

VAN BERKOM AND ASSOCIATES INC. (“VBA”) WINS TWO NEW MANDATES

VBA is pleased to report that during the Second Quarter 2010, it was awarded a significant North-American Small-Cap mandate from a rapidly-growing provincial pension fund.

In addition, VBA’s Canadian Small-Cap Equities Division was awarded a new mandate from Quebecor Media Inc.

U.S. SMALL-CAP INVESTMENT PERFORMANCE

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

For the periods ended June 30, 2010, VBA’s U.S. Small-Cap Pension Fund Composite Ranks:

- 13th Percentile on the Ten-Year Basis,
- 9th Percentile on the Five-Year Basis,
- 3rd Percentile on the Four-Year Basis,
- 7th Percentile on the Two-Year Basis, and
- 14th Percentile on the One-Year Basis

The following table shows the investment performance results of the VBA’s U.S. Pension Fund Composite for the period ended June 30, 2010 compared with the Russell 2000 Small-Cap Index as well as the S&P 500 Index.

**VBA U.S. Pension Fund Composite Results
Total Time Weighted Rates of Return
Annualized for Periods Greater than One Year
(To June 30, 2010)
(in US Dollars)**

	3 Mos. (%)	YTD (%)	1 Yr. (%)	2 Yrs. (%)	3 Yrs. (%)	4 Yrs. (%)	5 Yrs. (%)	7 Yrs. (%)	9 Yrs. (%)	10 Yrs. (%)	Inception 06/30/2000 (%)
VBA Composite	-6.89	4.04	29.93	6.45	-0.55	6.59	6.08	9.63	8.47	10.71	10.71
Russell 2000 Index	-9.92	-1.95	21.48	-4.55	-8.60	-2.90	0.37	5.83	3.28	3.00	3.00
S&P 500 Index	-11.43	-6.65	14.43	-8.11	-9.81	-3.02	-0.79	2.84	0.01	-1.59	-1.59
Value Added (VBA minus Russell 2000)	3.03	5.99	8.45	11.00	9.15	9.49	5.71	3.80	5.19	7.71	7.71

NOTE: Van Berkomp and Associates Inc. [an entity registered with the Quebec, Nova Scotia, Ontario, Alberta, and British Columbia Securities Commissions as Portfolio Manager 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, 2010, the VBA U.S. Pension Fund Composite (“VBA U.S. Pension Fund”) totalled US\$443.52 million in small-cap assets, which represented 95.29% of the firm’s U.S. assets under management and 44.30% of the firm’s total assets under management. The VBA U.S. Pension Fund Composite includes ten 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 159 U.S. Small-Cap portfolios as evaluated by *BNY Mellon Asset Servicing*.

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 2010.

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 or call me at (514) 985-5759, extension 223, or Mathieu Sirois at extension 237 or by e-mail at contact@vbassociates.com.

