



# Quarterly Investment Review

February 15, 2023

**NEXUS**

# Agenda

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

# Current Environment

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Tighter monetary conditions are having their expected effects

- Inflation moderating, but not conquered
  - Central bank policies are diverging
- Economic growth is slowing
  - Real estate predictably weak and business confidence is eroding
- Tight labour markets remain a source of economic resilience
  - Pandemic distortions still unresolved
- Consumer bending, not breaking
  - Labour income has trailed inflation, but consumers are still spending
- Geopolitics an undeniable overhang

# Current Environment

## Inflation and Central Banks

### Inflation moderating, but not conquered



Consumer Price Inflation (YoY)

November 2022

*"The Bank of Canada's job is to ensure inflation is low, stable and predictable. We are still far from that goal."*

February 2023

*"We shouldn't keep raising rates until inflation is back to 2 per cent. Instead, we need to pause rate hikes before we slow the economy and inflation too much."*

– Tiff Macklem, Governor of the Bank of Canada

February 2023

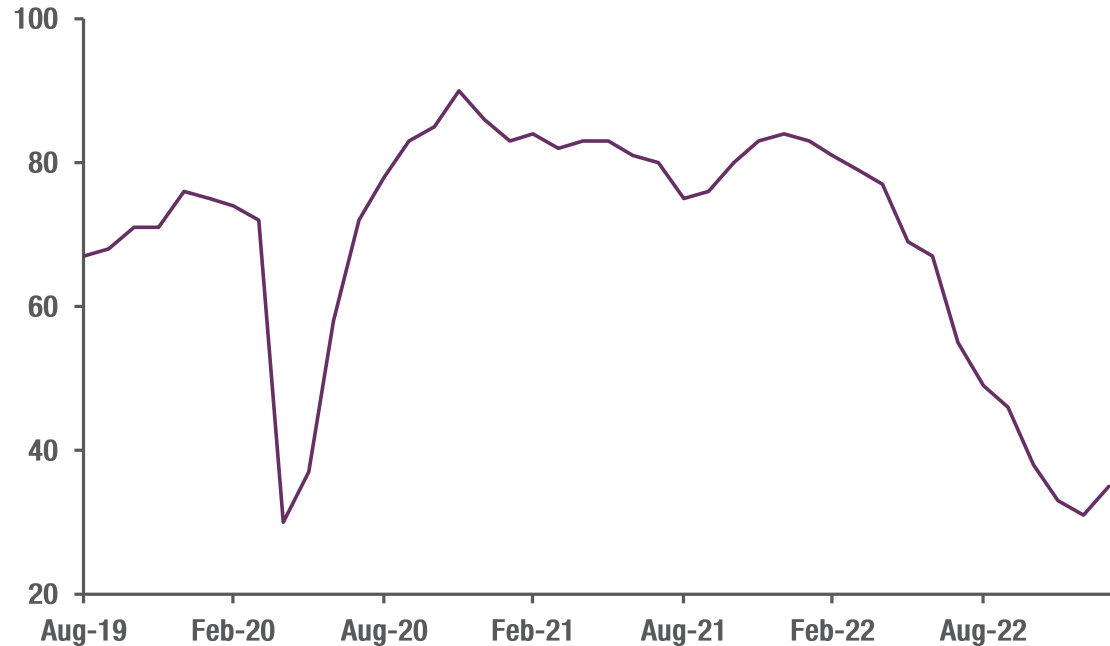
*"...it's very difficult to manage the risk of doing too little and finding out in 6 or 12 months that we were actually close but didn't get the job done, inflation springs back and we have to go back in."*

– Jay Powell, Chair U.S. Federal Reserve

# Current Environment

## Economic Growth

### Economic growth is slowing



U.S. National Association of Home Builders Market Index

- Housing is bearing the brunt of higher financing costs



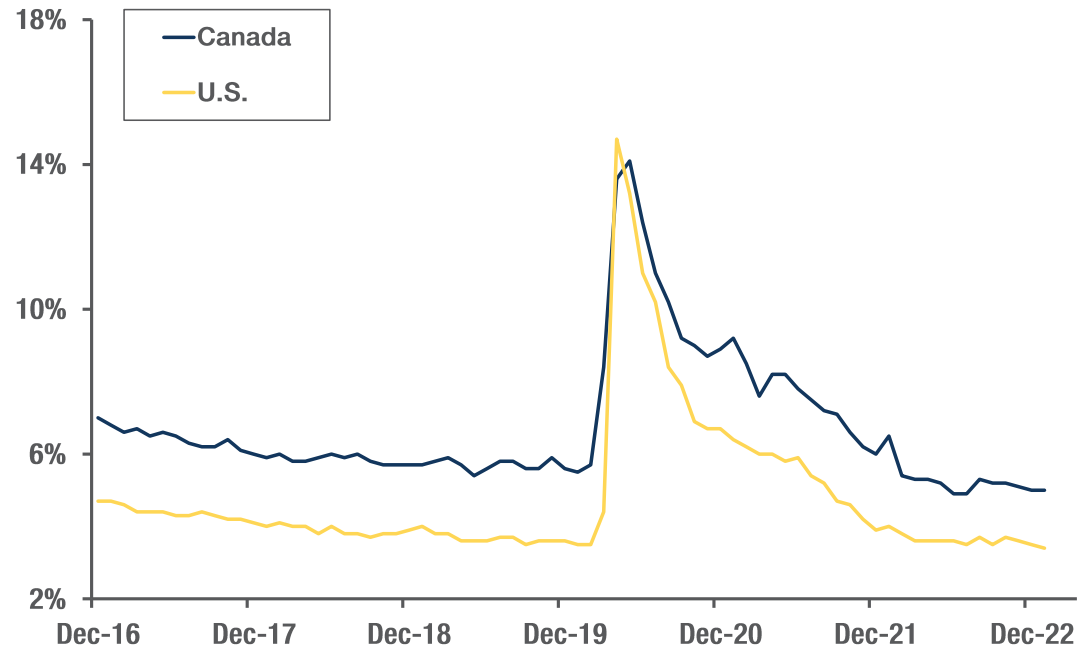
U.S. ISM Purchasing Managers and Services Surveys

- Business sentiment eroding for many reasons
  - Services sector remains resilient

# Current Environment

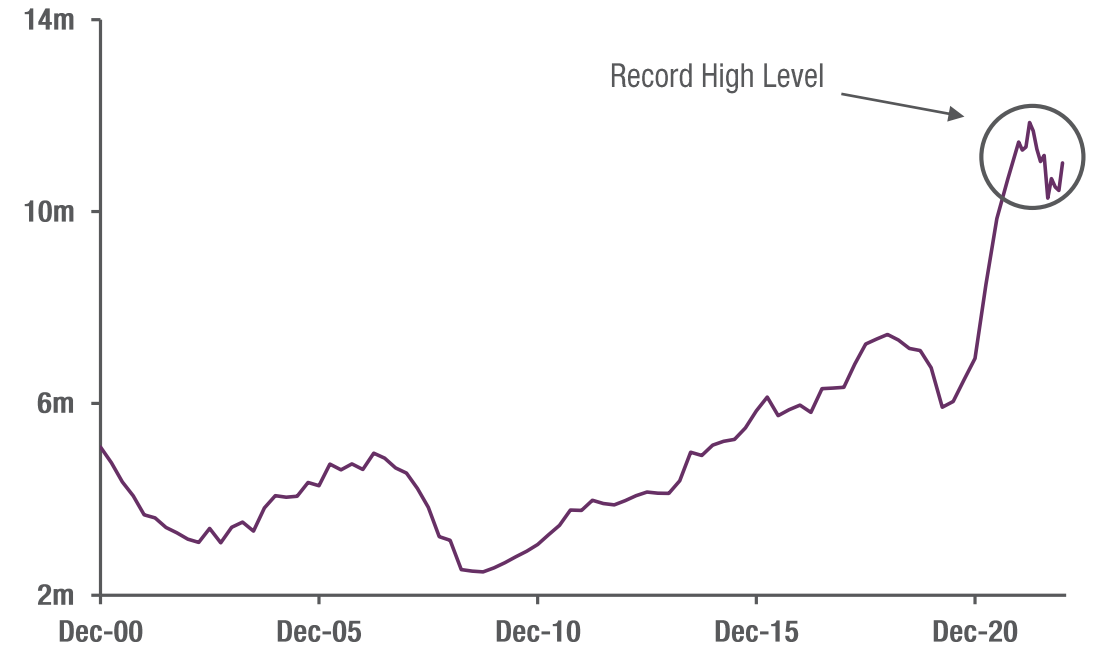
## Economic Resilience

### Tight labour markets remain a source of economic resilience



#### Unemployment Rates

- U.S. unemployment rate (3.4%) back to record lows
- Canadian unemployment (5.0%) following the same pattern



#### U.S. Job Openings

- Unfilled jobs remain plentiful

# Current Environment

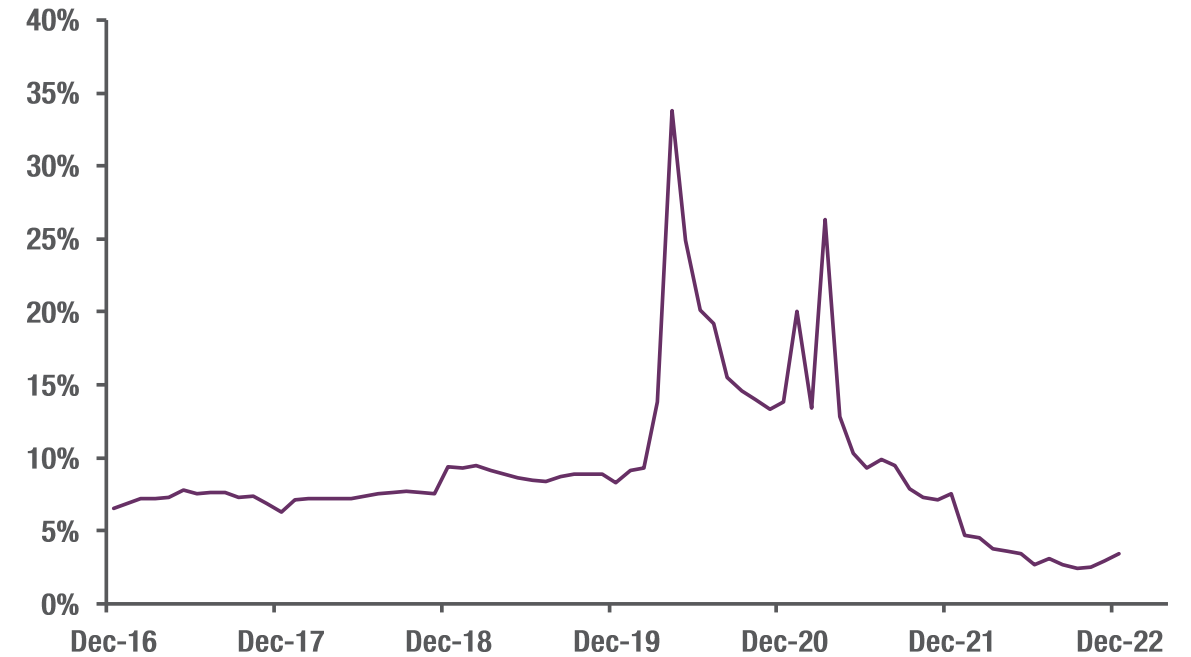
## Economic Resilience

### Consumer bending, but not breaking



U.S. Average Hourly Earnings (YoY)

