VAN BERKOM AND ASSOCIATES INC
ET ASSOCIÉS INC

VBA U.S. Small-Cap Equity Product

Third Quarter 2008 Newsletter

**VBA's U.S. Pension Fund Composite Ranks 13th Percentile on the Eight-Year Basis,
2nd Percentile on the One-Year Basis, and 2nd Percentile for the Third Quarter 2008
Review and Outlook for U.S. Small-Cap Stocks**

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 Berkom and Associates Inc.'s ("VBA") U.S. Pension Fund Composite for the period ended September 30, 2008 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 September 30, 2008)**

	1 Mo. (%)	3 Mos. (%)	YTD (%)	1 Yr. (%)	2 Yrs. (%)	4 Yrs. (%)	5 Yrs. (%)	7 Yrs. (%)	Since 06/30/00 (%)
VBA U.S. Pension Fund	-4.32	7.89	-3.29	-5.36	7.67	10.00	12.15	12.29	12.46
Russell 2000 Index	-7.97	-1.11	-10.38	-14.48	-1.98	5.64	8.15	9.03	4.69
S&P 500 Index	-8.91	-8.37	-19.29	-21.98	-4.68	3.10	5.17	3.50	-0.94
Value Added (VBA U.S. Composite minus Russell 2000)	**3.65**	**9.00**	**7.09**	**9.12**	**9.65**	**4.36**	**4.00**	**3.26**	**7.77**

NOTE: Van Berkom 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 September 30, 2008, the VBA U.S. Pension Fund Composite ("VBA U.S. Pension Fund") totalled US$283.0 million in small-cap assets, which represented 96.1% of the firm's U.S. assets under management and 34.8% 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 Russell/Mellon 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/Mellon Analytical Services ("Russell/Mellon") Universe of U.S. small-cap equity managers. Also enclosed is the risk/reward chart showing the VBA U.S. Pension Fund Composite versus a universe of 192 U.S. Small-Cap portfolios as evaluated by the Russell/Mellon Analytical Services LLC.

VBA's U.S. Pension Fund Composite ranks in the 13th percentile for the eight year period ended September 30, 2008, in the 2nd percentile for the one year ended September 30, 2008, and 2nd percentile for the quarter ended September 30, 2008.

Review and Outlook of U.S. Small-Cap Stocks

Enclosed you will find the quarterly review and outlook for U.S. Small-Cap stocks that we have sent to our existing clients as at September 30, 2008.

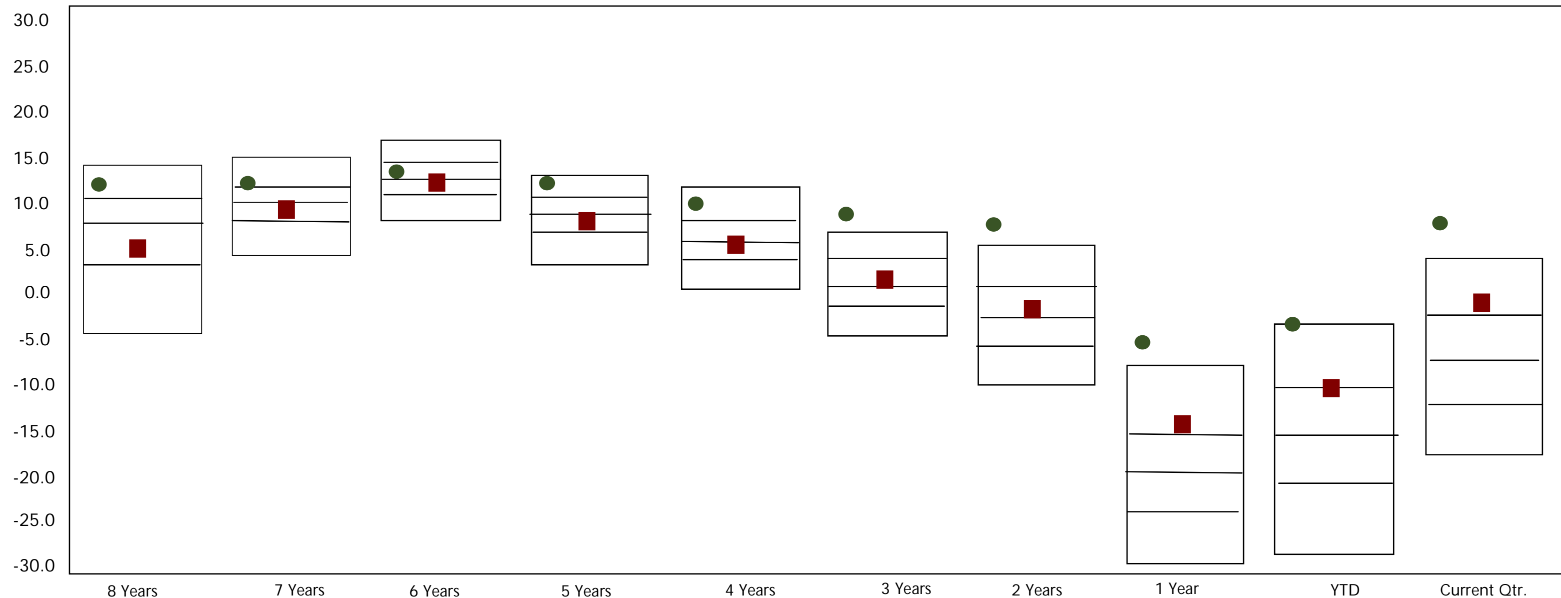
If you would like to learn more about VBA and our U.S. Small-Cap Equity Management Division, please visit us on our web site at www.vbassociates.com or call me at 1 888 VBA-5759, extension 223 or at (514) 985-5759, extension 223, Mathieu Sirois at extension 237 or Benoît Durand at extension 226 or by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

