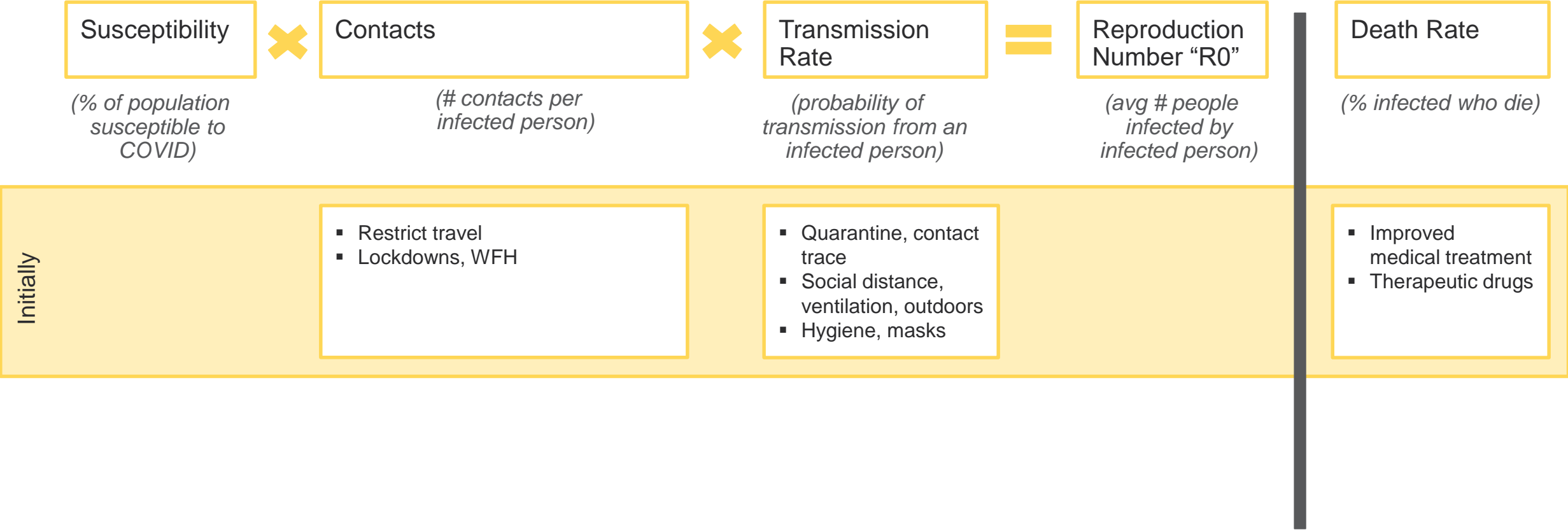


(1) Various, including Imperial College London, JPMorgan.

# A Resilient World

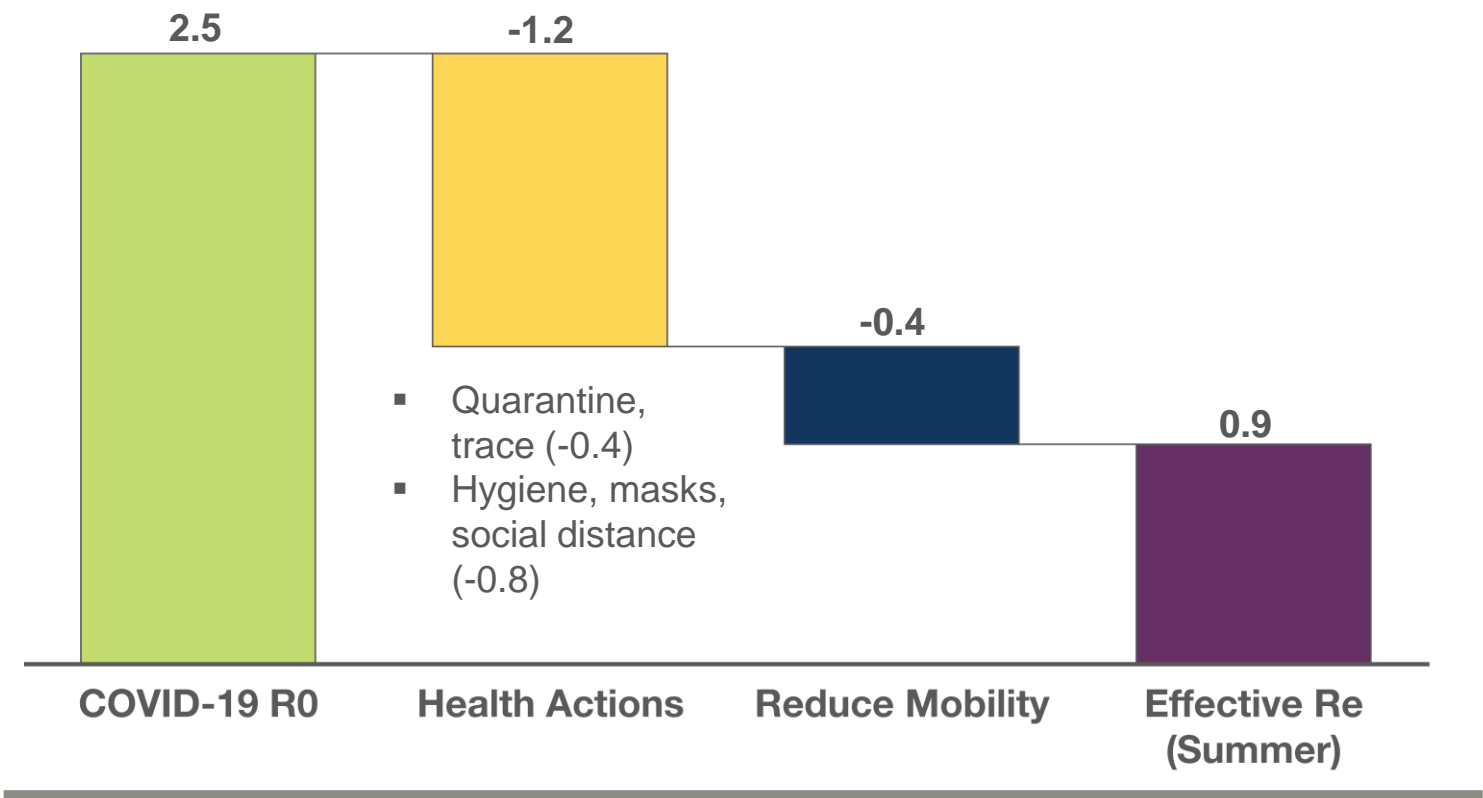
## Adaptation

Several key things are mitigating the health consequences



# A Resilient World

A combination of health and mobility actions has controlled the spread of COVID



COVID R0 and Re – The European Experience

# A Resilient World

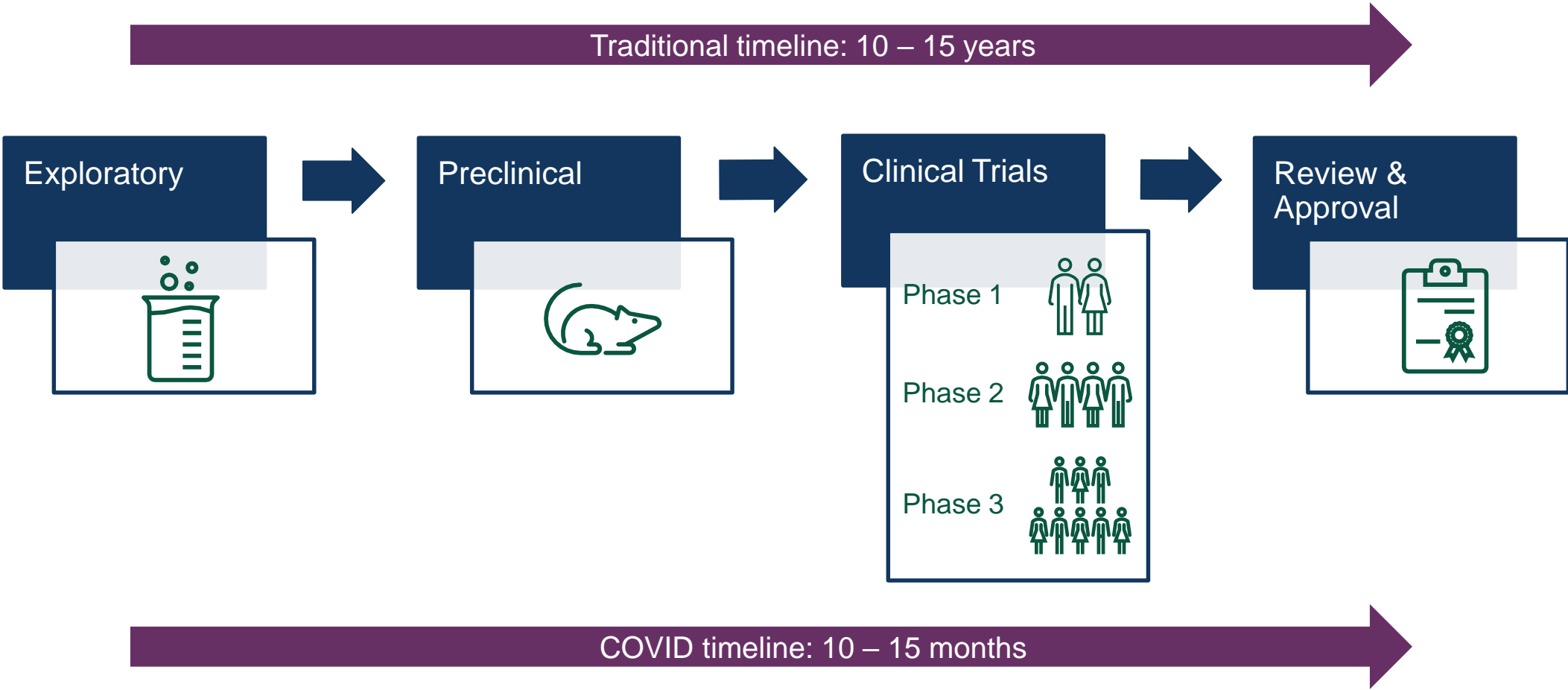
## Adaptation

Increased immunity will further mitigate the health consequences



# A Resilient World

COVID vaccine development is a scientific miracle

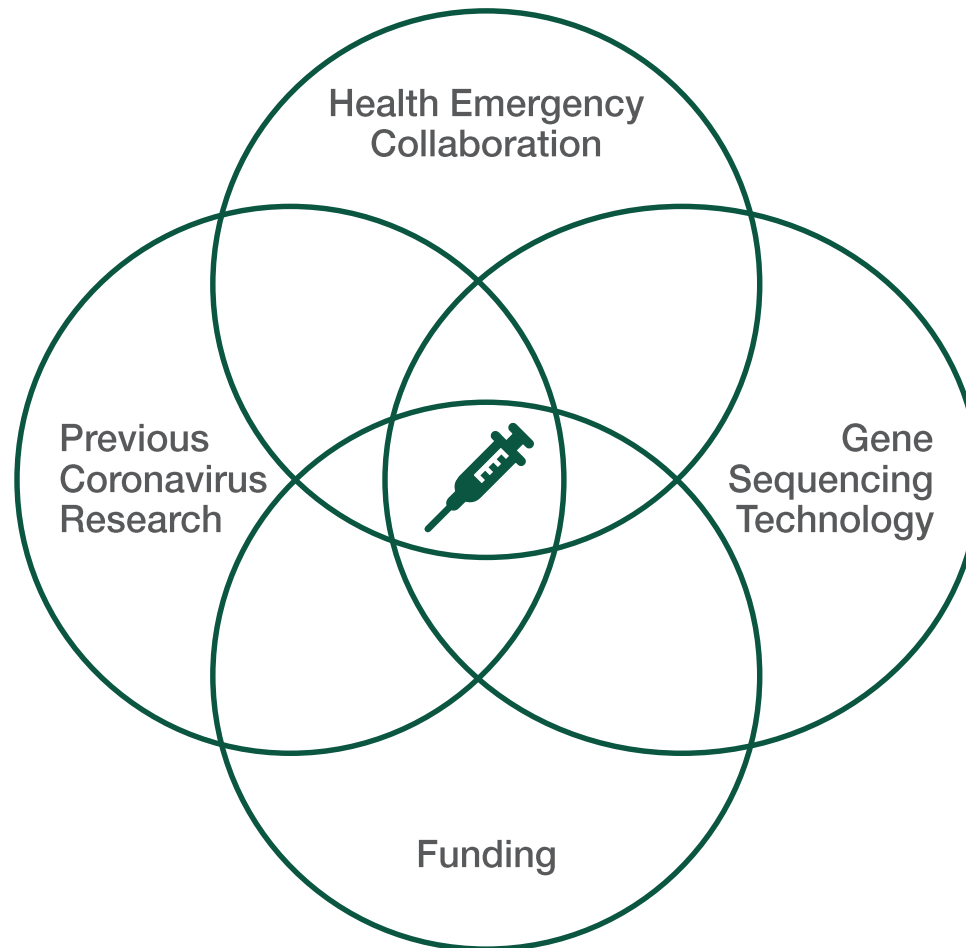


Source: U.S. General Accounting Office.