- Wage increases trail inflation
- Rate of growth inconsistent with 2% inflation target



U.S. Personal Savings Rate (YoY)

- Accumulated pandemic savings still being used for current consumption

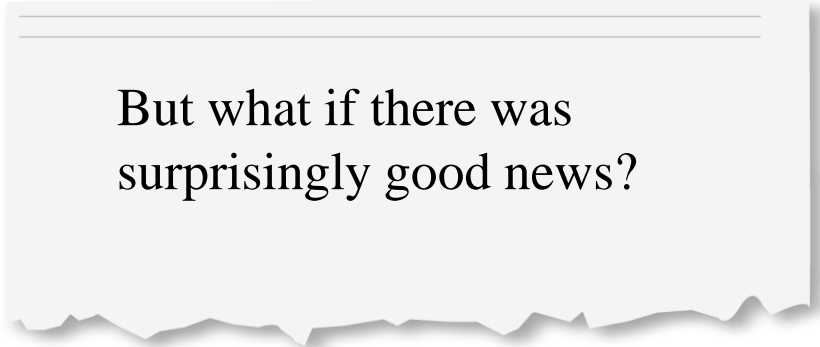
# Current Environment

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## Geopolitics and Other Risks

There's a lot to worry about ...

- Ukraine-Russia war
- China
  - COVID response
  - Taiwan
  - Real estate
- Political turmoil in Washington
- OPEC+
- Crypto-currency turbulence



But what if there was  
surprisingly good news?



# Current Environment

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## Economic slowdown ≠ market disaster

- Outlook – economic and geopolitical – remains uncertain
  - Recession a possibility, but not a certainty
- Capital markets anticipate bad news
  - “Fed watching” not a requirement for long-term investing success
- Market timing is impossible – instead, favour high-quality investments

# Portfolio Overview

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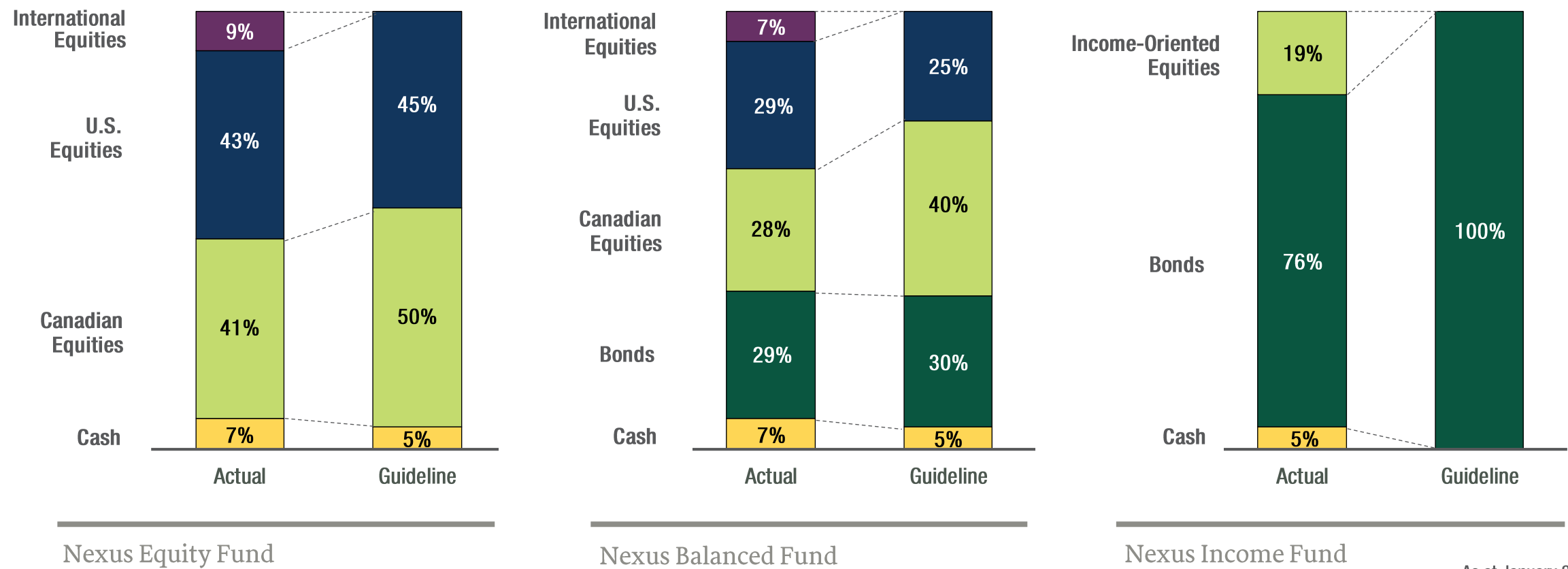
Nexus portfolios are positioned for the long term

- Overall equity allocations are near our long-term guidelines
- Diversification remains an important characteristic of our portfolios
  - 2022 proved highly unusual, with both stocks and bonds declining
  - Despite this anomaly, diversification still works
- Fixed income portfolios still positioned for the expectation of higher yields
- Markets have begun the year on a better footing, yet risks abound
  - High-quality holdings help protect against potential downside

# Portfolio Overview

## Asset Allocation

Overall equity allocations are close to long-term guidelines



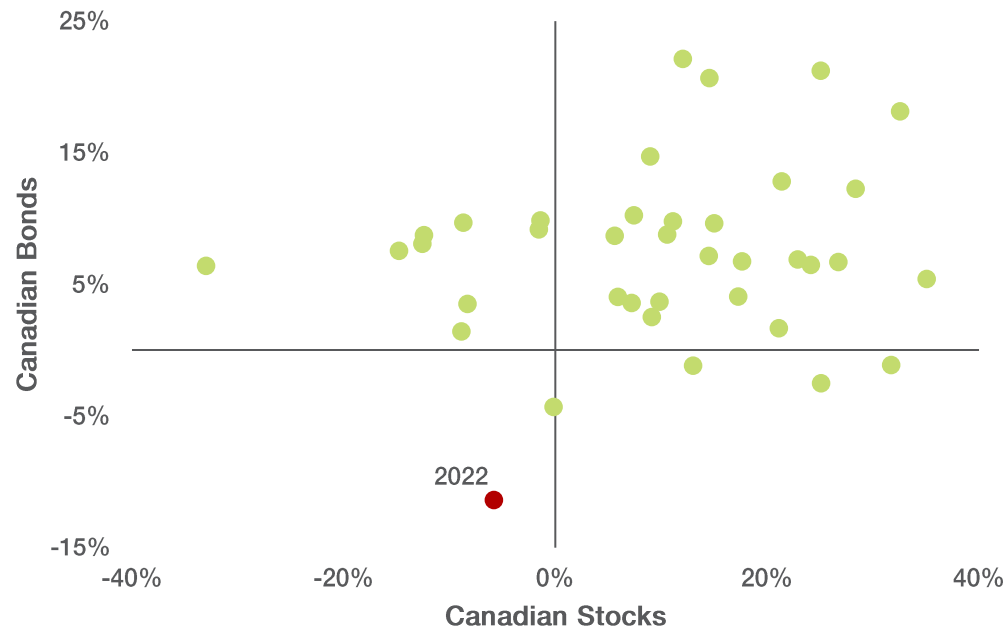
As at January 31, 2023

- Our portfolios are thoughtfully-diversified across asset classes, geographies and sectors

# Portfolio Overview

## Diversification

### Asset class diversification didn't protect investors in 2022



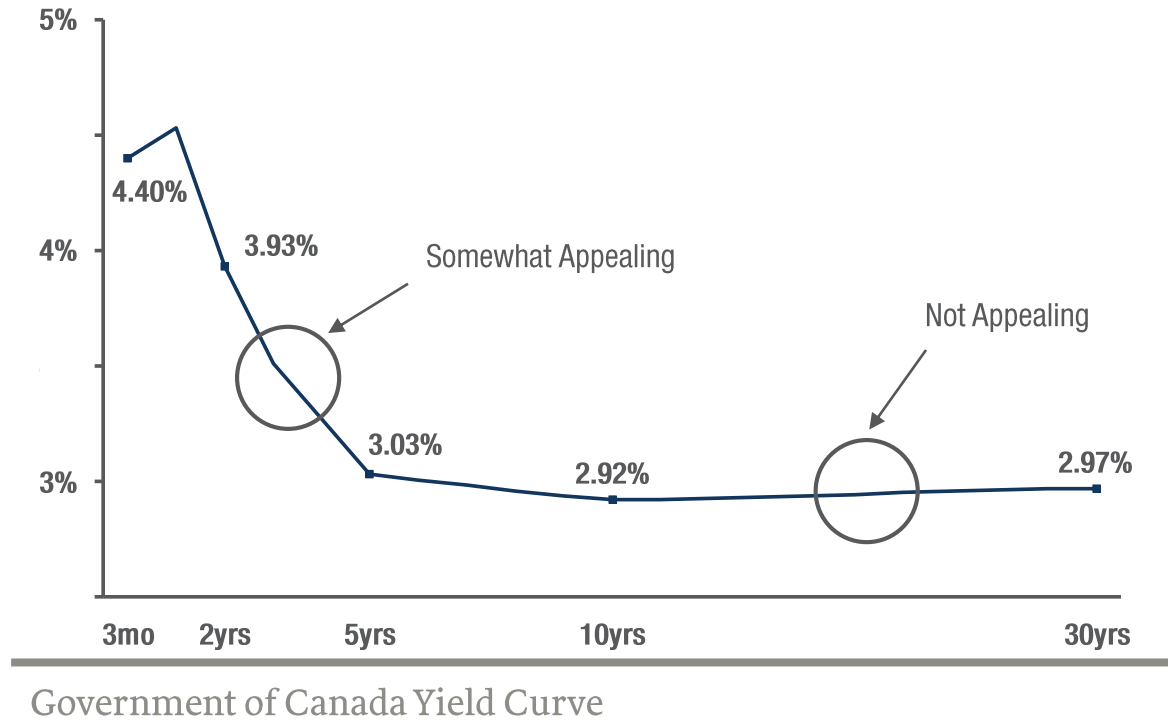
- Highly unusual for stocks and bonds to decline simultaneously
  - The TSX Composite fell 5.8% in 2022
  - The Canada Universe Bond Index fell 11.4%
  - 2022 was a statistical outlier
- For most investors, there remains a role for stocks and bonds