Sincerely yours,

J. Sebastian van Berkom
President and Chief Executive Officer

VBA U.S. PENSION FUND COMPOSITE – RUSSELL/MELLON UNIVERSE

Total Fund: Rates of Return for Periods Ending September 30, 2008



	8 Years Return	(% tile)	7 Years Return	(% tile)	6 Years Return	(% tile)	5 Years Return	(% tile)	4 Years Return	(% tile)
5th Percentile	14.0		14.7		17.0		13.1		11.6	
25th Percentile	10.5		11.6		14.3		10.6		8.0	
Median	7.6		10.0		12.4		8.7		5.6	
75th Percentile	3.1		8.0		10.8		6.7		3.7	
95th Percentile	-4.3		4.3		8.1		3.1		0.6	
# of Portfolios	192		218		244		276		310	
VBA US Pension Fund Composite	**12.0**	13	**12.3**	17	**13.6**	34	**12.1**	12	**10.0**	13
Russell 2000	4.7	69	9.0	66	12.4	50	8.1	54	5.6	50

	3 Years Return	(% tile)	2 Years Return	(% tile)	1 Year Return	(% tile)	YTD Return	(% tile)	Current Qtr. Return	(% tile)
5th Percentile	6.8		5.3		-8.1		-3.5		3.7	
25th Percentile	3.8		0.8		-15.6		-10.4		-2.5	
Median	0.7		-2.7		-19.7		-15.6		-7.4	
75th Percentile	-1.5		-5.8		-24.0		-21.1		-12.2	
95th Percentile	-4.8		-10.2		-31.6		-28.8		-18.0	
# of Portfolios	348		378		405		407		409	
VBA US Pension Fund Composite	**8.7**	3	**7.7**	3	**-5.4**	2	**-3.3**	6	**7.9**	2
Russell 2000	1.8	41	-2.0	46	-14.5	21	-10.4	26	-1.1	20

Note: *Van Berkom 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 September 30, 2008, the VBA U.S. Pension Fund Composite ("VBA U.S. Pension Fund") totalled US$283.0 million in small-cap assets, which represented 96.1% of the firm's U.S. assets under management and 34.8% 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.*

Universe Source: © Russell Investment Group

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VBA US PENSION FUND COMPOSITE RISK/REWARD
US SMALL-CAP EQUITY UNIVERSE

(Eight-Year Period Ending September 30, 2008)

Annualized Return (%)

30.0
25.0
20.0
15.0
10.0
5.0
0.0
-5.0
-10.0
-15.0
-20.0
-25.0
-30.0

10.0 15.0 20.0 25.0 30.0 35.0 40.0

192 Portfolios

Annualized Standard Deviation

● US Pension Fund ■ Russell 2000 Index ▲ S&P 500 Index

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

In times like these, we find it quite worthwhile to go back to the core investment principles of the world's smartest investors and listen to what they have to say about the current crisis to seek insights and guidance. We simply cannot find any better mentor than Warren Buffett himself to guide us through these uncharted waters. Hence, in this quarterly review, we will certainly share with you how the investment principles and the incredibly smart mind of the old sage from Omaha have guided our strategy and our investment decisions in this bear market. Mr. Buffett was certainly easy to find in recent weeks, as he was all over the news with the many interviews that he gave during which he discussed his views on this credit crisis and shared some of his ideas to help resolve it, and, of course, with the announcement of the two multi-billion dollar checks that he wrote to Goldman Sachs and GE.

