



Quarterly Investment Review

September 21, 2023

NEXUS

Agenda

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

Save the Date! Annual Client Event

November 29, 2023

Join us for our Annual Client Event featuring guest speaker Ajay Agrawal, a leader in Artificial Intelligence.
More details announced soon!

Current Environment

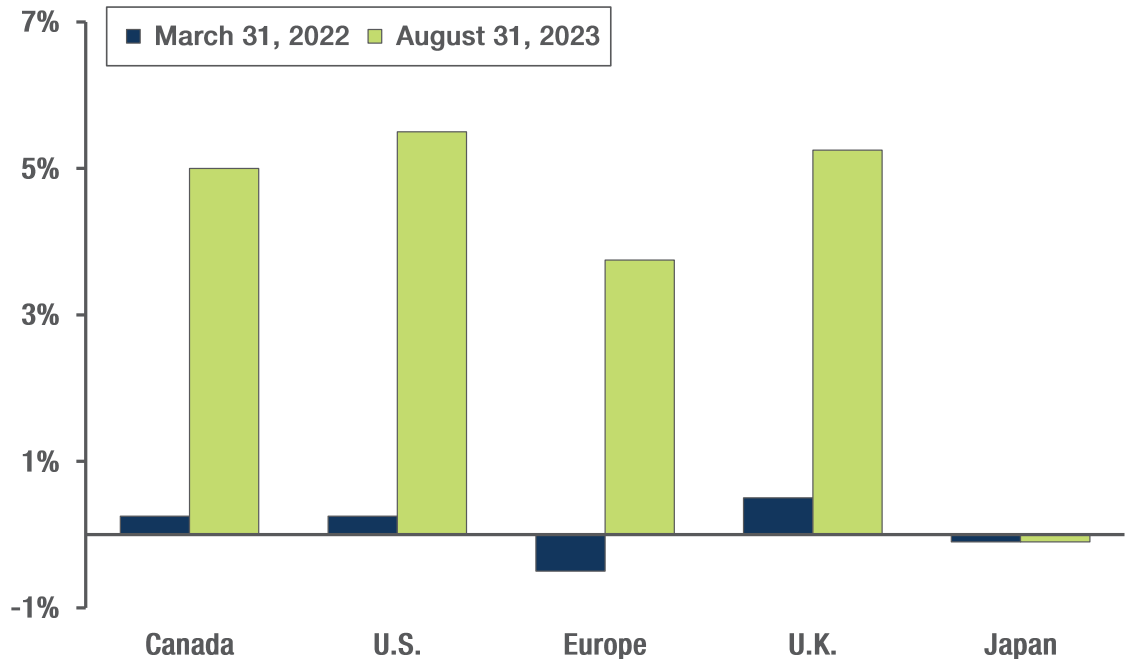
Canadian and U.S. economies are proving resilient as the battle against inflation continues

- Higher rates and tighter lending standards will slow inflation
- Core inflation is proving stickier than headline inflation
- Unsurprisingly, economic growth has slowed globally
 - The slowdown has not been as drastic as anticipated
 - U.S. stands out as a strong outlier
 - Canada's population growth has masked a slower standard of living growth
- A strong labour market supports economic growth but adds inflationary pressure

Current Environment

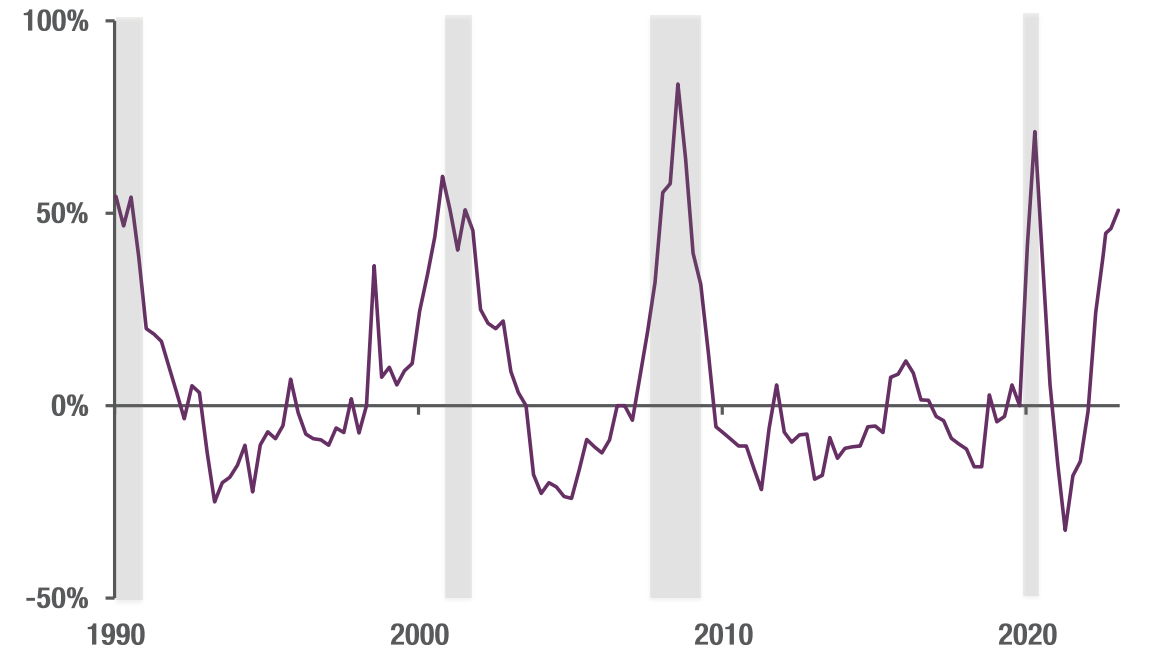
Tighter Conditions

Higher rates and tighter lending standards will slow inflation



Overnight Lending Rates by Geography

- Monetary tightness reflects the absolute level of rates and how long those rates remain elevated
- Investors are waking up to “higher for longer”



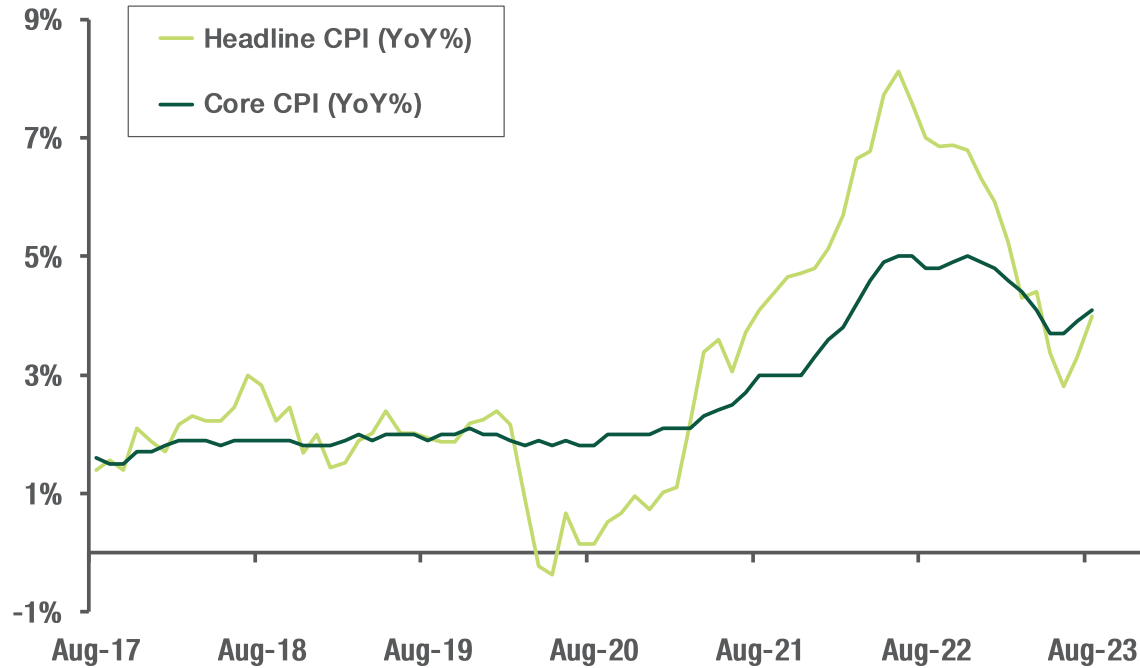
Percent of Loan Officers Reporting Tightening Lending Standards ⁽¹⁾