Returns of Canadian Stocks and Bonds (for each year 1985 to 2022)

# Portfolio Overview

## Fixed Income

We still await better opportunities in longer-term bonds



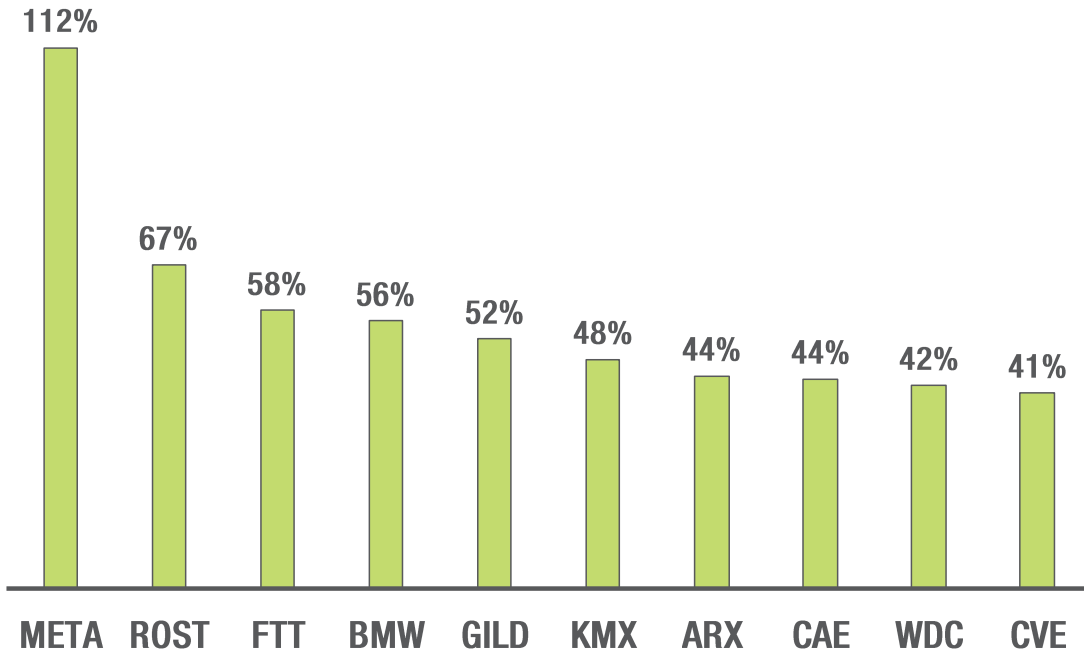
- Absolute yields remain unattractive (real yields are low)
- Our bond portfolio differs from the Index <sup>(1)</sup>
  - Maturity (duration) is 3.2 years vs. Index at 7.4 years
  - Yield to Maturity is 4.4% vs. Index at 4.1%
  - Better credit quality: <4% BBBs vs. Index at 11%

As at January 31, 2023

# Portfolio Overview

## Equities

### Patience with quality investments pays off



Price Change from 52-Week Low <sup>(1)</sup>

- Patience was required in 2022
  - Some of our holdings fell out of favour
  - We did not capitulate, and have benefitted from their recoveries
- Almost all of our stocks have rebounded strongly

*“It’s in the nature of stock markets to go way down from time to time. There’s no system to avoid bad markets. You can’t do it unless you try to time the market, which is a seriously dumb thing to do.”*

– Charlie Munger

As at February 6, 2023

# Portfolio Overview

## Equity Portfolio Changes

Portfolio changes have been modest, consistent with our long-term investment approach

<b>Buy</b>	<b>Sell</b>
—	ATCO
<b>Add</b>	<b>Trim</b>
Various Energy holdings	Various Energy holdings

Canadian Equities

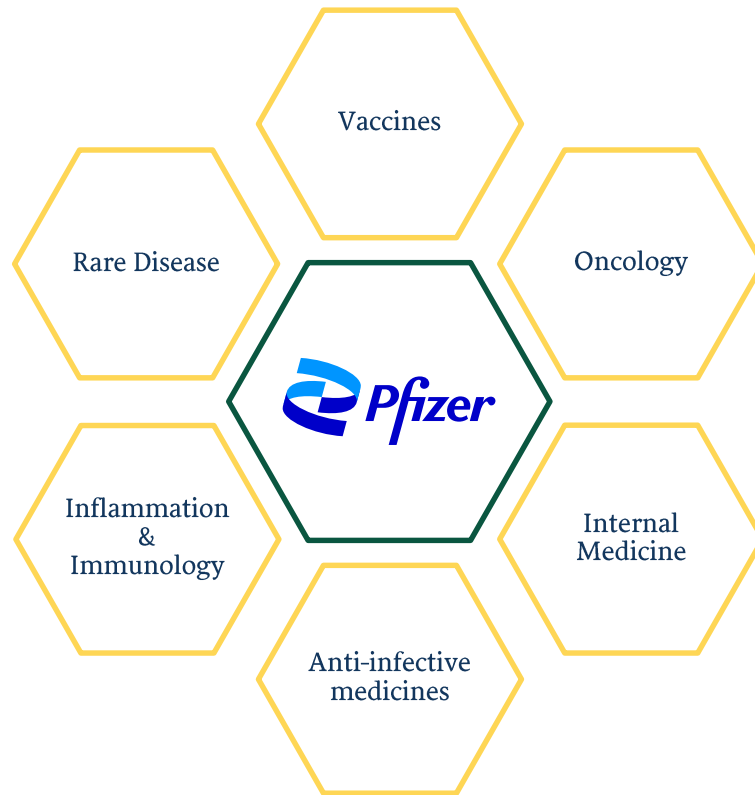
<b>Buy</b>	<b>Sell</b>
Ross Stores EOG Resources	—
<b>Add</b>	<b>Trim</b>
Meta Platforms	PRA Group

Foreign Equities

12 months ended January 31, 2023

# Portfolio Overview

Pfizer is a global leader in the biopharmaceutical industry



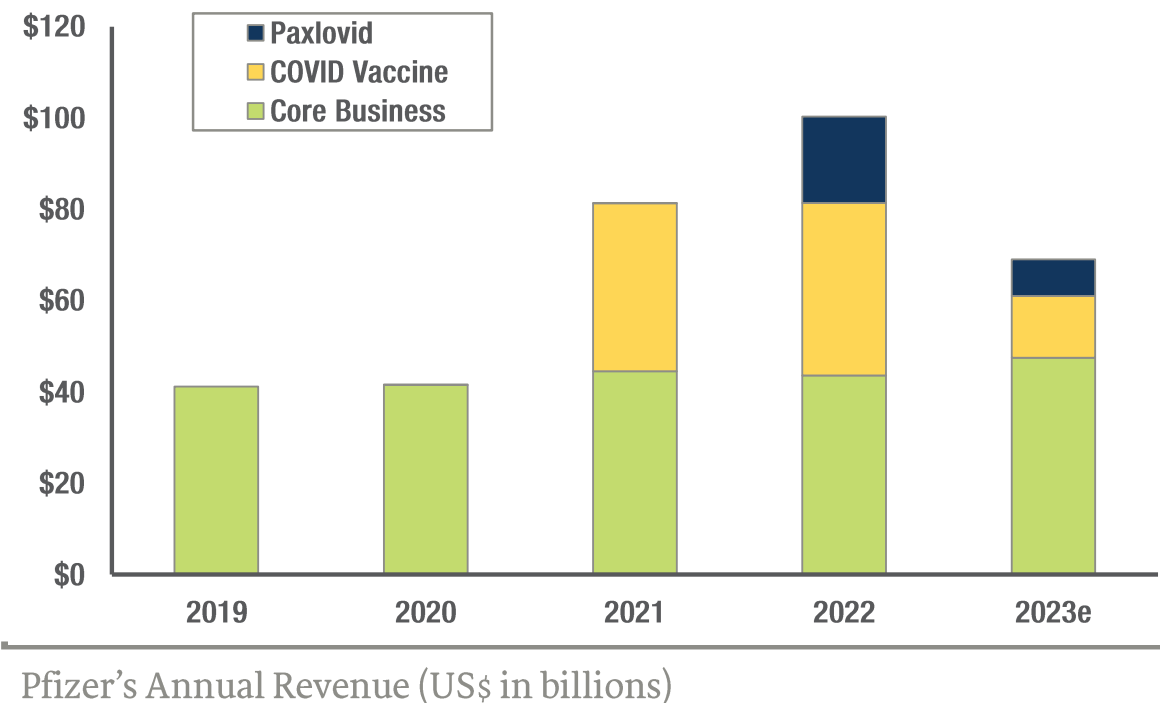
- A large, financially stable company
  - \$100 billion in revenue in 2022
  - Nine products with more than \$1 billion in sales
  - 79,000 employees
  - Strong balance sheet and cash flows
- Strong today and positioned for the future
  - 1.3 billion patients treated in 125 countries in 2022
  - 112 medicines and vaccines in its development pipeline
  - A preferred acquiror for high-potential drug companies
- Highly-skilled management
  - Most recent example: rapid COVID product development
  - Solid track record on capital allocation



# Portfolio Overview

Pfizer

## Pfizer's COVID-19 products generated windfall revenues



- Pfizer's COVID innovations had enormous impact
  - Effective vaccine (Comirnaty) and treatment (Paxlovid)
- Some investors fear a "COVID hangover"
  - Pfizer's COVID-related revenue will fall – but how fast?
  - Valuation does not depend on COVID revenue remaining elevated
- We expect continued growth in the core business
  - Core business projected to grow 7-9% in 2023
  - COVID windfall will be deployed to support growth through acquisitions and investments in new products <sup>(1)</sup>

Source: Company reports.