Of all the terms and expressions used to qualify the mess in which the American financial system is and its consequences on the economy, none has, in our opinion, as much flavor and cachet than what should become another famous Warren Buffett line: an “economic Pearl Harbor”. Indeed, we are of the opinion that with such an unprecedented level of drama on Wall Street and in Washington, the current credit crisis is certainly worthy of this melodramatic expression. As you know, Wall Street has always had a taste for drama, and that definitely reached a climax in September. In fact, there were enough “cover stories” in the past month to keep the financial press unusually busy for a decade: several more billion dollars of asset write-downs by major institutions around the world, for a mere 400 billion dollars cumulative total in the past year; a surge in foreclosures and further retrenchment of the deeply-troubled housing market; the rescue and takeover of Fannie Mae and Freddie Mac by the federal government; the dramatic transformation of the investment bank landscape with the failures of Bear Stearns and Lehman Brothers, the rescue of Merrill Lynch by Bank of America, and the new bank charters for Goldman Sachs and Morgan Stanley; the largest ever failures in the commercial banking (Washington Mutual) and in the insurance industry (AIG); additional evidence that this financial crisis has spread to most other industrialized nations around the world with significant bailouts of large international financial institutions; the 700 billion dollars bailout program of the banking system by the federal government that was just approved.

Of all these incredible turns of events, perhaps none has been as stunning to us as the level and depth of the U.S. government intervention in the financial system and in the economy in general. The most capitalistic economy in the world which for years had shied away from, and publicly repudiated any form of government intervention (including most of the current senior officials that have been the main actors of such forceful interventions recently) that would get in the way of a free market, has moved in the past month much closer to the French, the Swedish or the Japanese economic model (choose your favorite). The U.S. has proven once again that it is a one-sided capitalistic model: a complete free market when the economy is going well and fueled to unsustainable highs by the actions of such market participants, and of course, significant government intervention to absorb and digest those deflated bubbles when they pop.

Hence, in the last month alone, the U.S. government has: nationalized the two main engines of the mortgage industry and, in doing so, pledged 200 billion dollars to keep the mortgage market going (as a side note, it should be disconcerting to taxpayers and investors that the government handed over the control of those two companies to their regulator, the same entity that did such a lousy oversight job for so many years); crafted a deal to take control of the largest insurer, AIG (with 85 billion dollars ready to be injected to prop up AIG); extended government insurance beyond bank deposits to money-market funds (50 billion dollars in such guarantees); temporarily banned short-selling on about 800 financial stocks (to prevent stock manipulation by some investors; the SEC, with such rule, is in fact manipulating the market in its own way); allowed, encouraged or brokered the failure and/or the sale of several prominent financial institutions (active role in several large transactions); just passed a massive 700 billion dollars bailout plan to buy toxic assets from struggling banks so they can shore up their balance sheet and continue to lend. Excluded from this long laundry list are the hundreds of billions that the Federal Reserve poured into the markets to maintain liquidity.

As painful as this unknown tab could prove to be for the American taxpayers, we believe that this level of government intervention is absolutely necessary to enable the massive deleveraging of the U.S. economy, the root cause of this financial crisis. In fact, from 2002 to 2006, borrowings from U.S. households grew at an 11% annual rate and borrowings by financial institutions expanded at a 10% annual clip over the same period, much faster growth rates than the overall economic growth and certainly a sick and unsustainable way to grow. As a result, the U.S. economy became incredibly over-levered, and when housing prices started to fall, the party was soon going to be over. As Warren Buffett said, in discussing the extreme behavior of many financial institutions in the past few years and the price they now have to pay, “the tide went out and we saw who was swimming naked”, and it was a whole nudist camp.

As a result of the housing meltdown, the deleveraging first occurred with securities tied to sub-prime mortgages. This deleveraging process has now spread to all types of mortgage-backed securities, from commercial real estate, to credit-default swaps, to commercial paper, and to other short-term commitments. Hence, with so many large financial institutions struggling to delever at the same time, it can only work if other parties are willing to lever up. With such a widespread malaise, and a deleveraging effort of unprecedented scope, only the U.S. government can be the party able and willing to lever up to the degree needed to absorb such toxic assets. Therefore, such level of government intervention, and its participation efforts in the rescue of the financial system, were inevitable. To ensure that such bailout of financial institutions will not set the stage for moral hazard, or repeated bad behavior by such banks, it is also an inevitable consequence that this economy will experience a higher level of regulation and oversight by the government, until it loosens such rules again some time in the future and another bubble develops somewhere down the road.