- Bank capital requirements are driving tighter lending conditions

Current Environment

Inflation

Inflation is moderating, but remains above target



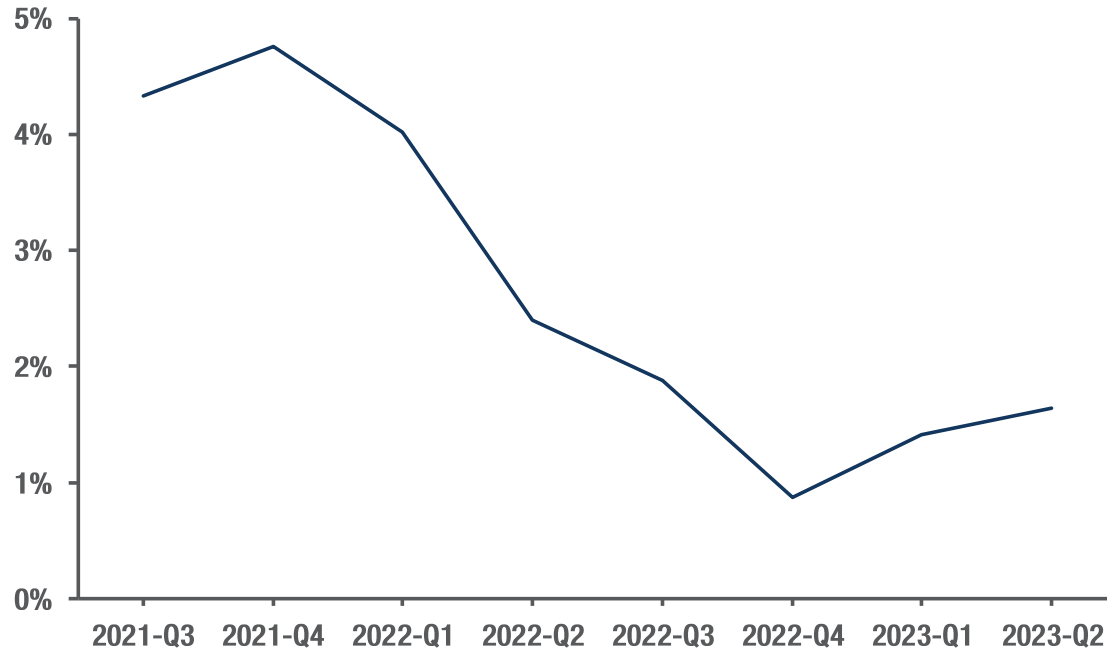
Canadian Consumer Price Index ⁽¹⁾

- Headline inflation has come down significantly
- Central bankers remain committed to restoring low inflation before declaring victory
- Further inflation reduction will be a challenge
 - Energy prices will be a wild card
 - Wage negotiations may add inflationary pressure

Current Environment

Economic Growth

Economic growth has slowed, but not as much as was initially predicted



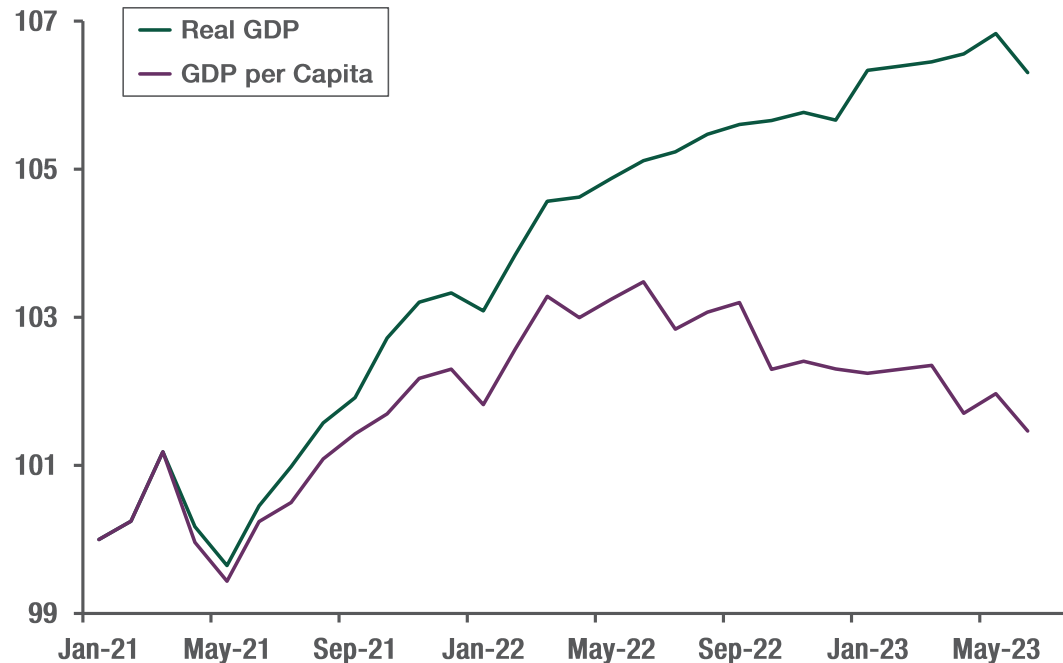
GDP Growth (YoY%) of G7 Countries ⁽¹⁾

- At the outset of 2023, many were calling for negative economic growth. To date, growth has been better than expected
- China has been a notable underperformer
 - Real estate sector concerns
 - Cautious consumer behaviour
 - Export pricing and volumes weak
- The United States has been relatively strong
 - GDP increased at 2.5% (YoY) in Q2 2023

Current Environment

Canada Lagging

Canada's economic recovery is less than it appears



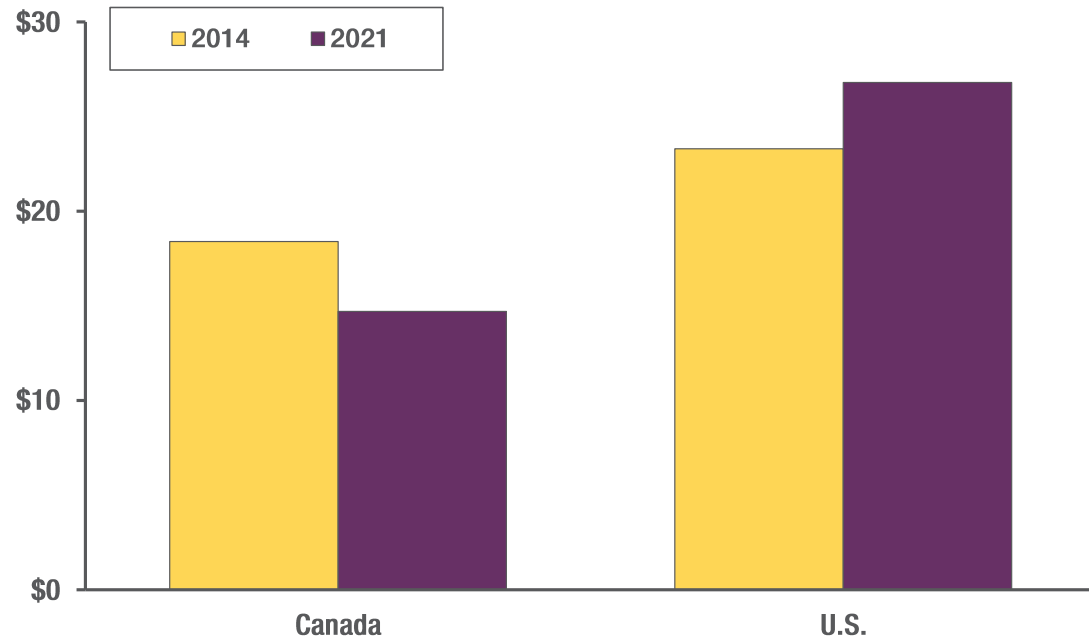
Canadian Real GDP & GDP Per Capita (Indexed to 100 in 2021)

- Headline growth masks a deteriorating per capita performance
- Declining living standards will drive larger wage demands
- Since 2015, Canadian real GDP per capita has grown at 0.4% annually, versus the advanced economy average of 1.4%

Current Environment

Canada Lagging

Under-investment is a key contributor to under-performance



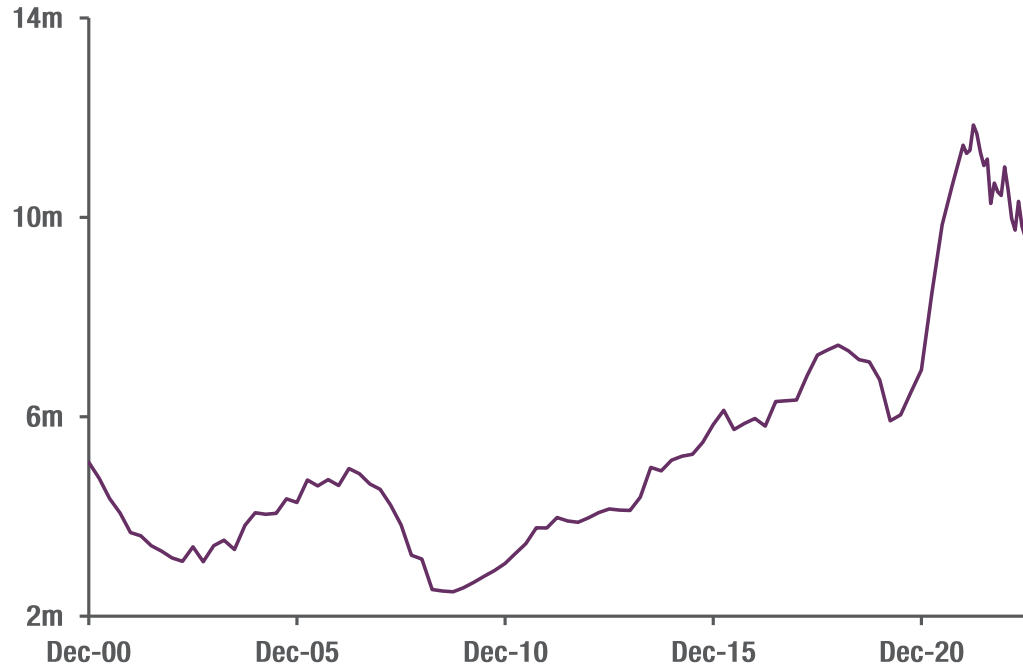
Real Business Investment per Worker (\$ thousands) ⁽¹⁾

- Capital spending is key to productivity growth and Canada is lagging
- We also lag in R&D investment, spending 1.7% of GDP while the U.S. ratio is 3.4% (as of 2021)
- Canada's trailing productivity and competitiveness predates the acceleration in immigration

Current Environment

Labour Markets

The labour market, which remains robust, is the key to the next chapter



Unfilled Job Openings (U.S.)

