



Quarterly Investment Review

September 22, 2022



Agenda

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

Inside Nexus

We have added 7 new faces to the Nexus team

Preethi Khatri Chetri

Pooled Fund Portfolio
Administrator



Tom Wilson
CFA, Mfin

Vice President,
Client Service &
Business Development



Lily Lucacescu

Junior Office Manager



Ian Ligertwood

Vice President,
Operations &
Technology



Julie Crothers
MBA, CIM, CFP

Vice President,
Client Service &
Business Development



Ashleigh Oucharek

Portfolio Administrator



Kathleen Peace
CFA, CFP

Vice President,
Client Service &
Business Development



Current Environment

The days of “easy money” are behind us

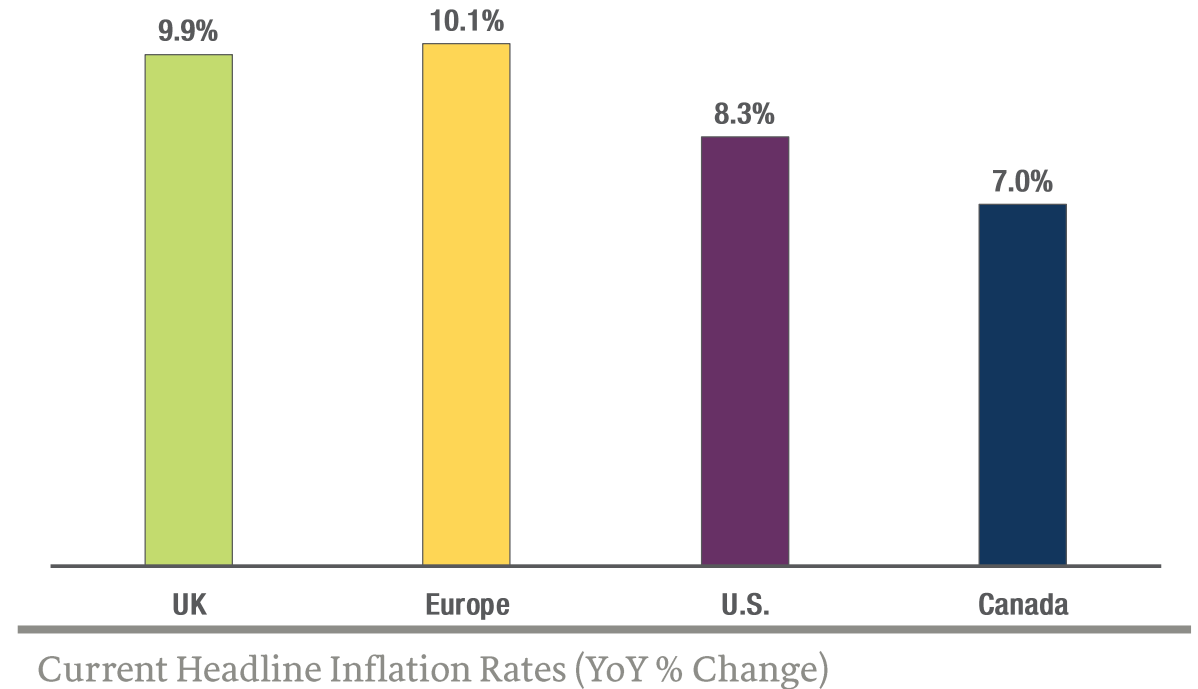
- Inflation is the dominant influence on global capital markets
- A period of higher interest rates lies ahead
 - Central banks are serious this time
- Higher cost of capital deflates asset prices
 - Housing and riskier assets are particularly affected
- Slowing economic growth is to be expected
 - Serious economic contraction possible but not likely
- Bond and stock markets already discount much of the changed environment
 - Not all boats will float. High quality should outperform.

Current Environment

Inflation

The world has an inflation problem

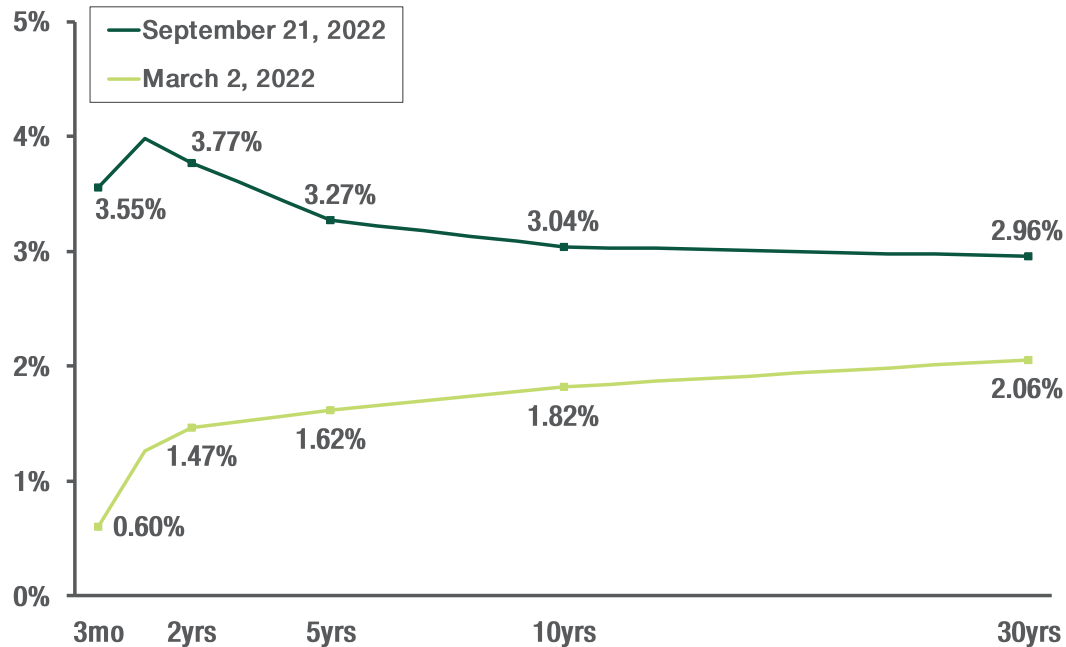
- Central banks were too easy for too long
- Fiscal policies still highly stimulative
- Persistent pandemic supply chain issues
 - China's zero tolerance lockdown strategy
- Turmoil in global energy market
 - Russia – Ukraine war
 - Transition to lower carbon energy sources



As at August 31, 2022

Current Environment

Monetary conditions are tightening



Government of Canada Yield Curve

- “Reducing inflation is likely to require a sustained period of below-trend growth... **Restoring price stability will likely require a restrictive policy stance for some time.**” ⁽¹⁾
- “Surveys suggest that short-term inflation expectations remain high... **Given the outlook for inflation, the Governing Council still judges that the policy interest rate will need to rise further.**” ⁽²⁾
- In addition to raising interest rates, central banks have begun to shrink their balance sheets (“quantitative tightening”)

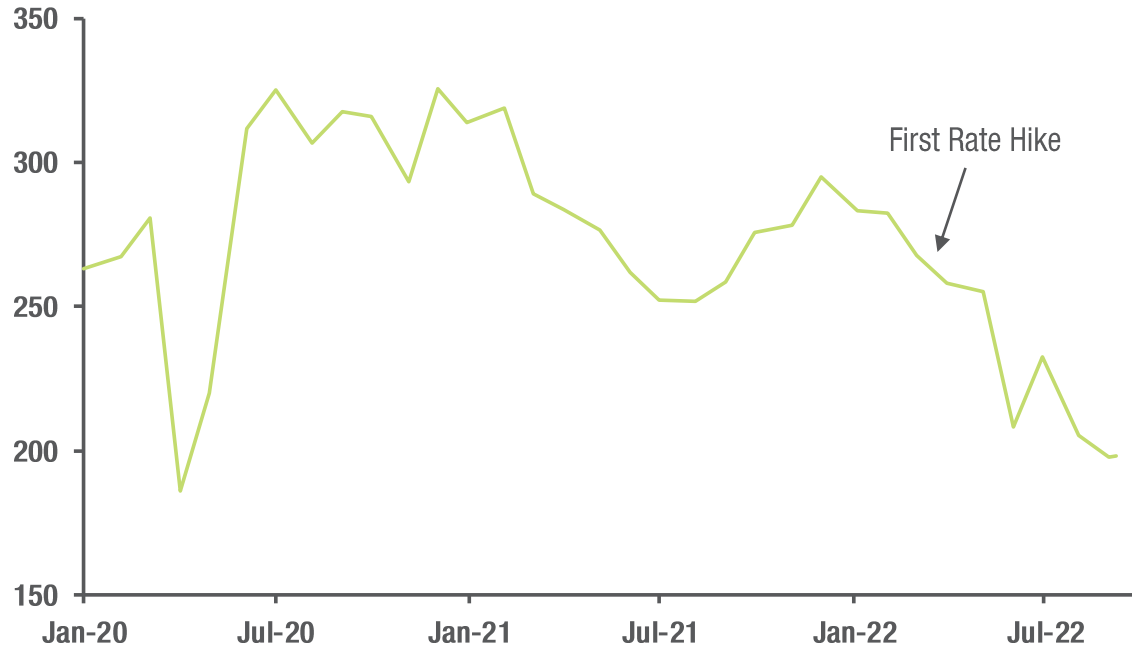
Source: Bloomberg.