<sup>(1)</sup> In 2022, Pfizer invested \$26 billion in the acquisition of several medium-sized biopharmaceutical companies. It also invested \$11.4 billion in internal research and development projects.

# Investment Performance

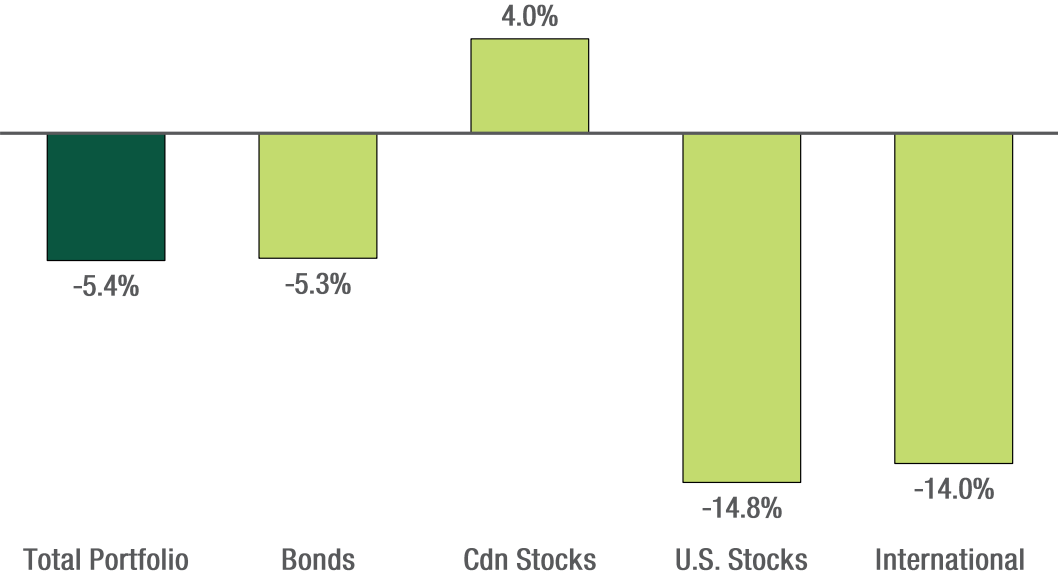
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## 2022 was a difficult year for investors

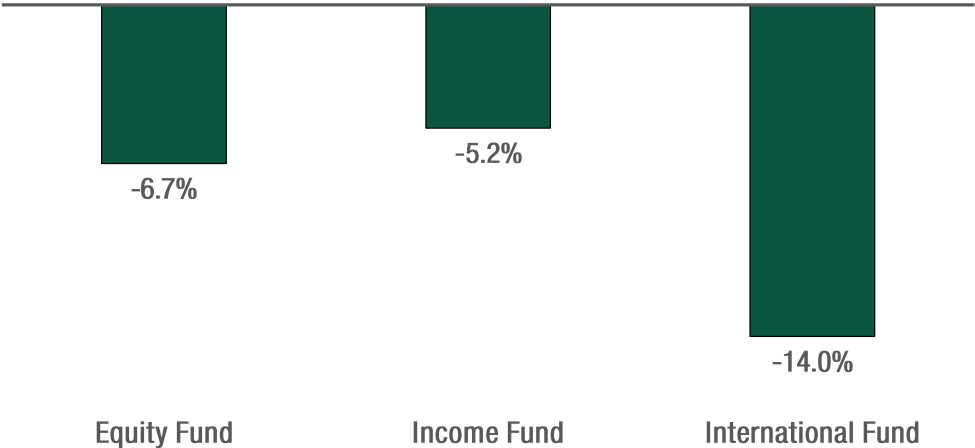
- Stocks and bonds both hit by high inflation and rising interest rates
  - Canadian bonds had their worst year ever
  - Canadian stocks more resilient than other markets
  - Conservative balanced portfolios suffered one of the worst years in decades
- Portfolio losses are disappointing, but Nexus returns are better than many others
- A strong start to 2023 has mitigated 2022 losses
  - Too early to tell whether market optimism is sustainable
- Longer-term risk / return characteristics are attractive
  - Our approach differs from the indices – performance will inevitably diverge at times

# Investment Performance

2022 was a difficult year for investors



Nexus Balanced Fund Returns <sup>(1)</sup>



Other Nexus Funds <sup>(1)</sup>

12 months ended December 31, 2022

<sup>(1)</sup> 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

Nexus returns compare favourably to other managers

Global Manager Research (GMR) – Institutional Performance Report <sup>(1)</sup>							
	<u>1 Year</u>	<u>2 Years</u>	<u>3 Years</u>	<u>4 Years</u>	<u>5 Years</u>	<u>7 Years</u>	<u>10 Years</u>
Nexus North American Balanced Fund	-5.4%	5.2%	5.9%	8.6%	6.8%	7.3%	8.9%
First Quartile Fund	-5.1%	4.6%	5.5%	7.7%	5.5%	6.6%	7.9%
Median Fund	-7.5%	1.7%	4.2%	6.7%	4.9%	5.7%	7.3%

- 1 Year Median Canadian DB Pension Fund return: -10.3% <sup>(2)</sup>

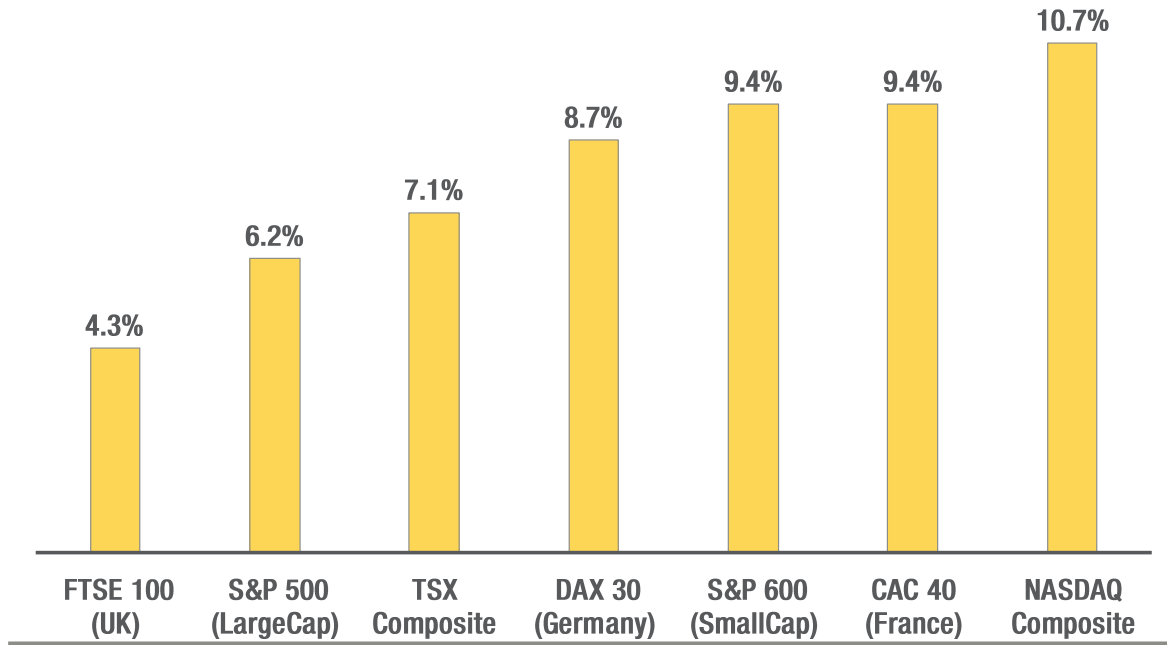
As at December 31, 2022

<sup>(1)</sup> Source: Balanced Universe (132 Funds) from Global Manager Research Institutional Performance Report. All returns are annualised and gross of fees. Past performance is not indicative of future results.

<sup>(2)</sup> Source: RBC Investor & Treasury Services All Pension Plan Universe.

# Investment Performance

2023 has started well for stock markets around the world



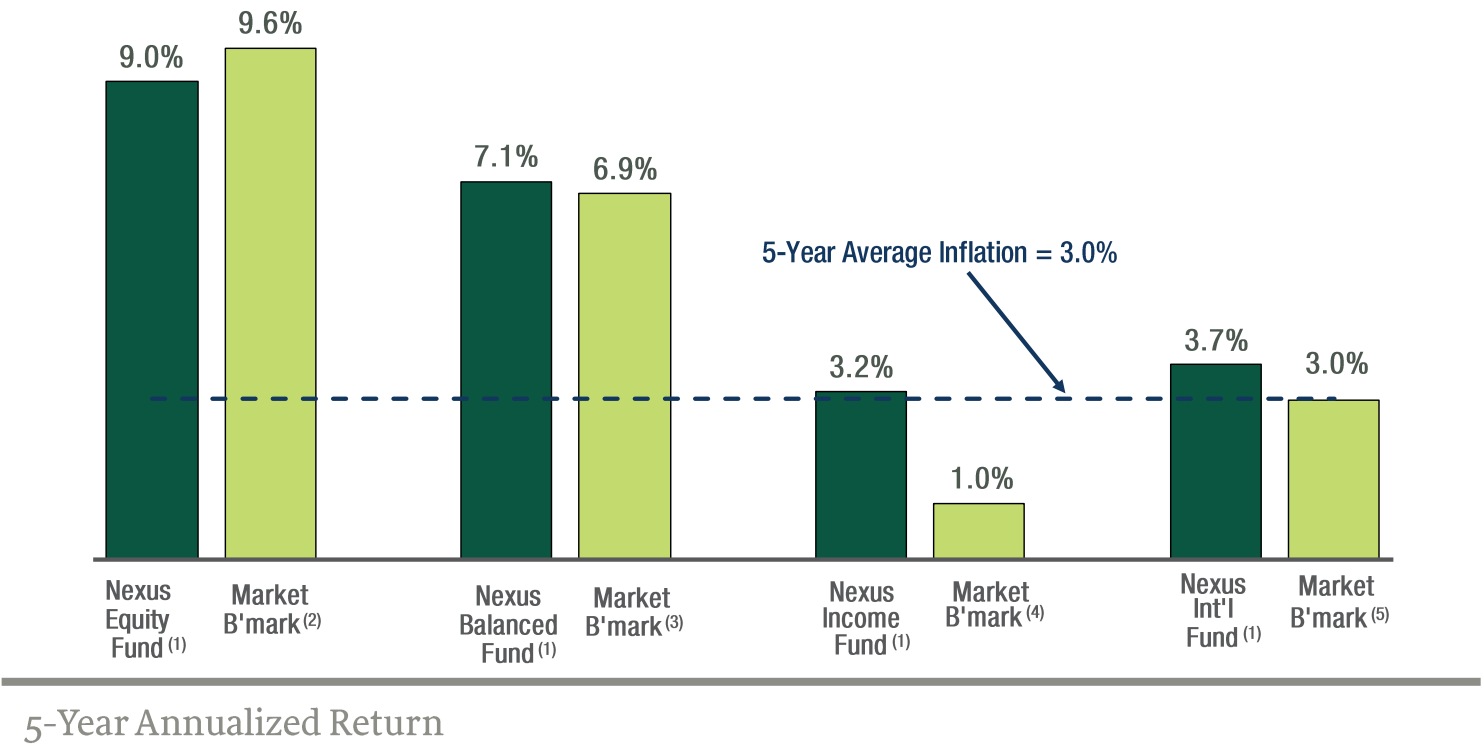
Local Currency Price Returns for January 2023

