

**VBA's U.S. Pension Fund Composite Ranks 5<sup>th</sup> Percentile on the One-Year Basis and 15<sup>th</sup> Percentile on the Nine-Year Basis**

It is again my pleasure to report on the continuing outstanding investment performance results of the U.S. Small-Cap Equity Management Division.

**U.S. SMALL-CAP INVESTMENT PERFORMANCE**

The following table shows the investment performance results of the Van Berkomp and Associates Inc.'s ("VBA") U.S. Pension Fund Composite for the period ended June 30, 2009 compared with the Russell 2000 Small-Cap Index as well as the S&P 500 Index.

**VBA U.S. Pension Fund Composite Results**  
**Time-Weighted Rates of Return**  
**(To June 30, 2009)**  
**(in US Dollars)**

	<b>3 Mos.</b>	<b>YTD</b>	<b>1 Yr.</b>	<b>2 Yrs.</b>	<b>4 Yrs.</b>	<b>5 Yrs.</b>	<b>7 Yrs.</b>	<b>8 Yrs.</b>	<b>Since</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>06/30/00</b>
	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>	<b>(%)</b>
VBA U.S. Pension Fund	23.20	8.34	-12.80	-13.00	0.83	3.59	5.83	6.05	8.76
Russell 2000 Index	20.69	2.64	-25.01	-20.73	-4.31	-1.71	2.68	1.20	1.13
S&P 500 Index	15.93	3.16	-26.21	-19.93	-4.27	-2.24	0.92	-1.66	-3.22
<b>Value Added</b> <b>(VBA U.S. Composite</b> <b>minus Russell 2000)</b>	<b>2.51</b>	<b>5.70</b>	<b>12.21</b>	<b>7.73</b>	<b>5.14</b>	<b>5.30</b>	<b>3.15</b>	<b>4.85</b>	<b>7.63</b>

NOTE: Van Berkomp and Associates Inc. [an entity registered with the Quebec, Nova Scotia, Ontario, Alberta, and British Columbia Securities Commissions as Investment Counsellor and with the Securities and Exchange Commission (United States) as Investment Advisor] has prepared and presented the report in compliance with the Global Investment Performance Standards ("GIPS") of the CFA Institute. The CFA Institute has not been involved with the preparation or review of this report. As at June 30, 2009, the VBA U.S. Pension Fund Composite ("VBA U.S. Pension Fund") totalled US\$233.56 million in small-cap assets, which represented 96.6% of the firm's U.S. assets under management and 34.3% of the firm's total assets under management. The VBA U.S. Pension Fund Composite includes six major pension fund accounts. A complete list of the firm's composites and a description of each are available.

**COMPARATIVE INVESTMENT PERFORMANCE VERSUS THE RUSSELL INVESTMENT GROUP UNIVERSE OF U.S. SMALL-CAP MANAGERS**

I have enclosed the comparative investment performance results of the VBA U.S. Pension Fund Composite in the Russell Investment Group Universe of U.S. small-cap equity managers. Also enclosed is the risk/reward chart showing the VBA U.S. Pension Fund Composite versus the Russell Investment Group Universe of 167 U.S. Small-Cap portfolios as evaluated by BNY Mellon Asset Servicing.

VBA's U.S. Pension Fund Composite ranks in the 5<sup>th</sup> percentile for the one-year ended June 30, 2009 and in the 15<sup>th</sup> percentile for the nine-year period ended June 30, 2009.



## REVIEW AND OUTLOOK OF U.S. SMALL-CAP STOCKS

Enclosed you will find the quarterly review and outlook for U.S. Small-Cap stocks for the second quarter 2009, that we have sent to our clients.

If you would like to learn more about VBA and our U.S. Small-Cap Equity Management Division, please visit us on our web site at [www.vbassociates.com](http://www.vbassociates.com) or call me at 1 888 VBA-5759, extension 223 or at (514) 985-5759, extension 223, Mathieu Sirois at extension 237 or Benoît Durand at extension 226 or by e-mail at [contact@vbassociates.com](mailto:contact@vbassociates.com).

Sincerely yours,

A handwritten signature in black ink, appearing to read 'J. Sebastian van Berkomp'.