⁽¹⁾ Fed Chair Jay Powell, Jackson Hole, August 26th, 2022.

⁽²⁾ Bank of Canada Press Release, September 7th, 2022.

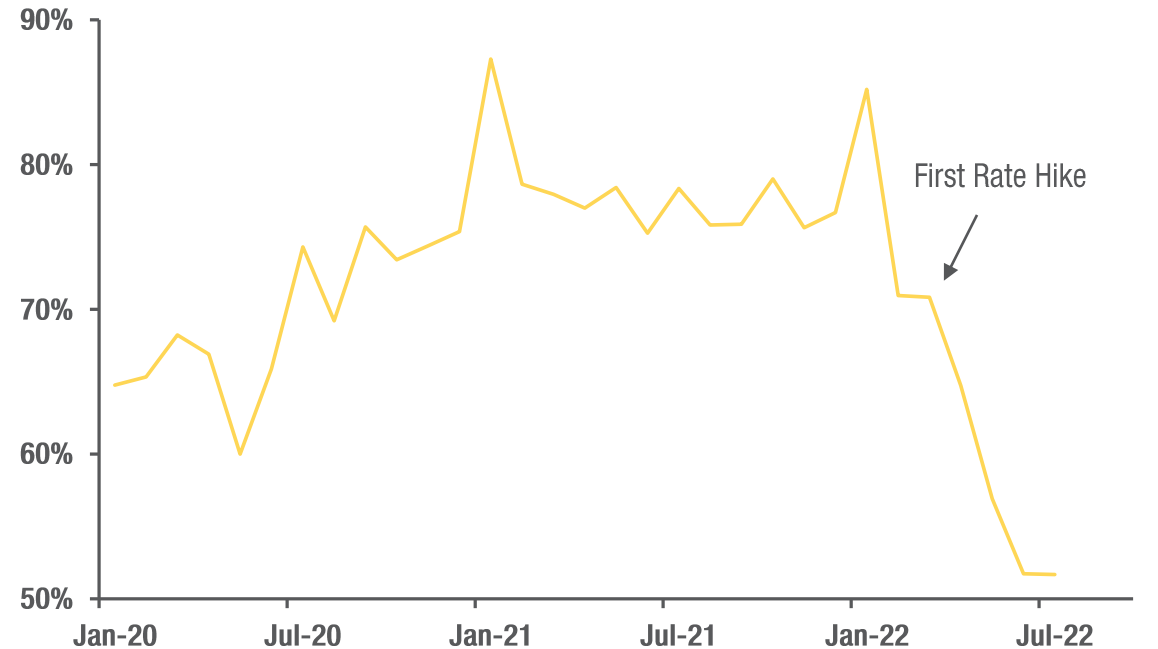
Current Environment

Don't fight the Fed ⁽¹⁾...



MBA Mortgage Purchase Index ⁽²⁾

...or the Bank of Canada!



Canadian Home Sales to New Listings Ratio

- Housing activity responds quickly to higher financing rates
- Other sectors of the economy respond with a longer lag

Source: Bloomberg, The Canadian Real Estate Association.

⁽¹⁾ "Don't fight the Fed" is a Wall Street adage that acknowledges the Fed's dominant role in influencing the cost of capital. When the Fed is raising or cutting rates, investors would be wise to position themselves accordingly. While a contrarian mindset is useful sometimes, it is unwise in the face of a determined central bank.

⁽²⁾ The index measures the weekly volume of mortgage loan applications submitted to lenders.

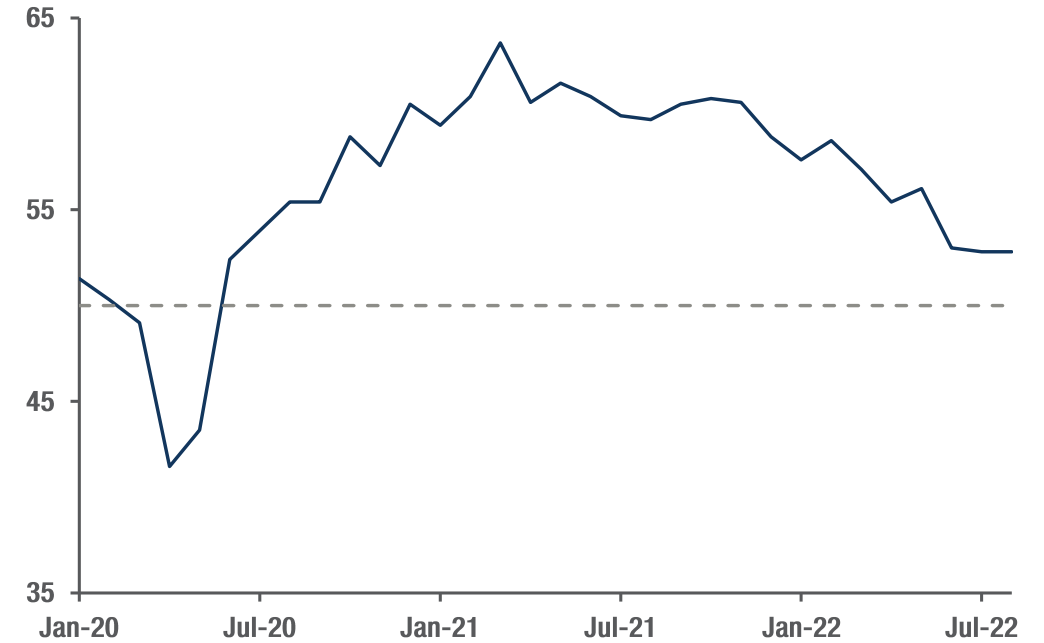
Current Environment

Economic growth will slow, but fears of recession are overblown



U.S. Job Openings

- Unfilled jobs remain plentiful



U.S. ISM Purchasing Managers Survey

- Business sentiment still resilient

Current Environment

Excessive pessimism is unwarranted for now

- Central bank resolve to reduce inflation is a long-term positive
 - Growth rate of aggregate demand will moderate
- Supply chain bottlenecks are improving
 - Shipping costs have fallen from peak
 - Labour participation rate is edging higher
 - Many commodity prices have receded from their pandemic highs
- Corporate profits show continued resilience

Portfolio Overview

Nexus portfolios are constructed to withstand periods of market turmoil

- Overall equity allocations remain near our long-term guidelines
 - Staying invested is key to long-term investing success
- Bond returns have been meaningfully negative
 - With yields now higher, prospective returns have improved
- Markets have experienced a challenging 2022; our Energy holdings have helped
- Valuations are more reasonable today, which bodes well for future returns
 - Our holdings remain profitable and can manage through an economic slowdown

