

## **VBA Canadian Partners' Fund**

**Management Report of Fund Performance**

December 31, 2005

## 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

Over the past year, the Fund's Class A units gained 15.5% versus 19.7% for the BMO Nesbitt Burns Small Cap Weighted Index ("NBSCI"). The NBSCI's sectors posting strong performance included the Energy Sector (+62%), Utilities (+61%) and Telecommunication Services (+38%), while only the Health Care Sector fell significantly (-19%). The sectors with the largest contribution to performance were Energy (+12.4%) and Materials (+4.8%), representing 17.2% of the overall 19.7% NBSCI total return for 2005.

During the year, as expected, our energy investments in *Mullen Group Income Fund*, *Savanna Energy Services Corp.*, *Prairie Schooner Petroleum Ltd.* and *Iteration Energy Ltd.* added significant return contribution to the Fund. Other noteworthy contributors were *Gildan Activewear Corp.* (+145%), *Macdonald, Dettwiler and Associates Ltd.* (+40%) and *Groupe Laperrière & Verreault Inc.* (+64%), all based on strong reported earnings and favourable growth opportunities. Unfortunately, our investments were not able to compensate for our underweight position in the Energy Sector, which is not based on a macro view of the direction of the world oil price, but rather on our concerns toward the high valuation currently assigned by investors to small-cap energy-related stocks.

*Dorel Industries Inc.* ("Dorel") (-33%) was a disappointment. The company is suffering from increasing raw material costs and a challenging competitive landscape in the Ready-to-Assemble furniture segment mainly from China. Dorel has embarked on a restructuring effort involving plant consolidation and new product introduction, and we believe management will restore profitability growth in the near future. We believe the current valuation of Dorel is compelling and will further increase our investment at opportunistic times.

### Recent Developments

Small-cap investors will face significant challenges in 2006. Will current high energy and commodities prices further increase? Will the Canadian dollar continue to negatively impact profit margins? What will be the consequence on the small-cap market of the inclusion of Investment Trust Securities into benchmark indices? Have we seen the peak of the housing cycle? We maintain our belief that current valuation parameters already discount strong growth in earnings for 2006. Any disappointment would therefore shaken investors confidence, providing, we hope, opportunities to purchase great long-term growth companies at reasonable prices.

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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 audited annual financial statements.

Per Class A unit outstanding	For the year ended December 31, 2005 (\$)	For the period from April 1, 2004 to December 31, 2004 (\$)
Net asset value, beginning of period	10.45	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.13	0.09
Total expenses	(0.20)	(0.14)
Realized gains (losses)	0.35	(0.08)
Unrealized gains (losses)	1.33	0.58
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.61</b>	<b>0.45</b>
<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>(0.13)</b>	<b>—</b>
Net asset value, end of period <sup>(3)</sup>	<b>11.93</b>	10.45

<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 A units	For the year ended December 31, 2005	For the period from April 1, 2004 to December 31, 2004
Net assets (\$000's)	\$1,181.57	\$5.22
Number of units outstanding	97,931	500
Management expense ratio <sup>(1)</sup>	2.00%	2.00%
Management expense ratio before waivers of absorptions	5.53%	11.50%
Portfolio turnover rate <sup>(2)</sup>	35.03%	—
Trading expense ratio <sup>(3)</sup>	0.55%	0.81%

<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	For the year ended December 31, 2005 (\$)	For the period from April 1, 2004 to December 31, 2004 (\$)
Net asset value, beginning of period	10.52	10.00
<b>Increase (decrease) from operations:</b>		
Total revenue	0.13	0.09
Total expenses	—	—
Realized gains (losses)	0.36	(0.08)
Unrealized gains (losses)	1.34	0.58
<b>Total increase (decrease) from operations <sup>(1)</sup></b>	<b>1.83</b>	<b>0.59</b>
<b>Distributions:</b>		
From income (excluding dividend income)	(0.02)	(0.03)
From dividends	(0.05)	(0.04)
From capital gains	(0.10)	—
Return of capital	—	—
<b>Total annual distributions <sup>(2)</sup></b>	<b>(0.17)</b>	<b>(0.07)</b>
Net asset value, end of period <sup>(3)</sup>	12.18	10.52

<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.

Class B units	For the year ended December 31, 2005	For the period from April 1, 2004 to December 31, 2004
Net assets (\$000's)	\$811.20	\$497.44
Number of units outstanding	65,654	47,264
Management expense ratio <sup>1</sup>	n/a	n/a
Management expense ratio before waivers of absorptions	6.29%	9.55%
Portfolio turnover rate <sup>2</sup>	35.03%	—
Trading expense ratio <sup>3</sup>	0.55%	0.81%

<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.

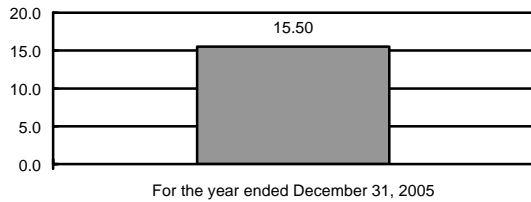
## Past Performance

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. Rates of return are not reported for series in existence for less than one year.

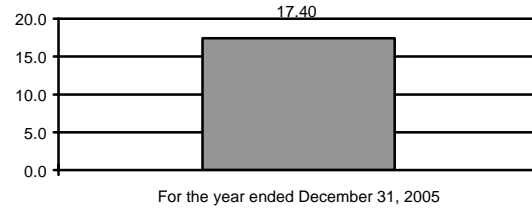
**Year-By-Year Returns**

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 the first day of each financial year would have grown or decreased by the last day of the financial year.

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



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



**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 December 31, 2005)

	1 year %	Since inception %
VBA Canadian Partners' Fund	15.50	13.10
BMO Nesbitt Burns Small-Cap Weighted Index	19.68	9.03

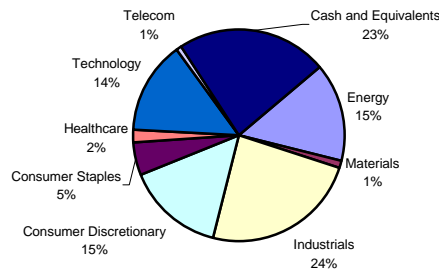
**Class B units**

(to December 31, 2005)

	1 year %	Since inception %
VBA Canadian Partners' Fund	17.40	15.07
BMO Nesbitt Burns Small-Cap Weighted Index	19.68	9.03

**Summary of Investment Portfolio**

(As at December 31, 2005)



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

**Disclaimer**

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