# A Resilient World

## Adaptation

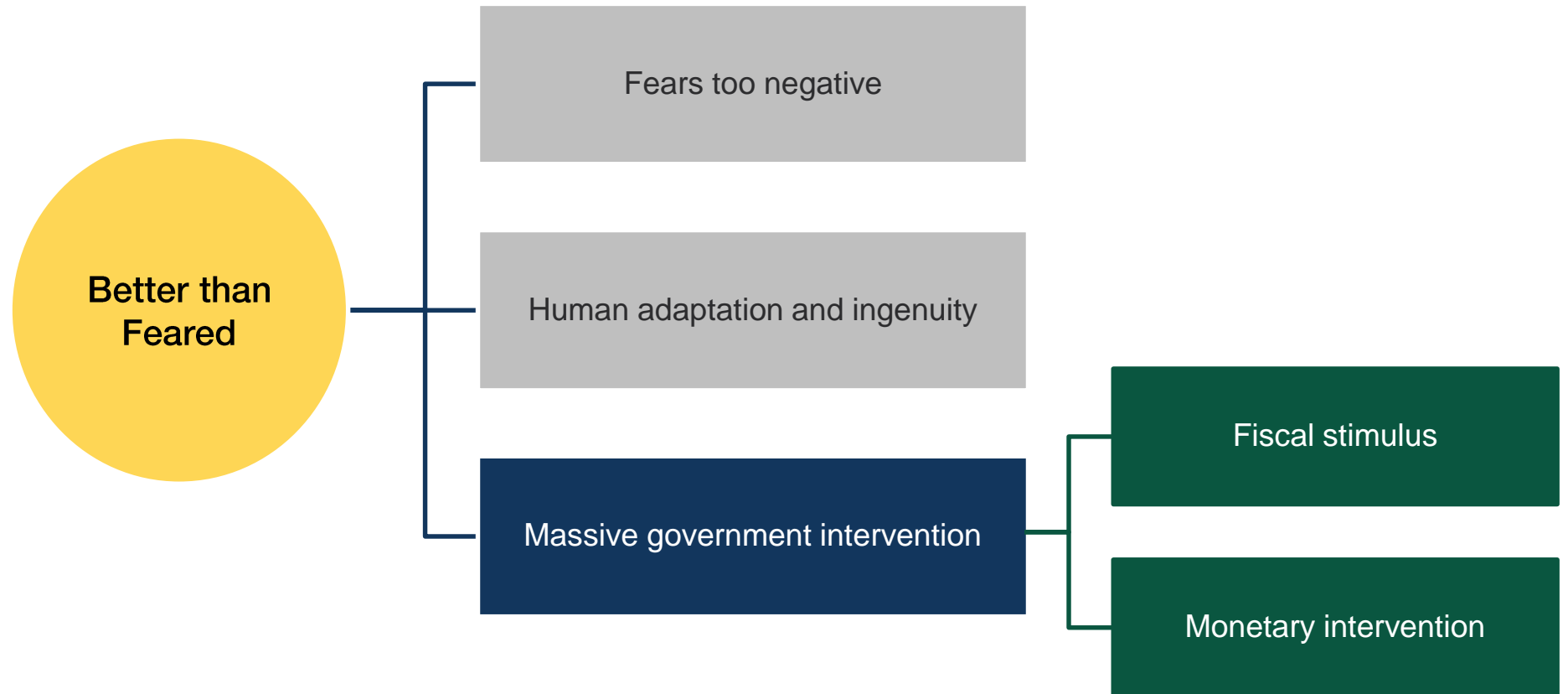
A number of factors contributed to the rapid vaccine development



- COVID vaccine development used traditional and novel approaches
- mRNA seems to be a game-changer

# A Resilient World

Why have the negative effects of COVID been better than feared?



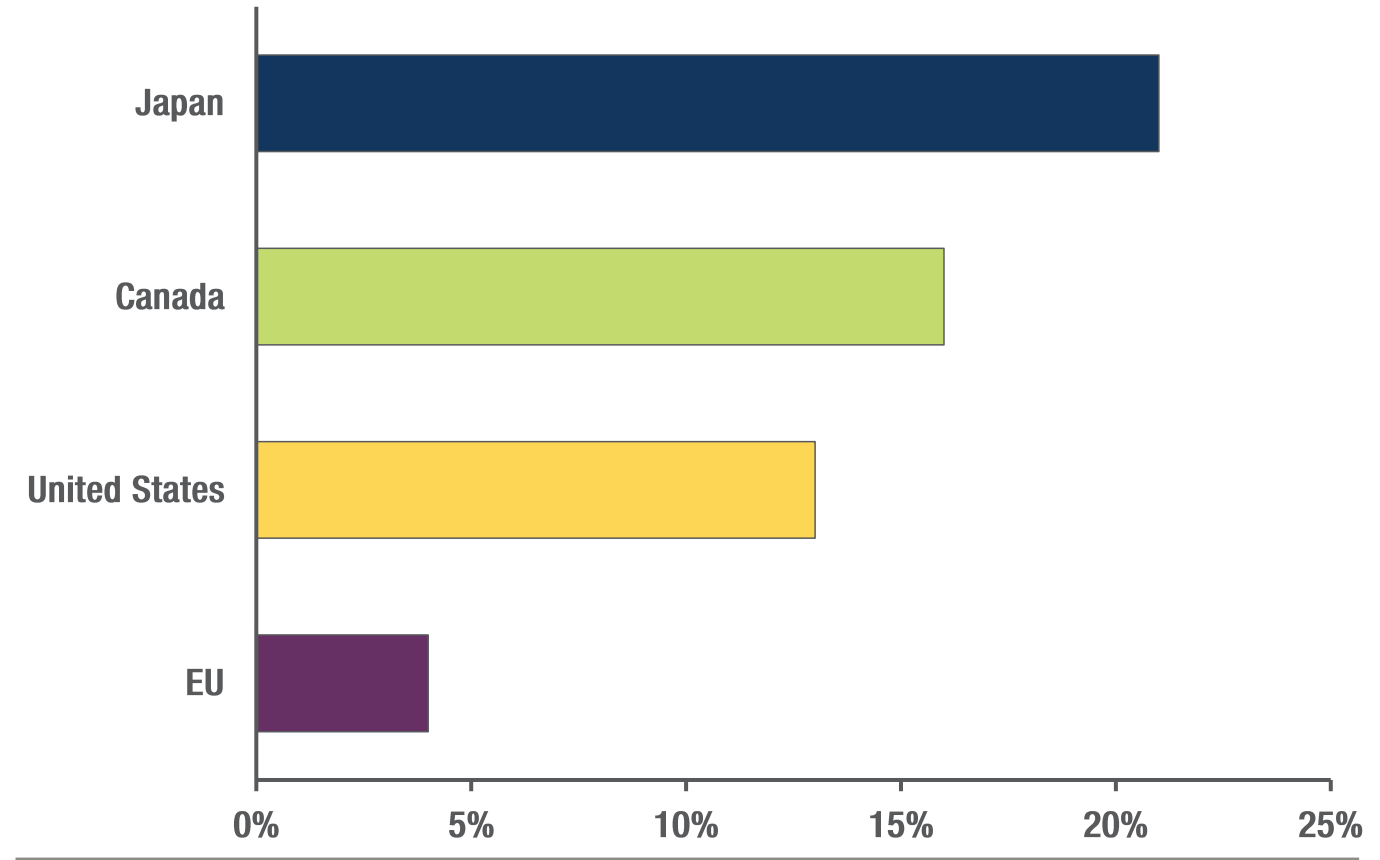


# A Resilient World

## Fiscal Stimulus

Canada has implemented many fiscal stimulus programs

- Consumer support
  - CRB / CERB / CRSB / CRCB – Income replacement
  - Relaxed qualifications for Unemployment Insurance
  - Mortgage payment deferral
- Business support
  - CEWS – Wage subsidy
  - CERS / CECRA – Rent relief
  - CEBA – Temporary loan funding