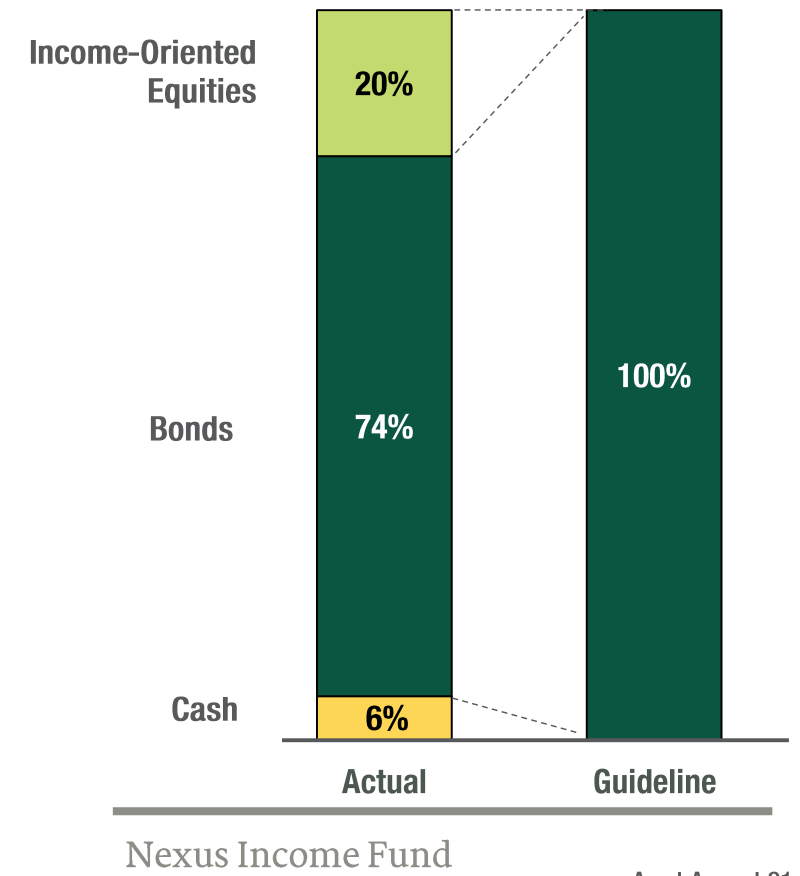
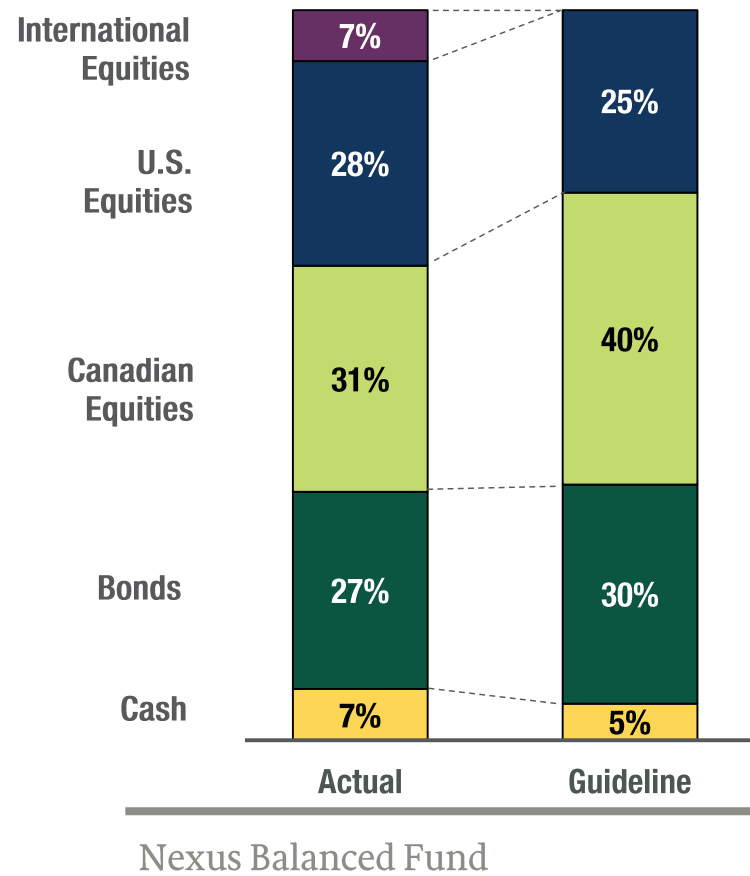
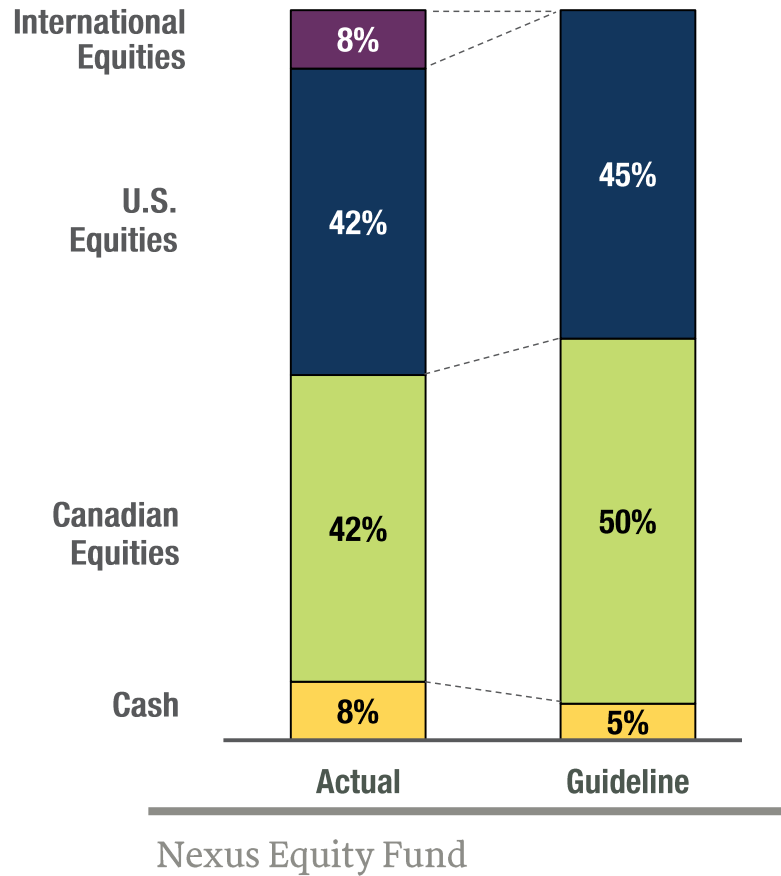
“To refer to a personal taste of mine, I’m going to buy hamburgers the rest of my life. When hamburgers go down in price, we sing the ‘Hallelujah Chorus’ in the Buffett household. When hamburgers go up in price, we weep. For most people, it’s the same with everything in life they will be buying – except stocks. When stocks go down and you can get more for your money, people don’t like them anymore.”