- A strong labour market supports economic growth but adds inflationary pressure
- Unemployment rate remains low in both Canada and the U.S. (5.5% and 3.8%, respectively)
- Wage growth is now higher than core inflation levels
 - Anecdotes and worker/employer tensions suggest there's still significant upward pressure on labour costs

Current Environment

So far, significant economic weakness has been averted, but much uncertainty remains

- Outlook – economic and geopolitical – remains uncertain
 - Recession a possibility, but not a certainty
 - The path of inflation could still hold surprises
 - The ability of individuals and businesses to tolerate sustained higher interest rates is unknown
- Labour market strength has enabled consumers to continue to spend
 - Rising unemployment would have meaningful negative implications
- Many competing global factors at play right now
 - Disinflationary pressures in China
 - Rising inflation and shifting monetary policy in Japan
 - U.S policy focus to encourage “onshoring”
- Market timing is impossible – instead, favour high-quality investments

Portfolio Overview

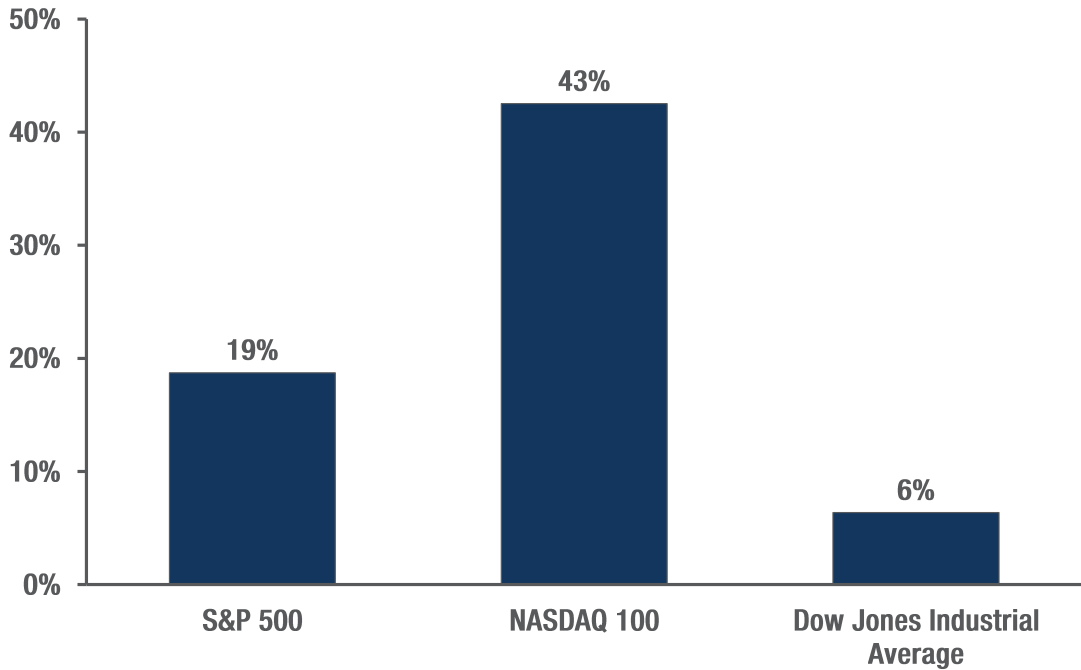
Nexus portfolios remain focused on the long term

- A strong year so far for equities, but market leadership has been narrow
 - Large growth companies have benefitted, particularly those with exposure to the artificial intelligence theme
- Interest in artificial intelligence (AI) has been a catalyst for markets
 - AI has been “at work” in Nexus portfolios for some time
 - Answers to existential questions around AI remain unknowable
- Overall equity allocations are near our long-term guidelines
- Fixed income portfolios still positioned for the expectation of higher yields

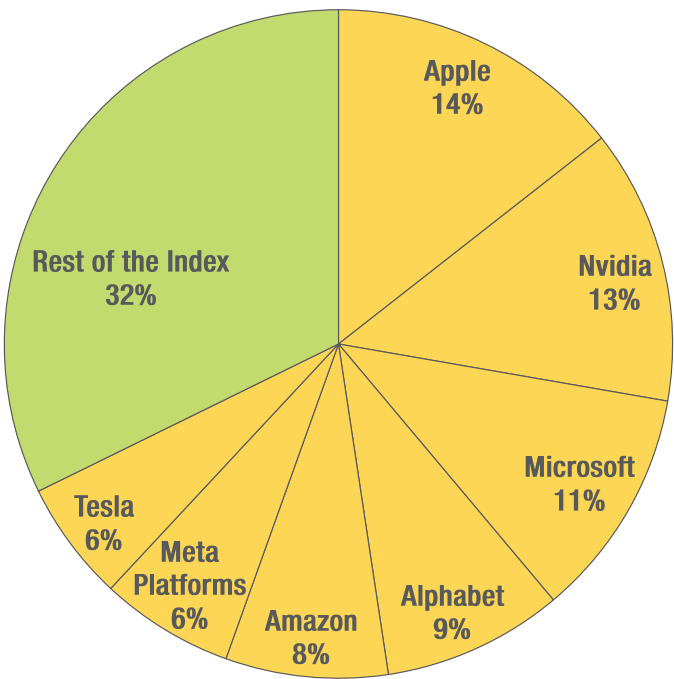
Portfolio Overview

Market Concentration

Markets are up in 2023, but market leadership has been concentrated



Year-To-Date Total Returns (%) ⁽¹⁾



Proportional Contribution to the Total Return of the S&P500

- The “Magnificent 7” stocks account for the majority of the returns ⁽²⁾
- The rest of the market is up, but by notably less

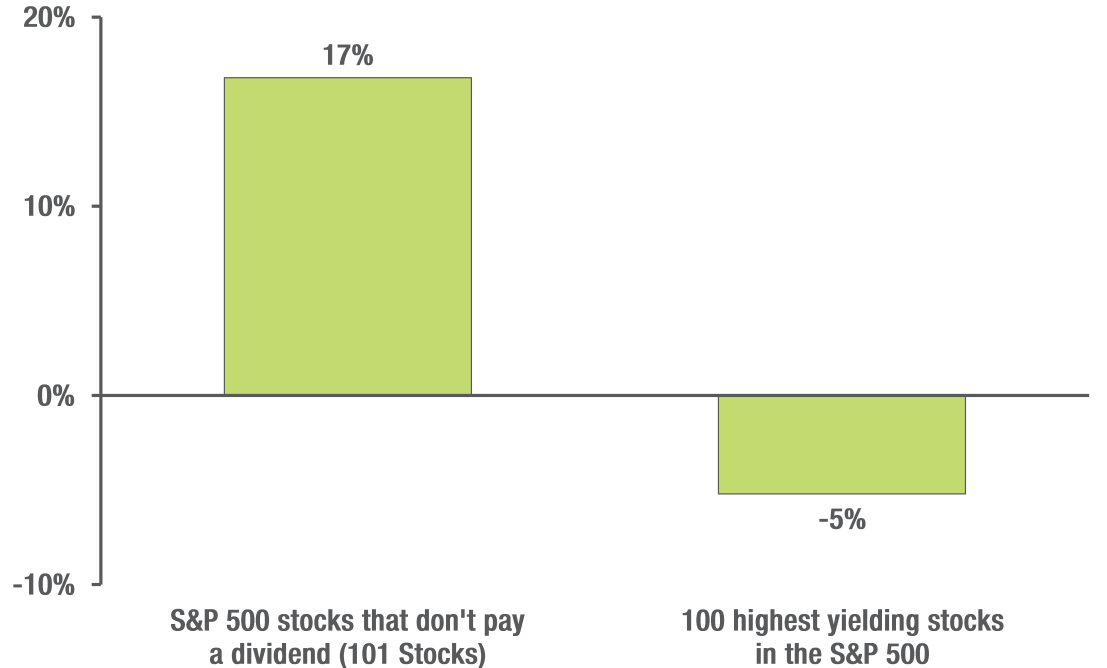
Source: Bloomberg.

⁽¹⁾ Year-to-date returns until August 31, 2023 in U.S. dollars.

⁽²⁾ The “Magnificent 7” stocks – Apple, Nvidia, Microsoft, Alphabet (formerly Google), Amazon, Meta Platforms (formerly Facebook) and Tesla – account for 68% of the total return year-to-date.

Portfolio Overview

Dividend-paying stocks have lagged this year



Average Total Return, Year-to-Date ^(1, 2)

- Dividend payors are currently out of favour
- However, they have an excellent historical track record over the long term

As at August 31, 2023

Source: Bloomberg.