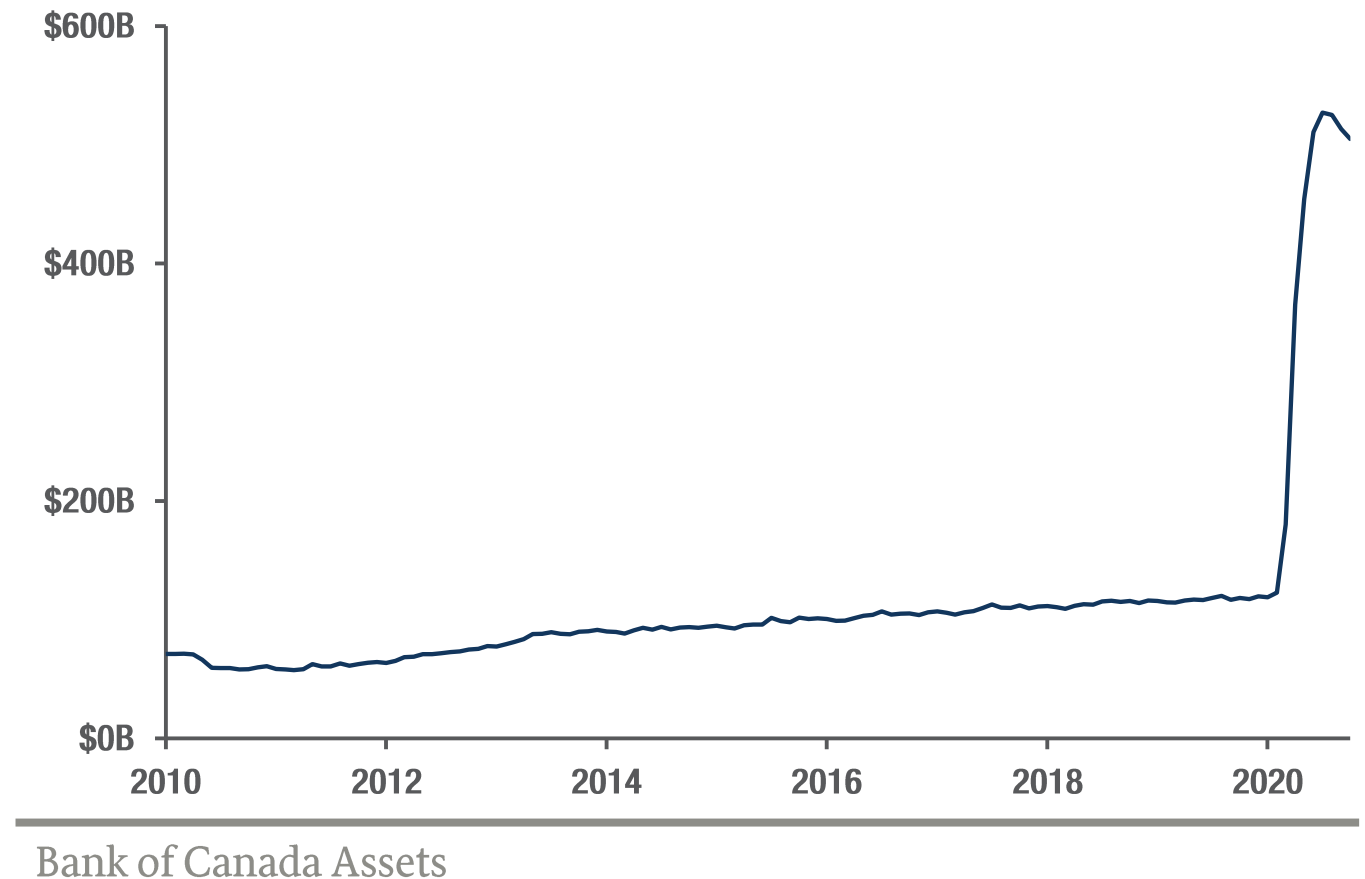
Fiscal Stimulus as a Percentage of GDP

# A Resilient World

## Monetary Intervention

The Bank of Canada has acted aggressively

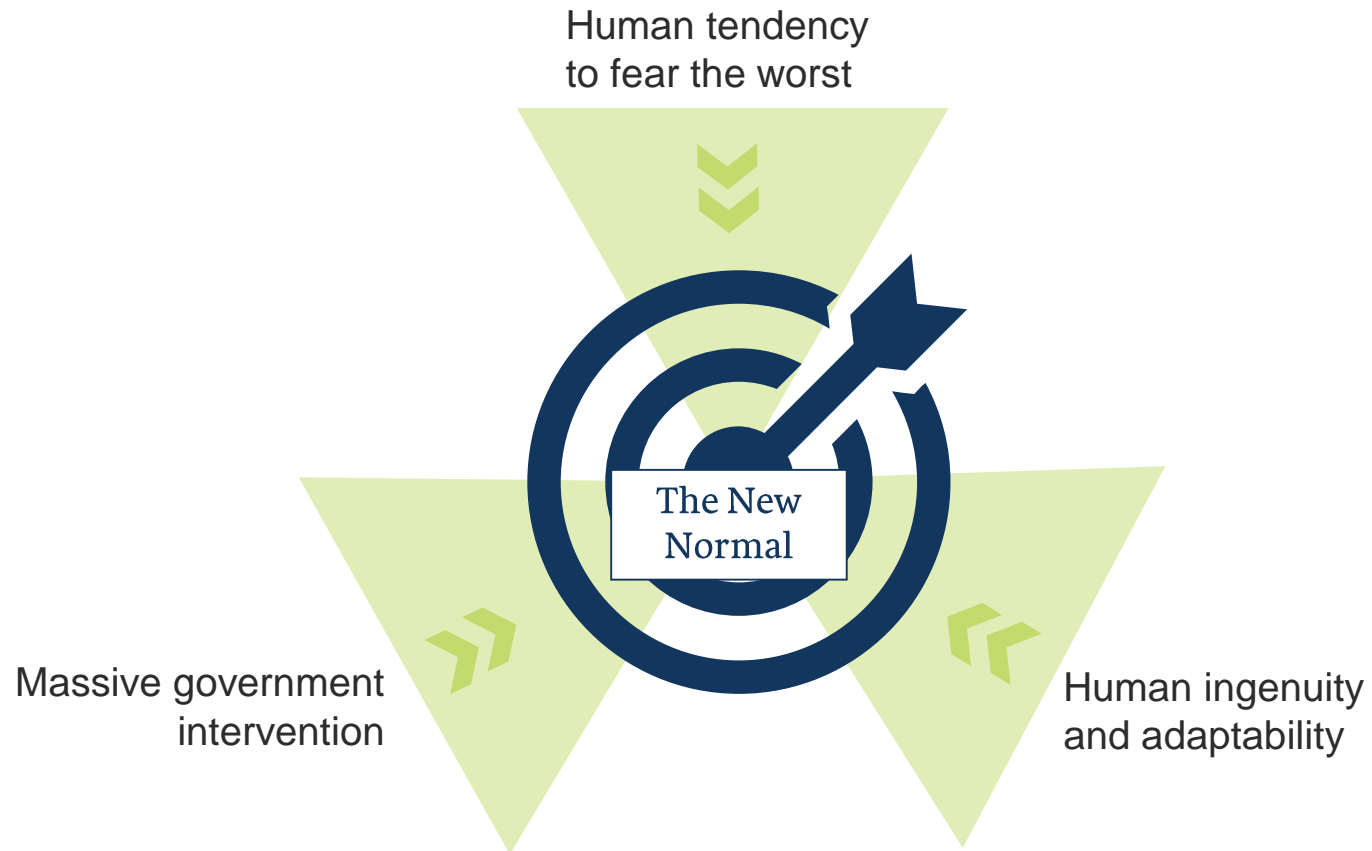
- Interest rate stimulus
  - Bank Rate – from 1.25% to 0.25%
- Asset purchases and market support
  - GBPP / PBPP / CBPP / CPPP
  - BAPF / CMBPP / PMMP now discontinued



# A Resilient World

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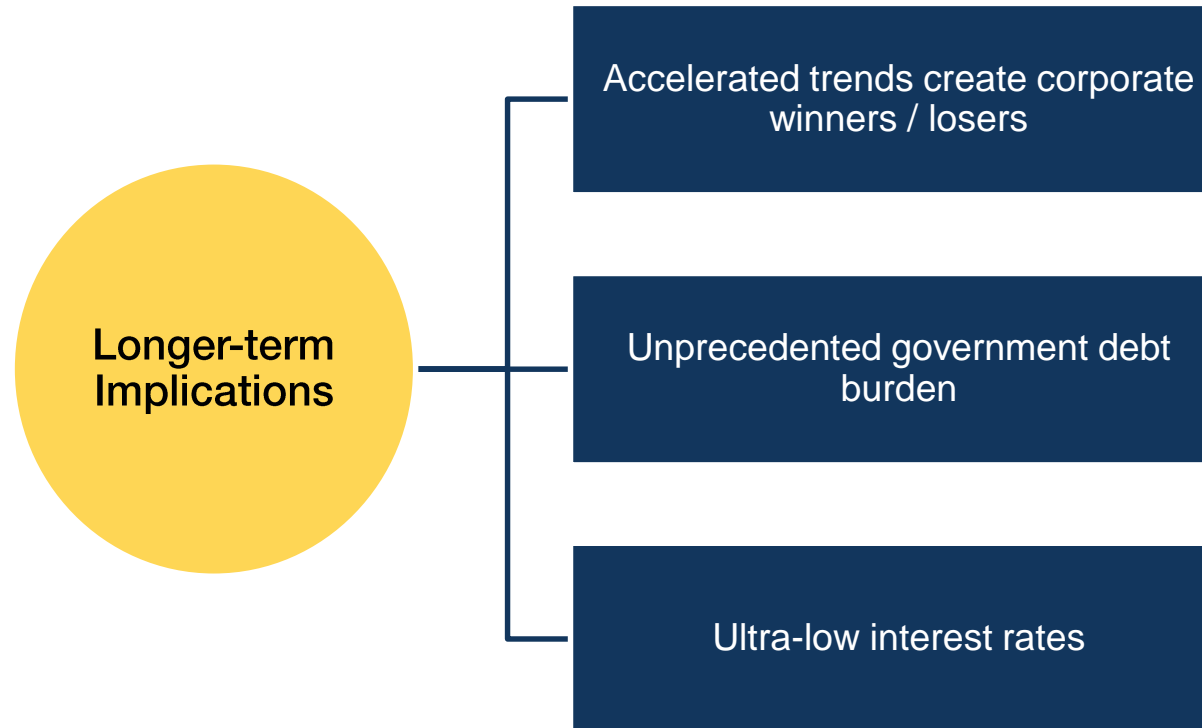
In combination, these factors will return us to a different, but more normal world



# The New Normal

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Even after the pandemic has passed <sup>(1)</sup> the world will be different

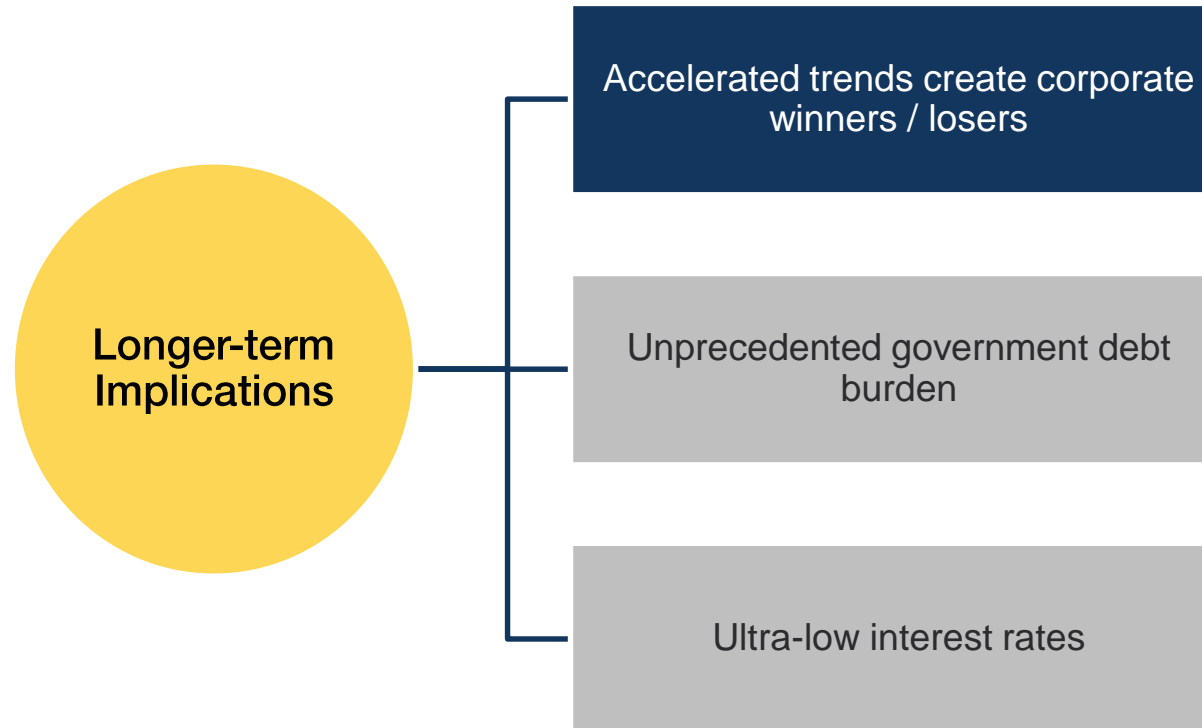


<sup>(1)</sup> COVID, the disease, will not go away, but the pandemic will pass.

# The New Normal

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Even after the pandemic has passed <sup>(1)</sup> the world will be different



<sup>(1)</sup> COVID, the disease, will not go away, but the pandemic will pass.