Sincerely yours,

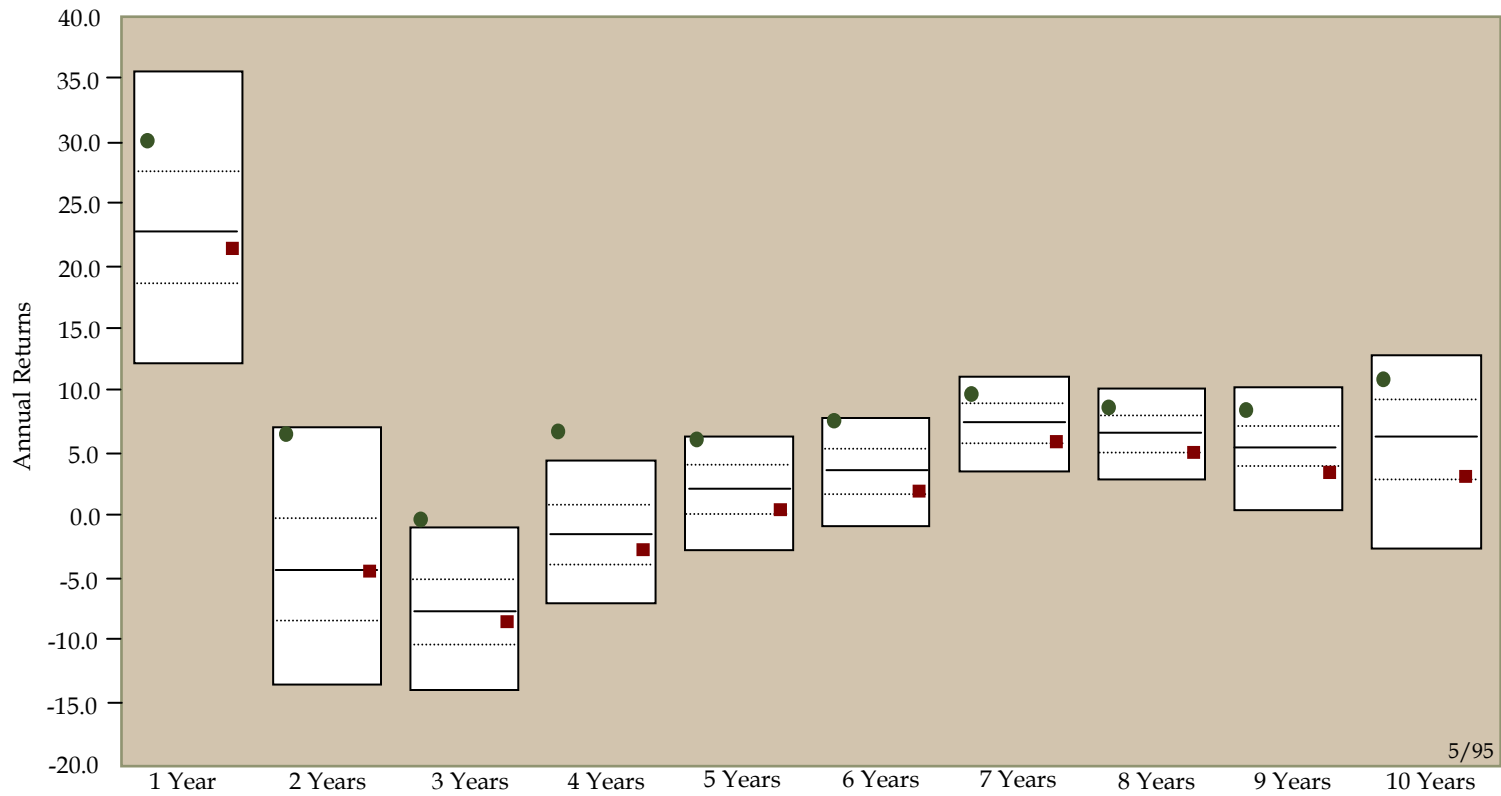
J. Sebastian van Berkomp
President and Chief Executive Officer