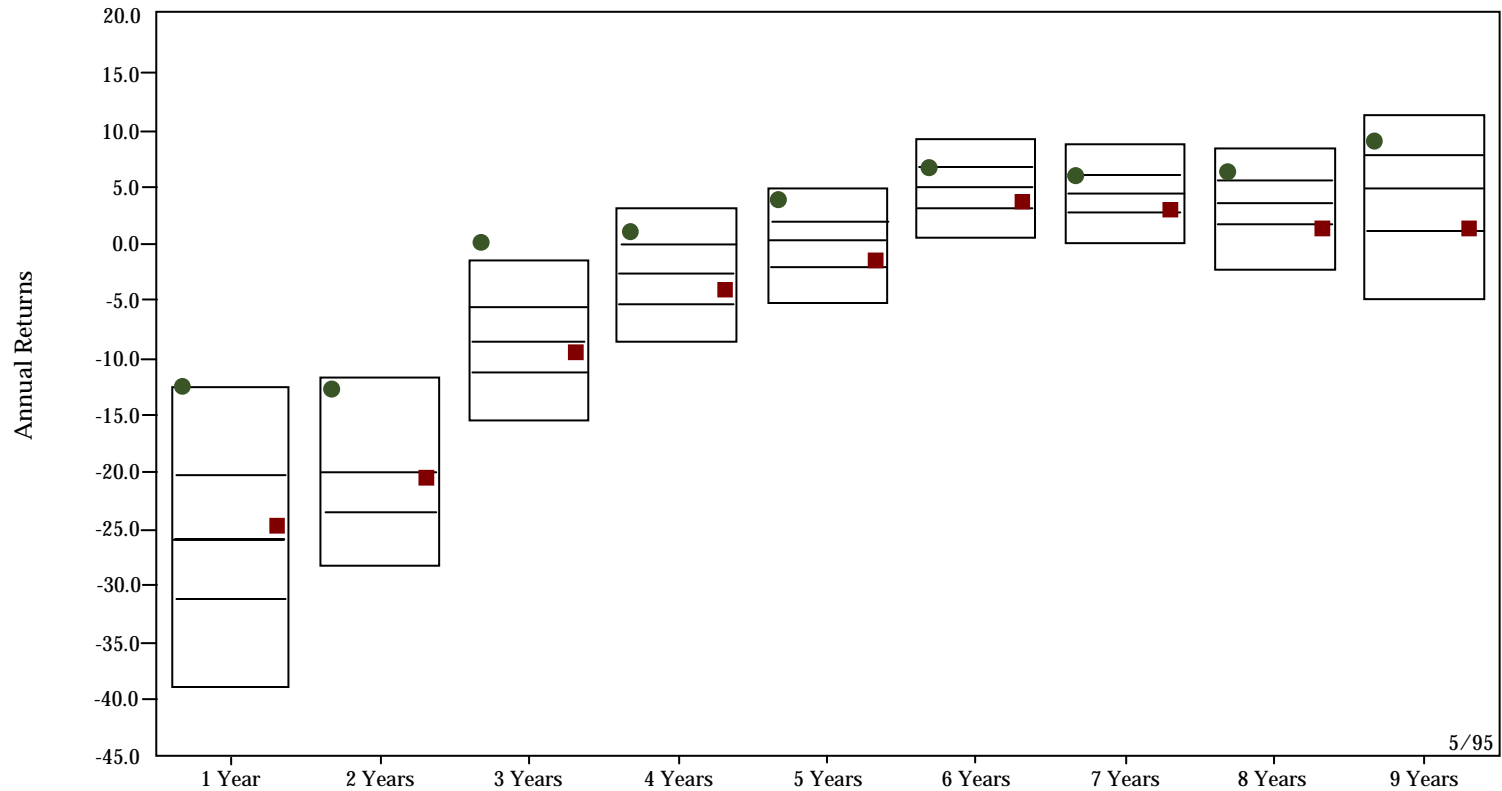
*J. Sebastian van Berkomp*  
President and Chief Executive Officer