# The New Normal

## Accelerated Trends

The pandemic has highlighted a number of important trends – some will be temporary, others permanent



Curtailed Travel



Entertainment



Telemedicine



Digital Cash



WFH



E-commerce



Exercise



Goods Spending



Cloud computing

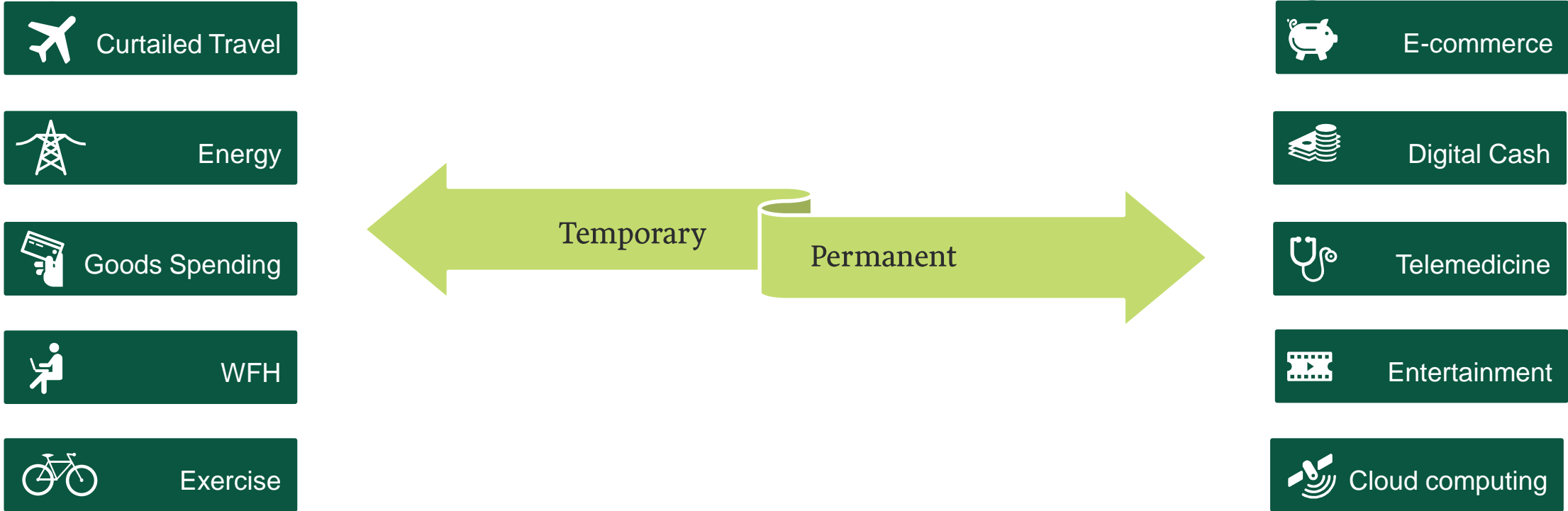


Energy

# The New Normal

## Accelerated Trends

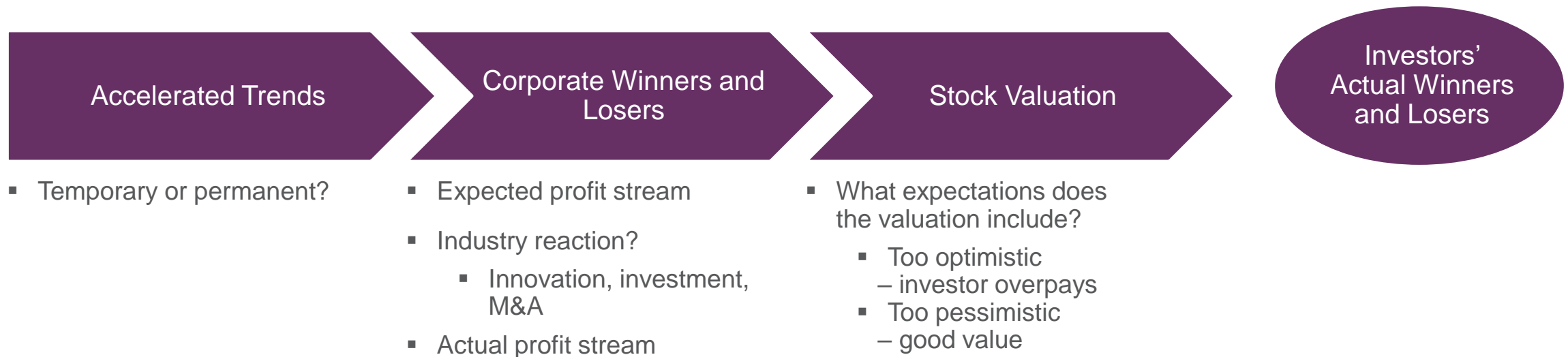
The pandemic has highlighted a number of important trends – some will be temporary, others permanent



# The New Normal

## Accelerated Trends

Identifying trends and corporate winners / losers necessary, but not enough – valuation counts

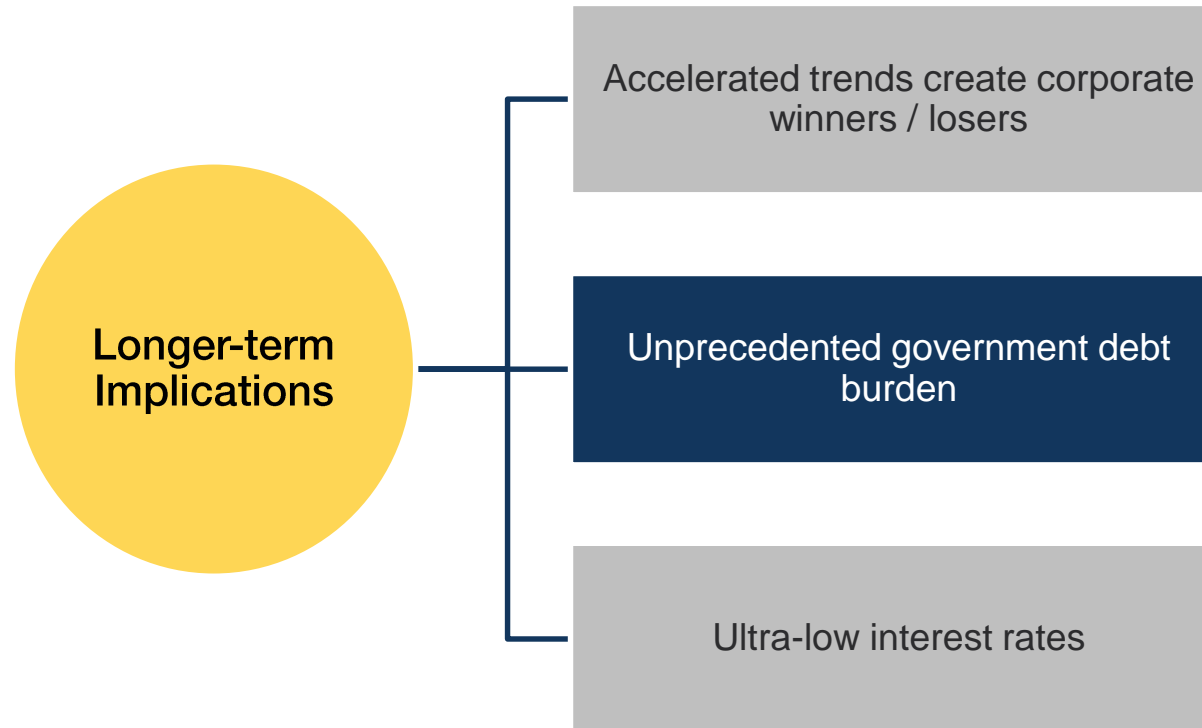




# The New Normal

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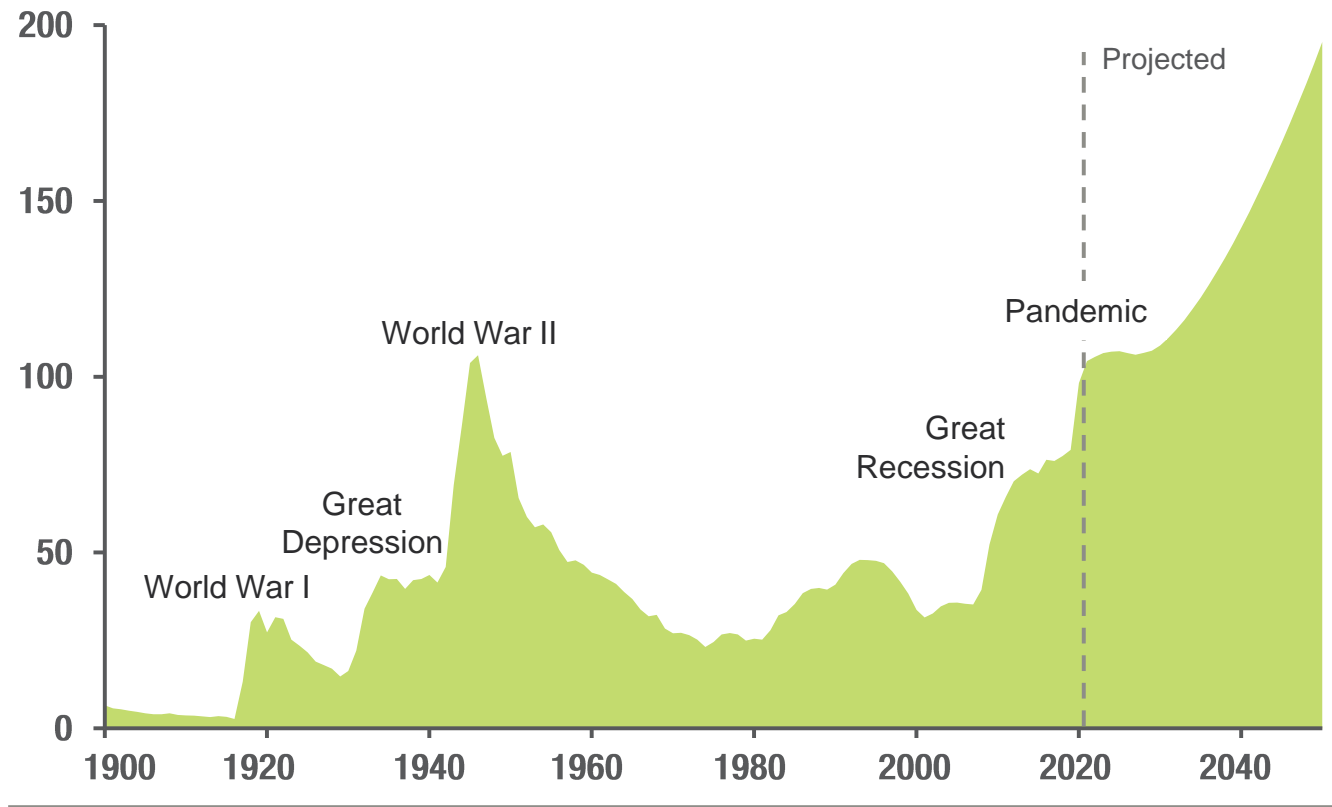
Even after the pandemic has passed the world will be different



# The New Normal

## Government Debt Burden

Countries around the world will be facing difficult choices for generations



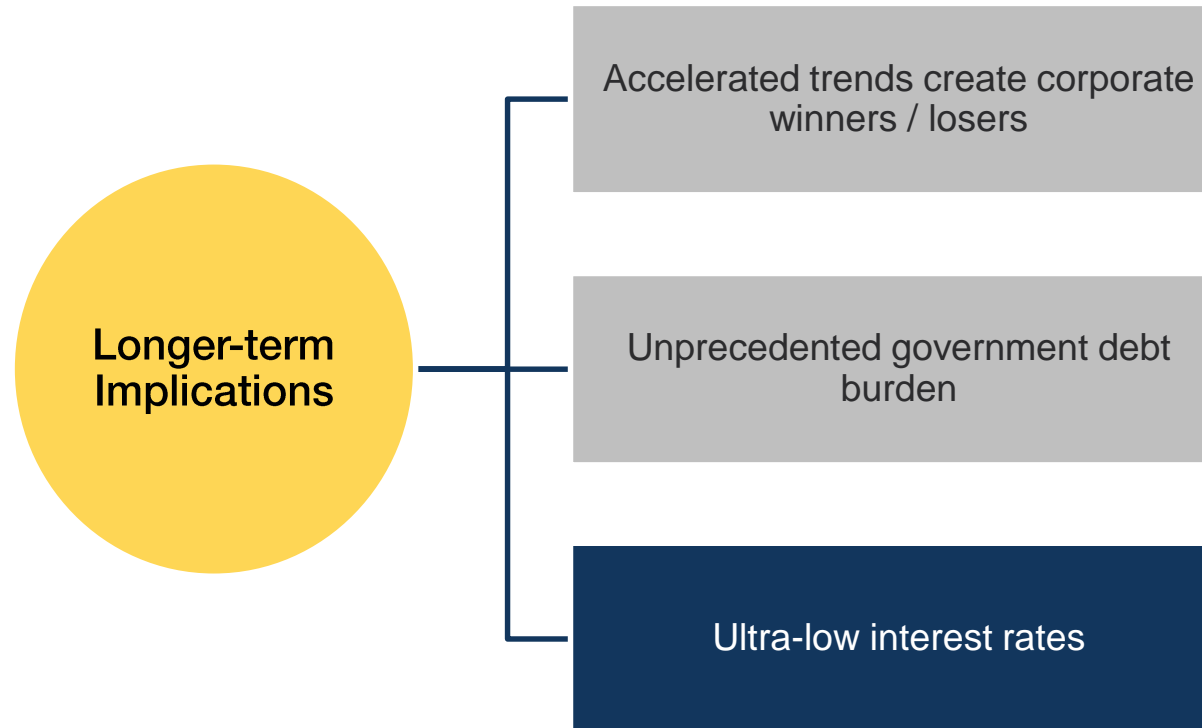
U.S. Federal Debt as a Percent of GDP (1900 – 2050) <sup>(1)</sup>

- Choices?
  - Austerity to reduce debt
  - Increase taxes
  - Grow GDP > Debt increase
  - Allow inflation
  - Ignore (MMT?)
- Future interest rates?

