

# INTERIM MANAGEMENT REPORT OF FUND PERFORMANCE

## Equity Portfolio

# Meritage Canadian Equity Portfolio

For the period ended June 30, 2009

This interim management report of fund performance contains financial highlights, but does not contain interim or annual financial statements of the Portfolio. You can get a copy of the interim or annual financial statements at your request, and at no cost, by calling toll-free 1-866-603-3601, by emailing us at [infomeritage@nbc.ca](mailto:infomeritage@nbc.ca), by visiting our website at [www.meritageportfolios.com](http://www.meritageportfolios.com), by visiting SEDAR's website at [www.sedar.com](http://www.sedar.com), or by contacting your advisor.

Securityholders may also contact us using one of these methods to request a copy of the portfolio's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

## Management Discussion of Fund Performance

### Results of Operations

The Meritage Canadian Equity Portfolio Adviser Series units returned 13.47% for the six-month period ended June 30, 2009 compared to 17.56% for its reference benchmark, the S&P/TSX Composite Index. Unlike the benchmark, the Portfolio's return is calculated after the deduction of fees and expenses. Please see the Past Performance section for performance returns of the F Series. Performance returns of the F Series may differ from Adviser Series due mainly to the varying level of fees and expenses.

On June 30, 2009, the net asset value of the Meritage Canadian Equity Portfolio was about \$17.60 million comparing to \$12.50 million on December 31, 2008. The increase in the net asset value is attributable to the positive market's trend amplified by the proceeds from the net sales.

In the span of six months, the economy switched from one extreme pessimism to optimism. A strong rally in global equity markets that began last March continued. Canadian banks were among top contributors to the performance of the S&P/TSX Composite Index, which posted double-digit returns for the period. On the other hand, insurance company earnings were disappointing. The strength of the Canadian dollar reduced the competitiveness of small-caps and despite credit becoming more available; they still have difficult access to capital.

In the six-month review period, the Portfolio underperformed its benchmark by a narrow margin. Fidelity Canadian Disciplined Equity Fund and the Mackenzie Saxon Small Cap Fund were the largest contributors to the Portfolio's performance, with 19.60% and 19.10%, respectively. The outperformance of the Fidelity Canadian Disciplined Equity Fund compared to the benchmark is primarily attributable to astute security selection in the energy sector and the increasing of the exposure in the materials sector, given attractive valuation and the

rebound in commodity prices and base metals. Another contributor to the Fund's outperformance was its overweight in the diversified financials industry, such as capital market exchange companies, which are benefiting from higher trading volumes following increased market volatility.

The outperformance of the Mackenzie Saxon Small Cap Fund is attributed to the Small Cap's sector with a very strong efficiency from small-cap metal and gold stocks, while other small-cap sectors were in the red during the last quarter. The Fund holds no gold stocks and only one metal stock.

The TD Canadian Blue Chip Equity Fund returned 9.70%. The performance outcome of the Fund was largely attributable to a sector selection rather than stock selection. The Fund's underweight positions in some sectors such as energy, materials and technology information sectors, held back Fund performance. The Fund's defensive positioning in foreign equities held back returns the first half of the year when commodities rallied.



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The Beutel Goodman Canadian Equity Fund underperformed in the six-month period relative to the S&P/TSX Composite Index. The Fund didn't contribute to the positive return of the Portfolio due to its exposures to defensive areas of the Canadian equity market. Markets are facing a cyclical rally, with economic-sensitive stocks outperforming defensive stocks. This situation profited in areas such as small-caps, commodity plays and other cyclical areas of the market. The Fund's exposure to companies ordinarily considered defensive (dividend generating, prudently managed, large-cap companies), hampered the six-month results. The Fund's underweight in gold stocks and its emphasis on large cap free cash flow generative holdings were not rewarded during the period and were large contributors to the Portfolio's underperformance relative to the benchmark.

## Recent Developments

During the period, the asset allocation of the portfolio remained unchanged. The Portfolio remained broadly diversified across sectors, regions and assets.

The Portfolio advisers of the Mackenzie Saxon Small Cap Fund believe that the stock market's rally in the second quarter, the positive comments from U.S. banks along with strengthening U.S. housing data, restored investor's optimism. They believe that small-cap valuation will continue to look very attractive both in absolute terms and relative to the large-caps.

According to the Portfolio Advisers of the Beutel Goodman Canadian Equity Fund, investors rushing into markets wishing to assume risk is a phenomena unsupported by global fundamentals. They remain cautious and hesitate to call the global malaise finished.

