



Pinnacle Canadian Growth Equity Fund First Quarter 2009

Market Environment

What started as a short covering rally has led to elevated market expectations. While not indicative of a sustained bull market, the recent improvement in economic releases still prompted investors to revisit risk levels within their portfolios. Equities climbed higher in March as the massive fiscal and monetary stimulus bolstered confident bargain hunters into re-entering the market. Record high cash and short interest levels, combined with extreme sentiment readings (investor bearishness peeking, as contrarian views become bullish) have preconditioned markets for this rally.

Portfolio Commentary

The portfolio returned 0.83% for the quarter against the benchmark S&P/TSX Composite return of -2.00%. As we anticipated last quarter, the portfolio benefitted from a rebound in the smaller capitalization stocks that were previously a drag on performance. We have consequently pared back the exposure to small caps. As well, the portfolio was positioned to benefit from the recent strength in the Gold and Energy sectors. The portfolio remains exposed to Financial issues that have strong balance sheets and have market exposure without excessive risk.

Portfolio Outlook

While we are encouraged by the success of the last few months, the next phase of this market will be even more challenging. What was dismissed as simply “short covering” may turn quickly into a scramble to catch the rally. This in turn would extend the recovery to levels that will quickly be unjustified by the initial improvement in fundamentals. The art of the game now is to maintain a prudent exposure to this recovery without getting caught up in the euphoria of the rally. Going forward, we expect the recapitalization trend to proceed, although experiencing some pullbacks along the way. Our strategy is to remain focused on well capitalized issuers that have demonstrated market dominance. The appearance of recovery in the resource sector has been evidenced by the low cost structures of extractive businesses, making for a compelling merger and acquisition environment. Financials and Information Technology stocks remain attractive in terms of valuation, as the case for Canadian equities is compelling.

The Pinnacle Program