# VBA U.S. PENSION FUND COMPOSITE VERSUS RUSSELL INVESTMENT GROUP UNIVERSE



## Small-Cap Equity Universe

Rates of Return for Periods Ending June 30, 2009



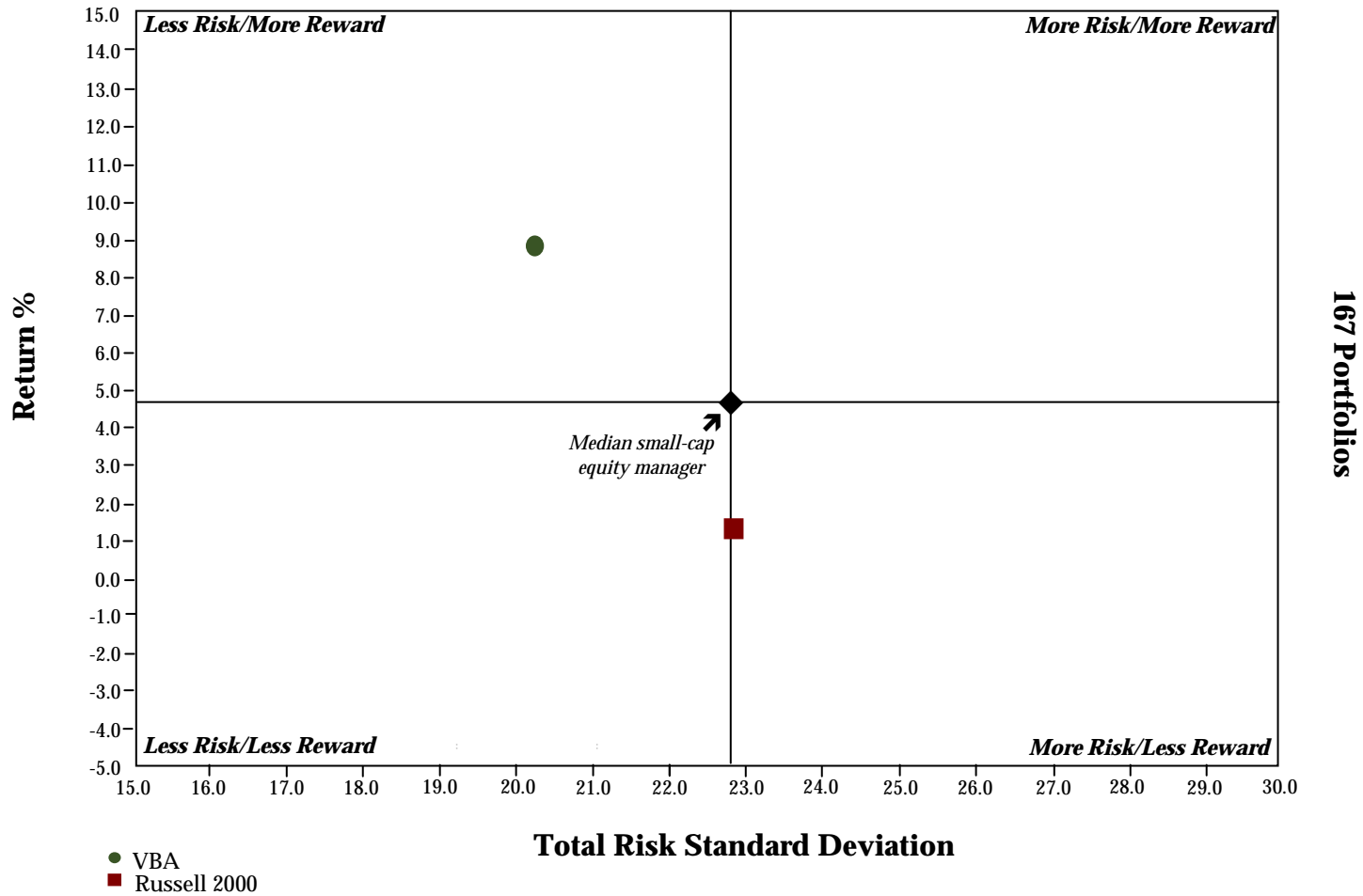
	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile	Value	% Tile
5 <sup>th</sup> Percentile	-12.9		-12.0		-1.7		3.0		4.7		9.1		8.5		8.1		11.0	
25 <sup>th</sup> Percentile	-20.6		-17.3		-5.8		-0.4		1.7		6.6		5.8		5.3		7.6	
Median Percentile	-26.2		-20.2		-8.8		-2.8		0.0		4.9		4.2		3.3		4.6	
75 <sup>th</sup> Percentile	-31.3		-23.7		-11.6		-5.4		-2.2		2.9		2.5		1.5		0.9	
95 <sup>th</sup> Percentile	-39.0		-28.4		-15.8		-8.9		-5.5		0.3		-0.1		-2.4		-5.1	
# of Portfolios	378		368		339		298		268		249		215		193		167	
<b>● VBA U.S. Composite</b>	<b>-12.8</b>	<b>5</b>	<b>-13.0</b>	<b>8</b>	<b>-0.2</b>	<b>4</b>	<b>0.8</b>	<b>16</b>	<b>3.6</b>	<b>12</b>	<b>6.6</b>	<b>26</b>	<b>5.8</b>	<b>26</b>	<b>6.0</b>	<b>14</b>	<b>8.8</b>	<b>15</b>
<b>■ Russell 2000 Index</b>	<b>-25.0</b>	<b>44</b>	<b>-20.7</b>	<b>54</b>	<b>-9.9</b>	<b>61</b>	<b>-4.3</b>	<b>64</b>	<b>-1.7</b>	<b>68</b>	<b>3.4</b>	<b>70</b>	<b>2.7</b>	<b>74</b>	<b>1.2</b>	<b>77</b>	<b>1.1</b>	<b>74</b>