– Warren Buffett

Portfolio Overview

Asset Allocation

Overall equity allocations are close to long-term guidelines

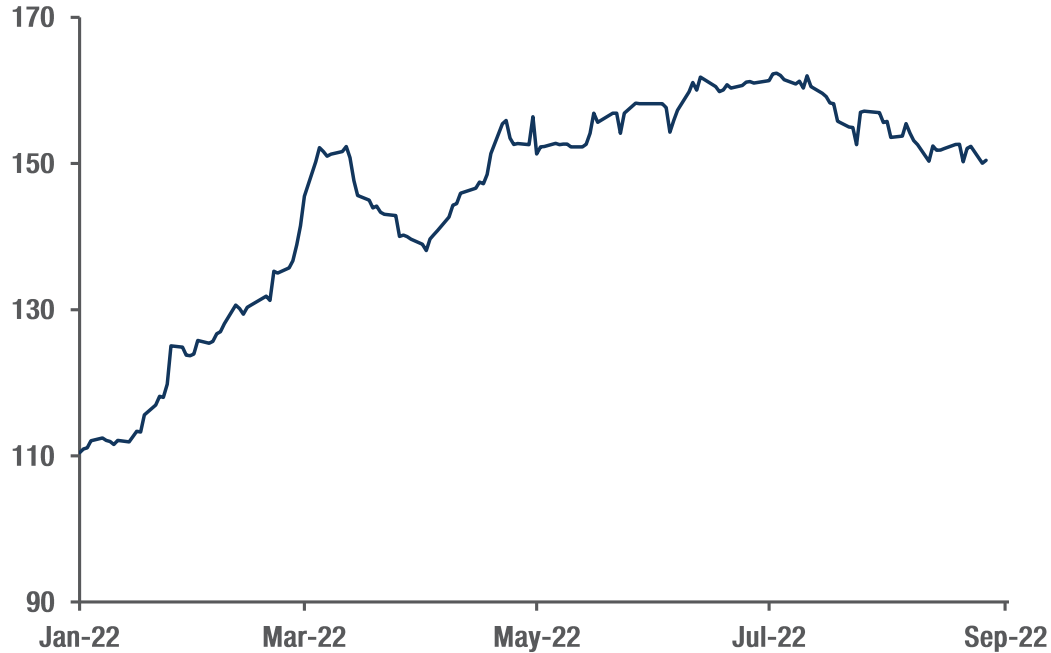


As at August 31, 2022

Portfolio Overview

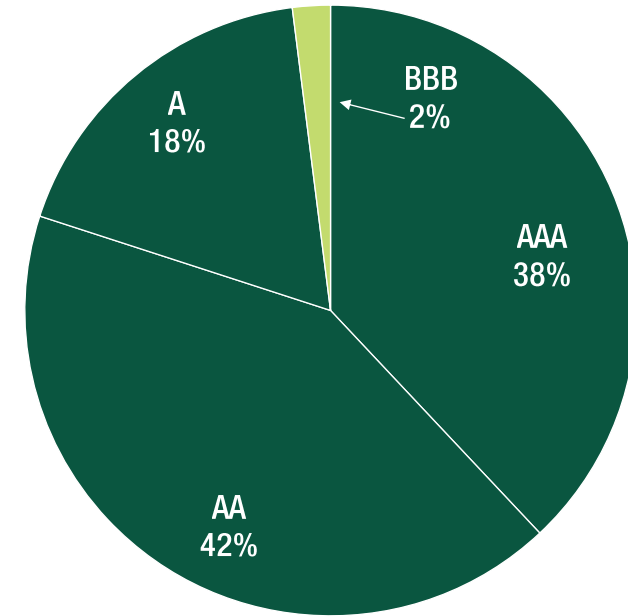
Fixed Income

The perfect storm – wider spreads and higher yields



Canadian 10-Year Single A Credit Spread

- Higher yields and wider spreads reduce bond prices

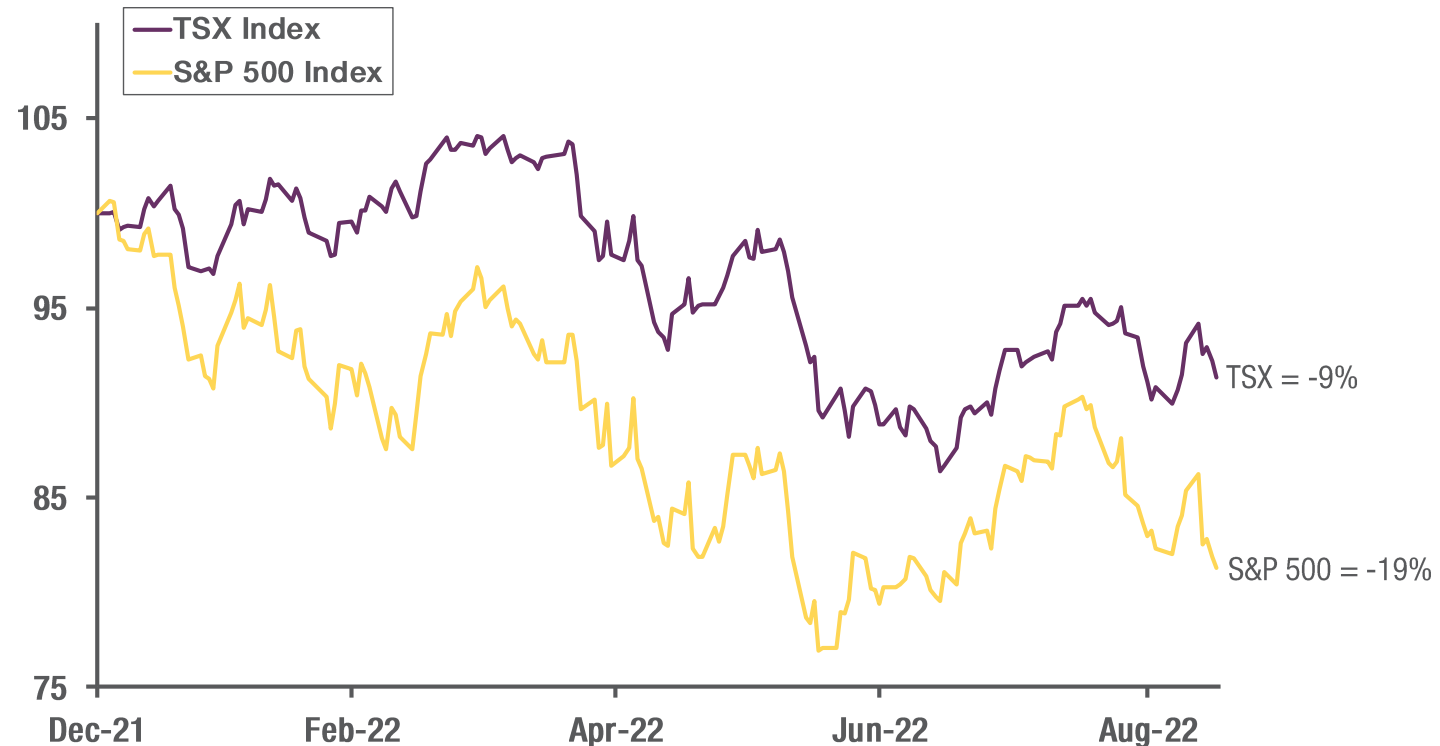


Income Fund Credit Exposure ⁽¹⁾

- Our high quality and short duration (3.6 years vs. 7.5 years for the index) positioning has helped

Portfolio Overview

Markets have experienced a challenging 2022



Year-to-Date Price Return for the TSX and S&P 500

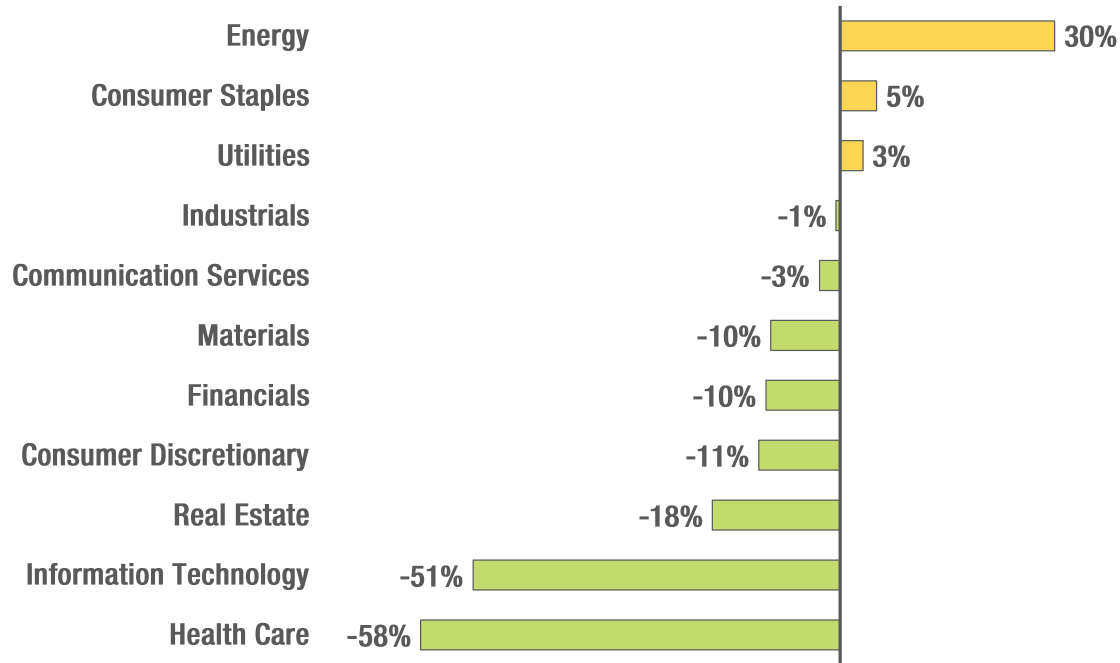
- The TSX is up 5.8% from its 2022 low
- The S&P 500 is up 5.6% from its 2022 low

As at September 16, 2022

Portfolio Overview

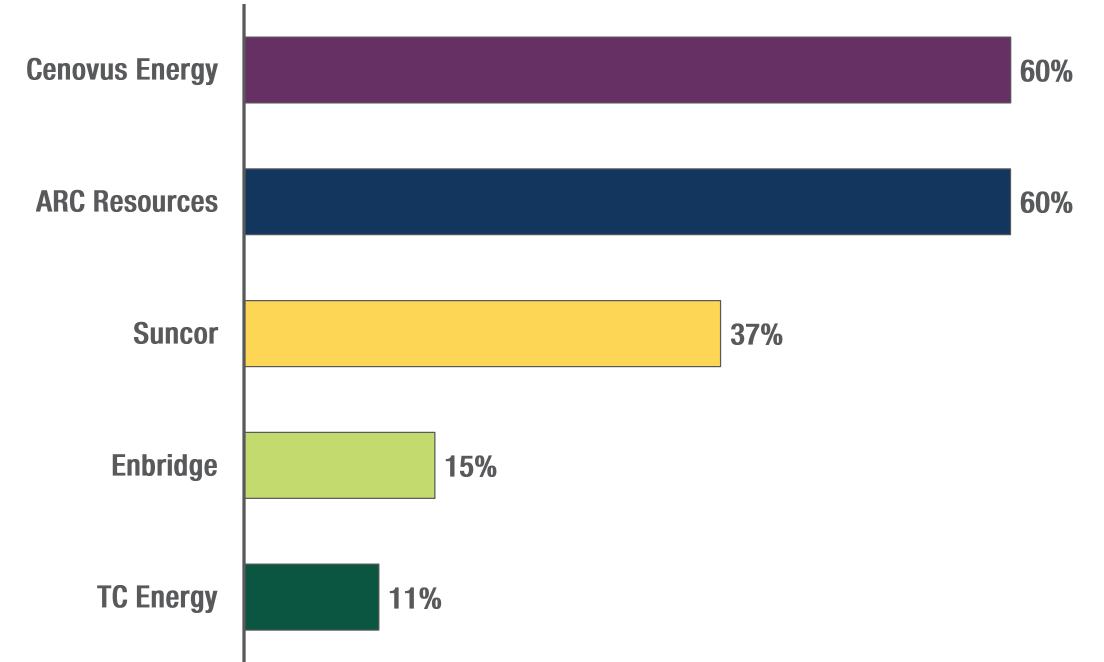
Equity Markets in 2022

In Canada, our energy holdings have provided a tailwind



TSX: Total Returns Year-to-Date, by Sector

- We own no Canadian Information Technology or Health Care



Nexus Energy Holdings: Total Returns Year-to-Date

As at August 31, 2022

Portfolio Overview

Equity Markets in 2022

The market has punished a number of our holdings, but we like their long-term prospects

	Market Concerns	Corporate Outlook
Automotive	<ul style="list-style-type: none"> ▪ Supply chain challenges ▪ European exposure ▪ High gas prices 	<ul style="list-style-type: none"> ▪ Supply chain improving ▪ Strong financials ▪ Well-positioned for electric vehicle transition ▪ Valuations discount overly-pessimistic future
Communication Services	<ul style="list-style-type: none"> ▪ Digital advertising slowdown ▪ Government regulation ▪ Changing competitive dynamics 	<ul style="list-style-type: none"> ▪ Strong competitive positions ▪ Financial flexibility ▪ Leading profitability ▪ Discounted valuations
Financials	<ul style="list-style-type: none"> ▪ Economic slowdown ▪ Risk of rising loan losses ▪ Less-favourable capital market conditions 	<ul style="list-style-type: none"> ▪ Dominant competitive franchises ▪ Widening net income margins ▪ Well-capitalized balanced sheets
Info Tech	<ul style="list-style-type: none"> ▪ Supply chain disruptions limiting sales ▪ Pace of technology transition 	<ul style="list-style-type: none"> ▪ Profitable companies ▪ Financial flexibility ▪ Attractive valuations

Portfolio Overview

Equity Portfolio Changes

We bought new positions, and added to existing holdings, during the market upheaval