The Portfolio Advisers of the TD Canadian Blue Chip Equity Fund believe that a sustained economic recovery will be seen into 2010 or later. In their opinion, this is due to the U.S. consumer continuing to deleverage and Asian consumers more biased to saving than spending.

The Portfolio advisers of the Fidelity Canadian Disciplined Equity Fund expect markets to remain volatile until the financials sector begins to stabilize.

## New Accounting Policies

The Accounting Standards Board of Canada (AcSB) as ruled that as of January 1<sup>st</sup>, 2011, the financial statements of companies with an obligation of public accountability will be presented by the International Financial reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and will replace the Canadian Generally Accepted Accounting Policies (GAAP). Changes to these new standards will come into force on October 1<sup>st</sup>, 2011 for the funds currently under review.

Management is currently reviewing and developing a plan to meet the timetable for implementation of the Canadian Institute of Chartered Accountants (CICA) regarding the adoption of IFRS. Key elements of this plan are to provide information concerning qualitative impact of these new standards in the financial statements, the information required with respect to their quantitative impact in the financial statements, if any, and the preparation of the financial statements 2011 with comparative figures under IFRS.

## Related Party Transactions

### Manager

As described in the *Management Fee* section, the Portfolio pays annual management fees to National Bank Securities Inc. (the "Manager") in consideration for management services. The management fees cover mainly the Manager's costs of managing the Portfolio's investments. The Manager is an indirect wholly-owned subsidiary of National Bank of Canada (the "Bank").

The Portfolio reimbursed the Manager for operating expenses incurred in administering the Portfolio, including trustee, record-keeping, custodial, legal, audit, investor servicing, and securityholder reporting fees.

### Portfolio Advisor

The Manager has appointed National Bank Trust ("NBT"), an indirect wholly-owned subsidiary of the Bank, as the portfolio advisor for the Portfolio. A flat fee is payable annually to NBT for its management services.

### Trustee, Custodian and Registrar

Natcan Trust Company ("NTC"), an indirect wholly-owned subsidiary of the Bank, is the Portfolio's trustee. In this capacity, it is the legal owner of the Portfolio's investments.

NTC also acts as the Portfolio's custodian, registrar and transfer agent. The Manager pays NTC for its services as custodian based on the assets held by the Portfolio. In addition, a flat fee per transaction is paid to NTC. With respect to the registrar and transfer agent services for the Portfolio, a fixed annual amount is paid to NTC by the Manager.

NTC also has responsibility for valuation of the Portfolio and the Portfolio's accounting and records. NTC is paid for these functions by the Manager.

## **Brokerage Fees and Sales Commissions**

NBT carries out the Portfolio transactions in the underlying funds through National Bank Direct Brokerage Inc. (“NBDB”), a wholly-owned subsidiary of the Bank. Each month, the Manager pays a flat fee for each transaction carried out in the underlying fund securities.

# Financial Highlights

The following tables show selected key financial information about the Portfolio and are intended to help you understand the Portfolio's financial performance for the last period ended June 30, 2009 and the past 3 years.

## Advisor Series

The Portfolio's Net Assets per Unit<sup>(1)</sup>

	6-month period ended June 30, 2009	2008	2007	2006 95 days
Net Assets, beginning of year	\$ 7.35	\$ 10.65	\$ 10.64	\$ 10.00
<b>Increase (decrease) from operations:</b>				
total revenue	\$ —	\$ 0.11	\$ 0.11	\$ 0.13
total expenses	\$ (0.09)	\$ (0.24)	\$ (0.29)	\$ (0.07)
realized gains (losses) for the period	\$ (0.04)	\$ (1.14)	\$ 0.94	\$ 0.74
unrealized gains (losses) for the period	\$ 1.22	\$ (2.03)	\$ (0.53)	\$ 0.10
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 1.09</b>	<b>\$ (3.30)</b>	<b>\$ 0.23</b>	<b>\$ 0.90</b>
<b>Distributions:</b>				
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ (0.03)
From capital gains	\$ —	\$ —	\$ (0.43)	\$ (0.33)
Return of capital	\$ —	\$ —	\$ —	\$ —
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (0.43)</b>	<b>\$ (0.36)</b>
<b>Net Assets as at June 30, 2009 and as at December 31 of year shown</b>	<b>\$ 8.34</b>	<b>\$ 7.35</b>	<b>\$ 10.65</b>	<b>\$ 10.64</b>

<sup>(1)</sup> This information is derived from the Portfolio's unaudited interim financial statements and audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</sup> Net assets 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>(3)</sup> Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

