



**VAN BERKOM** AND ASSOCIATES INC  
ET ASSOCIÉS INC

## **VBA Canadian Partners' Fund**

**Management Report of Fund Performance**

June 30, 2006

## Management Report of Fund Performance

### Investment Objective and Strategies

The investment objective of the Fund is to provide consistent long-term capital appreciation by investing primarily in a diversified portfolio of Canadian small-capitalization equities. Our strategies are focused on identifying Canadian small to mid-cap growth companies managed by highly-skilled entrepreneurs who are significant owners and, therefore, motivated to increase shareholder value. Our emphasis is on companies with high return on invested capital, financial strength and consistent earnings growth. We analyze the industry dynamics, the company's competitive advantages and its strategies for long-term growth. Finally, our "stock picking" strategy is further validated by different valuation methods (i.e. discounted cash flow, EV/EBITDA, P/CF and P/E ratio) to assess the current underlying value and investment return/risk trade off.

### Risk

The risk level of the Fund did not change significantly over the past year. By definition, small-capitalization equity companies represent a higher level of risk. In the short term, their returns can be volatile, however, over a long-term horizon, the returns have been proven to be much higher than large-capitalization stocks. Our approach to control risk level consists of (1) selecting financially sound and promising companies for the long term, (2) adequate portfolio diversification and (3) maintaining high cash levels at opportunistic times when limited investment opportunities exist.

### Results of Operations

During the second quarter of 2006, the equity markets experienced volatility and a significant performance reversal from the first quarter of the year. Both the Canadian and the US small-cap markets declined by 5.0%, compared to the first quarter increases of 13.5% and 13.9% respectively. Investors' speculative interest for the junior gold and mining stocks during the first

quarter gave way to fears of higher inflation and interest rates for the second quarter.

The Fund's value declined by -2.1% for the six-month period ended June 30, 2006, behind the 7.8% advance of the BMO Nesbitt Burns Small-Cap Index, primarily as a result of our underweight position in the Resources Sector, combined with the negative impact of *ATS Automation Tooling Systems Inc.* and *Gennum Corporation's* stock price decline (please refer to the Second Quarter 2006 Newsletter for details). On the positive front, stocks with significant contribution included *Producers Oilfield Services Inc.*, as a result of its takeover by *Mullen Group Income Fund*, *Groupe Laperrière & Verreault Inc.*, in response to strong operating results, and, finally, *MacDonald, Dettwiler and Associates Ltd.*, following strong results and their growth opportunity to electronically service the UK real estate market.

Canadian small-cap consensus earnings growth expectations for the next twelve months are down to 20%, compared to a forecasted growth of 30% in early 2006. As we all know, North American equity markets are heavily influenced by companies' earnings reports. In the coming weeks, companies will be reporting their second quarter earnings, adding further uncertainty to an already volatile equity marketplace. The Fund's investments are guided by solid management teams and possess strong fundamental characteristics, therefore, they will continue to deliver strong earnings growth and long-term appreciation.

### Recent Developments

We believe in thorough analysis before any purchase commitment and, as a result of the recent market weakness, valuation parameters are starting to be more attractive for certain stocks. Further market weakness will certainly encourage us to be more pro-active toward investing the Fund's current 15% cash reserve in solid companies that we believe are undervalued.

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This annual management report of Fund performance contains financial highlights but does not contain the complete annual financial statements of the investment fund. You can get a copy of the annual financial statements, at your request and at no cost.



## Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's historical financial performance. This information is derived from the Fund's unaudited semi-annual and audited annual financial statements.

<b>Per Class A unit outstanding</b>	<b>June 30, 2006</b>	December 31, 2005
	(\$)	(\$)
Net asset value, beginning of period	11.93	10.45
<b>Increase (decrease) from operations:</b>		
Total revenue	0.08	0.13
Total expenses	(0.12)	(0.20)
Realized gains (losses)	0.17	0.35
Unrealized gains (losses)	(0.38)	1.33
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.25)</b>	1.61
<b>Distributions:</b>		
From income (excluding dividend income)	-	(0.01)
From dividends	-	(0.02)
From capital gains	-	(0.10)
Return of capital	-	-
<b>Total annual distributions <sup>(2)</sup></b>	<b>-</b>	(0.13)
Net asset value, end of period <sup>(3)</sup>	11.68	11.93

<sup>(1)</sup> Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(2)</sup> Distributions were reinvested in additional units of the Fund.

<sup>(3)</sup> The net asset value is not a cumulative amount but rather the value of the Fund's units at the end of the period.

## Ratios and Supplemental Data

<b>Class A units</b>	<b>June 30, 2006</b>	December 31, 2005
Net assets (\$000's)	\$1,156.7	\$1,181.6
Number of units outstanding	99,038	99,038
Management expense ratio <sup>(1)</sup>	2.00%	2.00%
Management expense ratio before waivers of absorptions	4.49%	5.53%
Portfolio turnover rate <sup>(2)</sup>	32.86%	35.03%
Trading expense ratio <sup>(3)</sup>	0.16%	0.55%

<sup>(1)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of monthly average net assets during the period.