Buy	Sell
—	ATCO
Add	Trim
ARC Resources Suncor Cenovus Primaris REIT	—

Canadian Equities

Buy	Sell
Ross Stores EOG Resources BMW	—
Add	Trim
Meta Platforms	PRA Group

Foreign Equities

12 months ended August 31, 2022

Portfolio Overview

Ross Stores

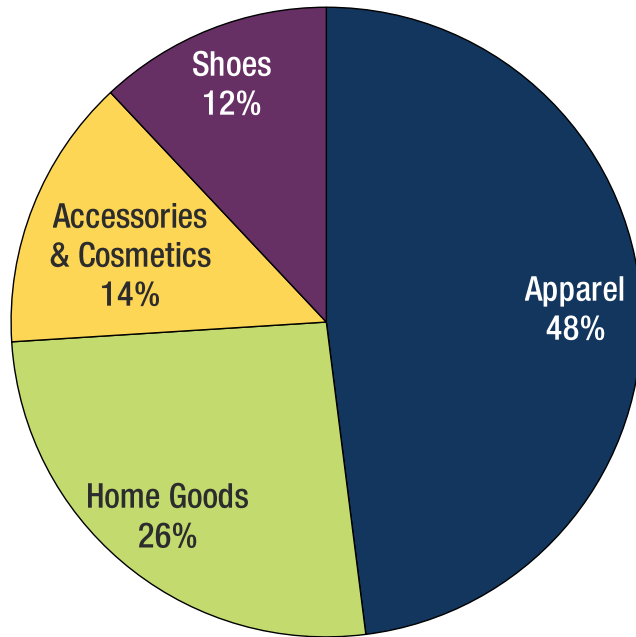
Ross Stores is the largest off-price apparel and home fashion chain in the U.S.

- 1,628 stores in 40 states
- Fiscal 2021 revenues of \$18.9 billion
- Off-price retail has grown in the last decade, unlike other retail categories
- Offers a strong value proposition to its customers
 - Bargains: savings of 20 – 60% below department store and specialty store prices
 - Wide assortment of recognizable brand name merchandise
 - Treasure-hunt shopping experience



Portfolio Overview

Ross holds a strong position in an attractive industry



Ross Stores Revenue by Category (Fiscal 2021)

- Solid strategic positioning
 - A large player, protected by competitive advantage
 - Successful in growing market share
- Attractive financial characteristics
 - Earns high returns on invested capital
 - Strong balance sheet
- Defensive attributes
 - Consumers “trade down” to off-price when times are tough
 - Recessions offer the opportunity to buy inventory cheaply
- Geographic expansion opportunity
- Compelling valuation with an attractive risk/reward skew

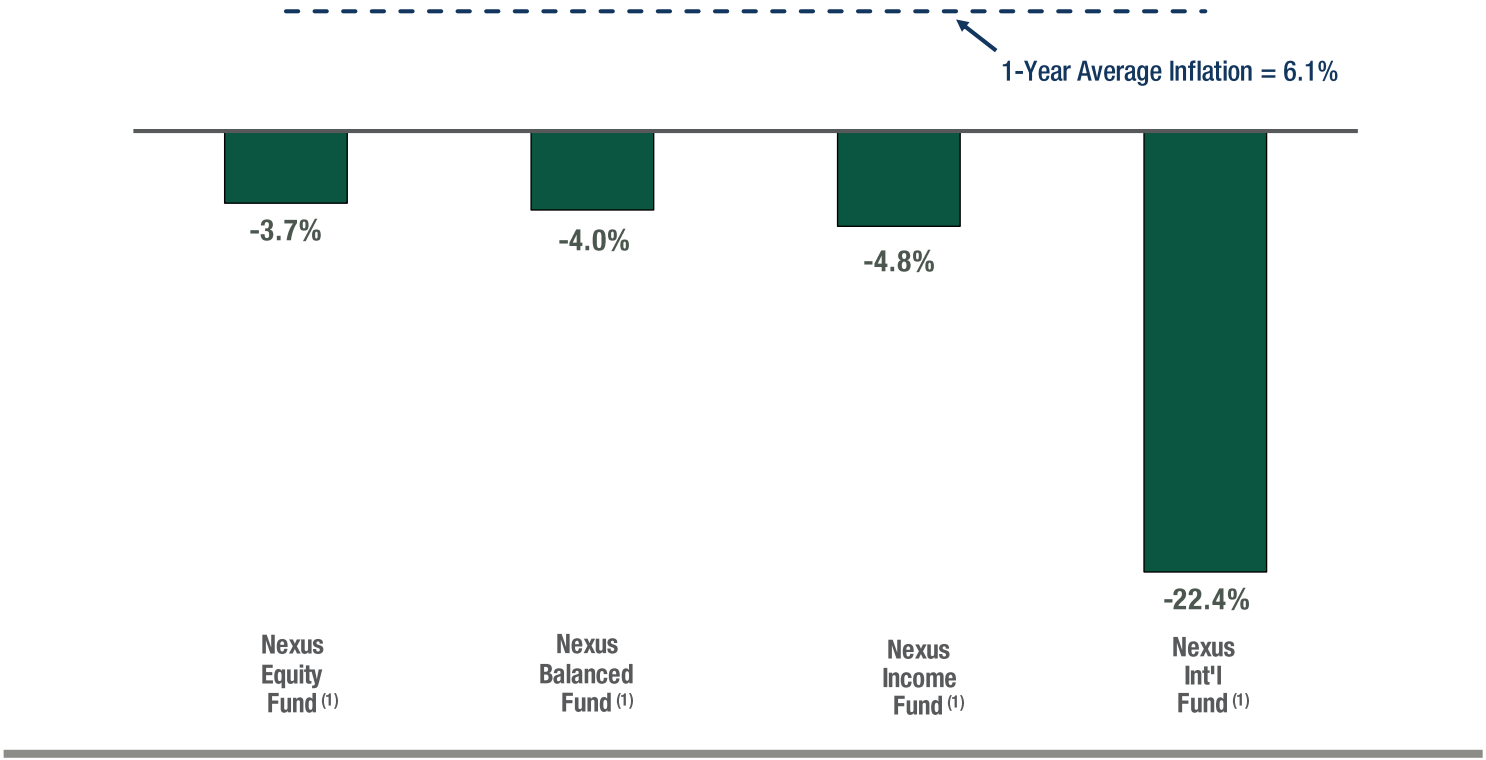
Investment Performance

Financial markets have struggled through most of 2022

- Canadian bonds had the worst first 6 months ever
 - Nexus's positioning resulted in good relative performance
 - Strong recovery in July, followed by more weakness in August
- The Canadian stock market has been more resilient than others
 - Canadian energy stocks, while off their highs, have performed well
 - U.S. and International stock markets much more challenging
- One-year returns now modestly negative
 - Strong Canadian equity returns mitigated the decline
- Longer-term risk / return characteristics are attractive
 - Our approach differs from the indices – performance will inevitably diverge at times

Investment Performance

Strong Canadian equity returns have mitigated the decline in the last year



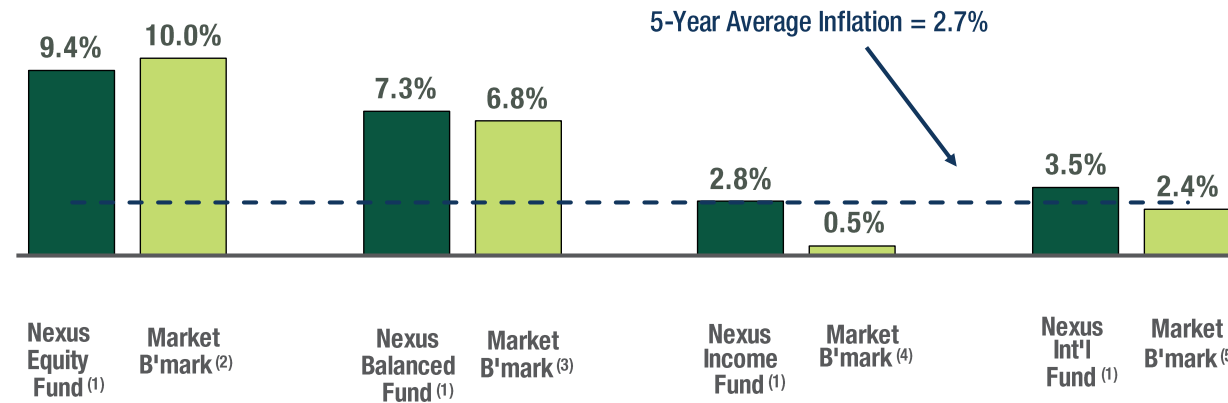
12-Month Return of Nexus Funds ⁽¹⁾

12 months ended August 31, 2022

⁽¹⁾ All Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees. Past performance is not indicative of future results.

Investment Performance

5-Year returns have moderated but remain solid



5-Year Annualized Return

Five Years ended August 31, 2022

⁽¹⁾ All Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees. Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Past performance is not indicative of future results.