⁽¹⁾ Year-to-date return until August 31, 2023 in U.S. dollars.

⁽²⁾ Returns shown represent simple averages of the rates of return of the stocks in each group. Outliers are excluded.

Portfolio Overview

Market Concentration

Investor interest in AI technology has surged, helping drive these concentrated gains

“AI Stocks Are on a Tear —
and Experts Say It's Not a
Bubble”

CNBC Jun 21, 2023

“AI will be the ‘biggest
bubble of all time’”

CNBC Jul 17, 2023

“Biotech Stocks Join AI-
Fueled Rally”

WSJ Jul 26, 2023

“Enthusiastic Nvidia investors
may need a reality check”

FT Jul 25, 2023


“A.I. is changing national
security systems. Here’s what’s
ahead for defense stocks”

WSJ Jul 20, 2023

Portfolio Overview

2019 Nexus Annual Presentation

Many of our holdings continue to develop and apply AI technology




Portfolio Management & Financial Counsel

IMPLICATIONS OF AI

Nexus Portfolios

AI is “at work” in a number of our investments

- ◆ Autonomous driving
- ◆ Autonomous fleets
- ◆ Credit approval
- ◆ Medical research
- ◆ Virtual assistant
- ◆ Detecting objectionable content



Portfolio Overview



2019 Nexus Annual Presentation

The big-picture questions we asked in our 2019 annual presentation on AI remain unresolved

NEXUS
Portfolio Management & Financial Counsel

CONCLUSION

Where does this end?

Great Leap for Humanity		Dystopian Future
<ul style="list-style-type: none">◆ Scientific breakthroughs◆ Better quality lives	?	<ul style="list-style-type: none">◆ Job losses/inequality◆ No privacy◆ Mega companies◆ Destructive robots
		

Portfolio Overview

Equity Portfolio Changes

We have made selective changes to the portfolio, but remain focused on long-term outcomes

Buy	Sell
—	—
Add	Trim
Allied Properties	Various Energy holdings

Canadian Equities

Buy	Sell
—	BMW
Add	Trim
—	Alphabet Meta Platforms Microsoft

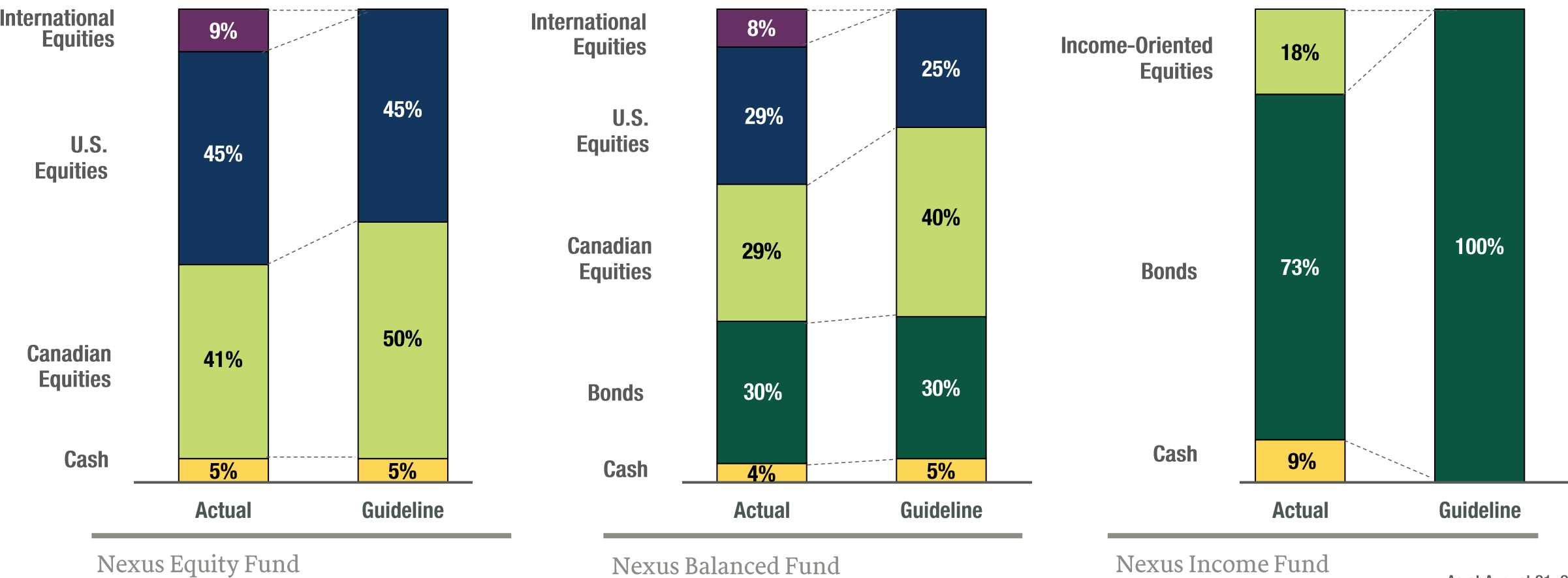
Foreign Equities

12 months ended September 13, 2023

Portfolio Overview

Asset Allocation

Overall equity allocations are close to long-term guidelines



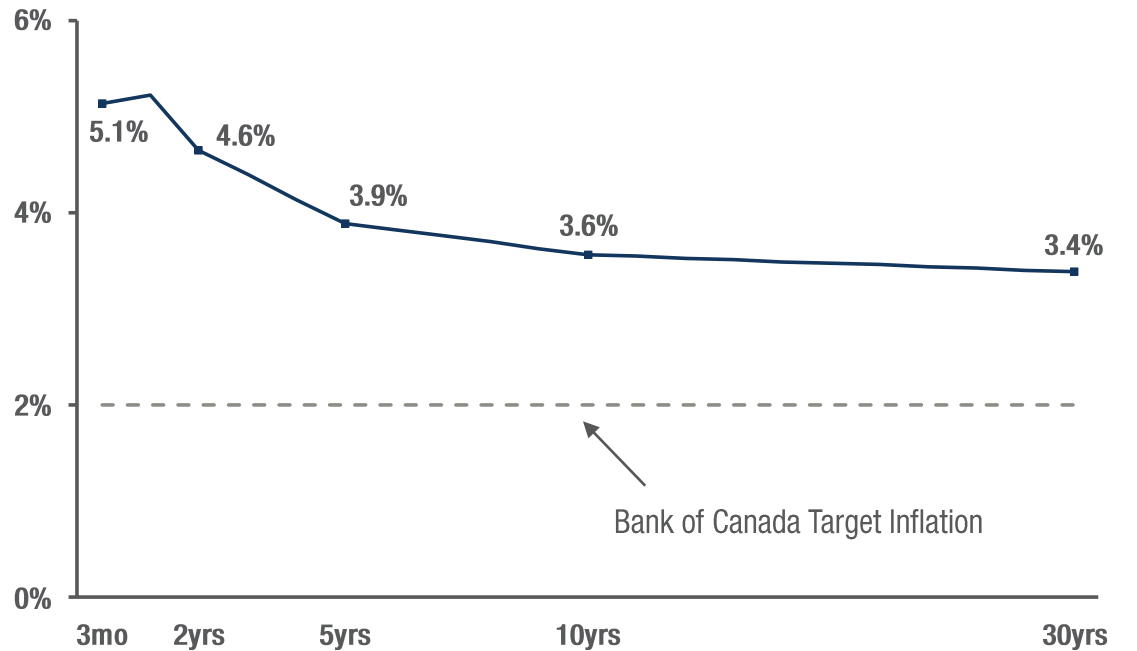
As at August 31, 2023

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

Portfolio Overview

Fixed Income

Yield environment continues to support short duration positioning



Government of Canada Yield Curve

- Bonds now provide some “insurance” protection to balanced portfolios
 - 10-year yields have risen by 50 bps so far in 2023
- We recently made a small increase to the duration of our bond holdings but remain well below the benchmark⁽¹⁾
 - Our duration is 3.7 years and the benchmark is 7.2 years