<sup>(2)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a funds' portfolio rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net assets during the period.

## Financial Highlights

Per Class B unit outstanding	June 30, 2006 (\$)	December 31, 2005 (\$)
Net asset value, beginning of period	12.18	10.52
<b>Increase (decrease) from operations:</b>		
Total revenue	0.08	0.13
Total expenses	—	—
Realized gains (losses)	0.17	0.36
Unrealized gains (losses)	(0.38)	1.34
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>(0.13)</b>	1.83
<b>Distributions:</b>		
From income (excluding dividend income)	—	(0.02)
From dividends	—	(0.05)
From capital gains	—	(0.10)
Return of capital	—	—
<b>Total annual distributions <sup>(2)</sup></b>	<b>—</b>	(0.17)
Net asset value, end of period <sup>(3)</sup>	12.05	12.18

<sup>(1)</sup> Net asset value and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(2)</sup> Distributions were reinvested in additional units of the Fund.

<sup>(3)</sup> The net asset value is not a cumulative amount but rather the value of the Fund's units at the end of the period.

## Ratios and Supplemental Data

Class B units	June 30, 2006	December 31, 2005
Net assets (\$000's)	\$805.0	\$811.2
Number of units outstanding	66,782	65,654
Management expense ratio <sup>(1)</sup>	—	—
Management expense ratio before waivers of absorptions	2.50%	6.29%
Portfolio turnover rate <sup>(2)</sup>	32.86%	35.03%
Trading expense ratio <sup>(3)</sup>	0.16%	0.55%

<sup>(1)</sup> Management expense ratio is based on total expenses for the stated period and is expressed as an annualized percentage of monthly average net assets during the period.

<sup>(2)</sup> The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a fund's portfolio rate in a year, the greater the trading costs payable by the fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a fund. The portfolio turnover is calculated by dividing the lesser of the cost of purchases and the proceeds of sales of portfolio securities for the period, excluding cash and short-term investments maturing in less than one year, by the average market value of investments during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of monthly average net assets during the period.

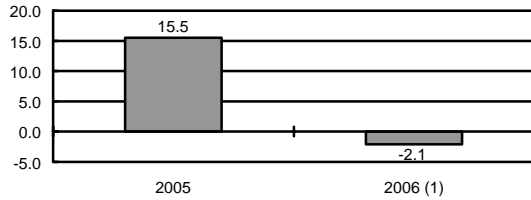
## Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The rates of return are annualized for the period shown, as indicated, historical compounded total returns including changes in unit value and reinvestment of distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. How the Fund has performed in the past does not necessarily indicate how it will perform in the future.

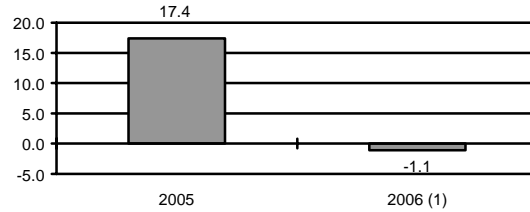
**Year-By-Year Returns**

The two graphs that follow illustrate the annual performance of the Class A and Class B units of the Fund. The graphs indicate how much an investment made on January 1<sup>st</sup> in the current year would have grown or decreased by December 31<sup>st</sup> of the calendar year.

**Class A units** (annual return in %)



**Class B units** (annual return in %)



(1) Six-month return to June 30, 2006

**Annual Compound Returns**

The tables that follow show the historical annual compound return for Class A and Class B units of the Fund for each period indicated. We also compare the returns to the BMO Nesbitt Burns Small-Cap Weighted Index.

For a discussion of the Fund's relative performance to the benchmark, see the discussion under "Results of Operations".

**Class A units**

(to June 30, 2006)

	1 year %	Since inception %
VBA Canadian Partners' Fund	7.3	8.9
BMO Nesbitt Burns Small-Cap Weighted Index	25.8	17.7

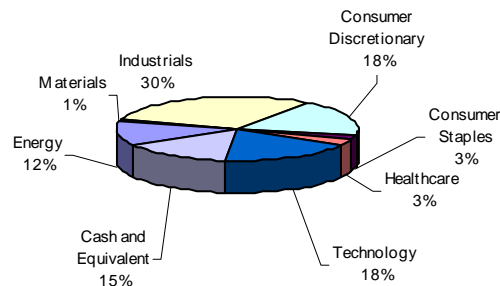
**Class B units**

(to June 30, 2006)

	1 year %	Since inception %
VBA Canadian Partners' Fund	9.2	10.9
BMO Nesbitt Burns Small-Cap Weighted Index	25.8	17.7

**Summary of Investment Portfolio**

(As at June 30, 2006)



The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the Fund.

**Disclaimer**

The Management Report of Fund Performance is provided as a marketing and sales tool. The Management Report of Fund Performance is not intended to be reprinted under NI-81-106 since this Fund is not a reporting issuer.