The January rally was driven by several interrelated factors:

- Early evidence that inflation is subsiding
- Optimism that central bank rate increases are nearing an end
- Investor hope for a “soft landing”
- Fourth-quarter earnings were mixed, but better than feared

# Investment Performance

5-Year returns have moderated but remain attractive



Five Years ended January 31, 2023

<sup>(1)</sup> 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.

<sup>(2)</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.

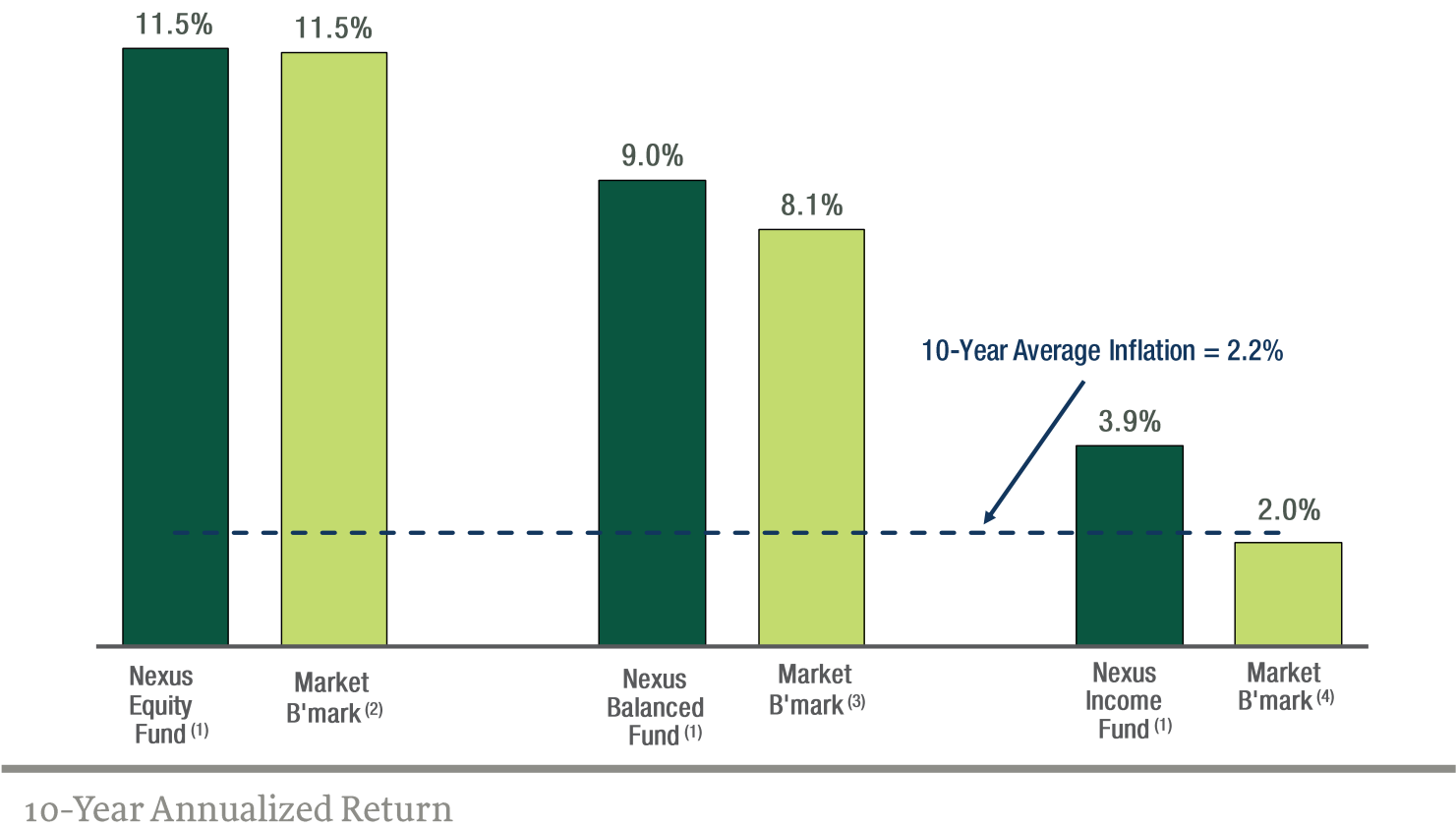
<sup>(3)</sup> Balanced Fund market benchmark is 5% FTSE Canada 91 Day T-Bill Index, 30% FTSE Canada Universe Bond Index, 40% TSX, and 25% S&P 500 (in C\$); rebalanced monthly.

<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.

<sup>(5)</sup> 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 solid despite recent turmoil



Ten Years ended January 31, 2023

<sup>(1)</sup> 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

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Our portfolio is positioned for long-term investment success

- North American equity portfolio is comprised of quality stocks with attractive prices
  - Established, dividend-oriented stocks
  - Attractive valuations provide good long-term upside with a margin of safety
  - Well-positioned for the post-COVID world and for a higher inflation environment
- 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
- International equities continue to add diversification
  - Higher dividend yields and lower valuations than North America



# Appendix

# Inside Nexus

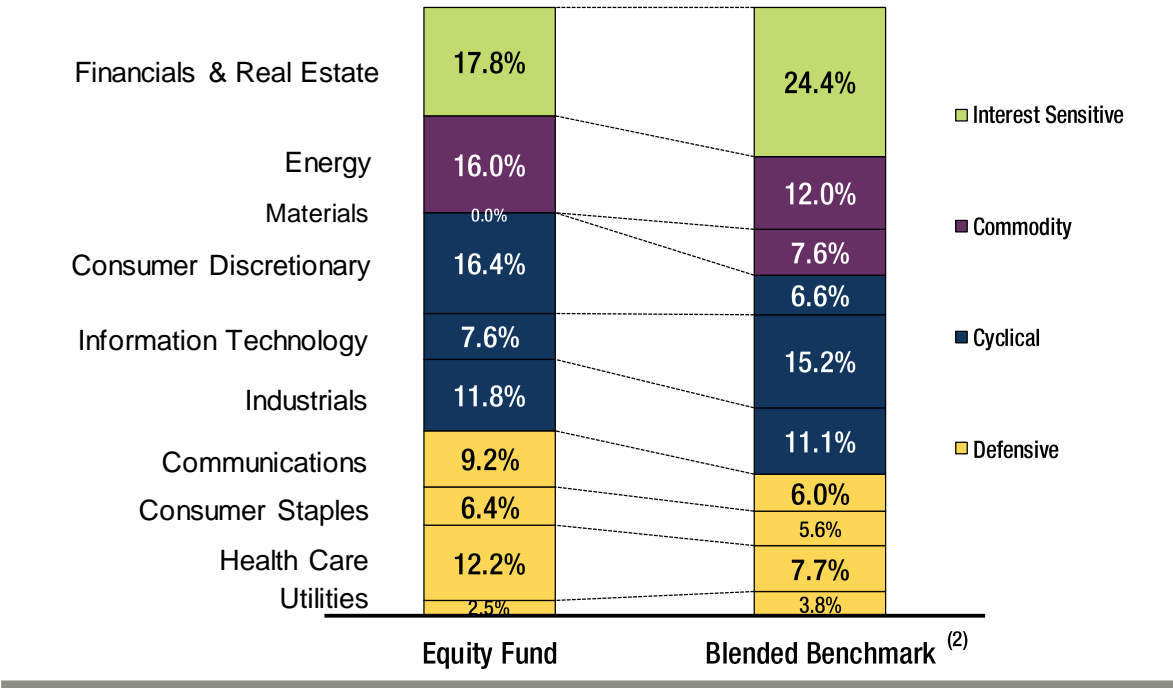
We continue to build our capability to support our clients and our vision



<sup>(1)</sup> Calculated as the average annual retention rate from December 31, 2012 to December 31, 2022.

# Portfolio Overview

Our high-quality portfolio is diversified, different from the benchmark, and reasonably valued



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

	S&P 500	TSX	Nexus Equity Fund
Forward Price / Earnings	17.0x	11.6x	11.6x
Price / Book	3.7x	1.7x	1.8x
Dividend Yield	1.8%	3.3%	2.7%

Comparable Valuation Metrics <sup>(3)</sup>

Source: Bloomberg.

<sup>(1)</sup> Includes Canadian and U.S. equities; as at December 31, 2022.

<sup>(2)</sup> The blended benchmark is a combination of the TSX and S&P 500 at their relative weights in the Fund's benchmark.

<sup>(3)</sup> The forward price/earnings ratios are based on Bloomberg consensus estimates for earnings in the next 12 months as of December 31, 2022. P/E and P/B ratios in this table are calculated using a weighted harmonic mean.