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

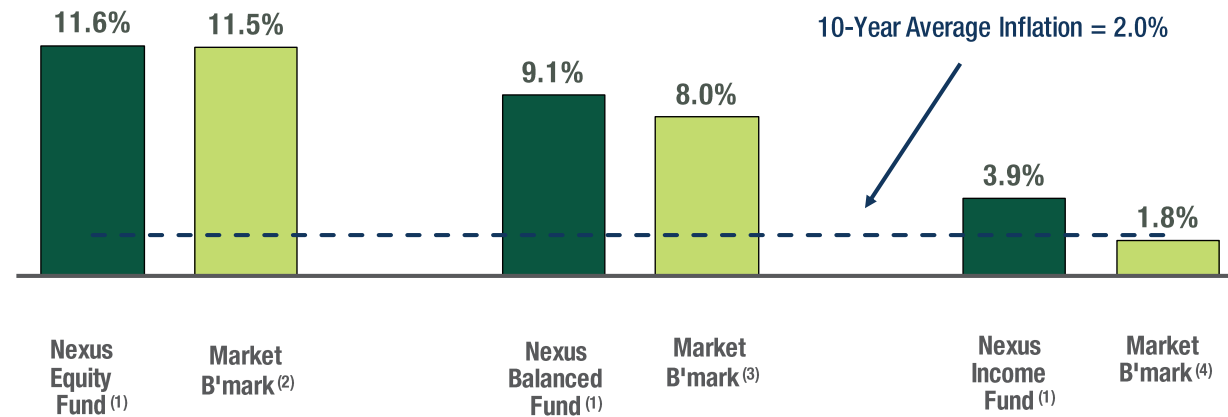
⁽³⁾ Balanced Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

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

Investment Performance

Fund returns over the last decade remain strong despite recent turmoil



10-Year Annualized Return

Ten Years ended August 31, 2022

⁽¹⁾ All Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees. Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Past performance is not indicative of future results.

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Outlook

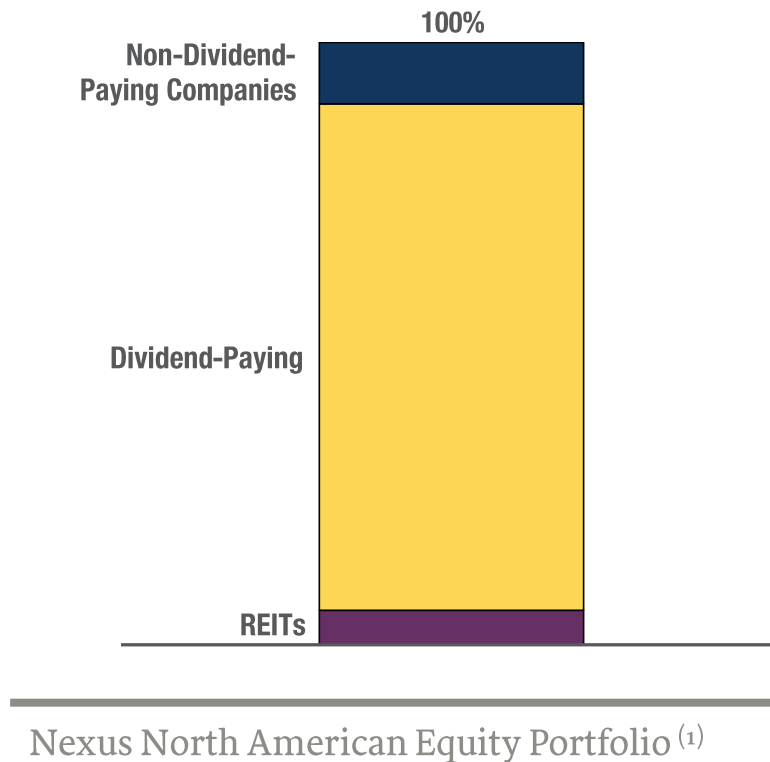
Our portfolio is positioned for long-term investment success

- Nexus Income Fund is constructed to emphasize quality and reduce price risk
 - Credit quality is high, average bond maturities are short
 - Higher interest rates will benefit bond investors over time
 - Income-oriented equities add long-term growth and inflation protection
- North American equity portfolio is comprised of quality stocks with attractive prices
 - Established, dividend-oriented stocks
 - Reasonable valuations add margin of safety
 - Well-positioned for the post-COVID world and for a higher inflation environment
- International equities continue to add diversification
 - Higher dividend yields and lower valuations than North America

Appendix

Portfolio Overview

Our North American equities combine defensiveness and growth



- 4 stocks
- Average EPS growth of 24% per year over 5 years
- 16x average forward P/E multiple

- 33 stocks ⁽²⁾
- 3.3% average dividend yield
- Average dividend growth of 9.9% per year over 5 years
- 9.5x average forward P/E multiple

- 3 Real Estate Investment Trusts
- Average distribution yield of 5.1%
- Average Price/NAV of 67%

As at July 15, 2022

Source: Bloomberg.

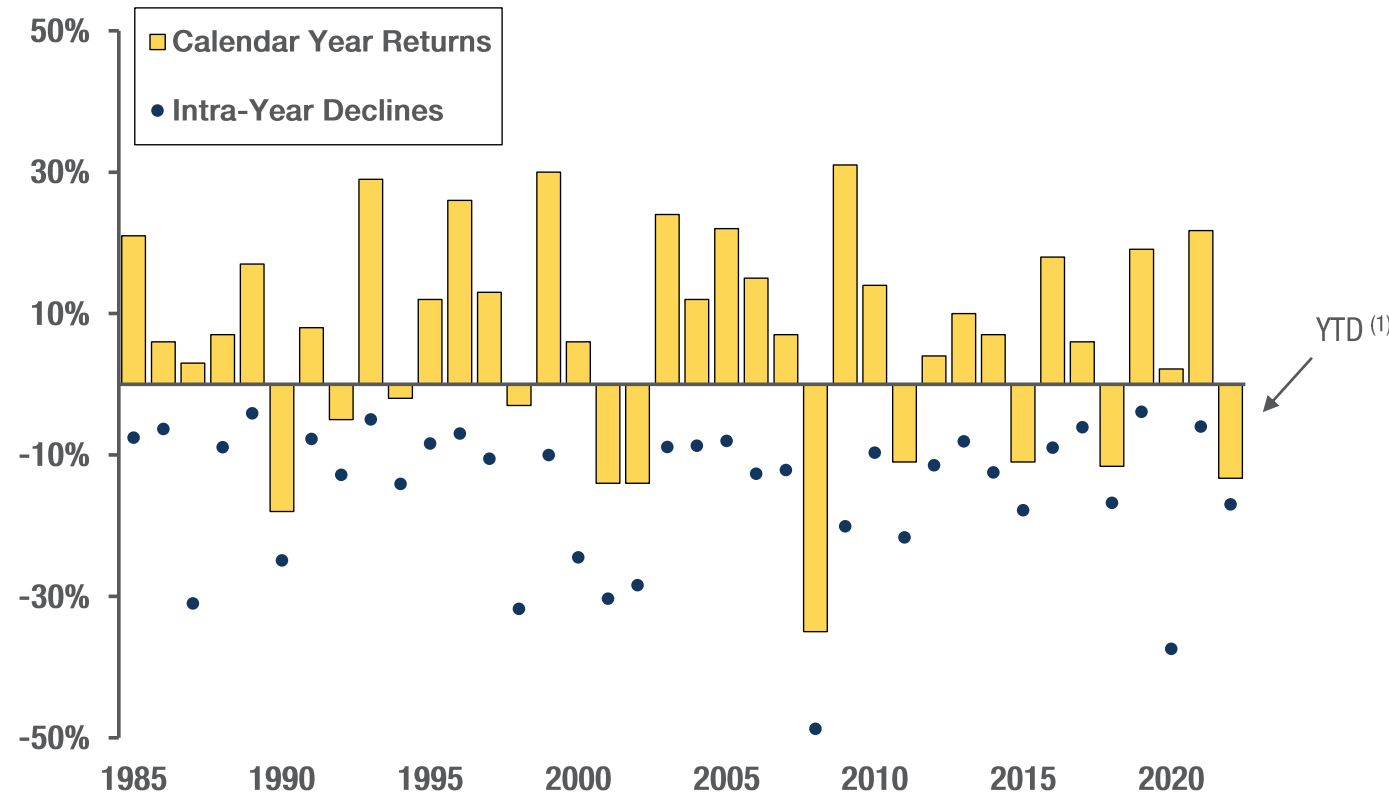
⁽¹⁾ The “forward” year is the current fiscal year estimate for each company. Average P/E and Price/NAV multiples on this page are calculated using a weighted harmonic mean.

⁽²⁾ Of the 33 stocks, three have temporarily suspended their dividends during the coronavirus pandemic. The dividend yield and dividend growth figures exclude these three companies.