PERFORMANCE OF THE VBA U.S. PENSION FUND COMPOSITE VERSUS RUSSELL INVESTMENT GROUP



Small-Cap Equity Universe

Rates of Return for Periods Ending June 30, 2010



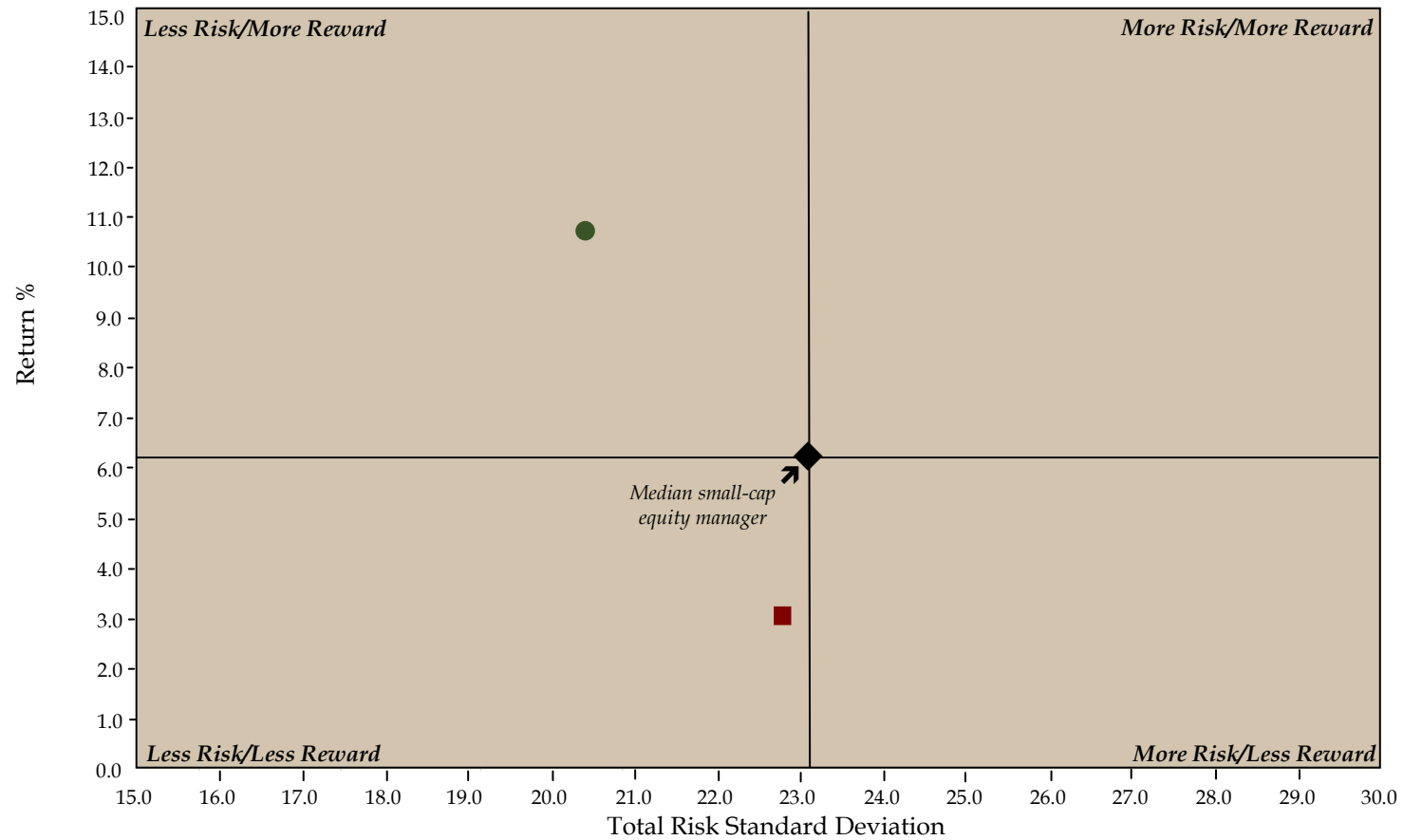
		Value	%tile	Value	%tile	Value	%tile	Value	%tile	Value	%tile	Value	%tile	Value	%tile	Value	%tile
●	VBA	29.9	14	6.4	7	-0.6	4	6.6	3	6.1	9	7.6	7	9.6	18	8.6	18
■	Russell 2000	21.5	56	-4.6	52	-8.6	60	-2.9	64	0.4	70	1.8	75	5.8	75	4.9	79

Universe Source: Russell Investment Group

RISK/REWARD OF THE VBA U.S. SMALL-CAP PENSION FUND COMPOSITE VERSUS THE BNY MELLON UNIVERSE



Small-Cap Equity Universe
Risk / Reward
 10.0 Years Ending June 30, 2010



● VBA
 ■ Russell 2000

Universe Source: Russell Investment Group



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

All good things must come to an end, even for the stock market. Indeed, the bull market celebration that began in March of 2009 and which remained largely uninterrupted for well over a year came to an abrupt end this quarter. Not only did this party conclude a few weeks ago, but the stock market, with its gruesome decline of the past two months, brought back painful memories of the last bear market for most investors.

