

VAN BERKOM AND ASSOCIATES INC. ("VBA") WINS A NEW MANDATE

VBA is pleased to report that during the Second Quarter 2011, it was awarded a second mandate from a current U.S.-based corporate pension fund client.

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, 2011, VBA's U.S. Small-Cap Pension Fund Composite Ranks:

- 21st Percentile on the Ten-Year Basis,
- 8th Percentile on the Five-Year Basis,
- 17th Percentile on the Four-Year Basis,
- 16th Percentile on the Three-Year Basis, and
- 94th Percentile on the One-Year Basis

The following table shows the investment performance results of the VBA U.S. Pension Fund Composite for the period ended June 30, 2011 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, 2011)
(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	-2.06	7.56	29.55	29.74	13.65	6.24	10.83	10.47	10.73	10.41	12.31
Russell 2000 Index	-1.61	6.21	37.41	29.20	7.77	1.20	4.08	6.28	8.06	6.27	5.74
S&P 500 Index	0.10	6.02	30.69	22.29	3.34	-1.05	2.94	4.22	5.32	2.72	0.98
Value Added (VBA minus Russell 2000)	-0.45	1.35	-7.86	0.54	5.88	5.04	6.75	4.19	2.67	4.14	6.57

NOTE: Van Berkomp and Associates Inc. [an entity registered with the Quebec, 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, 2011, the VBA U.S. Pension Fund Composite ("VBA U.S. Pension Fund") totalled US\$844.5 million in small-cap assets, which represented 93.6% of the firm's U.S. assets under management and 53.2% of the firm's total assets under management. The VBA U.S. Pension Fund Composite includes seventeen important institutional 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 162 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 2011.

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 Berkum
President and Chief Executive Officer

JSvB/dr

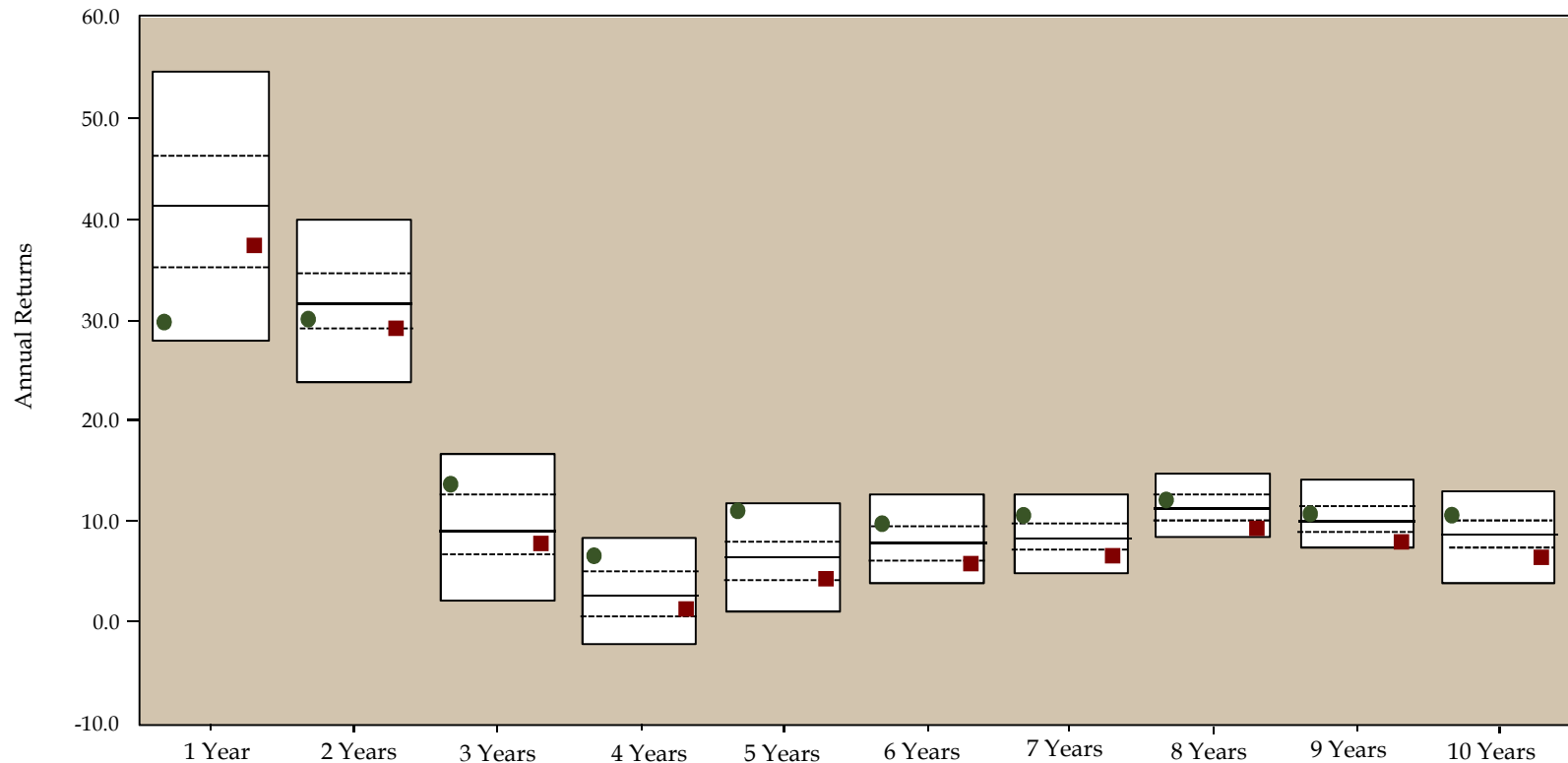
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PERFORMANCE OF THE VBA U.S. PENSION FUND COMPOSITE VERSUS RUSSELL INVESTMENT GROUP