Portfolio Overview

Equities Deliver Over Time

Intra-year drawdowns are the norm



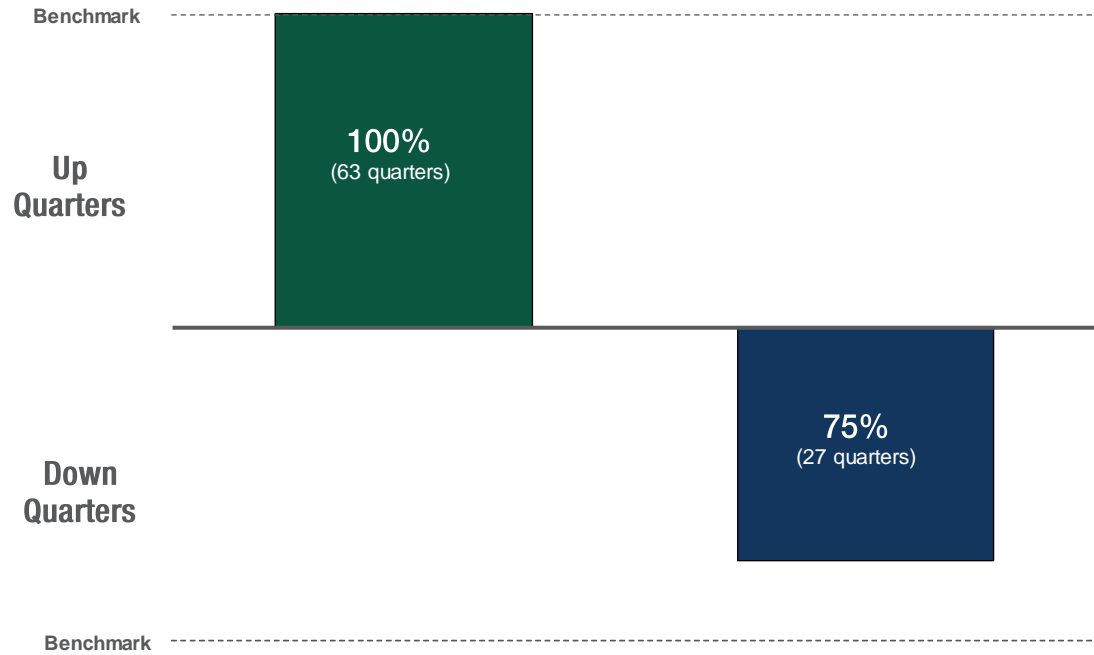
- Despite average intra-year declines of 15%, annual returns were positive in 27 of 37 years

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

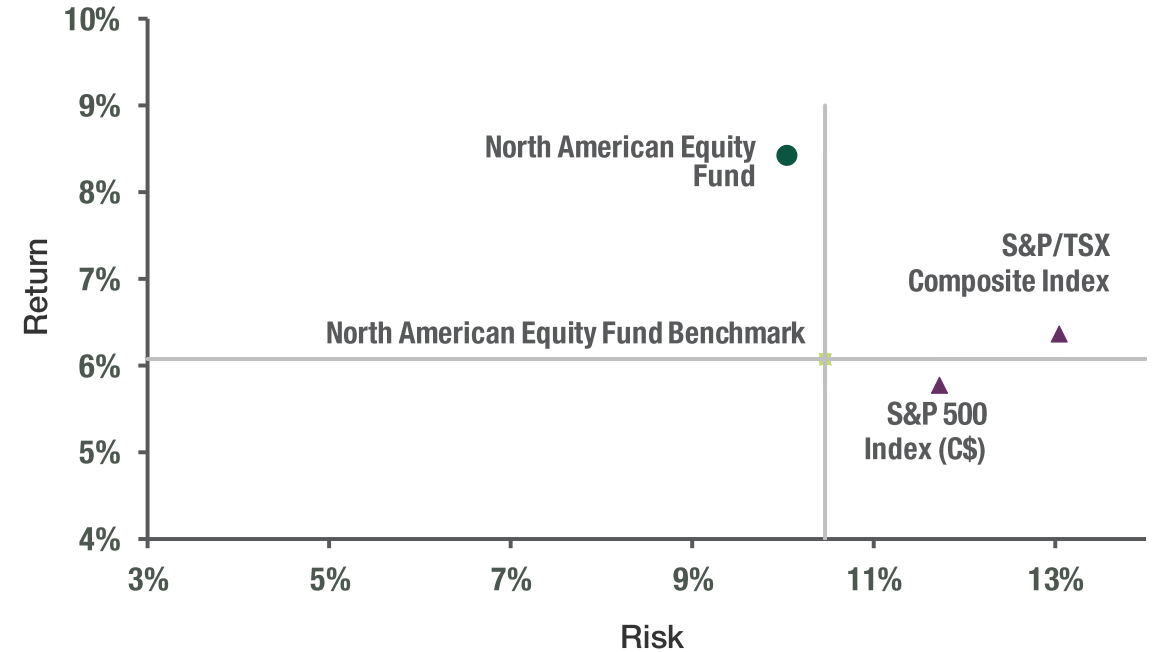
Investment Performance

Equity Fund

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)

⁽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⁾ All Nexus returns upon which these charts are based are time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus’s management fees. Underlying returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Past performance is not indicative of future results.

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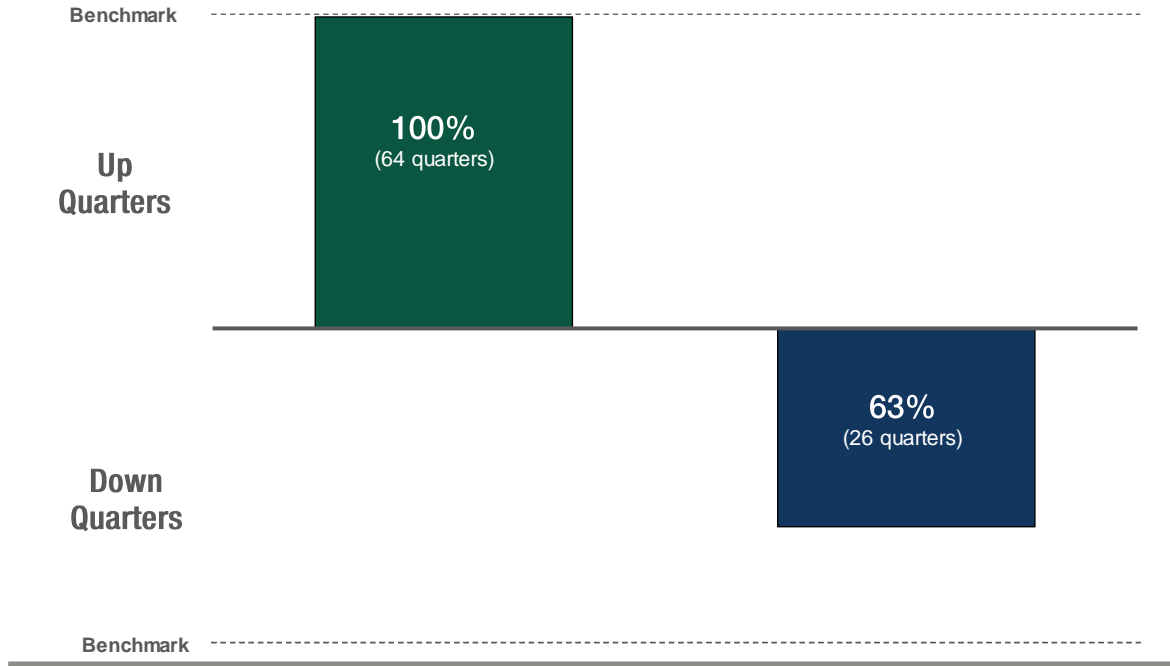
⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

Period ending June 30, 2022

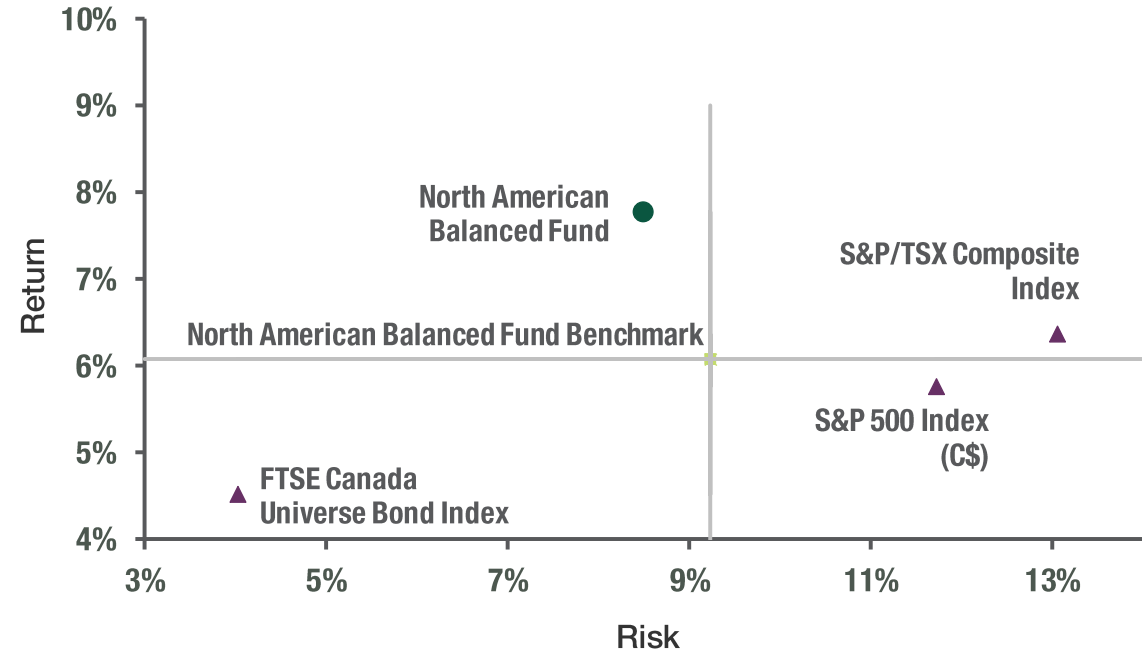
Investment Performance

Balanced Fund

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)