The stock market started the second quarter on a strong note in April, fueled once again by encouraging macroeconomic data in the United States, and by recovering corporate earnings. However, several factors then conspired to wreak havoc in the financial markets around the world, leading to the worst quarter since the first quarter of 2009 for U.S. small-caps and the worst period since the fourth quarter of 2008 for large caps. In fact, with a decline of almost 10% in the most recent period, the Russell 2000 had its worst ever second quarter on record, meeting firmly the dreaded definition of correction. Furthermore, volatility levels in financial markets soared again, reminiscent of some of the worst moments of the past credit crisis. More broadly, investors had to swallow major negative returns across asset classes and geographies in this June quarter. It was virtually impossible for investors to make money and achieve positive returns regardless of their areas of focus, except for those heavily invested in gold, U.S. Treasury Bonds, and in some exotic stock marketplaces such as Sri Lanka, the Philippines or Peru. In the U.S. domestic market, all of the major sectors except gold had negative returns in the period. Not surprisingly, in the small-cap universe, it was those sectors that had benefited the most from this cyclical recovery that felt the brunt of this correction, as Consumer Discretionary, Energy, Materials and Financial Services all experienced double-digit negative returns in the quarter.

For the past couple of quarters, we had expressed our concerns as we witnessed in awe the relentless rise of this stock market despite mixed economic signals in the U.S. and major long-term structural issues facing several key countries. Hence, we were certainly not shocked to see this market facing its first major correction since this bull market took over about fifteen months ago. However, we must admit that we did not quite envision a correction of this magnitude over such a short time period, nor did we foresee that the catalyst for this steep reversal of trend would come from abroad. Indeed, it is the sovereign debt problems and the dire fiscal situation of Greece that initially ignited this correction. Soon, fears that the Greek meltdown would prove contagious and would spread to other European countries further contributed to investors' mounting unease. The sovereign debt problems in Europe had an immediate and severe impact on the performance of the Euro, with the currency rapidly sinking to multi-year lows. The next leg of worries was then directed at the financial strength of European banks in this backdrop and at their ability to absorb the steep losses associated with such sovereign debt issues. China also contributed to investors' anxiety in the quarter, as signs of slowing growth from the government's intense efforts to cool the property market and control inflation in the country spooked investors. With such developments overseas, U.S. market participants became increasingly worried that such troubles abroad would be detrimental to the global operations of major U.S. companies and could spread to North America. Globally, political winds, despite the wishful thinking of some world leaders, have definitely shifted toward tight budget controls, austerity measures and aggressive deficit reduction goals from initiatives and spending to stimulate each major economy just a few months ago. Both in the U.S. and overseas, such change in political will, while healthy long-term, has increased the likelihood of a negative impact to some of the major economies from the withdrawal of several government support programs.

In all fairness, factors leading to this downturn in the U.S. stock market did not solely originate from overseas. The domestic economy has continued to be plagued by stubbornly high levels of unemployment, wobbly and fragile consumer confidence and consumer spending and a troublesome housing market increasingly at risk of a "double-dip" now that the government has pulled its large incentives that had largely supported on its own this weak spot of the economy. Also, the U.S. government continued down its path of becoming more involved in all aspects of the economy, this time focusing its efforts on delivering on its goal of putting in place the most significant reform of the financial system since the Great Depression, thereby increasing its oversight and regulation of a sector



still wounded and trying to find its footing after the recent credit crisis. Such negotiations in Washington D.C. around financial reform drove a fair amount of uncertainty in the market and left question marks on the impact that this large-scale initiative will have on the sector's long-term growth prospects and profitability. Then, the icing on the cake was obviously this massive oil spill in the Gulf of Mexico that not only severely impacted the performance of most energy stocks in the quarter but also contributed to investors' bad mood. Finally, as if market participants were not nervous enough by then, a trading glitch in May tested the porous circuit-breakers of the major U.S. stock exchanges and, by the same token, investors' nerves, causing what is referred to now as the infamous "flash crash".

In this environment, and despite a long streak of outperformance, beloved small-cap stocks in the U.S. continued to outperform large caps, a very surprising turn of events to say the least. Some investors seemed to hold on to the notion that, by nature, small-cap companies tend to have a much larger exposure to the domestic economy and to be much less global than their large-cap counterparts, hence exhibiting more desirable attributes in the face of a rapidly-deteriorating environment in Europe. Nevertheless, in such an uncertain environment, witnessing the continued dominance of small-cap stocks in this market downdraft was simply mind-boggling to us.