Small-Cap Equity Universe

Rates of Return for Periods Ending June 30, 2011



	1 Year	2 Years	3 Years	4 Years	5 Years	6 Years	7 Years	8 Years	9 Years	10 Years
● VBA US Composite	94	72	16	17	8	23	19	33	35	21
■ Russell 2000	69	76	65	71	77	80	88	86	88	87
# of Portfolios	376	366	344	327	299	264	237	217	189	166

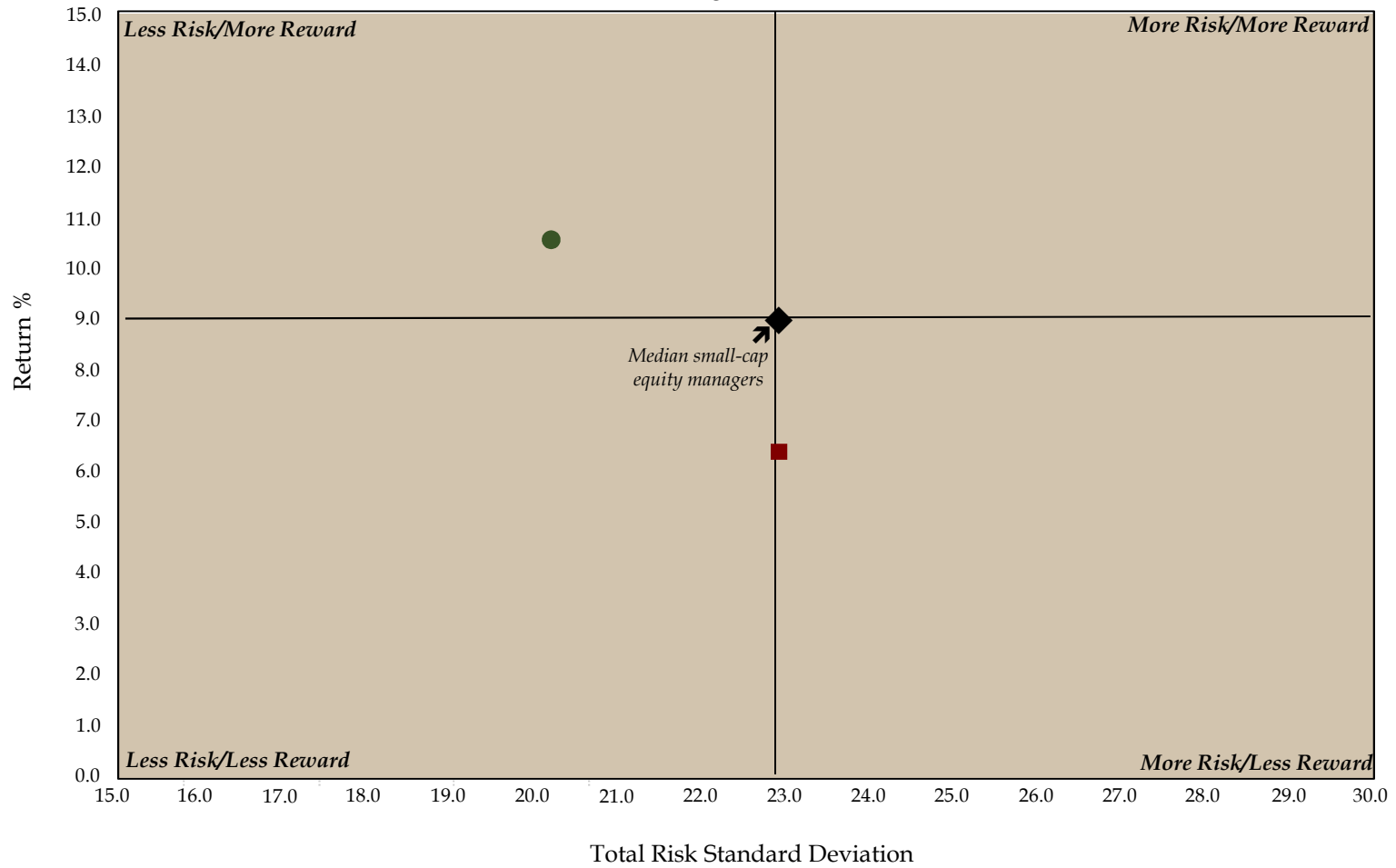
Universe Source: Russell Investment Group