As at August 31, 2023

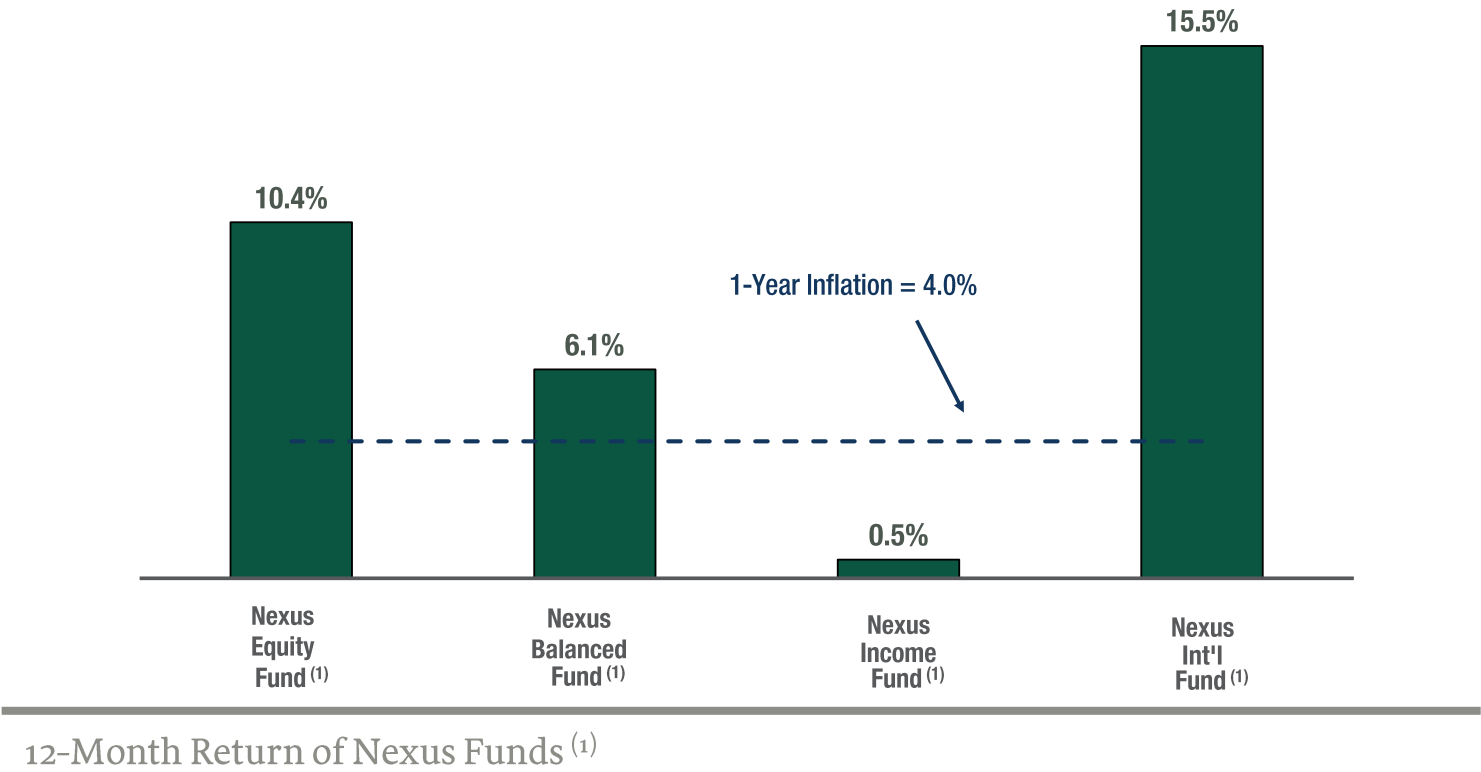
Investment Performance

Market indexes have risen strongly, but the degree of concentration is unusual

- Stocks and bonds both gained in the first eight months of 2023
 - Bond market behaviour reflects the hope that we are close to peak interest rates
 - U.S. and International stocks enjoyed solid gains
 - Canadian stock market has been more muted
 - Gains in most stock markets concentrated in very few stocks
- Longer-term risk / return characteristics are attractive
 - Our approach differs from the indices – performance will inevitably diverge at times

Investment Performance

One year equity returns have been strong, despite inflationary pressures and recession worries

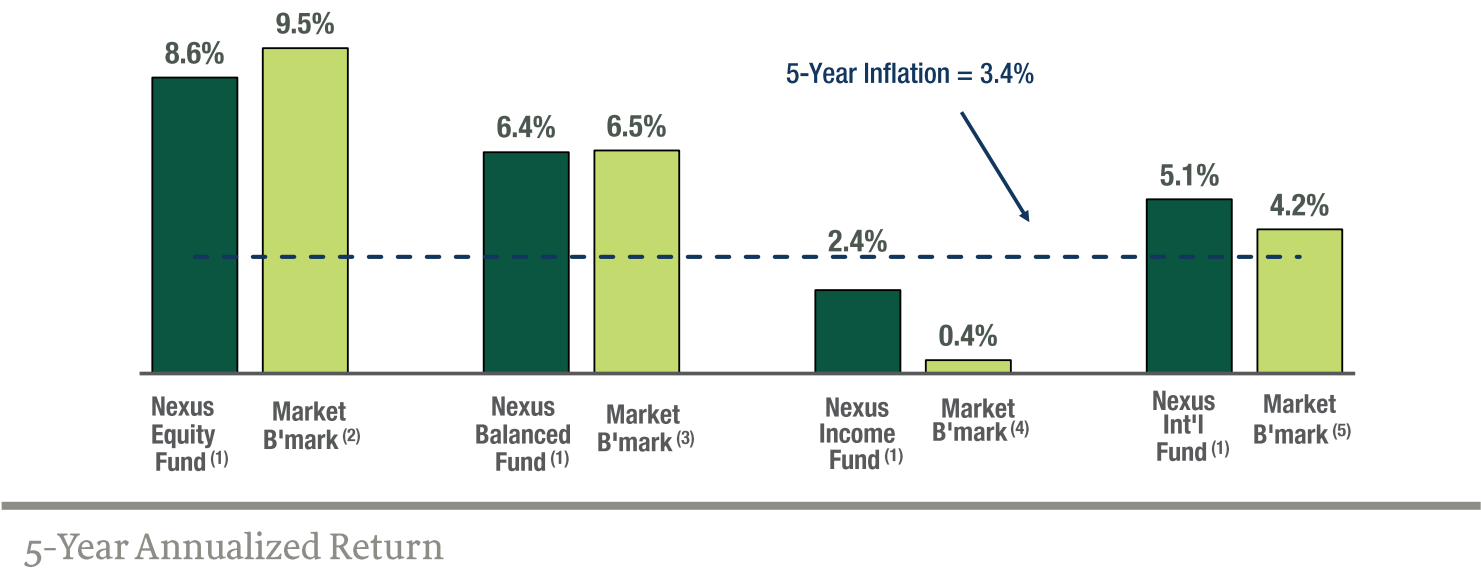


12 months ended August 31, 2023

⁽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 (which are charged to client accounts and vary by client). Past performance is not indicative of future results.

Investment Performance

5-Year returns are solid, but bonds and international equities tempered the gains



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⁽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.

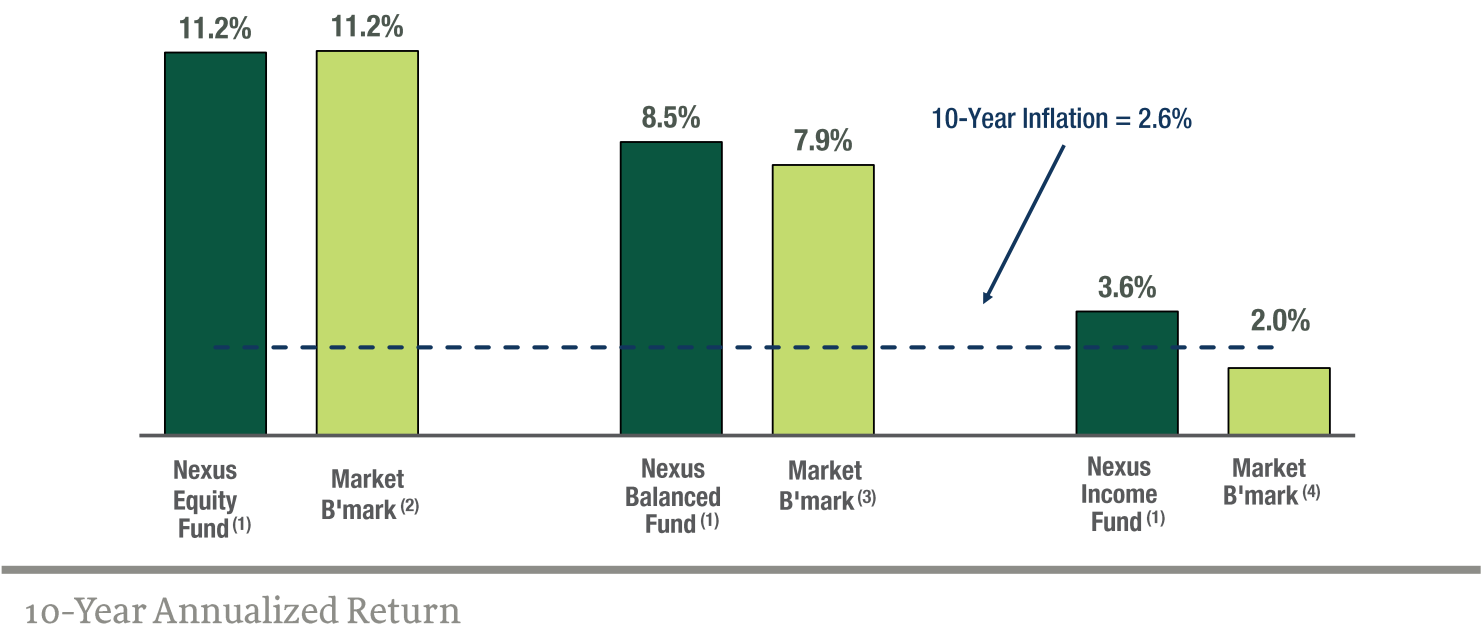
⁽⁴⁾ Income Fund market benchmark is the FTSE Canada Universe Bond Index. Note that in addition to bonds, up to 20% of the Income Fund portfolio may be invested in equity securities.