Such backdrop was clearly more favorable to active small-cap managers, as we finally saw a change in performance leadership towards larger companies of higher-quality and of lower valuation. Stocks of companies with such attributes held up better than the lower-quality, lower market cap, highly cyclical and more expensive small-cap stocks. Hence, in this environment, active small-cap managers fared better than in the first quarter versus their benchmark and somewhat caught up to the Russell 2000, even though we would have expected much stronger levels of outperformance during this period of declining returns. One key mitigating factor constraining active managers' ability to outperform in this quarter was the rising level of correlation between stocks as this market correction heated up, leading to only modest outperformance in general from higher-quality companies and limiting investors' ability to add value through stock picking.

As it relates to our performance, we actually welcomed this healthy market correction, bringing some sanity to a stock market that had gone wild for too long. While it was certainly painful to experience negative returns in the quarter, we believe such pullback in the market should lead to a more discriminatory market where the performance of individual stocks is much more correlated to the business fundamentals of each company, a trend that would play right into our style. Furthermore, such steep decline in the stock market is slowly bringing in fresh new buying opportunities that we believe could enhance our long-term investment performance as we look to capitalize on such situations.

This reversal in market trends led to additional significant value added for us in this most recent period, as we outperformed our small-cap benchmark by about 300 basis points and by even more against large-cap indices. Our performance clearly benefited from our significant exposure to high-quality small-cap companies with low valuation multiples, as these stocks generally held up better in the quarter. More importantly, our investment performance in the first half of this year clearly illustrates once again the benefit from the strategic balance in our portfolio that we have continued to maintain between defensive stocks and high-quality companies that are more correlated with the economy. The former category enabled us to outperform in this steep market decline, while the latter group of holdings were many of the leaders behind our significant value added in the very strong market of the March 2010 quarter. In this extremely volatile and rapidly-changing stock market that we have experienced since 2008, such balance in our investment strategy has delivered steady levels of outperformance throughout the bear market that started in 2008, for the duration of the subsequent spectacular market rebound that followed in 2009, and throughout this roller-coaster ride in 2010, exhibiting our ability to do well in a wide variety of market environments.

More specifically, the merger and acquisition theme played out again for us in this second quarter and impacted our performance to some extent. However, this time, instead of being on the acquiree side of mergers and acquisitions ("M&A") transactions, with such take-outs in our holdings as *IMS Health Incorporated*, *Broadview Security* and *Interactive Data Corporation* that we had previously discussed,



two of our companies announced a significant acquisition in which they will be the acquirer. We obviously much prefer to see our holdings being acquired than being the acquirers of other companies, as large-scale acquisitions typically bring a host of specific risks that make the overall proposition typically not so compelling for the surviving entity. Interestingly, we witnessed two very different reactions from investors to these transactions. On the one hand, investors punished the stock of *Charles River Laboratories International, Inc.* (“Charles River Laboratories”) dearly when it announced the acquisition of WuXi Pharma from China, pushing the stock down by almost 16% the day of the announcement. Investors, including us, were spooked by this transaction, complaining about the steep price paid to acquire WuXi, the level of financial leverage incurred to fund the deal, the less-than-perfect timing as it is trying to recover from a severe downturn in its Preclinical business, the questionable synergies identified by management, the potential significant integration issues. Also, investors were clearly worried about management’s ability to add shareholder value from this deal, considering its less-than-stellar track record with such large transactions in the past. Since the announcement, some large shareholders of Charles River Laboratories have indicated publicly their intent to vote against the deal as the company brings it up to its investors. Since the acquisition announcement, we have been in contact with the company’s senior management team to assess the situation. We will keep you informed on our investment strategy on this name.

On the other hand, a few weeks later, market participants cheered loudly the announcement of the acquisition of *Psychiatric Solutions* by *Universal Health Services, Inc.* (“Universal Health Services”), our largest position in the portfolio, driving Universal’s shares up about 8% on the news. Unlike the management team at *Charles River Laboratories*, senior executives at *Universal Health Services* have a great track record of wise capital allocation in such M&A transactions. Furthermore, the synergies from the deal are obvious and significant, and the price paid for *Psychiatric Solutions*, assuming that such synergies play out as expected, is quite reasonable. Also, with this acquisition, the company will become the dominant provider of behavioral health services in the U.S., potentially gaining some pricing power against private insurers in some key markets and in doing so, will be getting rid of a major competitor who competes against it for acquisition opportunities. In large part as a result of the announcement of this transaction, but also because it reported another strong quarter of financial results, *Universal Health Services* was once again one of our best stocks in the June 2010 period.