# Portfolio Overview

## Equities

Our North American equities combine defensiveness and growth



As at December 31, 2022

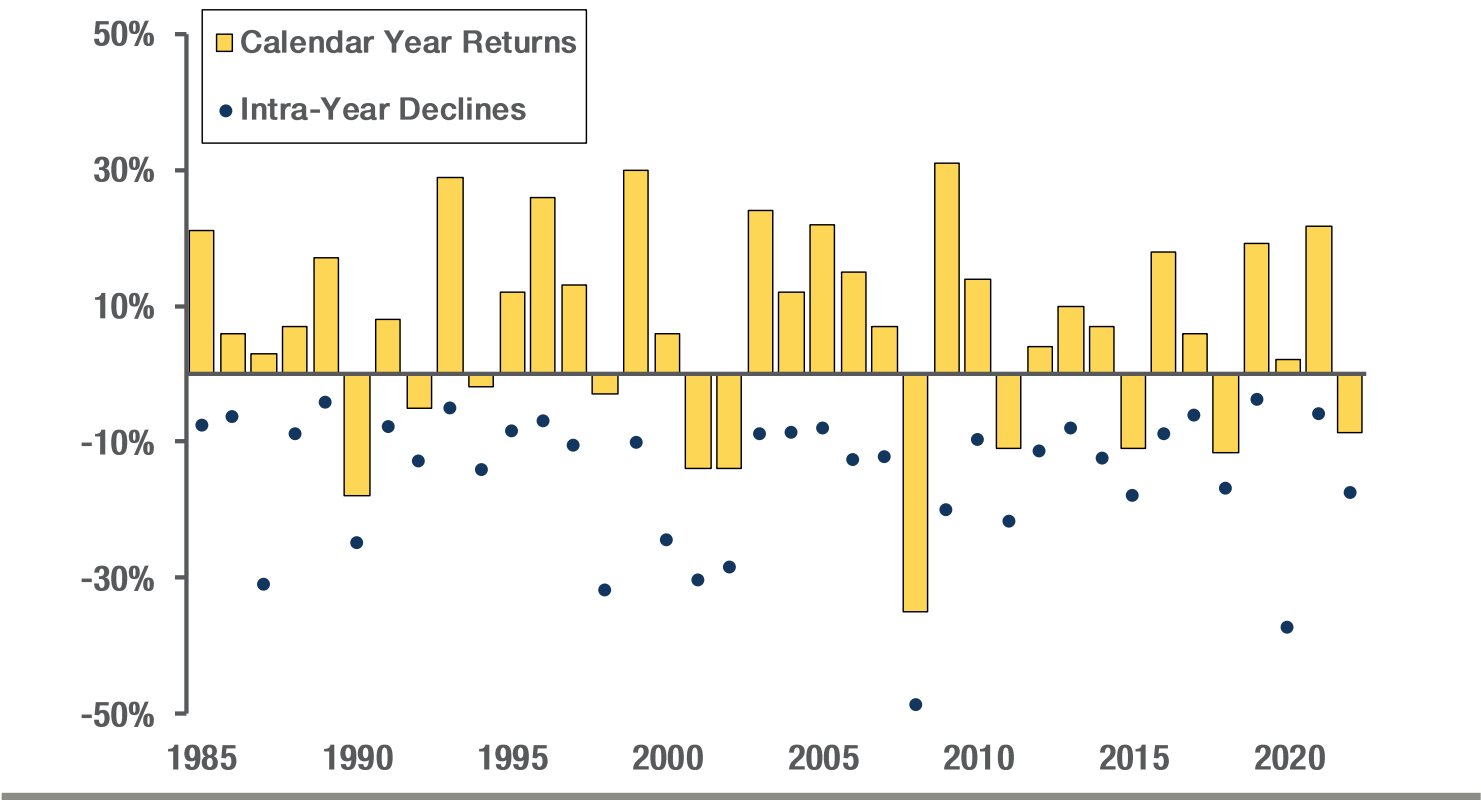
Source: Bloomberg.

<sup>(1)</sup> 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.

# 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 38 years

S&P/TSX Composite Intra-Year Declines vs. Calendar Year Returns <sup>(1)</sup>

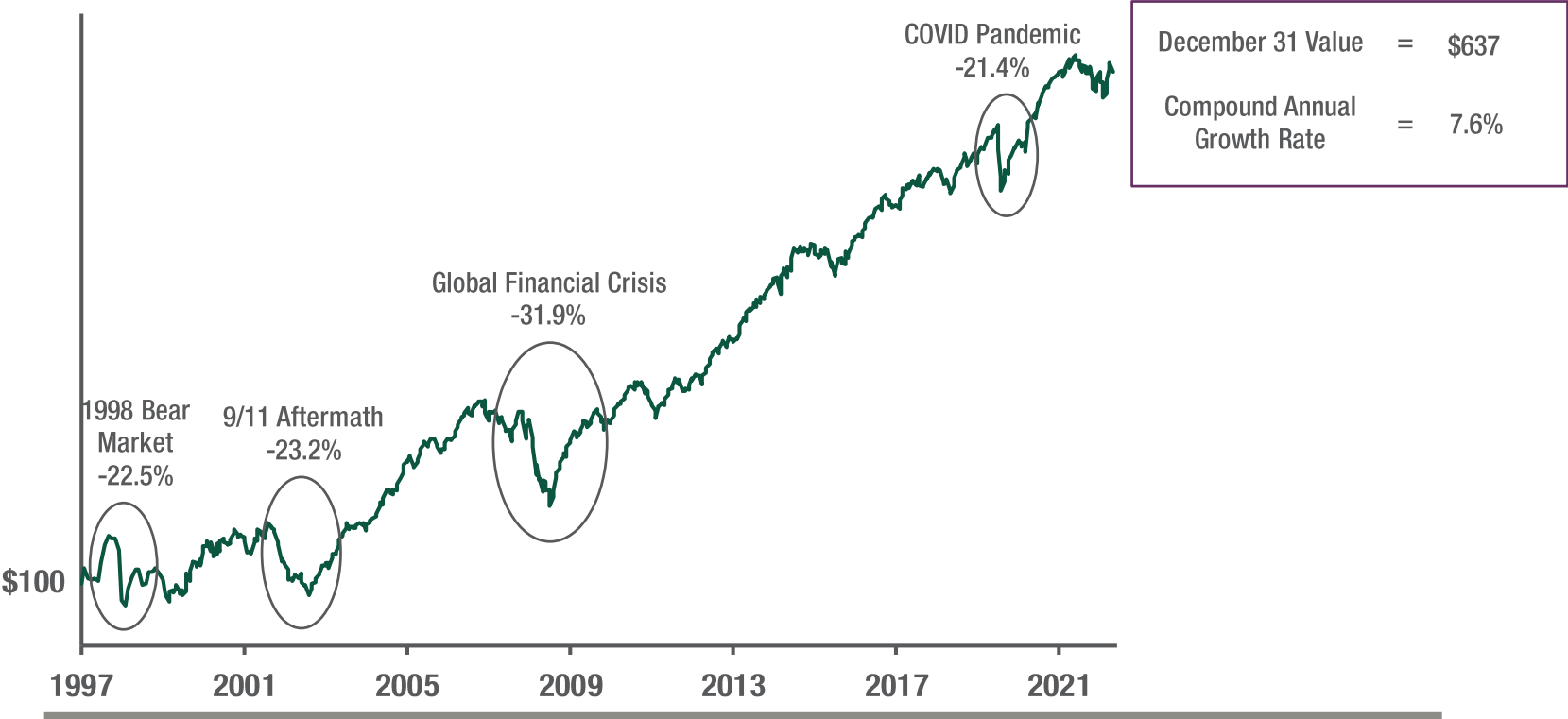
Source: Bloomberg.

<sup>(1)</sup> Returns are compound annual average, time-weighted, price-only rates measured in Canadian dollars and calculated without deducting any fees or expenses. Past performance is not indicative of future results. As of December 31, 2022.

# Portfolio Overview

## Equities Deliver Over Time

Achieving long-term success requires perseverance



Nexus Equity Fund Value, Starting at \$100 <sup>(1)</sup>

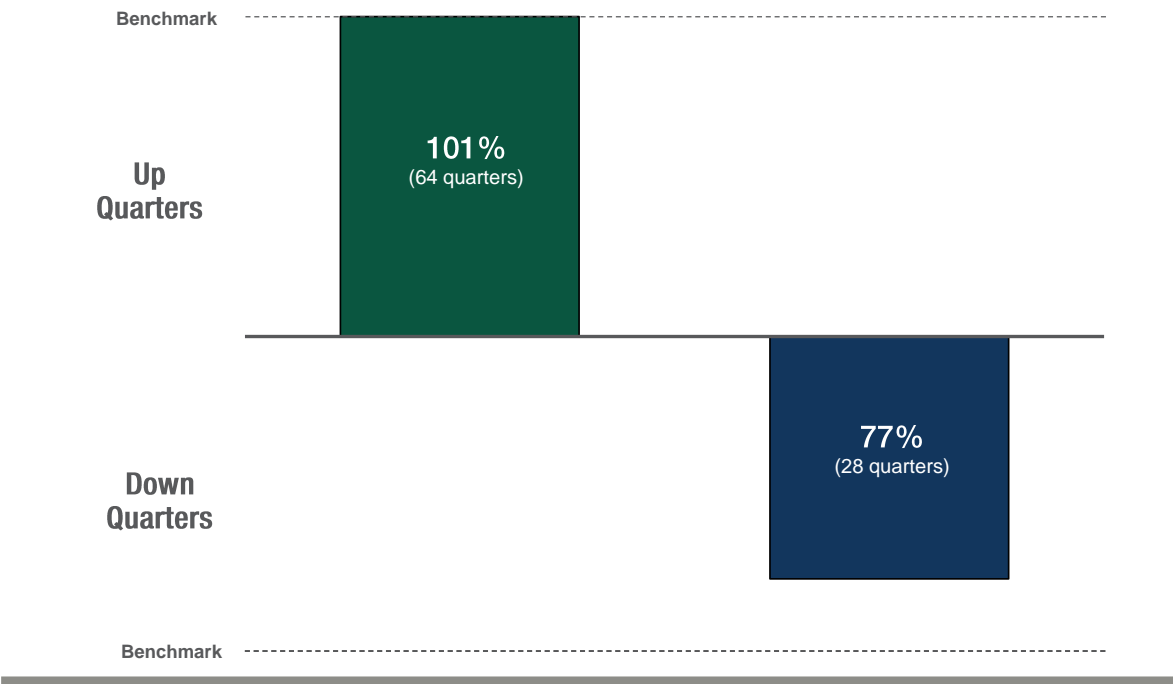
As at December 31, 2022

<sup>(1)</sup> Value of \$100 invested in the Nexus North American Equity Fund at inception on August 31, 1997, presented on a logarithmic scale. Returns used for calculation are *before* deduction of investment management fees and *after* custody fees and fund expenses. Past performance is not indicative of future results.