⁽⁵⁾ International Equity Fund market benchmark is 75% MSCI EAFE and 25% MSCI Emerging Markets indices (both in C\$); rebalanced monthly.

Five Years ended August 31, 2023

Investment Performance

Ten-year returns remain attractive



Ten Years ended August 31, 2023

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Outlook

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



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

Portfolio Overview

Equities

Our North American equities combine defensiveness and growth



As at June 30, 2023

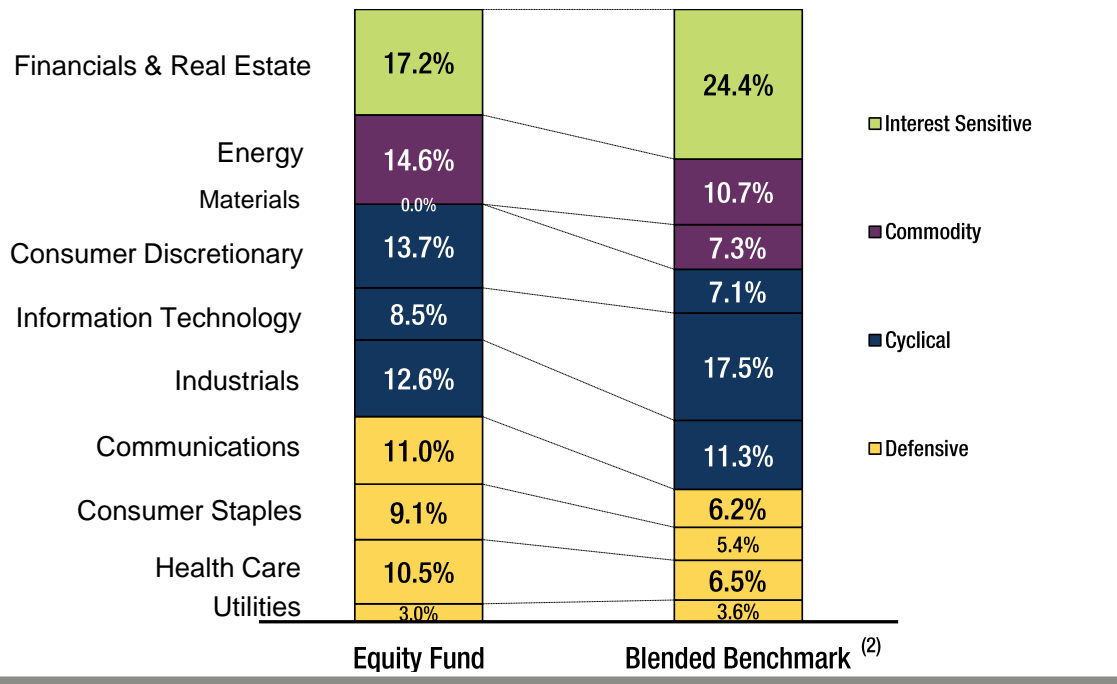
Source: Bloomberg.

⁽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.

Portfolio Overview

Diversification

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



Nexus Equity Sector Allocation ⁽¹⁾

	S&P 500	TSX	Nexus Equity Fund
Forward Price / Earnings	19.6x	13.1x	12.3x
Price / Book	4.2x	1.8x	1.7x
Dividend Yield	1.6%	3.4%	2.8%

Comparable Valuation Metrics ⁽³⁾

Source: Bloomberg.

⁽¹⁾ Includes Canadian and U.S. equities; as at June 30, 2023.

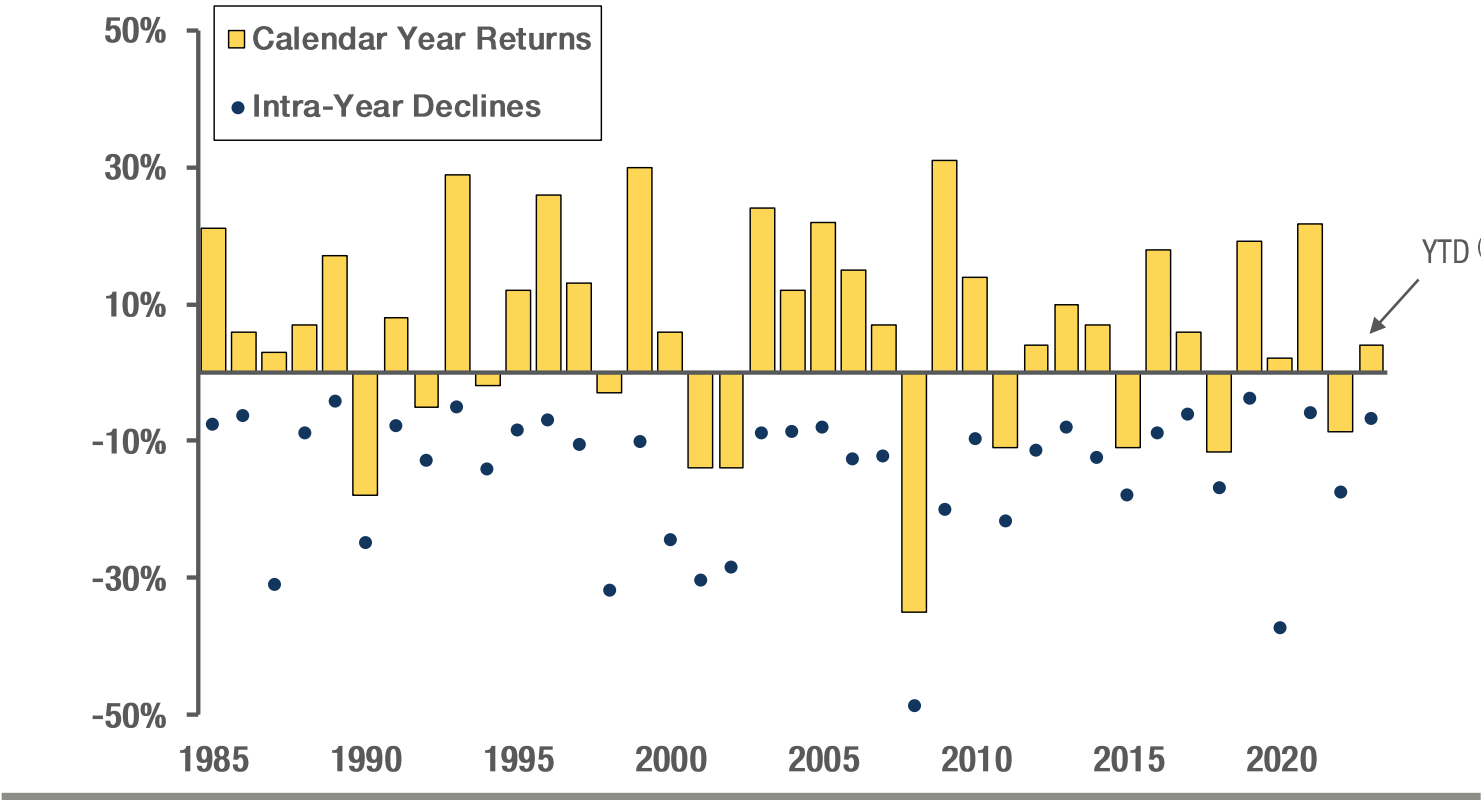
⁽²⁾ The blended benchmark is a combination of the TSX and S&P 500 at their relative weights in the Fund's benchmark. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

⁽³⁾ The forward price/earnings ratios are based on Bloomberg consensus estimates for earnings in the next 12 months as of June 30, 2023. P/E and P/B ratios in this table are calculated using a weighted harmonic mean.

Portfolio Overview

Equities Deliver Over Time

Intra-year drawdowns are the norm – this can obscure the long-term rewards from equities



- 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 ⁽¹⁾

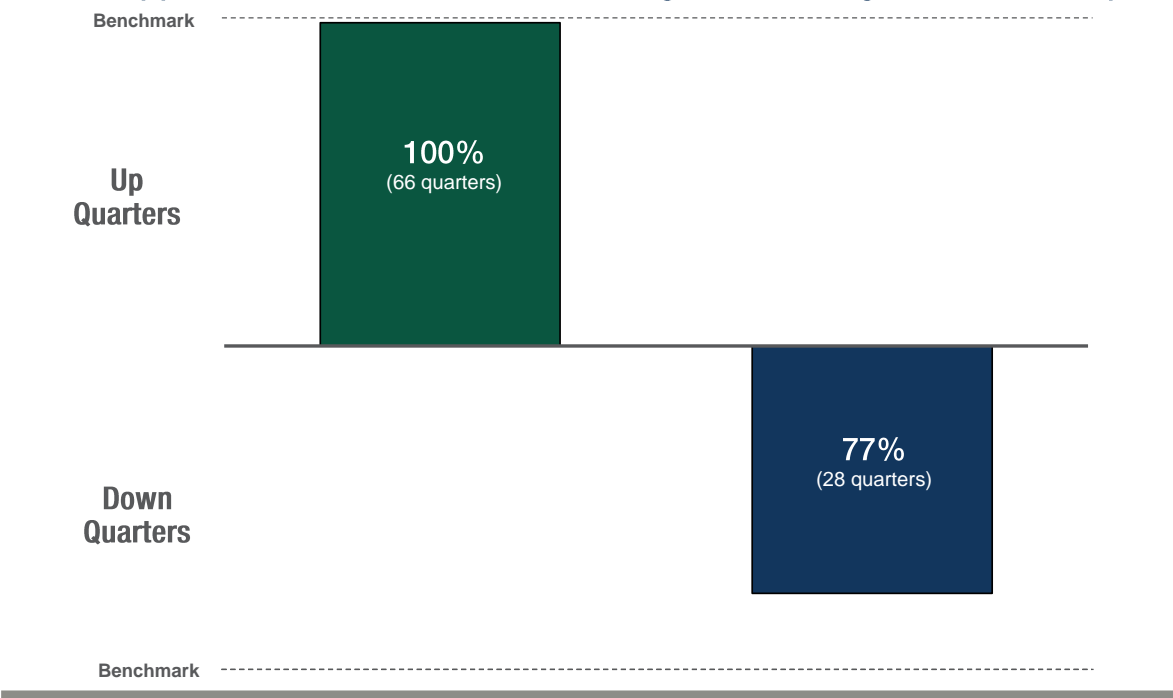
Source: Bloomberg.