# The New Normal

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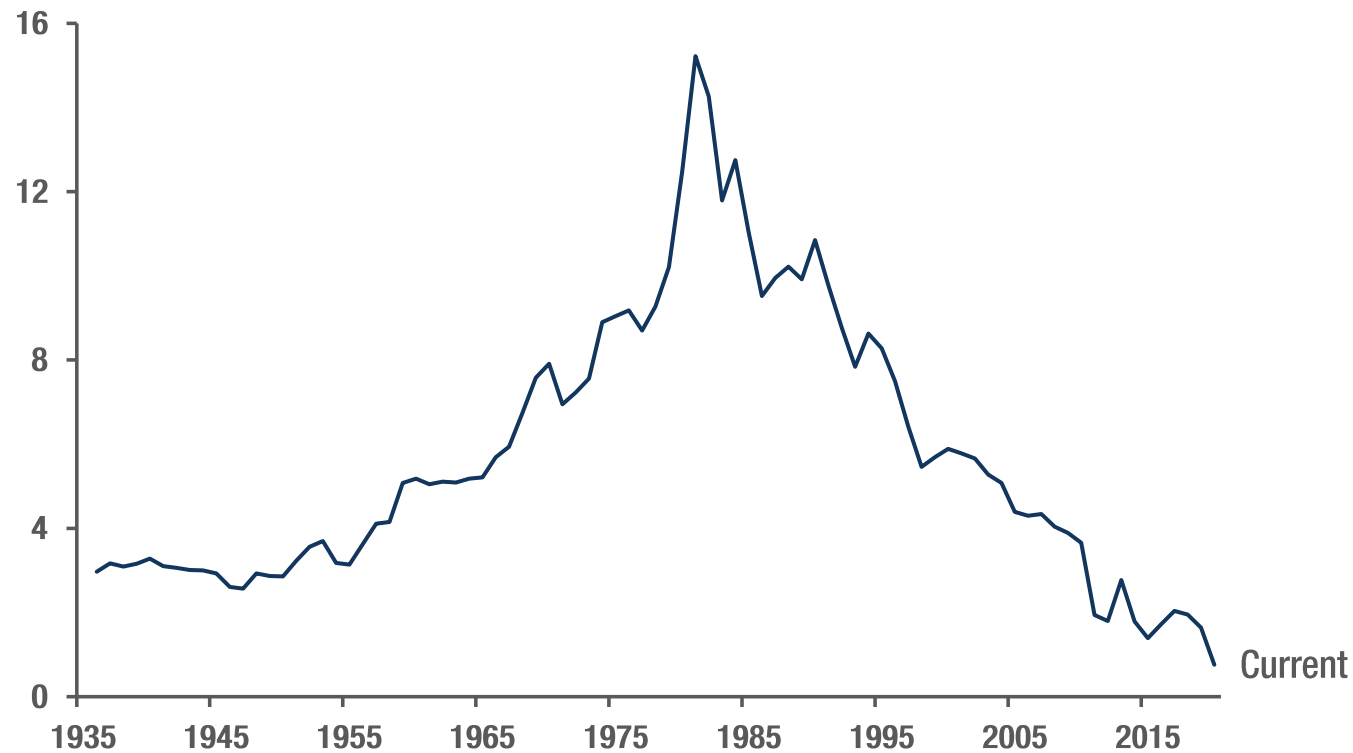
Even after the pandemic has passed the world will be different



# The New Normal

## Low Interest Rates

Super-low interest rates present many challenges



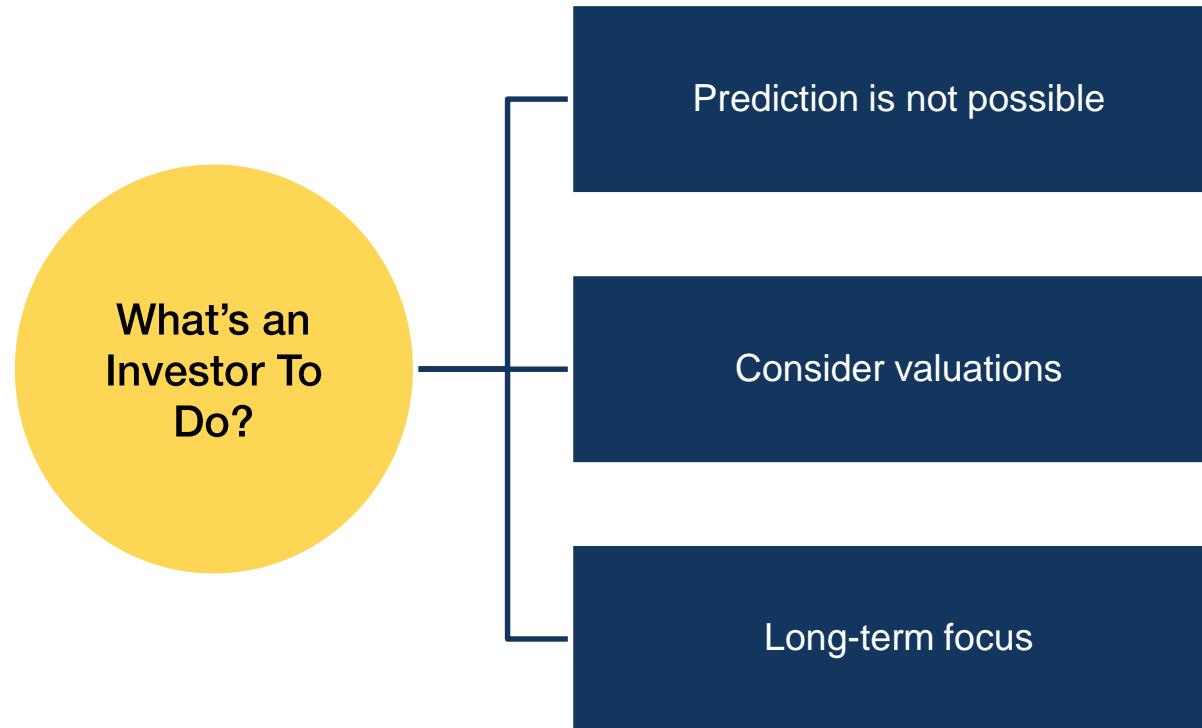
Canada Long-Term Bond Yield (1935 – 2020) <sup>(1)</sup>

- Globally, US\$17.1 trillion of negative-yield debt
- Fundamentally, interest rate is today vs. tomorrow
- Low interest rate distortions:
  - Borrower discipline ( - )
  - Pension obligations ( + )
  - Asset prices ( + )
  - Retiree incomes ( - )
  - Investor risk seeking ( + )
  - Inflation ( ? )

# The Way Forward

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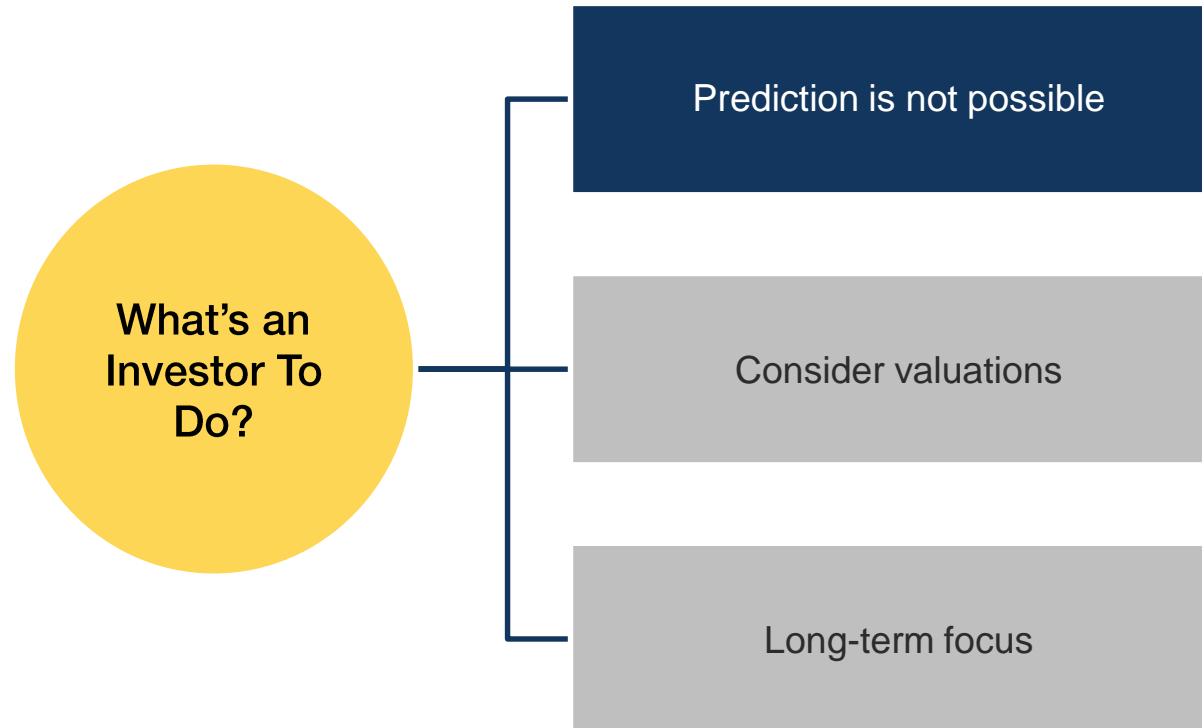
How should investors proceed in this changed world?



# The Way Forward

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How should investors proceed in this changed world?



# The Way Forward

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## Prediction

Trying to predict the future is not an effective investing strategy

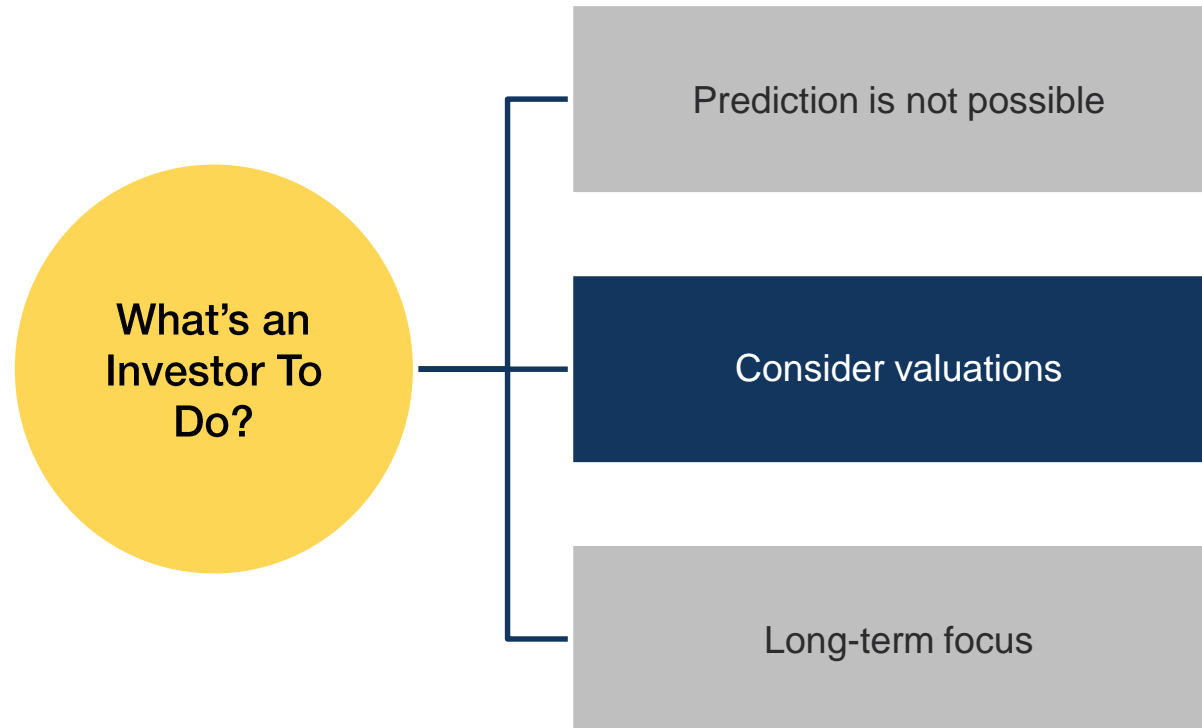
- Prediction seems easy in retrospect. However...
- In January, who would have thought:
  - A pandemic would sweep across the world
  - Markets would experience their fastest-ever plunge into a bear market
- In March, who would have thought:
  - The economy and markets would stage a rapid recovery
  - Vaccines would be developed and delivered that promise 95% effectiveness



# The Way Forward

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How should investors proceed in this changed world?