Universe Source: Russell Investment Group

PERFORMANCE OF THE VBA U.S. SMALL-CAP PENSION FUND COMPOSITE  
 VERSUS THE RUSSELL INVESTMENT GROUP UNIVERSE



**Small-Cap Equity Universe**  
 Risk / Reward  
 9.0 Years Ending June 30, 2009



Universe Source: Russell Investment Group



## REVIEW AND OUTLOOK OF U.S. SMALL-CAP STOCKS

As we were putting our thoughts together in preparation for this quarterly letter, we quickly became quite concerned that we were apparently suffering from the so-called “writer’s block”. We realized that our lack of inspiration, as we closed out this period, largely stemmed from the relative quietness that characterized this most recent quarter. While referring to this period as being uneventful and even somewhat boring may sound like a gross exaggeration, we cannot help but feel this way in comparing this quarter to all the drama orchestrated by the main actors in Washington and on Wall Street that we witnessed in the previous six months.

With no spectacular event that would bring the global financial system down on its knees and the reduced ability of frequently-disappointing macro-economic news to shock the market and unnerve immunized and numb investors, the sky was clear for stocks to reach steady cruising altitude during this quarter. In fact, with the Russell 2000 up over 20% in the past three months, this was the best performance of the U.S. small-cap market since the second quarter of 2003. This straight-line recovery in the stock market was a stark reminder of the exuberant times of 2003, when the market was sailing through an abundance of good economic data and fueled by strong corporate earnings growth.

The problem is that fundamentals of the U.S. economy are now, stating the obvious, quite poorer than they have been for decades. In fact, we have been going through some very abnormal times, with several unknown long-term consequences from the dramatic government intervention in the economy and the financial markets, with the Federal Reserve that has pumped huge liquidity in the markets and the Federal government that has taken over or acquired substantial ownership in various pillars of corporate USA. Furthermore, the banking and housing sectors are still licking their wounds and are in a very fragile state despite all the efforts put up to restore their foundations. On the banking side, the significant recapitalization efforts pushed by the government following the results of the “Stress Test” have brushed aside immediate concerns about the viability of some of the biggest institutions, but several lingering issues remain and rapidly-rising loan losses are somewhat hair-raising and well worth watching closely. While we have seen some signs of stabilization in home sales and median prices after a long and painful collapse, we have yet to celebrate the long-awaited turn in that market which, in our mind, is essential to a full economic recovery.

Another very worrisome sign to us throughout this quarter has been the apparent and growing disconnect between investors’ mindset and businesses and consumers state of mind and actions. For one thing, from what we can see and gather from our frequent discussions with management teams across a broad spectrum of sectors, business confidence remains at a low point, as evidenced by the continuation of lay-off announcements, cost saving and restructuring actions and record-low or decreasing capital expenditure budgets. On the other hand, the prognosis on the health of the U.S. consumers remains quite grim, as their level of confidence, besides the normal monthly volatility in that metric, remains shaken and depressed by ongoing worries about their ability to keep their job and their house. Rightfully so, the U.S. consumers, by and large, remain focused on saving money and deleveraging their balance sheet in light of all the uncertainties, as illustrated by the skyrocketing saving rate and limited personal credit activity. As if this was not enough to seriously put the brakes on the economy, for those willing to spend, access to credit remains fairly tight.

All of these factors certainly not conducive to a robust economic recovery did not seem to matter for the rejuvenated investors, who rapidly went from a state of relief in the first few weeks of this bull market to complete complacency and euphoria in the last phase of the steep market ascent. The old adage *once burned, twice shy* did not seem to apply to market participants in recent weeks, as heavy risk-taking became the norm once again, and happened so soon after this brutal



bear market and the associated painful losses that should still have been very fresh on everybody's mind. The numerous market pundits, in their usual role of cheerleaders, showed once again how creative they can be, putting a positive spin on every mixed and even on not-so-positive economic data that would come out. In a fascinating turn of mindset, almost all of a sudden, the glass became half full in this second quarter, after having been completely empty for the past few periods. As such, a twisted mind, in the face of all these appalling financial scandals and massive financial frauds that were uncovered and that took on the spotlight during this quarter, would even suggest that this most recent stock market rally was nothing but another giant Ponzi scheme. Unfortunately, we simply believe that the U.S. stock market has gotten quite a bit ahead of the fundamentals and has moved too far beyond the current shaky and uncertain state of the economy.