RISK/REWARD OF THE VBA U.S. SMALL-CAP PENSION FUND COMPOSITE VERSUS THE RUSSELL INVESTMENT GROUP



Small-Cap Equity Universe

10.0 Years Ending June 30, 2011



166 Portfolios

- VBA
- Russell 2000

Universe Source: Russell Investment Group



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

At times during this past quarter, overall investor sentiment and macro news became so negative that it felt as if this period would mark a significant correction that many of us thought was in the cards for this year. Yet, we ended the quarter with most major U.S. indices finishing flat or slightly down for the period, in what proved to be a shallow correction and another fairly significant display of resiliency that surprised us once again considering the rather grim news flow that prevailed for most of the last three months.

The combination of the financial crisis in Greece, the broader European sovereign debt issues coming to the forefront again and clear signs of a soft patch in the U.S. economy created a wall of worries that the market had a difficult time climbing in this second quarter, especially after the multi-quarter rally that preceded this period and that had set the market up nicely for a correction at the slightest possibility of a steep deterioration in the macro picture. In spite of all the “noise” this quarter and the few hair-raising moments for investors in the past few months, all major U.S. indices are still up in the mid-single digits year-to-date, a pretty respectable showing by any standard.

In this type of environment, it was no surprise that large-cap stocks finally outperformed small-cap stocks, with investors looking to de-risk their portfolio, with the fairly substantial slowdown in the U.S. economy potentially impacting the more domestically-focused small-cap companies to a greater extent, and with relative and absolute valuation multiples for small-cap stocks around all-time high levels in recent months. Still, considering the above-mentioned backdrop, we were amazed that the underperformance by small caps was not more pronounced in this last quarter, as they are still slightly outperforming large-cap stocks for the full first half of 2011.

To be sure, the slowing economic recovery is a headwind for companies of all sizes. To us, the picture is relatively simple: the great deleveraging is painfully continuing, as governments around the world, some financial companies and consumers still carry too much debt to be in a position to support and contribute more meaningfully to this economic revival. Unfortunately, getting rid of a heavy debt burden is a slow and long process for all types of entities, implying that this deleveraging should be part of the reality for some time to come. It is no surprise then to witness this subpar economic recovery unfolding with its fair share of concerns and weak spots, as evidenced by a weak GDP number for the first quarter, a housing market that appears to be stalled near the bottom, a lackluster rebound in employment, and a consumer confidence that has been slipping to a multi-month low. However, such economic challenges have not prevented U.S. companies from exhibiting very strong earnings growth, but we certainly question the sustainability of this trend, as discussed in greater details in our last quarterly bulletin.