The government bailout plan should indeed help to stabilize the financial system and its institutions, but it will not in itself restore and beef up all the confidence, liquidity, capital reserves and balance sheets of financial companies desperately needed to rejuvenate the credit markets and fuel an economic recovery. Rest assured that the recently passed government bailout program is intended to shore up the entire economy and not just Wall Street, as the impact of the current credit crisis on Main Street are real and quite severe. Credit available to consumers and businesses has become so scarce in recent weeks that it is in a state of near paralysis, grounding the economy close to a halt. A large number of companies are struggling to get short-term and long-term financing as we speak. In fact, the amount of commercial paper outstanding is down 27% since the summer of 2007 and total money loaned to American businesses is down 40% year-over-year through the first nine months of this year. As a result of these ugly headlines inspired by the financial crisis, consumer and business confidence are extremely low, and that translates into weak consumer spending, mounting layoffs, lower capital spending, reduced production levels and inventories and, ultimately, all such indicators of the level of economic activity are symptomatic of a state of deep recession.

The dramatic scenario unfolding on Wall Street and in Washington D.C. created indeed a lot of turbulence in the financial markets, with record levels of volatility, extreme nervousness by market participants and, at times, downright chaotic situations. With the Russell 2000 and the S&P500 Indexes both down by about 40% since their last peak in October 2007, we have clearly been in a severe bear market with absolutely no place to hide. Shockingly, if the financial sector has been, deservedly so, one of the weakest sectors in the market since last year, it was actually one of the best in this September quarter, ending the period flat or up slightly depending on the benchmark used. The last pillars of strength in this collapsing stock market, energy and materials have been the weakest sectors in this quarter, essentially converting all industries into bear market territory.

Stock markets around the world felt the turmoil of the U.S. financial system with great pain, once again throwing into the garbage can the old (very old now, it seems) de-coupling theory. Active managers were once again left in the dust and, for the most part in the small-cap category, unable to add alpha in a market environment normally very favorable to the pros. Stunningly, less than 20% of active U.S. small-cap managers beat the Russell 2000 in the September quarter, year-to-date, and in the last twelve months as well. Also, contrary to common sense in this kind of macroeconomic environment, U.S. small-cap stocks outperformed by a wide margin their larger brethrens. We can point out to a few key factors behind the continued small-cap dominance: once again, small-cap financial stocks did better than the large-cap financials; following the new, much more restrictive rules on short-selling that the SEC rushed to implement, small-caps benefited the most from the significant short-covering activity that we saw toward the end of the quarter: for the fourth straight quarter, small-cap companies reported superior earnings growth. Also, we would certainly like to point out that

the debacle and failure of several very large financial institutions has disproportionately negatively impacted the performance of the large-cap benchmark, the S&P 500, hurting its relative performance. With the demise of a few household names in the S&P 500, a massive and permanent value destruction has occurred, and it will take a long-time – if ever – for the few and stronger survivors in the financial sector to re-build all the shareholder value that was destroyed in this meltdown.

As illustrated by the very cold and shaky reaction of the stock market to the passage of the re-worked government bailout bill, we enter the last quarter of the year with extreme levels of pessimism and broadly negative sentiment from investors, consumers and businesses. With its negative earnings announcement, GE set the stage for a very rocky and weak earnings season when U.S. companies report their financial results for the September quarter in a few days. Earnings estimates have come down materially for 2008 for most companies throughout the year, and with the significant deterioration in the economy in recent months, we fully expect more of the same in coming weeks. Oddly enough though, despite the obvious that this financial crisis will have a long and profound negative impact on most companies, earnings estimates published by the wishful thinkers of Wall Street remain stubbornly high for the fourth quarter of 2008 and more importantly, for 2009. It is a certainty that we will see numbers coming down across the board in the next few weeks, and that is generally not a great backdrop for stock market appreciation.

If you will allow us to speculate, the only silver-lining that we are starting to appreciate is the fact that, for the first time since this bear market began, we feel a sense of complete capitulation and extreme levels of negativity by investors that could be indicative of a stock market that is about to bottom. Along those lines, it will be interesting to witness the stock market reactions to several upcoming bad earnings reports that are inevitable in this economy. In other words, let's appreciate how much bad news is already priced in the stocks when companies report disappointing financial results. That should also give us some indication of how much the market needs to come down before it rebounds. The only bright side to the current situation is that this stock market once again will eventually rebound strongly from its lows, as it typically does following a bear market, and will lead the economy upward long before there is an actual rebound in the economy. (This is usually the furthest we go with stock market predictions: how can we go wrong with that one??)