Despite the fact that until the recent meltdown in the markets, it had truly become quite challenging to uncover bright new investment ideas that met our stringent criteria, we managed to buy two new stocks in our portfolio in the most recent quarter. First, we acquired shares of *Big Lots, Inc.* (BIG), the largest closeout retailer of hard line goods in the U.S. Since the current Chief Executive Officer (“CEO”) took the helm of the company in 2005, he engineered a dramatic turnaround of the business, improving operating margins significantly from 1% to 7%, and lifting *Big Lots’* return on capital from 2% to 27%. Furthermore, the company’s current management team has been very disciplined in its use of capital, first by closing down several underperforming stores in bad locations at a time where lease costs for retail stores were high and soaring, then by starting to repurchase its own stock at very attractive multiples, and now by looking to expand again its store base at a point in time where lease terms are now very attractive to tenants such as Big Lots. Despite all the improvement to the business already realized, we believe that the company still has a very good opportunity to further expand its operating margins, to continue to improve the quality of products in its stores, to increase the average transaction size and frequency of customer purchases through numerous programs and initiatives, and to embark on a steady expansion of its store base, from about 1,360 locations currently toward a long-term potential of over 2,000. Moreover, in a highly uncertain environment for the U.S. economy, such strong mastery and focus on providing significant value to consumers should serve it well and should position it to thrive even in what could be a long period of relatively sluggish consumer spending. Despite all of the strong attributes of this investment thesis, the stock price of *Big Lots’* still does not reflect all of these investment positives, trading at the lowest valuation multiples in the deep value space and at a significant discount to what we believe is the intrinsic value of this business, thereby providing us with a great long-term investment opportunity.

We also bought the stock of *Progress Software Corporation* (“Progress”) in this most recent quarter. The company is a supplier of application infrastructure software and services for the development,



deployment, integration and management of business applications. It performs similar functions as Oracle and SAP, but mostly to smaller companies and at a lower cost of ownership due to its simpler product architecture and functionalities. *Progress* products have been installed in over 60,000 organizations. With over 50% of its revenues coming from recurring maintenance fees, the company has always generated very steady financial results. However, up to now, *Progress* has maintained a fairly sleepy growth profile, focusing on too many products at once and relying on a fragmented, inefficient and on a poorly coordinated sales effort. A new CEO joined the company a few quarters ago to improve the growth profile, to better maximize the potential of its large product offering, and to improve the efficiency of the organization. While it is still early to fully judge the effectiveness and wisdom of this new leader, we believe that his strategy is sound and realistic, and therefore is likely to lead to improved growth and stronger operating margins in the future. Importantly, the company has a huge cash pile with no debt, and at the price that we acquired the shares of *Progress Software*, we did not pay for any upside potential to the margin structure and growth profile of the company. At the low valuation multiples that we bought the stock, we essentially have a free option on the success of the initiatives put in place by the new CEO. Furthermore, we believe that the stock is undervalued and trading below its intrinsic value whether or not the new strategy leads to improved results.

Hence, in this most recent quarter, we took some profits on some of our holdings that had been the subject of an acquisition recently and on some other portfolio names that have performed well, and we recycled these proceeds predominantly into these new names, thereby enabling us to reduce the valuation of our portfolio and maintain its high level of quality. Despite our long streak of outperformance against all major U.S. indices, by having continued to remain very proactive with our investment decisions and by having applied our strict buy and sell discipline, we have been able to maintain a strong positioning against our benchmark again as we enter this third quarter. Also, it is interesting to note that despite the significant levels of value added in the past few quarters, we have had our fair share of laggards in our focused group of holdings ever since the market recovered from its trough levels in March 2009. We firmly believe such holdings that have lagged the broader market remain deeply undervalued, are among the best small-cap companies in our universe and are likely to be our winners of tomorrow. Furthermore, our portfolio remains deeply undervalued compared to our benchmark, trading at much lower valuation multiples than the index, for what we believe is our best-ever level of quality and mix of holdings. Therefore, we remain very confident in our ability to continue to fare well going forward.