



Pinnacle International Equity Fund First Quarter 2009

Economic Environment

In a continuation of the extremes seen in 2008, the first quarter of 2009 was marked by a mixture of intense skepticism along with hopes for a recovery. The quarter began with high expectations placed on the new Democratic administration with its pledges to stimulate growth through infrastructure spending, as well as on the U.S. Federal Reserve which has been employing both conventional and unconventional policies to address liquidity issues and the financial crisis. However, investor optimism has been repeatedly interrupted by poor visibility, dour job numbers, and political missteps. Pessimism during the quarter resulted in various indices including the Dow Jones Industrial Average reaching 12-year lows.

Investors have been challenged or tempted to discontinue investing in this volatile environment, ignoring the opportunity cost associated with future participation in economic growth and progress. The month of March highlighted this, as we saw many depressed financial stocks more than double within a short time period, and most major market indices appreciate by over 20% from their lows. We commend several governments worldwide for their initiatives and determination to address long-term structural issues in an orderly manner. We are hopeful that some of these positive market movements reflect early signs of stabilization in the financial industry and have a positive impact on the real global economy. However, sustainable market improvement from here will likely require the support of business fundamentals and positive earnings development. We believe that ultimately, it is company fundamentals and the realization of intrinsic value that counts. This remains our primary focus.

Portfolio Performance

In Canadian dollars, the Pinnacle International Equity Fund returned -9.29% (net of fees) for the first quarter, versus -12.03% for MSCI EAFE Index.

The portfolio remained overweight in Health Care and Telecommunication Services and underweight in Financials and commodity-related sectors. Our heavier exposure to consistent earners compared with the more cyclically oriented basic value stocks served the portfolio well during January and February, but caused a lag during the last two weeks of March when financials and energy companies rallied strongly. We have been selectively adding to high quality financial services names and trimming healthcare names which have become outsized positions and are relatively closer to our established price targets. Market volatility gave us plenty of opportunities to identify bargains during the quarter in both existing and new names.

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During the quarter, top contributors included Baidu (BIDU-China's leading internet search engine), Teva (TEVA-the leading global generic drug manufacturer), China Life (2628 HK-China's largest life insurance provider), Standard Chartered (STAN LN-a U.K. domiciled bank with a primary focus on emerging economies), and Carnival (CCL LN-a leading cruise line operator). As evidenced, the positive contributors varied by industry and basket (collectively representing basic value, consistent earner, and emerging franchise names). This reflects our philosophy of focusing on individual stock selection and managing risk through diversification.

Detractors for the quarter included AXA (CS FP-a multi-line insurance firm based in France), Swiss Re (RUKN VX-a global re-insurance company based in Switzerland), Nintendo(7974 JP-the Japanese video game manufacturer), Vestas Wind Systems(VWS DC- a Danish wind turbine company), and Nokia (NOK-the Finnish-based global handset manufacturer).

New purchases during the quarter included the aforementioned Baidu, Fresenius (FMS-a leading dialysis provider), British American Tobacco (BAT), Julius Baer Holding(BAER VX) and British Sky Broadcasting(0141192). We sold Swiss Re due to the lack of visibility mainly surrounding the value of its assets on the balance sheet.

In this challenging environment, we are executing the same investment philosophy and research process that has historically allowed the portfolio to deliver a solid long term track record (see composite table below). We recognize that we are still faced with many uncertainties, including those that might be unprecedented. A dual focus on downside protection and upside participation will remain a key priority in the future.

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