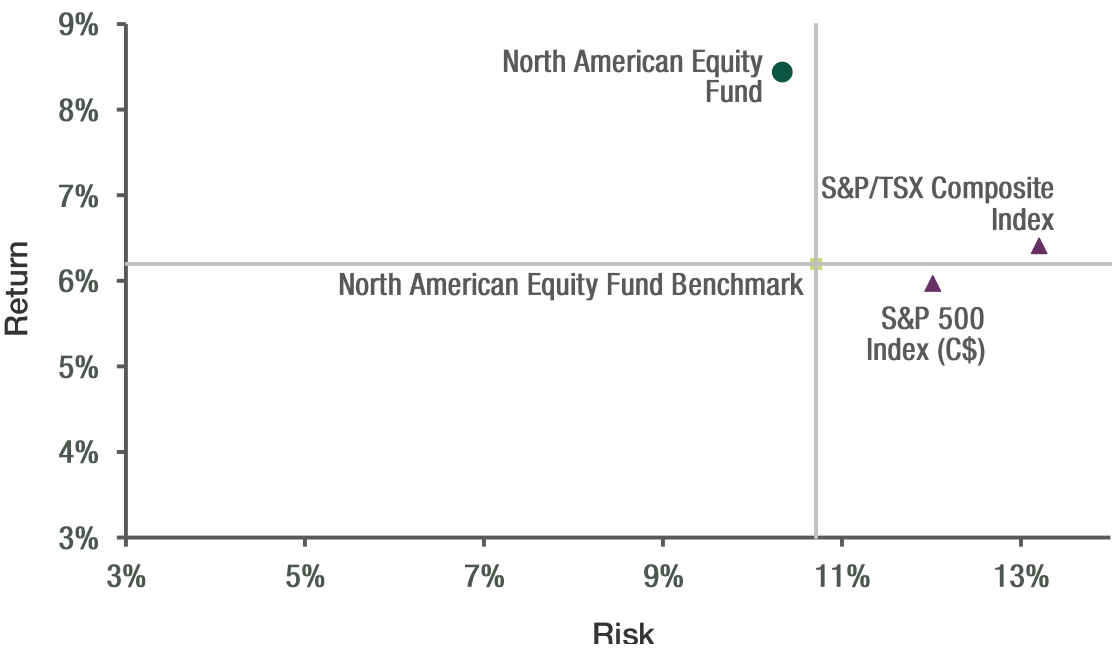
# Investment Performance

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>

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

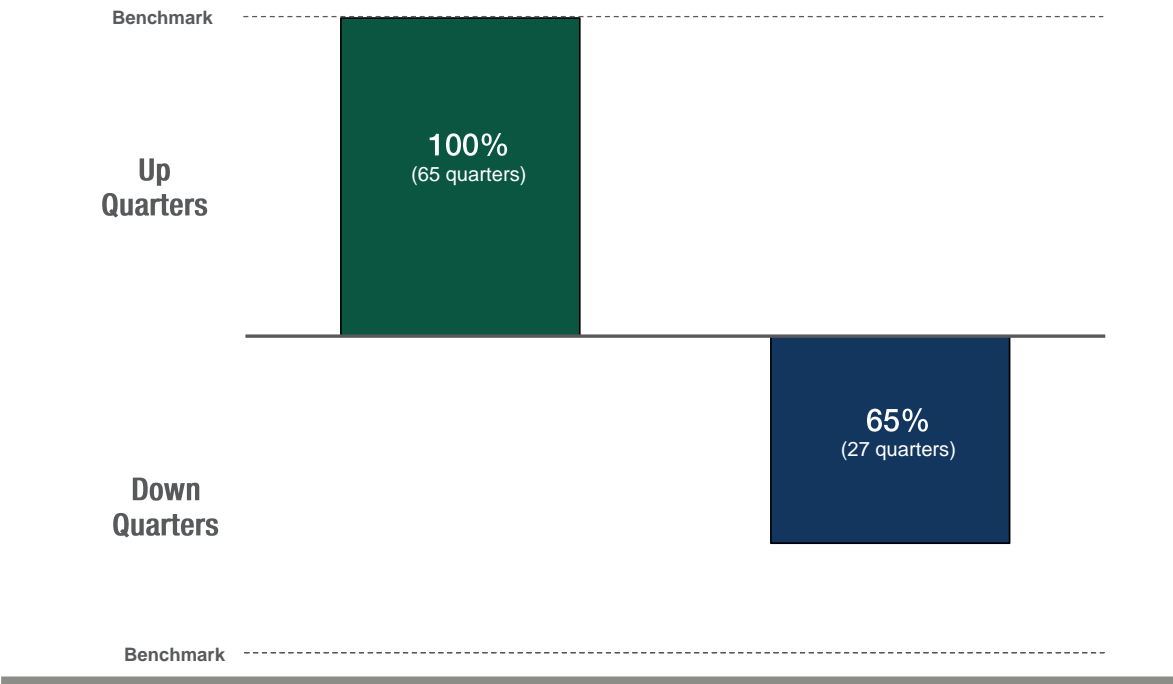
Period ending December 31, 2022

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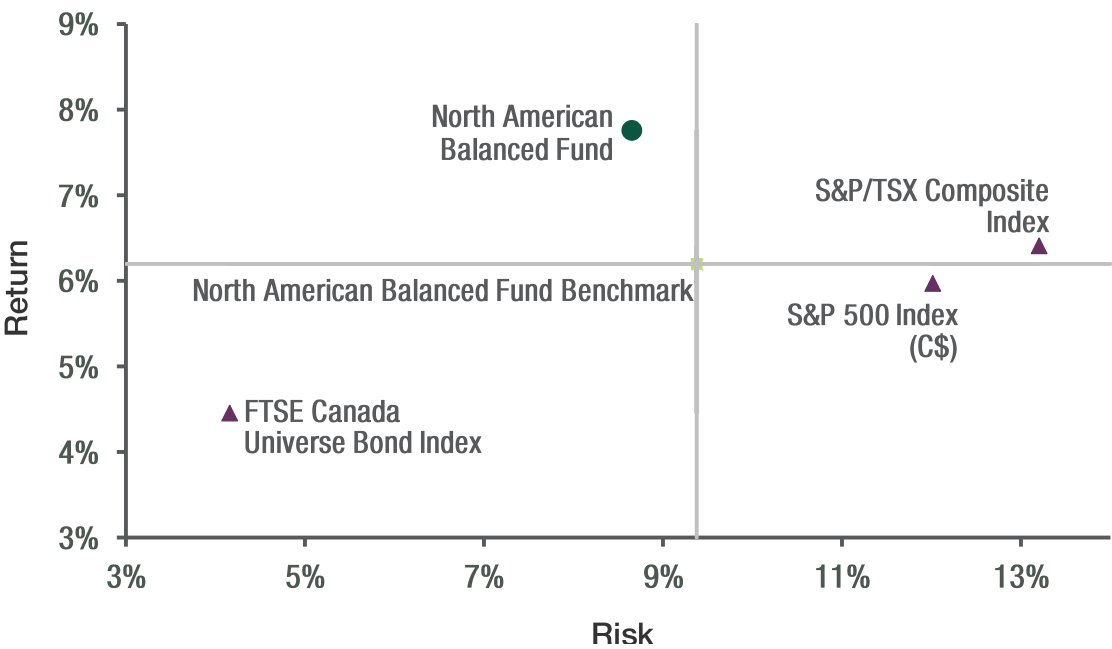
# Investment Performance

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>

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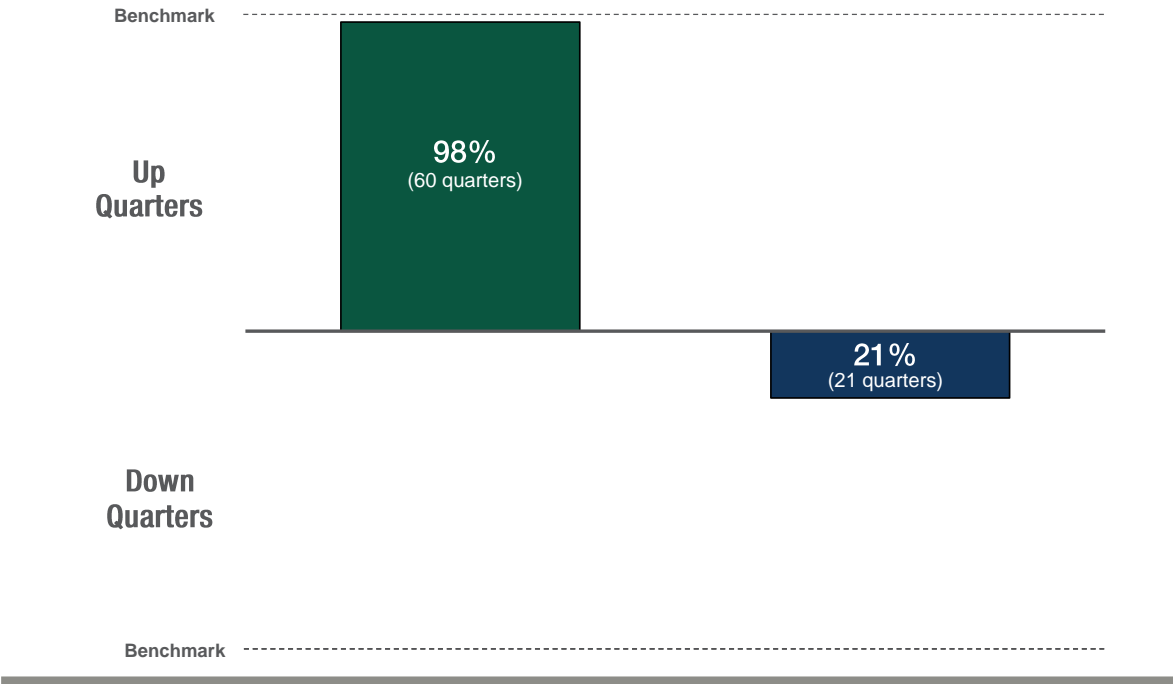
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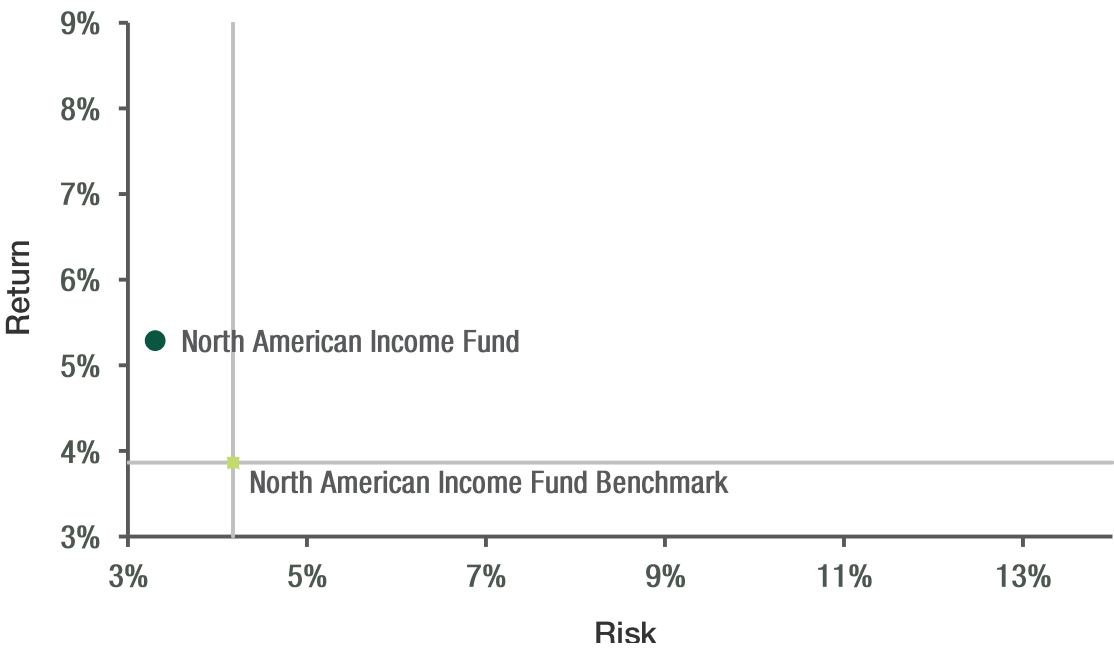


