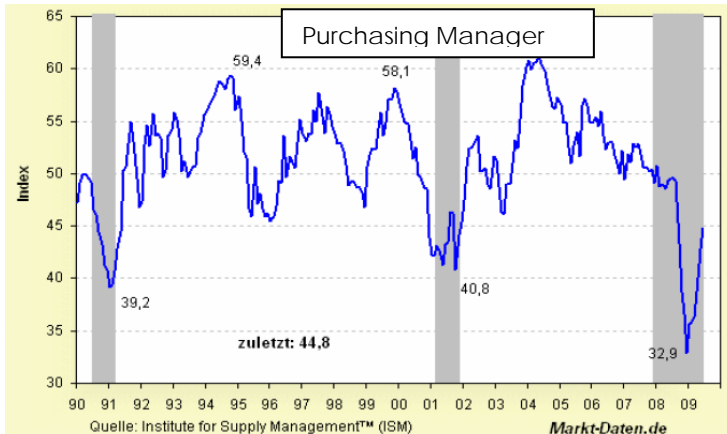


Quarterly Report as of June 30, 2009

Economic Environment

A number of leading indicators improved during the last quarter. In the United States, the purchasing managers' index (ISM) for industry has been rising for the last four months.

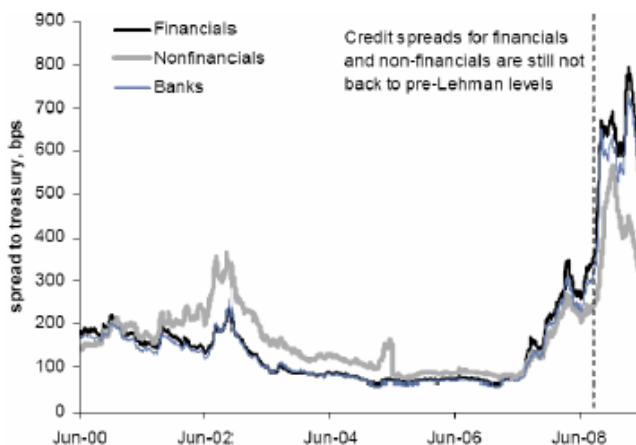


Private consumption is no longer declining at an annualized rate of 4%, as it was at the end of 2008, and improved slightly. This upturn is driven by the mammoth stimulus packages enacted by governments. In the last quarterly report, we mentioned that governments were using these stimulus packages to do everything they could to stop the economy from sliding into a

depression and thus enable it to recover in the short term. We are still convinced (see last quarterly report) that massive government economic stimuli like these do not have a permanent effect. The economy could grow in the short to medium term, but we are bound to see another downturn in the medium to long term.

Bonds

Yields on government bonds came under heavy pressure due to increasing government debt. Treasury bonds with a maturity of over ten years dropped 13% in value. On the



other hand, the recovery in the leading indicators had a highly positive effect on corporate bonds. Government bond ratings will continue to suffer from the financing of the cyclical packages. That, in turn, will mean lower prices for government bonds. We therefore abide by our preference for investment-grade corporate bonds. Corporate bonds in the defensive sectors are up sharply, so we now prefer corporate bonds from cyclical

industries that have solid cash flows, a low debt ratio and short maturities. We do not expect higher inflation rates in the short term. In fact, the overwhelming majority of companies have reported price reductions recently. Banks are still quite restrictive in extending loans and US consumers will need a long time to whittle down their debt.



Moreover, the jobless rate continues to rise and the production gap will remain negative for some time.

Equity Markets

Equity markets saw a major recovery from their lows this past quarter. In our last quarterly report, we predicted a strong recovery of the markets in the short term. During major crises in the past, equity markets have repeatedly experienced strong counter-

<u>Country</u>	<u>Index</u>	<u>Performance 2nd.Q.09</u>	<u>Performance (YTD)</u>
World	MSCI World	19.73%	4.76%
North America			
USA	Dow Jones	11.01%	-3.75%
	S&P 500	15.22%	1.78%
	NASDAQ	20.05%	16.36%
Canada	SPTSX	18.97%	15.43%
Europe			
EU	DJ Euro Stoxx 600	16.64%	4.54%
Germany	DAX	17.72%	-0.03%
France	CAC	11.87%	-2.38%
Switzerland	SMI	9.67%	-2.36%
Asia			
Japan	Topix	20.18%	8.21%
Hong Kong	Hang Seng	35.38%	29.10%
Australia	S&P/ASX200	10.41%	8.23%
Emerging Markets			
China	Shanghai Composite	24.70%	62.53%
Taiwan	Taiwan Taiex Index	23.44%	40.10%
India	Sensex 30 Index	49.29%	50.24%
Russia	Russian RTS	43.12%	57.82%
Hungary	Budapest Stock Exch.	38.37%	24.69%
Czechoslovakia	Prague Stock Exch.	19.81%	4.66%
Argentina	Argentina Merval	41.03%	47.08%
Brazil	Brazil Bovespa Stock	25.75%	37.06%
Mexico	Mexico Bolsa	24.16%	8.88%

movements triggered by government intervention. The more oversold the market, the more pronounced these upsurges will be. That was definitely the case during the last quarter (see quarterly report). However, past experience has also shown that these upward movements in equity markets following government intervention are not lasting in nature (bear market rally). A bear market rally will not continue unless data improves. Company results for the second quarter will be released starting in mid-July. If they outshine the first-quarter results and the economic

indicators continue to point to economic recovery, the upward trend (bear market rally) on the exchanges could persist. Bloomberg reports that CEOs sold massive amounts of their stock last quarter (\$ 1.2 billion). This action reminds us of the situation in June 2007, just before the markets hit their highs and then underwent a correction. On the other hand, most investors have already missed the bear market rally, a fact evident from the record level of money market funds amounting to 3.8 trillion US dollars. These investors are now waiting for a better opportunity to re-enter the market. If the markets keep rising, these investors would be compelled to buy equity shares, which would mean a continuation of the bear market rally.