As for us at VBA, the third quarter of 2008 was an exceptionally good one, relative to both our peers and the U.S. benchmarks, with our U.S. small-cap portfolio actually up almost 8%. In our June review, we highlighted the extreme value in our portfolio, and we clearly benefited from that in this period, as the gap between the price of many of our stocks and their real intrinsic value closed somewhat. Once again, we had individual winners in a variety of sectors, with no clear theme to point out. Also, as in previous quarters, we continued to take advantage of this huge volatility by taking profits in some of our best-performing stocks and by loading up on high-quality, undervalued companies, and that had an almost immediate positive impact on our performance.

More broadly, we think it is a particularly opportune time to step back and reflect on how we have been able to deal with this deep financial crisis and this severe bear market. Clearly, our investment team has been put to an unprecedented test in the past 18 months. The results of this test are very telling. First, we have so far been able to add a lot of value over our U.S. benchmark throughout this bear market, certainly not a simple task with the broad meltdown in the U.S. stock market, the blow-up of numerous well-respected hedge funds, the incredible under-performance of some of the world's most celebrated investors and the overall under-performance of active managers in this bear market. Secondly, we have long argued that in a severely dislocated stock market with very high levels of volatility, it is imperative that active portfolio managers turn over their portfolio to a greater degree than in a more normal market environment to take advantage of the outstanding investment opportunities that present themselves (for which there is usually only a short window) and to sell some of the best-performing stocks that become more expensive and subject to subsequent pullbacks. We do not believe that standing still and hunkering down while waiting for the storm to pass is the right approach to take in a market like this. Our old pal Warren Buffett long ago taught us that, as investors, you want to be greedy when most others are fearful and fearful when most others are greedy. We certainly have executed on this principle head on since this bear market started to make some serious damage, by capturing outstanding investment opportunities that should benefit our clients for years to come. The result of such efforts clearly supports our strategy. Hence, this year alone, the buy and sell decisions of this investment team have added about 700 basis points to our performance. In other words, had we not made any change this year to the

portfolio that we had at December 31, 2007, our performance would be an astonishing 700 basis points lower year-to-date.

A critical driver of out-performance in this bear market has been the fact that we have stayed well within our "circle of competence", another key element of the Warren Buffett investment philosophy. We have focused our efforts on identifying, researching and investing in businesses that we understand very well and that we believe are under-valued, and where we can acquire an edge over other investors in our knowledge of such companies. For example, when we heard Warren Buffett, considering his unique investment prowess, his incredibly smart mind and his deep level of experience in the field, say that he would not have invested in any financial stocks, including Goldman Sachs, throughout this financial crisis if he had not become convinced that the government would pass a bailout bill, which further re-affirmed our negative stance on this sector. Simply stated, as a result of this incredibly complex financial crisis, we decided to put most interest-rate sensitive financial stocks in the "too hard to understand" category. As the Oracle of Omaha would say, we much prefer to learn from other investors' mistakes, as opposed from our own. Also, we have very diligently applied our proven research process and have exercised strict buy and sell valuation discipline throughout this bear market, triggering timely and thoughtful investment decisions.

As the quest for excellence is a never-ending and continuous process, rest assured that we will keep our head down and we will continue to pursue our relentless focus on reducing the valuation of our portfolio and on further improving its quality, goals that were sought after all along in this bear market. The great news is that despite the nice absolute returns that we enjoyed in the September quarter, our portfolio is still trading at its lowest ever absolute and relative valuation levels with a very high level of quality. We believe that this puts us in an exceptional position to continue to outperform our peers and our benchmark, if the current bear market rages on and in outer years as well. Short-term, with a much lower valuation and significantly more conservative earnings estimates than our benchmark, we believe that we have both a lower valuation risk and lower earnings risk. Longer-term, we feel that our future is very bright with such portfolio positioning, as our lower valuation, and the above-average quality and earnings growth of our companies versus our benchmark should translate into superior investment performance and steady value added. We strongly believe that with our focused portfolio of high-quality, under-valued stocks, we are very much in control of our destiny, regardless of what the future holds for the stock market. For long-term investors, this is undoubtedly an amazing time to put new money to work in this portfolio. An investment today in this portfolio should be very handsomely rewarded long term.

We would like to thank you again for your high level of confidence and support and, as always, would welcome any comments or questions that were left unanswered in this quarterly review.