# Investment Performance

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



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



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

<sup>(1)</sup> 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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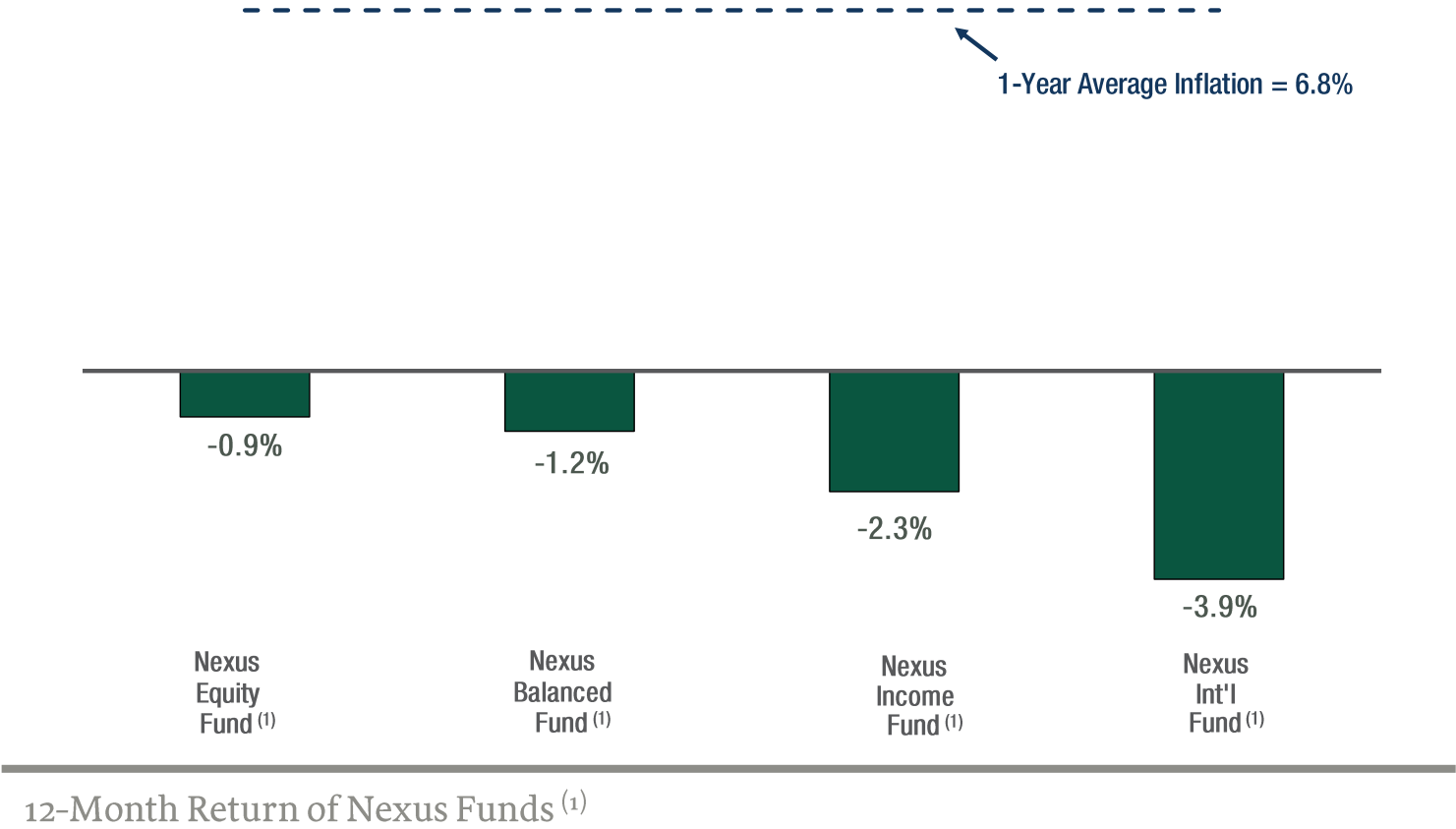
Period ending December 31, 2022

NEXUS

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# Investment Performance

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

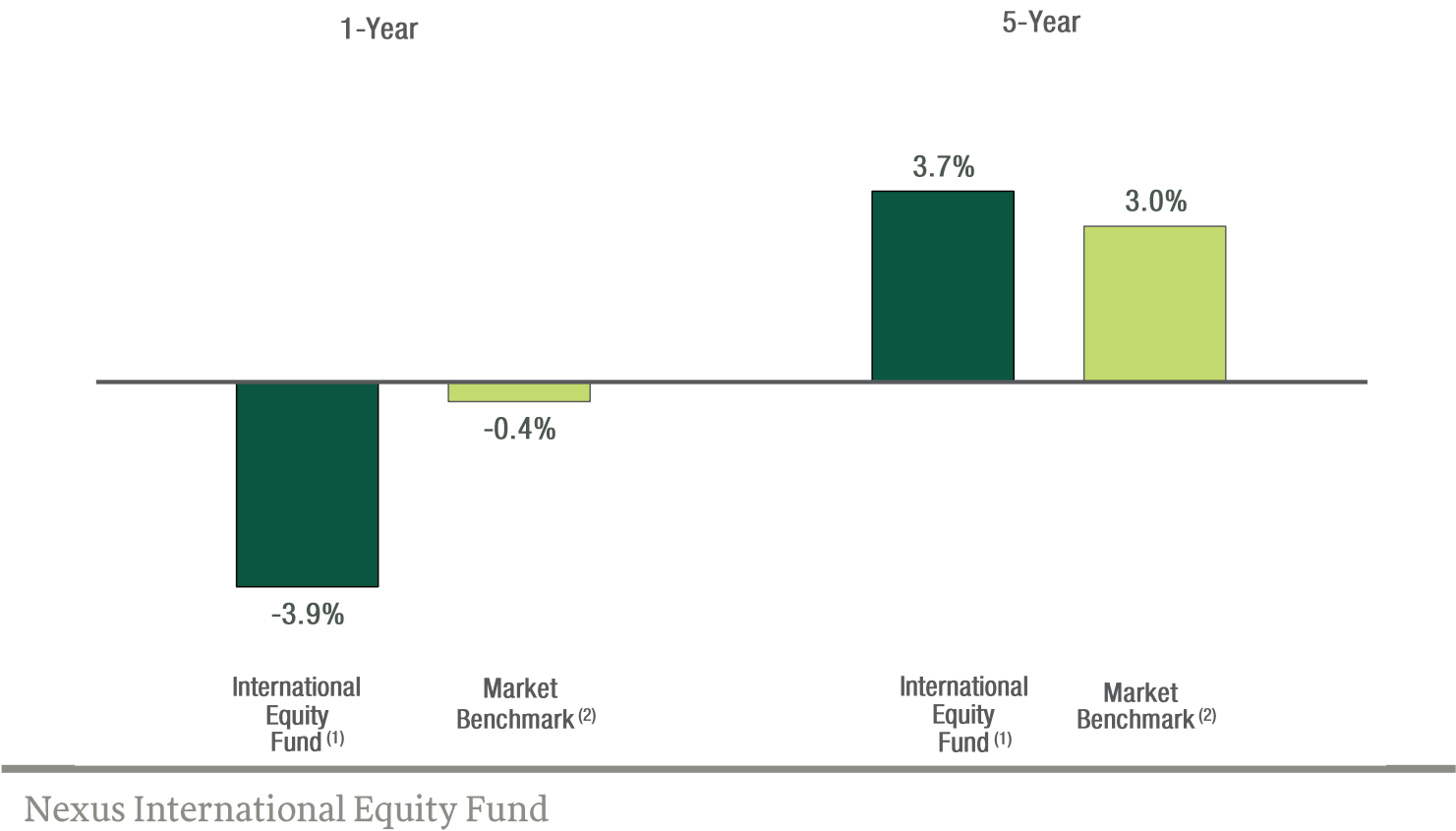


12 months ended January 31, 2023

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# Investment Performance

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



Periods ended January 31, 2023

<sup>(1)</sup> 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.

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

# Thank you

**NEXUS**

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