# The Way Forward

## Valuation

Just buying a “good business” isn’t enough – investors must consider valuation

### Peloton – The Business

- ☐ Highly successful at-home, interactive fitness platform
- ☐ Large addressable market with growing interest in health / wellness
- ☐ Track record of rapid growth (+120% per year average) <sup>(1)</sup>
- ☐ Attractive financial model with high margins and recurring revenue

### Peloton – The Valuation

- ☐ Forward P/E ratio 278x <sup>(2)</sup>
- ☐ Implied revenue growth a minimum of 25% for 5 to 10 years
- ☐ Competition likely to pressure growth

As at December 10, 2020

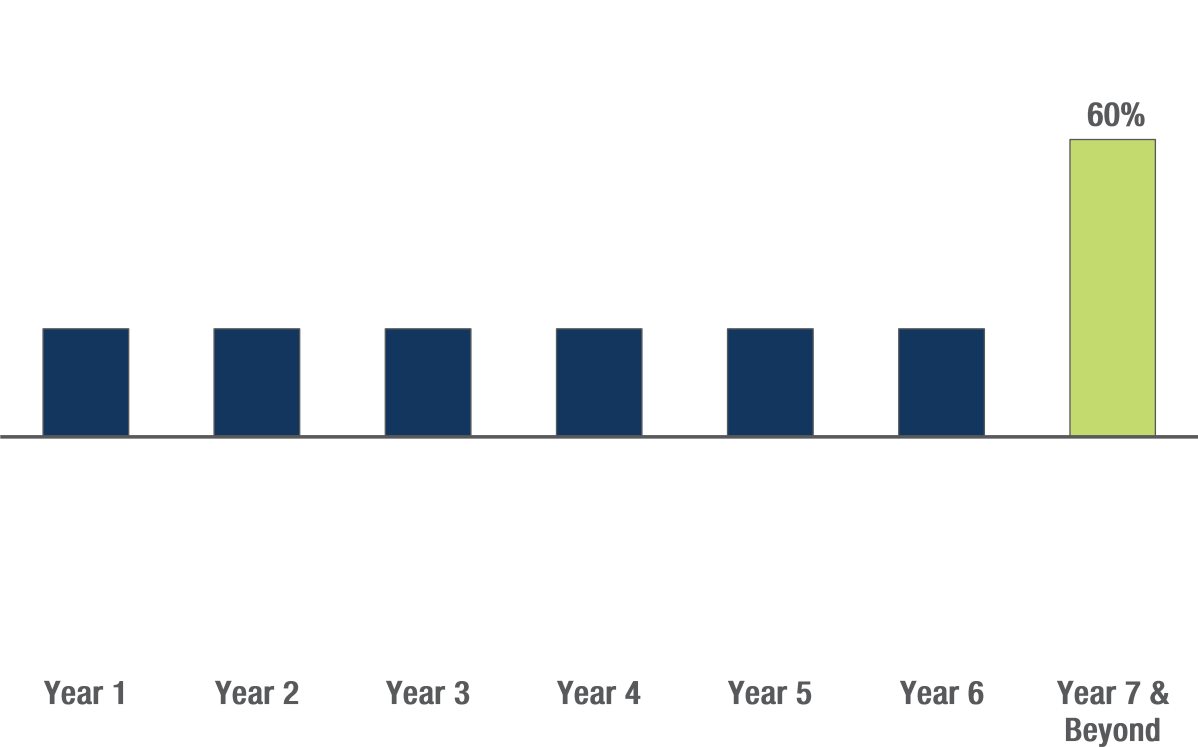
Source: Bloomberg.

<sup>(1)</sup> Peloton increased its revenue from \$84 million in 2016 to \$915 million in 2019, representing a 122% compound annual growth rate.

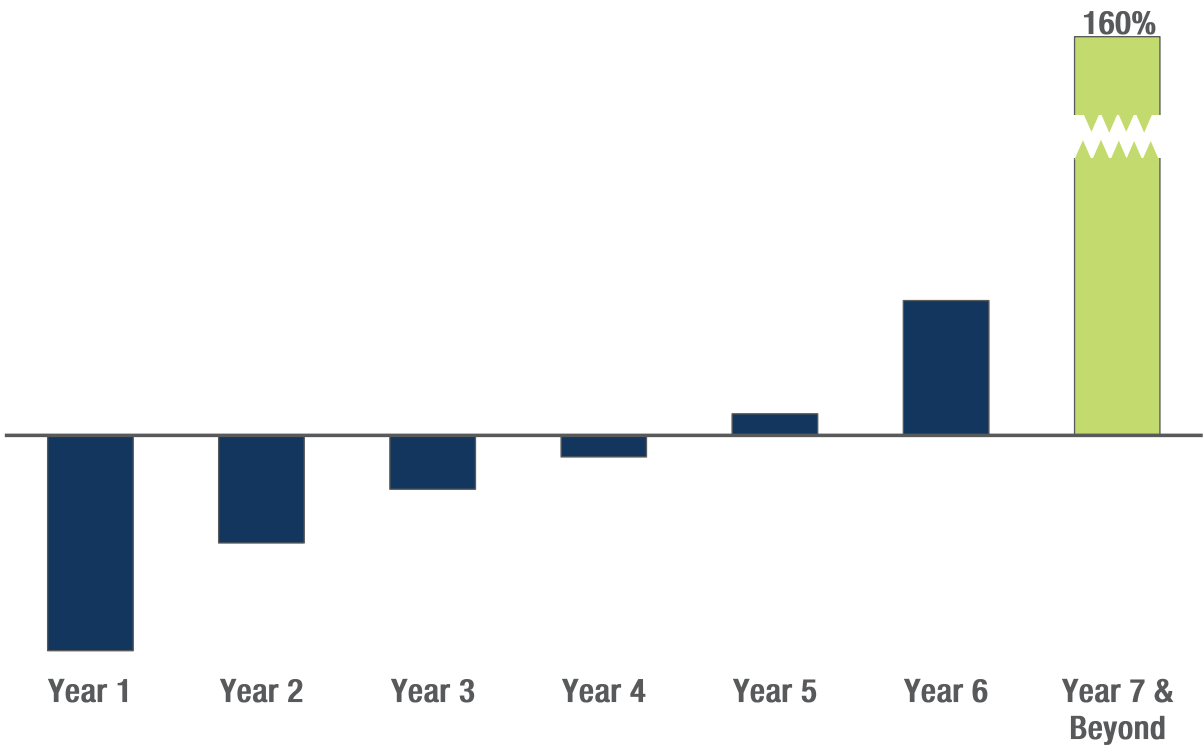
<sup>(2)</sup> The “Forward Price/Earnings ratio” is based on Bloomberg consensus diluted adjusted earnings per share for fiscal year 2021. Price as of December 11, 2020.

# The Way Forward

The key challenge of Growth is predicting cash flows far in the future... and it's easy to be wrong



Typical Discounted Cash Flow Profile of a Value Company <sup>(1)</sup>

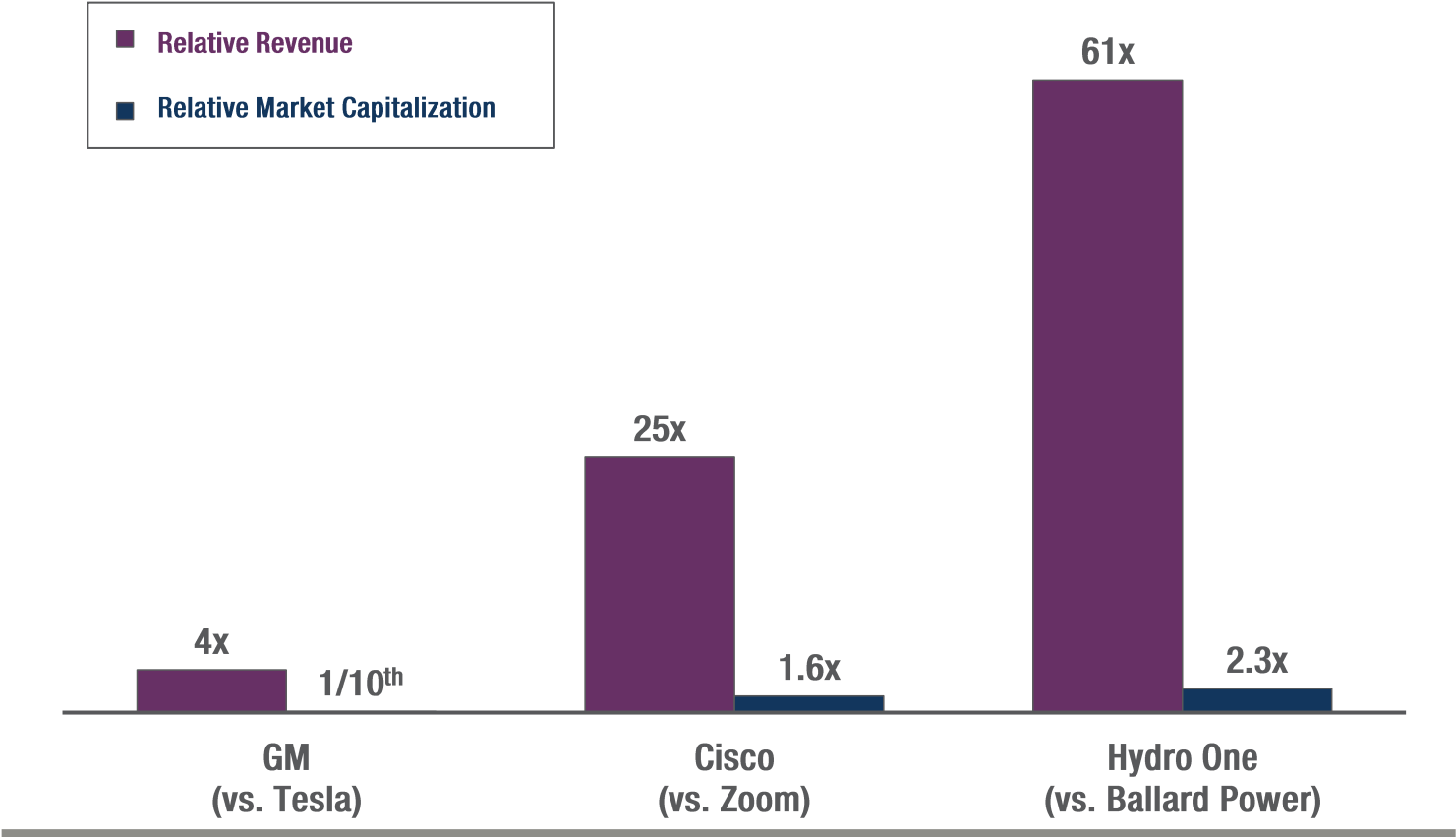


Typical Discounted Cash Flow Profile of a Growth Company <sup>(1)</sup>

<sup>(1)</sup> Hypothetical cash flows discounted at 7% for illustrative purposes.