While a choppy market usually creates a good environment for us to add value, we were somewhat challenged this past quarter by high levels of correlation among stocks, and by a market once again primarily driven by macro themes and regulatory events. We also saw stocks with significant price momentum heading into this quarter continuing to dominate this market, enjoying further expansion in their valuation multiples. As usual, this quarter, we outperformed our benchmark during market downdrafts, but we underperformed by a greater margin when the markets recovered, as in April and in late June. The end result of these significant intra-quarter fluctuations for us was a slight underperformance for the full quarter. However, through the first half of 2011, our portfolio is still ahead of our small-cap benchmark, in what has remained a pretty strong market.

Not surprisingly, our biggest winners in the most recent period were many of the same stocks that had propelled our portfolio significantly higher in recent quarters, such as *Herbalife Ltd.*, *Tempur-Pedic International Inc.*, *Fossil, Inc.*, *True Religion Apparel, Inc.*, and *Graco Inc.* These names are all from sectors levered to the economy that have enjoyed substantial earnings growth, rapidly-improving fundamentals and significant stock price momentum in the past few months. It was a similar story for our biggest losers, as we saw our names from sectors with either struggling fundamentals at the moment or challenged by the regulatory environment under-performing the most this past quarter. Hence, *Lender Processing Services, Inc.*, *LHC Group, Inc.*, *TCF Financial Corporation*, *CBOE*



Holdings, Inc., QLogic Corporation and Interval Leisure Group, Inc. were among our worst performers in this period. A few of these names belong to our group of defensive stocks in the portfolio. While there was a general shift by investors in these choppy markets toward more defensive sectors, we were not helped much by that trend, with a few of our defensive names not playing their usual defensive role in weaker markets, as they have continued to be plagued by a difficult business or regulatory environment. Hence, regulatory changes in healthcare, banking, and financial services notably have continued for the most part to move against us. The one bright spot in our exposure to more regulated sectors was education, as favorable changes in June to proposed new regulation aimed at the industry drove a nice rally in the sector that we participated in, notably through our exposure to *Grand Canyon Education, Inc.*

While earlier this quarter, the market downdraft made us hopeful that we would see more new investment ideas finally coming our way, the window of opportunity for the most part closed even before it really opened, as valuations on most small-cap companies have remained high and have not come down to truly appealing levels. Despite this continued challenge to find attractive new investment opportunities in our market, we were able to build a position in a new stock in recent weeks, *Iridium Communications, Inc.* (“Iridium”). The stock of this company is one of the very few that have been largely left behind in this multi-quarter rally. At first glance, it is relatively easy to understand why investors taking a brief look at this story are likely to be put off by the spotty history of these legacy Motorola assets that once entered bankruptcy and by the looming 3 billion dollars capex program required to upgrade its satellite constellation by 2015. However, our own initial analysis of this company led us to believe that this had the potential to be a high-quality company that fully met our investment criteria. Herein lay our opportunity if our in-depth work on this company would demonstrate that investors’ concerns, currently reflected in the low valuation of the company, were largely unfounded and misguided.

We therefore decided to dig deep in the story of Iridium, engaged in providing mobile voice and data communication services using a constellation of low earth orbiting satellites. The company as it is today is very different than what it was under Motorola. Rather than being an unprofitable and narrowly-focused business as it was back then, the company’s current management team has built it to become a market leader, serving many different markets through an extensive portfolio of products and applications and a very broad distribution network. Today, Iridium serves over 440,000 subscribing customers through high-margin and recurring voice and data service contracts. Iridium’s subscriber base has grown rapidly in the past few years, helped by falling equipment prices and the company’s development of several new commercial applications and products, such factors driving a more widespread adoption of satellite services by a large number of different users. Hence, the company has successfully developed a very strong and sticky service business model in several verticals, including government, maritime, logistics, aerospace, mining and exploration.