At this point, it would seem to us that only a meaningful recovery in corporate earnings could support this market and further sustain this rally. While the earnings estimates of Wall Street analysts for most U.S. companies for 2009 have fallen off a cliff in recent months, unfortunately, they still point toward somewhat of a V-shape type of recovery for most sectors and individual companies deeply bruised by this severe recession, starting in the fourth quarter of 2009 and into 2010. As we think that the brutal wounds inflicted by this economic contraction on large sections of the economy will take quite a bit of time to heal, and as we notice that the corporate profits-to-GDP ratio, while having come down from dizzying heights, is still stubbornly high compared to historical levels, we are quite a bit more pessimistic about the prospects for a rapid and sustained recovery in corporate earnings. Therefore, we would deem as imprudent investors' tendency these days to value stocks based on a significant earnings rebound in 2010. In our mind, the only scenario in which the stock market is trading at reasonable levels nowadays is in the event that the dramatic recovery in earnings in the sectors hit the worst by this recession unfolds as modeled by the Wall Street cheerleaders. In staying true to our style, we prefer to paint and model a scenario of a long, somewhat painful, and slowly-improving pick-up in earnings as we work on the valuation of all the companies that we own or consider buying.

As we continue to work tirelessly to further improve our portfolio, the unfortunate consequence of that steep market recovery is that the extraordinary window to buy fantastic companies at marvelous prices that we had enjoyed and discussed in this quarterly comment for the past six months has essentially closed. Hence, it has become much harder to find attractive new investment ideas in this buoyant stock market, fueled with optimism and where investors are willing to look far beyond the valley toward future earnings recovery to value most stocks. Therefore, for stock pickers like us, the current environment is not quite as exciting as when the stock market was free-falling a few months ago. Nevertheless, it still creates a great challenge to identify the next winners in our portfolio, as selectivity and discipline become essential factors of success in this environment of rising stock valuations. We thus believe that the situation that we are currently dealing with, characterized by a very shaky economic backdrop and much higher valuations on most U.S. small-cap stocks, plays right into our favor and our style. We strongly believe that high-quality companies with great business models and run by outstanding management teams will definitely come out on top and widely outperform low-quality entities in this brutal environment. Obviously, our portfolio has no shortage of such top-quality businesses, priced for the most part still below the lower-quality names that comprise our benchmark.

One of the key attributes of our portfolio has always been the balance between more defensive stocks and high-quality companies more vulnerable to this deep recession, but exceptionally-well positioned to deliver great results when the economy recovers. The benefits of maintaining such a balance in our portfolio under all market conditions have never been more apparent than in this first half of the year. Hence, as our defensive positions in healthcare, education and in some companies providing non-discretionary services helped us outperform our benchmark when the economic world was falling apart and the stock market was crashing, it is our deep investments into such high-quality companies that are more closely correlated to the state of the economy that



fueled our value-added performance since the market rebounded sharply from its lows. In fact, we believe that our ability to outperform the Russell 2000 during this furious recent nearly 50% rally, the strongest post-bear market rebound since the 1930s, was a meaningful test that we passed handsomely, and is very telling about the ability of our portfolio to do very well in the next market up cycle.

In summary, we believe that a record-level of high-quality investments in our portfolio that currently exhibits a great balance between defensive stocks and higher-beta names, and that is trading at a discount to our market benchmark put us in an enviable position to continue to provide value-added performance to our clients under most scenarios. In the face of many conflicting signals from the economy, with clear signs of stabilization in some segments partially offset by continued uncertainty in other areas and by rising stock market expectations and valuations, we feel strongly confident that we have achieved the right positioning to outperform our peers and our benchmark in most situations going forward. We believe that only an irrational, sustained market rally driven by low-quality, heavy cyclical names, as we have witnessed more recently and similar to what we experienced in 2003, could hurt us relative to our benchmark. Fortunately, we do not believe that such a scenario is in the works, as the economic fundamentals in place are clearly not conducive to a repeat of 2003.