Commodities

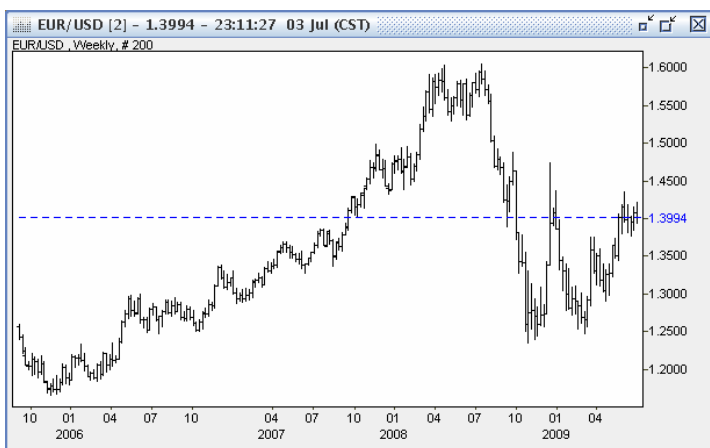
The price of nickel was up sharply (+56%). Reports that high-grade steel producers in



China were manufacturing at 90% capacity again were positive indicators for nickel. Financial investors may well be causing prices to heat up in this rather illiquid market. In the United States, inventories of high-grade steel at metal service centers have reached their lowest level in years, leaving room for a rise in nickel demand if output increases again. Although only slight cuts were

made in production capacities, copper prices were buoyed by strong demand from China. Given the balmy summer months ahead, copper prices are expected to see another comeback. Oil prices also benefited from the recovery of the economy. However, inventory levels have reached a two-decade peak. Higher oil prices place a burden on businesses and consumers. Rising energy prices could also fan the fires of inflation. US President Barack Obama recognizes this danger. The weak economy could continue to curb the oil price in the short term.

Currencies



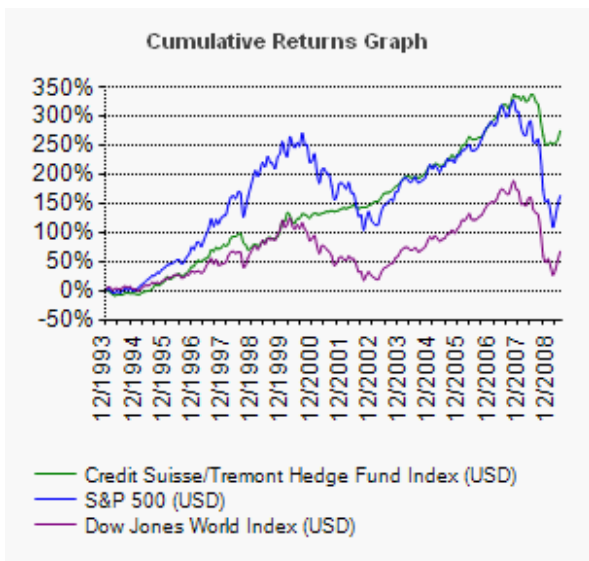
In the past, the US dollar was always a safe haven in a crisis. The dollar came under pressure last quarter, as financial markets calmed down. The US dollar itself could be a risk factor for inflation. If it undergoes dramatic devaluation, inflationary pressures could begin building on the import side. The devaluation trend for the US dollar is likely to remain in place, but foreign central banks, which are

key players in the US Treasury market, have every interest in ensuring that the dollar is devalued in an orderly fashion. We believe a gradual devaluation of the dollar would pose a major risk in terms of inflation.



Hedge Funds

Hedge funds reported solid returns in the last quarter. Although the latest figures for June



are not yet in, there is every indication that the month of June was also positive. The CS Tremont Hedge Index showed a positive return of +6.72% up to the end of May 2009. Convertible arbitrage celebrated a healthy comeback, with a yield of 19.12%. Emerging markets (+12.43 YTD), fixed income arbitrage (+9.81% YTD) and distressed (+4.82 YTD) also reported respectable returns. Short strategies was the only category to suffer from the market rally (-9.02% YTD), which was expected. We anticipate that the same strategies mentioned in earlier reports will be positive. Short strategies could well offset

some of the losses if the equity markets undergo a downward correction. CTA/managed futures could again show worse returns than the market as a whole in the third quarter. We therefore prefer underweighting this strategy. In terms of general trends, the current crisis appears to have improved hedge fund conditions for investors. For the first time in history, the hedge fund market is become a seller's market rather than a buyer's market.

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