⁽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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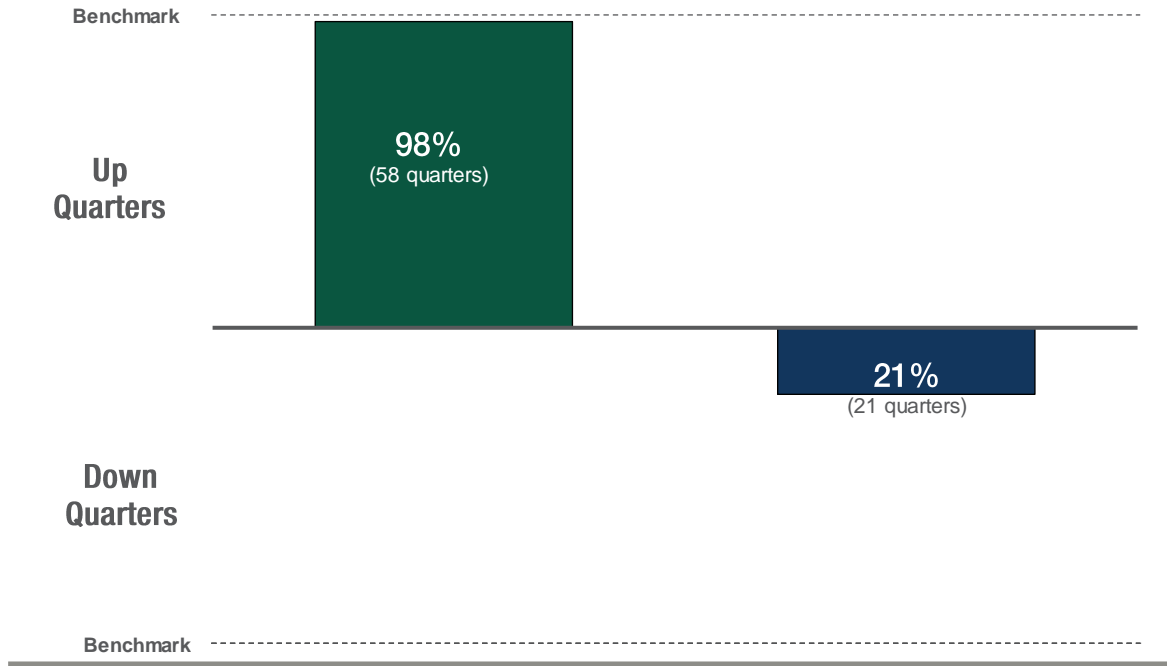
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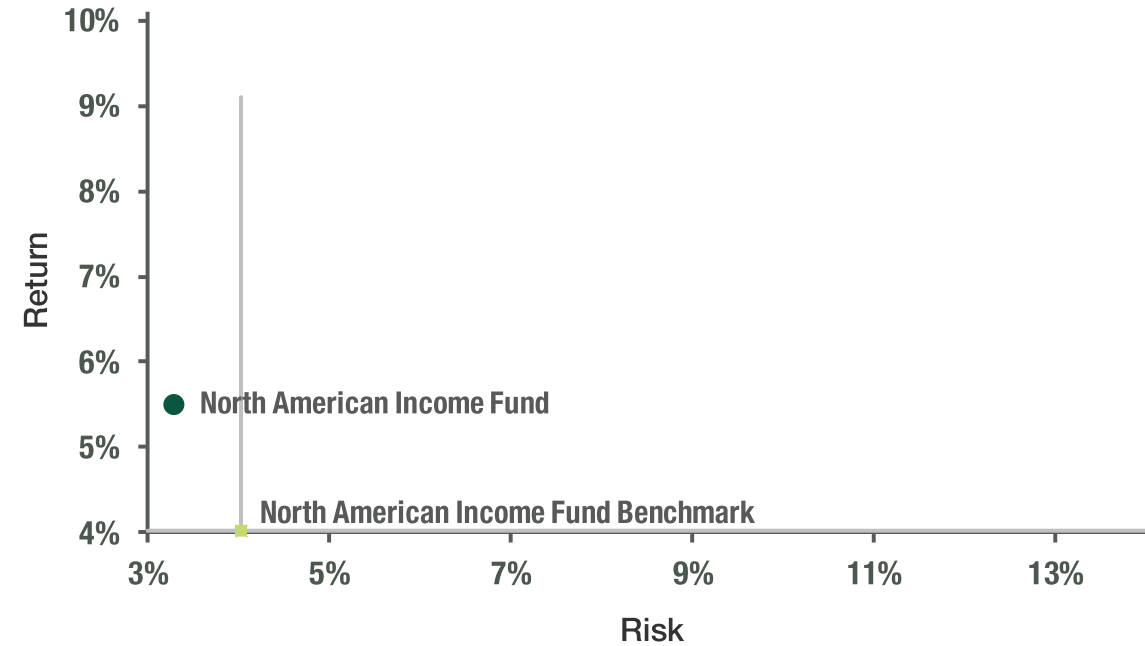
Period ending June 30, 2022

Investment Performance

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



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

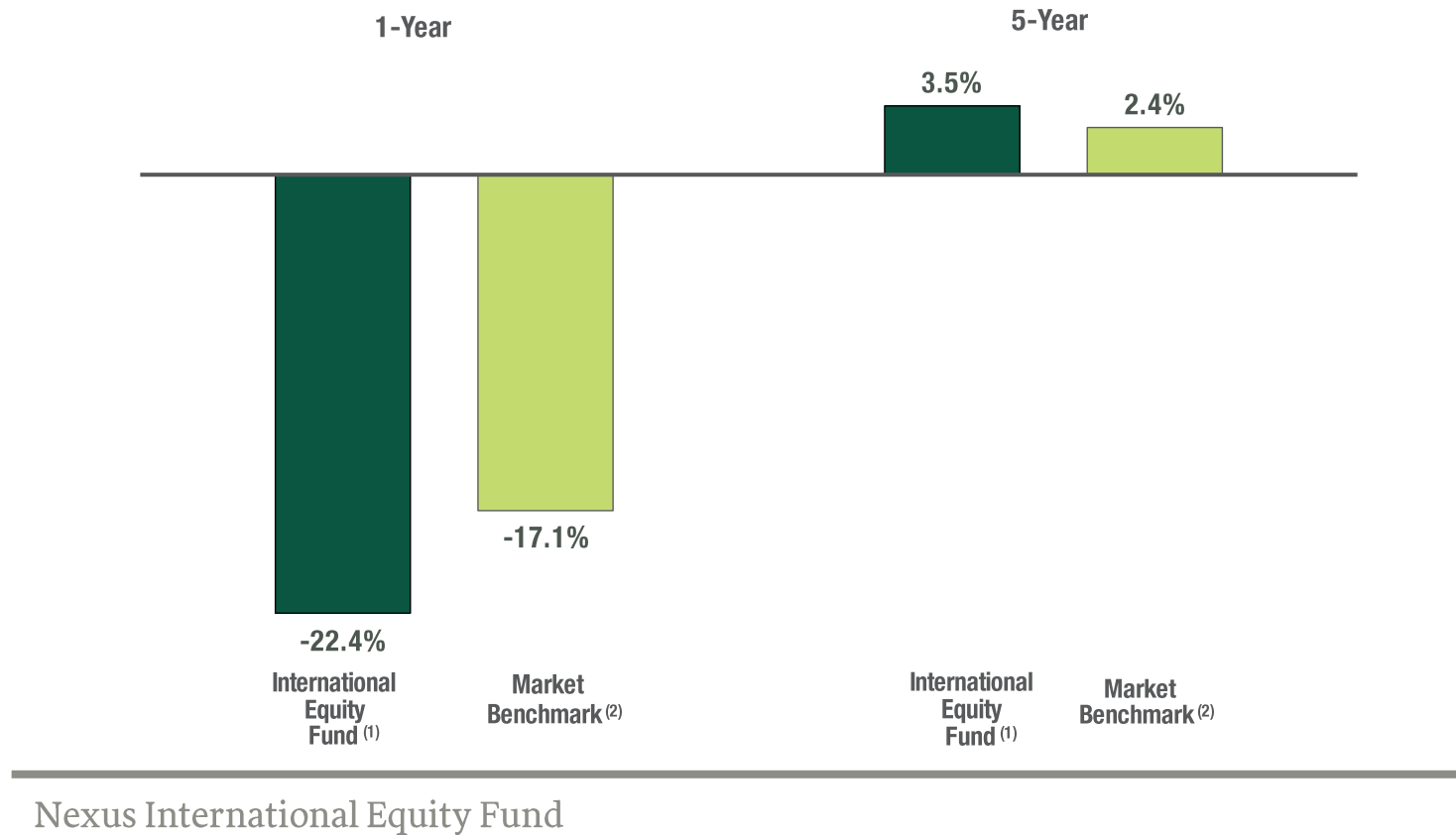


Risk / Return Profile Since October 1, 2002 ^(2,3,4)

⁽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 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.

Investment Performance

The International Equity Fund has had solid returns over the long term, despite disappointing recent results



Periods ended August 31, 2022

(1) All Nexus returns are compound annual average, time-weighted, total rates measured in Canadian dollars and calculated after deducting such direct and indirect costs as applicable withholding taxes, trading commissions, custody fees and other fund/account expenses, but without deducting Nexus's management fees. Returns for market indices and benchmarks are presented on the same basis, but without any such deductions. Past performance is not indicative of future results.

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

NEXUS

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