# The Way Forward

Investors' optimistic predictions about growth can drive valuations to high levels

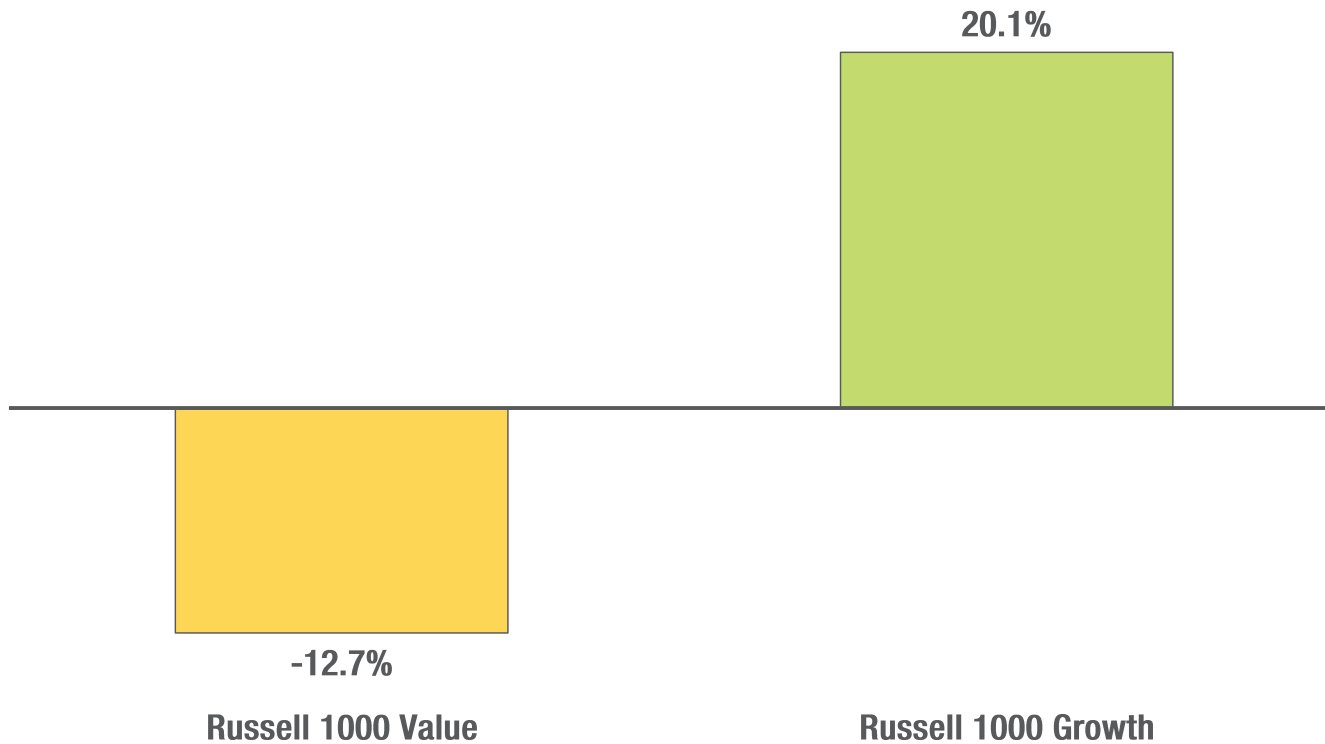


Comparative Revenue and Market Capitalizations

# The Way Forward

Valuation

COVID has accentuated Growth's outperformance



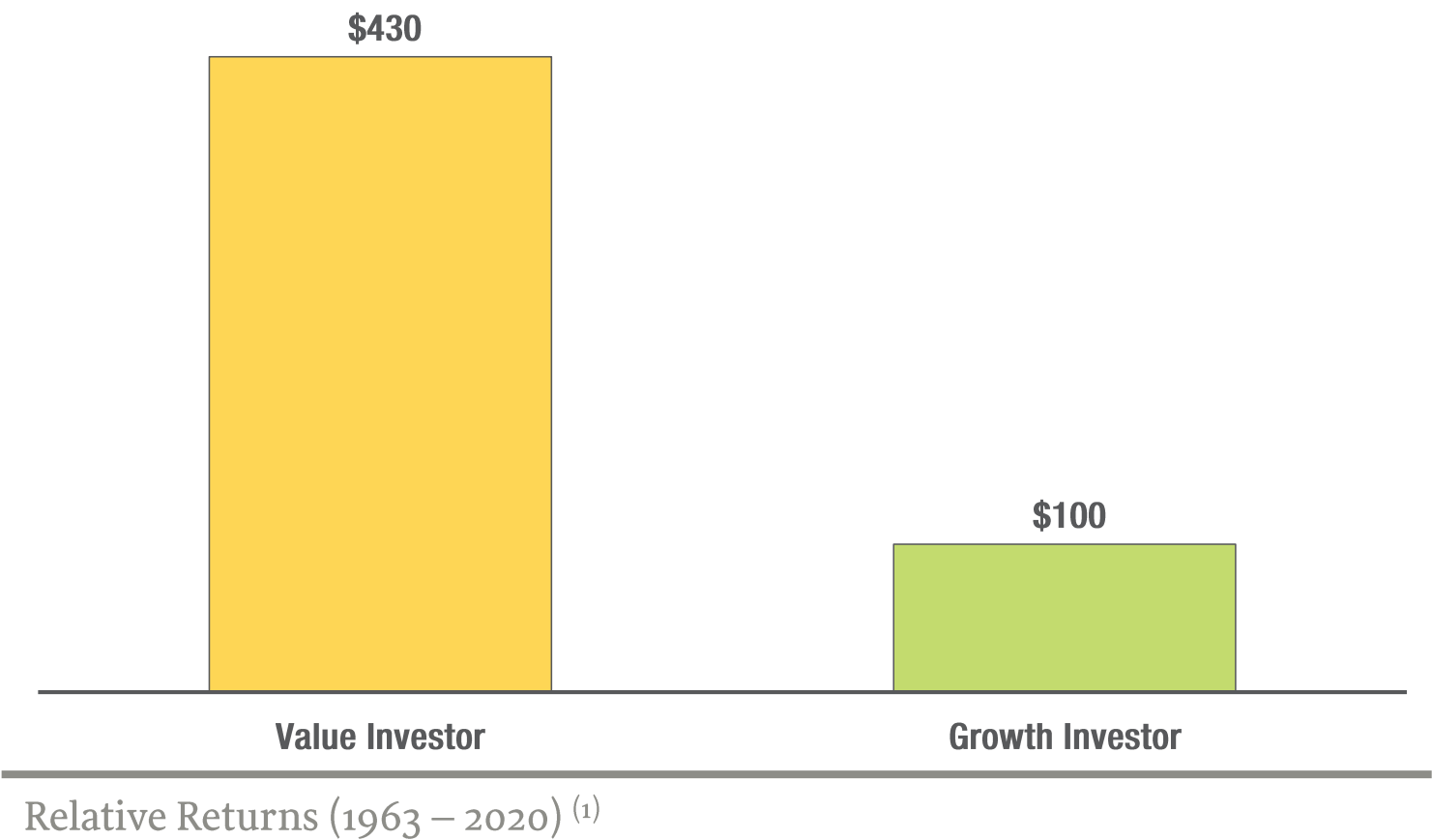
Value vs. Growth Returns (in US\$)

- Optimism about Growth has run high in 2020
- Growth has sustained a multi-year winning streak
- Over the long term, each has phases of outperformance

Ten Months Ended October 31, 2020

# The Way Forward

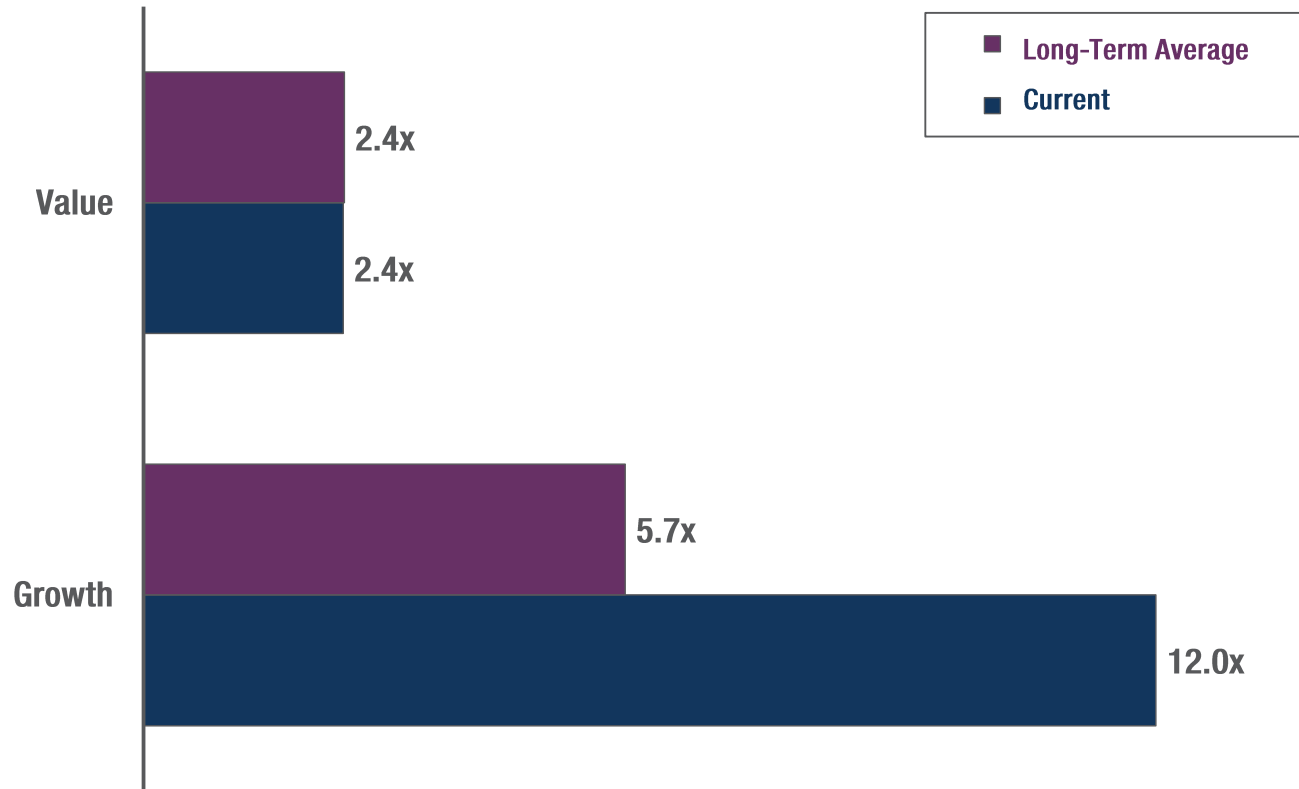
However, over the long term Value has *actually* outperformed Growth



<sup>(1)</sup> Reports of Value's Death May Be Greatly Exaggerated, Rob Arnott, Campbell Harvey, Vitali Kalesnik, Juhani Linnainmaa, 2020, Financial Analysts Journal, forthcoming.