⁽¹⁾ 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 June 30, 2023.

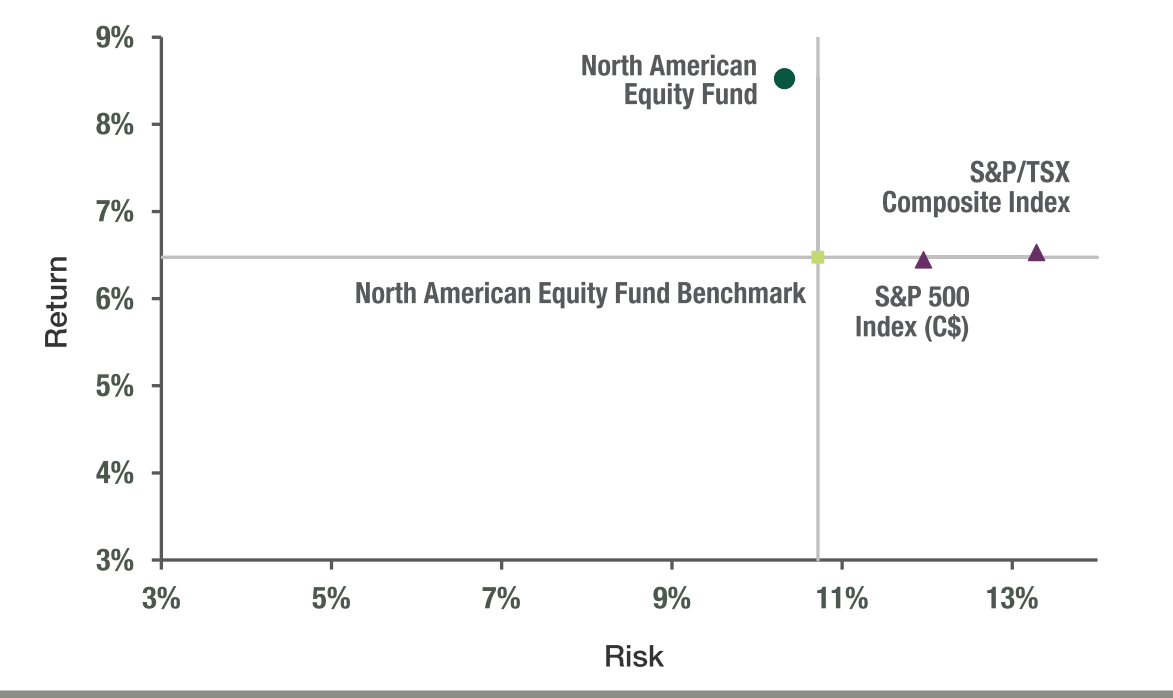
Investment Performance

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. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

⁽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 (which are charged to client accounts and vary by client). 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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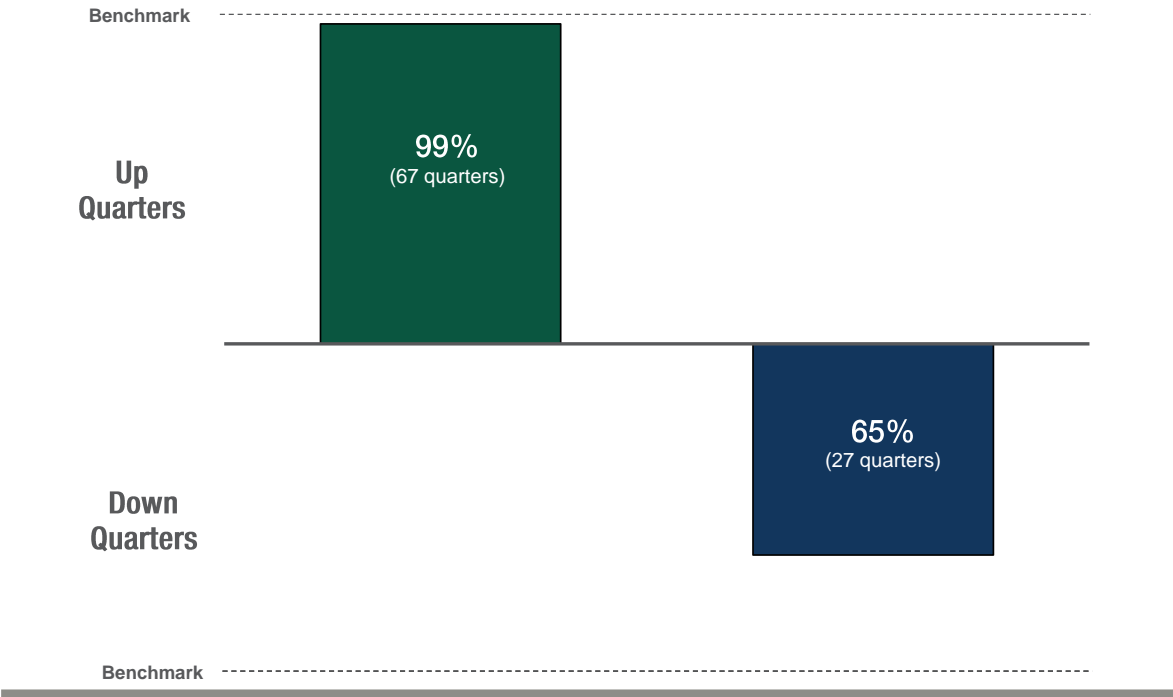
⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since January 1, 2000.

Period ending June 30, 2023

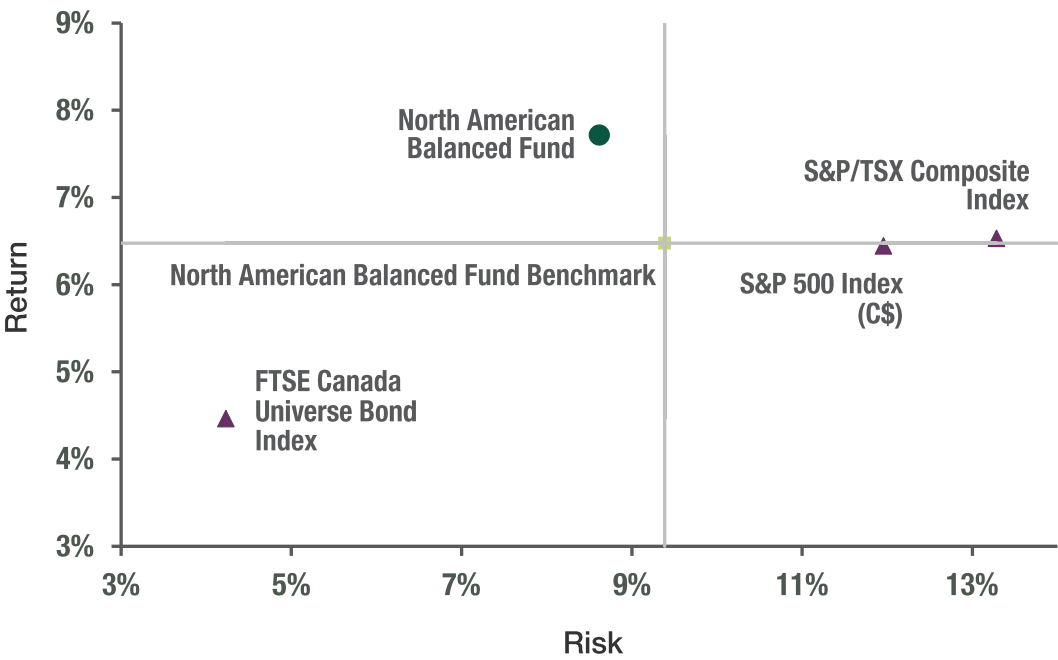
Investment Performance

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. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