It is hard for us to think of a business that has more significant barriers to entry than Iridium’s. Any new entrant who would look to come up with a competitive offering would first need to get awarded enough spectrum to allow it to run its network of satellites and deliver the service to subscribers, an effort that has proven to be next to impossible, as evidenced by a few examples in the past few years. Also, to offer a competitive solution to Iridium’s network, a new competitor would most likely have to incur about 3 billion dollars in capital expenditures for the build-out of a satellite constellation, and the funding for such project can normally only be obtained on reasonable terms if the company is already providing satellite services. Hence, the likelihood that new entrants would be able to enter Iridium’s market in the next few years with a competitive offering is very low.

Our in-depth research helped convince us that, against existing players in the field, the company enjoys significant competitive advantages that we believe are sustainable. First, it has the only satellite network that provides full coverage of the earth, including the poles, a key element to win business with certain types of customers for some mission-critical satellite usage against some existing players that only provide regional coverage and against Inmarsat, the large UK-based operator of geostationary satellites. Specifically compared to Inmarsat, the key advantage of Iridium’s constellation, besides its full coverage of the earth, is the lower latency and much quicker voice response speed from its low earth orbit satellites. Also, Inmarsat, as a result of its satellite technology

and near monopoly situation in some end markets, tends to have much more expensive solutions and applications for some key verticals compared to Iridium's offering. Furthermore, Iridium, with a keen focus on research and development, has been very innovative in recent years, coming up with leading-edge new applications that are unmatched by its competitors. While the competition is likely to catch-up at some point in time to the extent that competitive satellite networks are capable of providing such similar solutions, the company's focus on maintaining its edge should lead to additional applications in the future that will keep it one step ahead of the competition. Also, for the past several years, Iridium has worked closely with the U.S. Department of Defense to build a dedicated gateway and an encrypted data and voice system solely compatible with Iridium's satellite network, meeting the government's needs for a highly-secure and low latency network, and therefore making this business incredibly defensible and sticky for Iridium. Lastly, we believe that the company's management team is very competent, with a strong track record, consistent execution, deep knowledge and expertise, and with the right vision for the company.

Such significant competitive advantages have translated into significant market share gains for Iridium against Inmarsat and regional satellite operators for the past few years and in rapidly-growing service revenues. Thus, the company's service revenues have grown at an 18% annual rate since 2005. With a cost structure that is largely fixed, the incremental margins on additional subscribers and service revenues are very high in this business, as evidenced by the consistent EBITDA margin improvement in recent years, to nearly 50% by the end of this year. Despite the strong growth and margin improvement of the past few years, our research has uncovered additional significant long-term opportunities for the company to continue to grow its service revenues at a fast clip and to achieve additional operating leverage, as it continues to develop applications for new end markets and as it strives to gain additional market shares in existing markets.

As for the upcoming significant capital expenditure program, the company has embarked on a project called "NEXT" to replace its entire constellation of satellites that have reached the end of their useful life. While the size of this capital project compared to the size of the company and its cash flow generation is indeed daunting, we have strong conviction that it was designed in a very smart way by the management team. First, 1.8 billion dollars of the capital required to fund this project is a debt instrument guaranteed by an entity belonging to the French government, essentially providing Iridium with low-cost, investment-grade debt for that amount. Secondly, the company should be able to secure at least two hundred million dollars upfront by selling some dedicated space on this satellite constellation for customized applications to specific customers. As we worked diligently and extensively on our financial model for this company, we realized that the rest of the capital needed over a few years to fund the remaining portion of this program should come fairly easily from the company's significant cash flow generation. Lastly, as capital expenditure needs will come down to almost zero at the end of the NEXT satellite project, Iridium should be able to easily meet the debt repayment schedule outlined in its debt agreement with its significant free cash flow generation. The company's ability to generate cash will be further enhanced by this new satellite constellation, as it will give it access to new sources of high-margin service revenues previously out of reach, as it does not have enough bandwidth speed on its current network to provide some applications and it does not host the special applications that will be part of the new network.