# The Way Forward

The current popularity of Growth over Value is extreme and may reverse



Price/Book Ratios for Russell Value and Growth Indices <sup>(1)</sup>

- Value has never been cheaper relative to Growth <sup>(2)</sup>
- Even a small normalization of the valuation differential will drive substantial outperformance by Value <sup>(3)</sup>

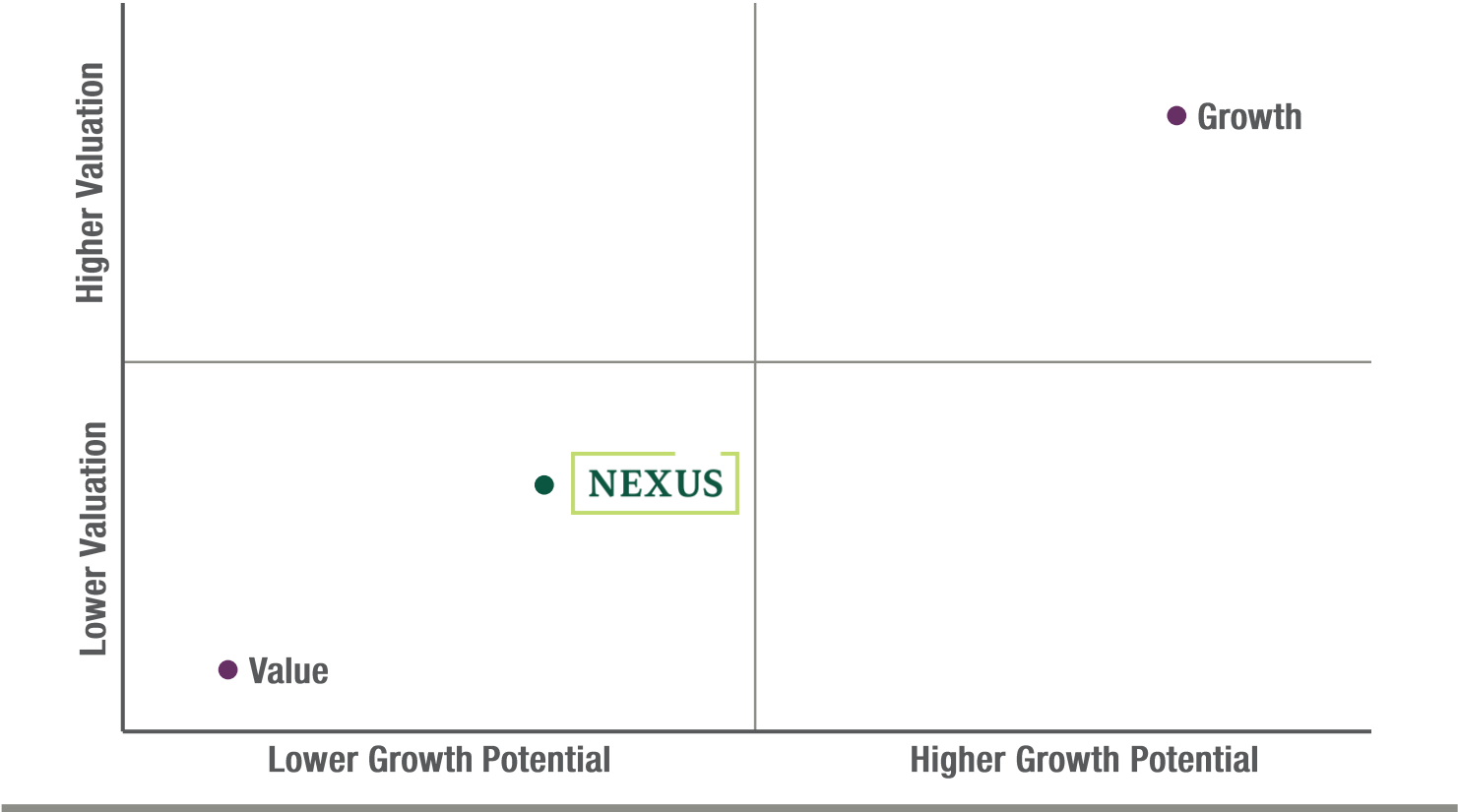
<sup>(1)</sup> Price/book ratios are sourced from Bloomberg. Long-term average is for the period 1995 – 2020.

<sup>(2)</sup> Based on the period 1963 – 2020, sourced from *"Reports of Value's Death May Be Greatly Exaggerated"*.

<sup>(3)</sup> Even a 5 percentile normalization in the relative value of Value and Growth would generate a 37% relative return of Value over Growth. Sourced from *"Reports of Value's Death May Be Greatly Exaggerated"*.

# The Way Forward

At Nexus, we invest in companies that will grow, but are careful not to overpay for that growth

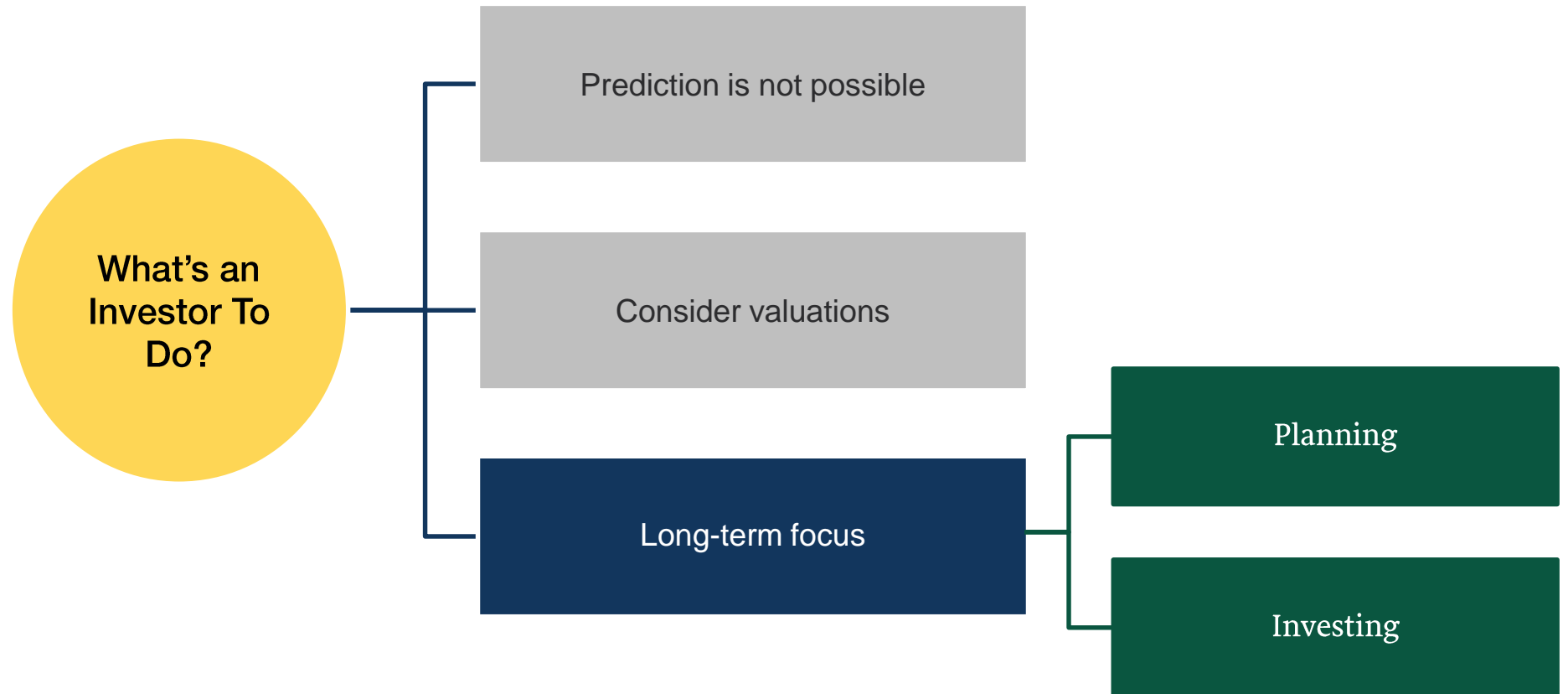


Investment Approaches: Growth, Value and Nexus

# The Way Forward

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How should investors proceed in this changed world?





# The Way Forward

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Long-Term Focus

Accepting uncertainty is a prerequisite for success

“  
*It ain't what you don't know that  
gets you into trouble; it's what you  
know for sure that just ain't so.*  
Mark Twain”

Uncertainty is the only thing that's certain in investing

# The Way Forward

Long-Term Focus

Focus on the things you can control

## Planning

- Understand your real objectives
- Consider risk tolerance
  - Risk you can bear
  - Risk you want to bear
- Save for contingencies

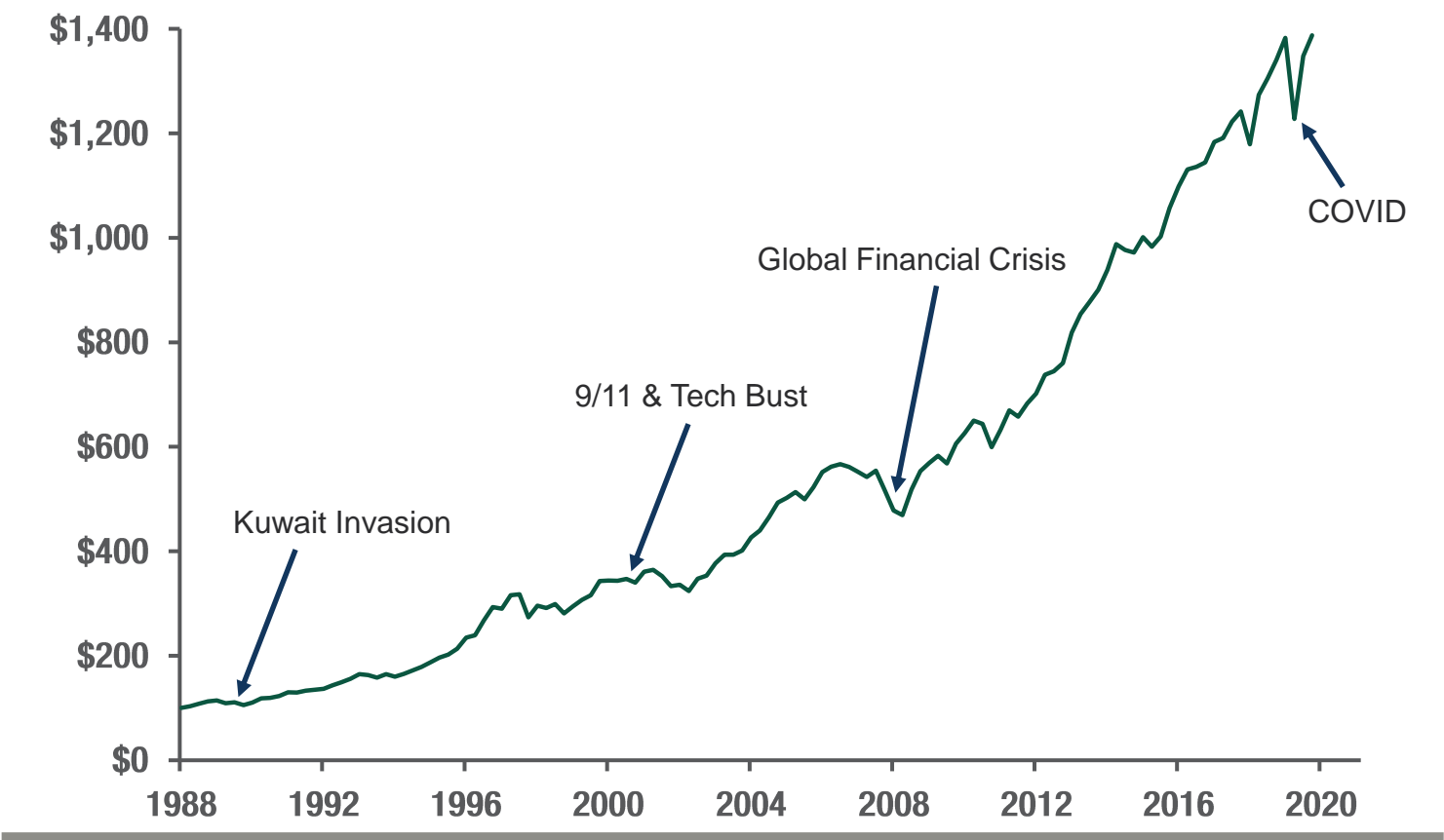
## Investing

- Focus on the long term
- Simplify and diversify
- Emphasize quality
- Seek a margin of safety

# The Way Forward

Long-Term Focus

COVID is the latest test of investor discipline



Growth of \$100 in a Nexus Balanced Mandate <sup>(1)</sup>

<sup>(1)</sup> "Nexus" reflects the performance of a composite of Nexus accounts managed to a balanced mandate (until September 30, 1997) and the Nexus North American Balanced Fund (thereafter). Returns shown prior to the deduction of investment management fees. Past performance is not indicative of future results.

# Q & A

# Thank You

**NEXUS**

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

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Guiding investors  
with *thoughtful*  
wealth planning.