



Pinnacle Canadian Value Equity Fund First Quarter, 2009

Economic Environment

A move to provide additional stimulus in the form of “quantitative easing” by the U.S. Federal Reserve combined with details on the bank rescue plan led to a change in sentiment and market rally in the final weeks of the quarter. While negative economic data continues to dominate news flow, it appears the rate of deterioration may be slowing.

During the period (February 6 to March 31, 2009) the markets continued to be volatile, but a move in oil prices up to the ~US\$50 level, further announcements of fiscal stimulus from the Obama administration and some positive US housing data, provided some needed stability (albeit may be short term). At the same time, some other commodity prices started to rebound from their forced selling and demand “drop-off” induced lows. Gold prices remained in a trading range possibly signalling a less uncertain investment environment. Longer term improvements in the price of oil and base commodities will be dependent on demand picking up in either the US or China. With higher cost supply having been idled or permanently shut down and new projects cancelled or delayed, the turn when it happens, could be expected to be fairly dramatic.

Portfolio Performance*

The portfolio outperformed during the period due to security selection in a number of energy producers (favoured over the pipelines), and the banks. Specifically, Petro-Canada, Suncor, Nexen and Talisman contributed on the energy side, while TD Bank and Royal Bank added performance in the banking sector. The announced takeover of Nova Chemicals by IPIC (International Petroleum Investment Company) from Abu Dhabi provided a strong pick-up in the portfolio as well. Finally, an underweight in the pipelines and utilities added to outperformance with investors rotating out of these stocks and into the producers.

The holdings in the Materials sector underperformed with several overweight positions detracting value. Gerdau Ameristeel fell 55% as steel demand declined, prices fell and capacity utilization rates dropped to sub-50%. While gold stocks were generally higher, our lone gold name Barrick (-15%) lagged, presumably due to a less than favourable reaction to new management and continuing concerns over unfavourable commodity hedges. While premium price-to-net asset values for gold producers are difficult to justify, with the risk to longer-term inflation having increased (due to massive increases in the money supply), we felt it prudent to reduce our underweight in the gold sub-sector and added to Barrick.

The Pinnacle Program



Outlook

While the market has made solid gains in the last few weeks the outlook remains uncertain with attractive long term fundamental values squaring off against a shaky and uncertain economy with increasing job losses and declining near term corporate profitability. We have never tried to time market bottoms, as we believe markets move too quickly and erratically for this approach to work with any degree of consistency. Our approach remains unchanged; we buy good companies at discounts to what we view as their long term intrinsic value. This means holding good companies even if the near term prospects are uncertain or less than ideal. Currently we are finding lots of companies we believe to be undervalued relative to their longer term potential. Consequently we are currently positioned for a recovery, not because we view it as imminent, but because valuations are compelling.

**Note: Scheer, Rowlett & Associates ("SRA") became the Portfolio Manager of the Pinnacle Canadian Value Equity Fund on February 6th 2009. The commentary that follows is for the period from February 6th to March 31st 2009.*

The Pinnacle Program