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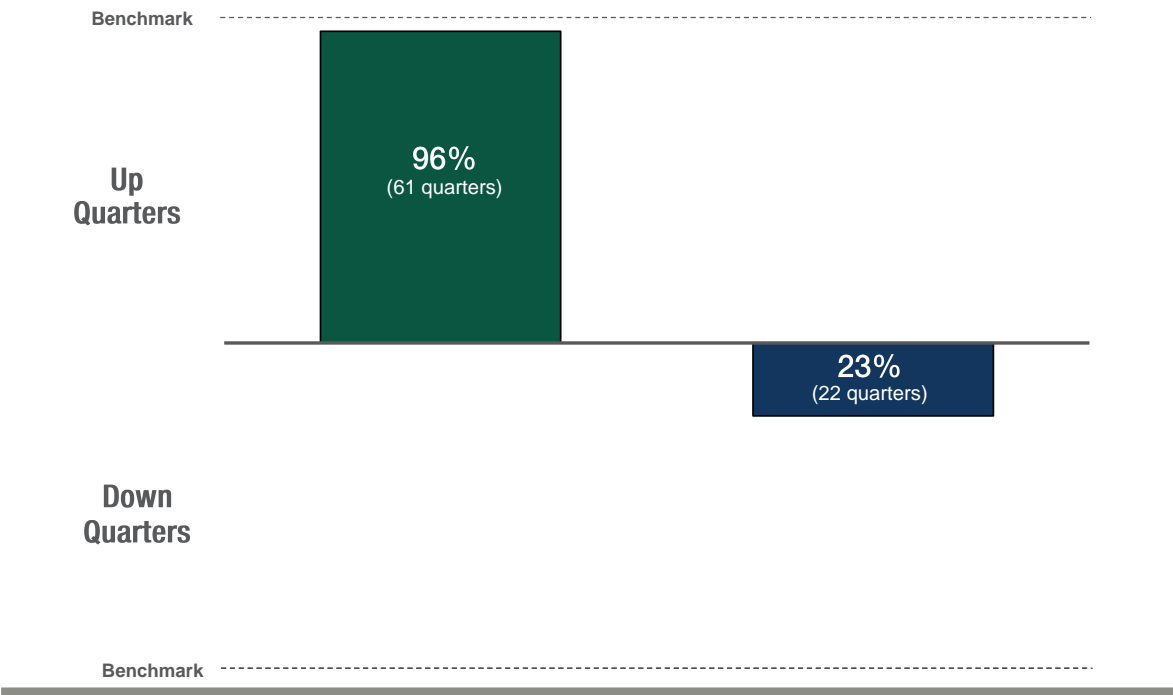
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Period ending June 30, 2023

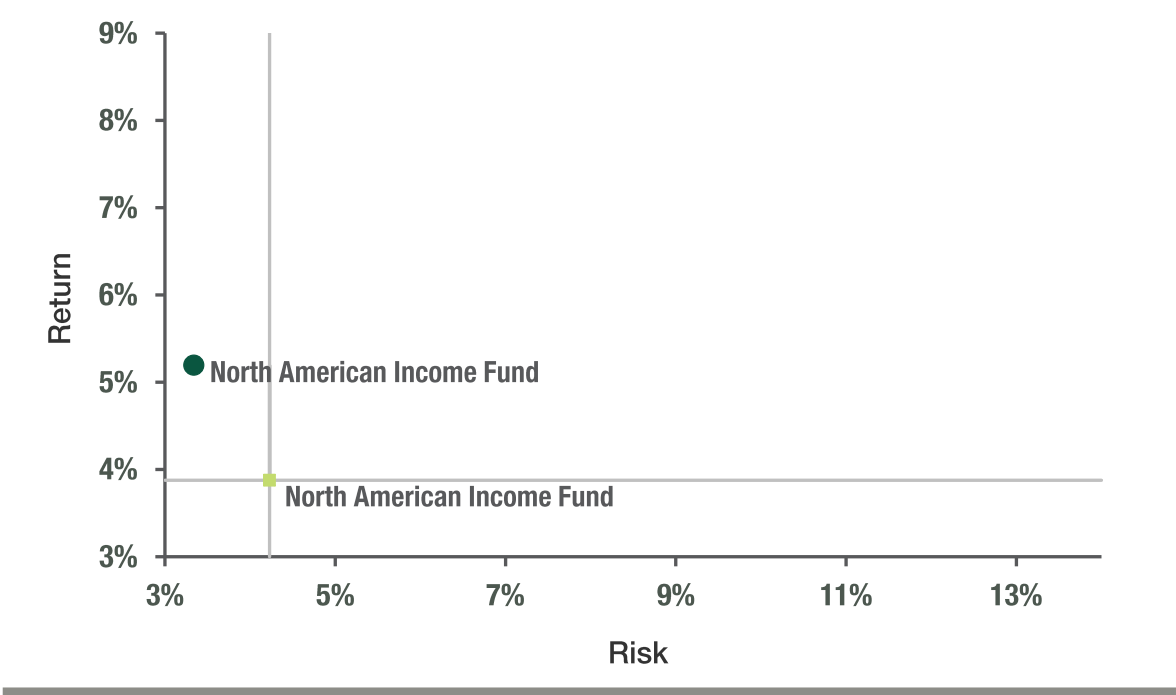
Investment Performance

Income Fund

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. For more information about benchmarks, please refer to <https://tinyurl.com/NexusOnBenchmarks>.

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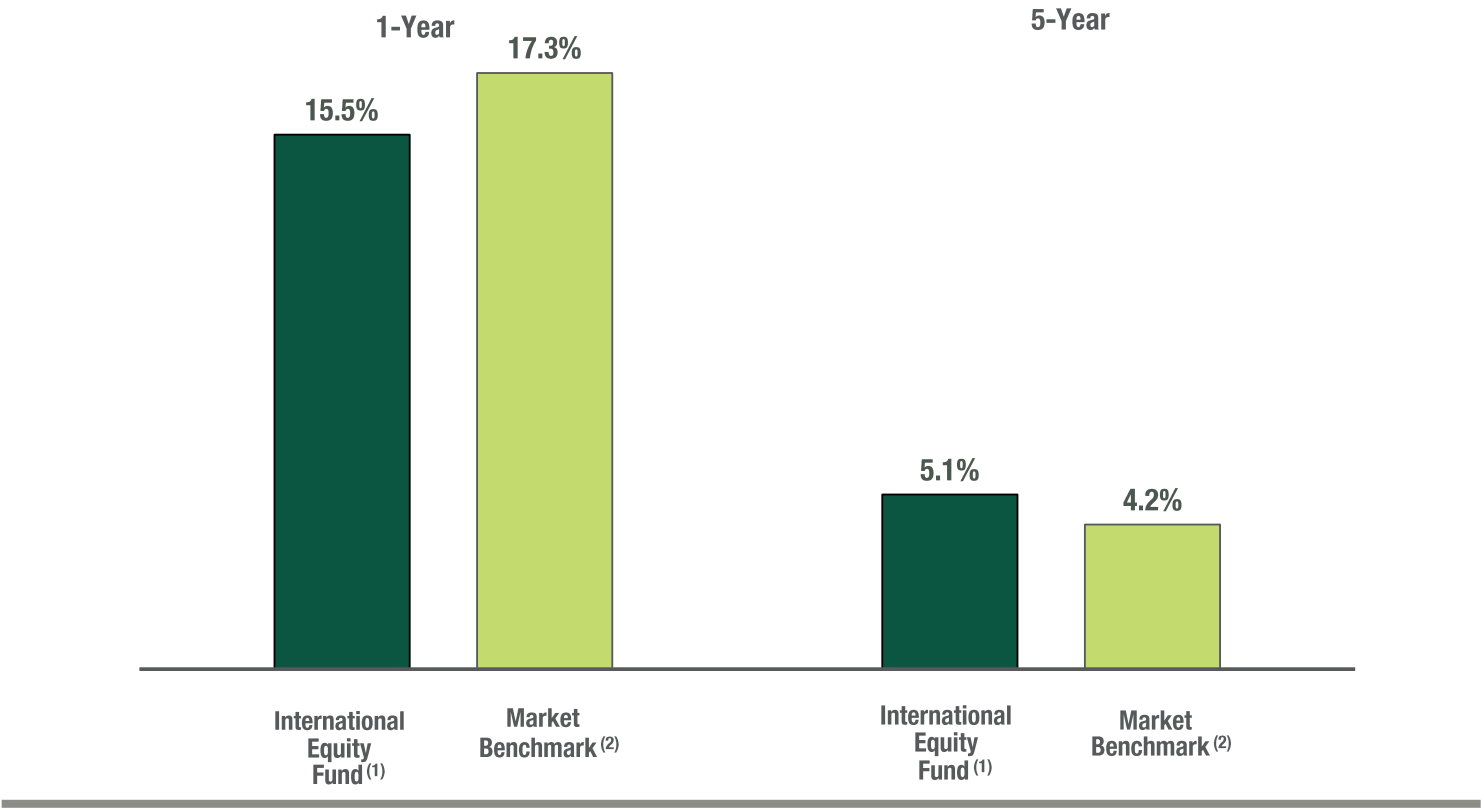
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⁽⁴⁾ Risk is calculated as the annualized standard deviation of monthly returns since October 1, 2002.

Period ending June 30, 2023

Investment Performance

Strong returns in the last year have helped the International Equity Fund rebound from a tough earlier period



Nexus International Equity Fund

Periods ended August 31, 2023

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NEXUS

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Guiding investors
with *thoughtful*
wealth planning.