Our work on the valuation of Iridium, having built a model with more than ten years of forecasts, encompassing the full duration of the funding of the NEXT satellite program and the subsequent debt repayment schedule, unveiled a deeply discounted company that should be trading at much higher levels based on a conservative long-term scenario. With our extensive work on Iridium, not only were we able to dismiss the vast majority of the bearish arguments against the company that are currently reflected in the low valuation on the stock, but we believe that in this situation, we can take advantage of the time horizon arbitrage that exists with Iridium. Since the company has just started to deploy capital for its new satellite build-out, most investors with a shorter time horizon than ours are either sitting on the sidelines or not even looking at this company, as it is unlikely that the next few months will bring significant catalysts just at a time when the company's debt position will increase significantly in coming quarters. However, as we are willing to own this company for many years, we believe that our patience will ultimately be rewarded as Iridium's management team continues to execute very well, adds new subscribers at a healthy clip, continues to improve the company's margins and grow its



market shares. Down the road, as it becomes more obvious to investors that the company will successfully meet the significant capex needs of its "NEXT" program and will generate growing levels of free cash flows to meet its debt repayment obligations, we believe that the company will start to be rewarded with a much higher valuation than where it is at today. In spite of our detailed investment thesis and of our high level of conviction for this stock, we are mindful of the obvious risks involved in such an investment, such as the new satellite program and the related funding requirements, the risks associated with the launch of the satellites, increased competition from existing players, and cuts in government spending. Therefore, we intend to build this position slowly over the next several quarters.

To make room for Iridium in our portfolio, we took some profits in a few of our high-fliers and sold out of our position in Fossil, Inc, one the largest makers of watches and other accessories globally. Ever since we initiated a position in this company in February of 2009, at the height of the credit crisis, Fossil has been a great success story for us. With almost a tenfold increase in the value of this stock from our initial position around \$12 a little more than two years ago, this proved to be one of our most successful investments ever. When we made our investment in Fossil, the company's fantastic long-term track record, its significant and sustainable competitive advantages and its ridiculously low valuation (5 times earnings) did not matter much to unnerved and bruised investors who were then so intensely focused on shunning and getting rid of consumer discretionary stocks of all breeds to de-risk their portfolio at a time of crisis. Following our initial investment in the stock, the company's fortunes improved materially, with improved consumer spending, new products and expanded distribution driving a significant resurgence in the sale of watches and accessories. Hence, we witnessed several quarters of strong sales growth, significant margin expansion and huge free cash flow generation, all leading to an earnings recovery far beyond investors' expectations. As a result of such powerful and consistent financial results, the stock took off to reflect the significant earnings growth and a much improved multiple on these earnings. However, with the stock continuing its dizzying ascent in recent months, we have come to the conclusion that at current valuation multiples (over 23x forward earnings and more than 15 times EBITDA), investors have become overly excited about the company's prospects and are extrapolating the current earnings growth trajectory far into the future, exposing us to significant downside risk in the event that fundamentals would start to slow or even deteriorate. While we still believe that Fossil is a great company with a bright long-term future, our discipline on valuation has led us to sell our position completely, as we think this stock is now over-priced and trading significantly above its intrinsic value.

However, we would like to point out that Fossil is a perfect example of the type of company that we are tirelessly on the hunt for: a small company with a great management team, sustainable competitive advantages in its markets, with strong financials and fundamentals, and that has the potential to become a large company. It is typically our goal to find the next large-cap companies that will emerge from our small-cap universe, as these are usually the best opportunities to achieve outsized long-term returns. In this example, the market value of Fossil climbed from about 800 million dollars when we purchased our first shares to its current level of about 7.4 billion dollars. We are grateful that our clients give us this opportunity to ride our winners in the portfolio beyond our market capitalization limit when the fundamentals are still intact and the valuation is still attractive beyond this level, as in this case, we would have left a lot of money on the table if we had sold this great company once it had surpassed our typical 3 billion dollar limit.

In summary, it was another busy quarter for us, with significant research efforts to uncover bright new investment ideas and prudent and diligent management of our portfolio in these uncertain times. We believe that our current positioning against the market is intact and as strong as ever, with a portfolio that is of a very high level of quality, but yet that is trading below our small-cap benchmark and below its intrinsic value.