## Ratios and Supplemental Data

	6-month period ended June 30, 2009	2008	2007	2006 95 days
Total net asset value (000's) <sup>(1)</sup>	\$17,145	\$12,123	\$16,517	\$5,242
Number of units outstanding <sup>(1)</sup>	2,054,837	1,650,303	1,550,174	492,804
Management expense ratio <sup>(2)</sup>	2.58 %	2.58 %	2.61 %	2.61 %
Management expense ratio before waivers or absorptions	2.80 %	2.88 %	3.07 %	3.46 %
Trading expense ratio <sup>(3)</sup>	— %	— %	— %	— %
Portfolio turnover rate <sup>(4)</sup>	4.49 %	41.01 %	7.23 %	0.20 %
Net asset value per unit	\$ 8.34	\$ 7.35	\$ 10.65	\$ 10.64

<sup>(1)</sup> This information is provided as at June 30, 2009 and as at December 31 for the year shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

<sup>(4)</sup> The Portfolio's turnover rate indicates how actively the Portfolio's advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the portfolio 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 portfolio.

# Financial Highlights

## F Series

### The Portfolio's Net Assets per Unit<sup>(1)</sup>

	6-month period ended June 30, 2009	2008	2007	2006 95 days
Net Assets, beginning of year	\$ 7.55	\$ 10.81	\$ 10.66	\$ 10.00
<b>Increase (decrease) from operations:</b>				
total revenue	\$ —	\$ 0.12	\$ 0.09	\$ 0.09
total expenses	\$ (0.10)	\$ (0.25)	\$ (0.14)	\$ (0.03)
realized gains (losses) for the period	\$ (0.04)	\$ (1.20)	\$ 0.59	\$ 0.83
unrealized gains (losses) for the period	\$ 1.30	\$ (2.16)	\$ (0.33)	\$ 0.11
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>\$ 1.16</b>	<b>\$ (3.49)</b>	<b>\$ 0.21</b>	<b>\$ 1.00</b>
<b>Distributions:</b>				
From income (excluding dividends)	\$ —	\$ —	\$ —	\$ —
From dividends	\$ —	\$ —	\$ —	\$ (0.05)
From capital gains	\$ —	\$ —	\$ (0.44)	\$ (0.34)
Return of capital	\$ —	\$ —	\$ —	\$ —
<b>Total annual distributions<sup>(3)</sup></b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ (0.44)</b>	<b>\$ (0.39)</b>
<b>Net Assets as at June 30, 2009 and as at December 31 of year shown</b>	<b>\$ 8.64</b>	<b>\$ 7.55</b>	<b>\$ 10.81</b>	<b>\$ 10.66</b>

<sup>(1)</sup> This information is derived from the Portfolio's unaudited interim financial statements and audited annual financial statements. The net assets per security presented in the financial statements differs from the net asset value calculated for portfolio pricing purposes. An explanation of these differences can be found in the notes to the financial statements.

<sup>(2)</sup> Net assets 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>(3)</sup> Distributions were paid in cash or reinvested in additional units of the Portfolio, or both.

### Ratios and Supplemental Data

	6-month period ended June 30, 2009	2008	2007	2006 95 days
Total net asset value (000's) <sup>(1)</sup>	\$466	\$390	\$416	\$152
Number of units outstanding <sup>(1)</sup>	53,986	51,569	38,440	14,271
Management expense ratio <sup>(2)</sup>	1.27 %	1.27 %	1.28 %	1.25 %
Management expense ratio before waivers or absorptions	1.49 %	1.56 %	1.74 %	1.93 %
Trading expense ratio <sup>(3)</sup>	— %	— %	— %	— %
Portfolio turnover rate <sup>(4)</sup>	4.49 %	41.01 %	7.23 %	0.20 %
Net asset value per unit	\$ 8.64	\$ 7.55	\$ 10.81	\$ 10.66

<sup>(1)</sup> This information is provided as at June 30, 2009 and as at December 31 for the year shown.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net assets during the period.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

<sup>(4)</sup> The Portfolio's turnover rate indicates how actively the Portfolio's advisor manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a portfolio's turnover rate in a year, the greater the trading costs payable by the portfolio 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 portfolio.

## Management Fees

The Portfolio pays annual management fees to the Manager in consideration for management, portfolio advisor and administrative services and facilities required by the Portfolio in its day-to-day operations. A portion of the management fees paid by the Portfolio covers trailer and sales commissions paid to dealers.

As the Portfolio invests in underlying funds, the fees and expenses payable in connection with the management of the underlying funds are in addition to those payable by the Portfolio. However, the Manager makes sure that the Portfolio does not pay any management (or operating) fees that, to a reasonable person, would duplicate a fee payable by the underlying fund for the same service.

The management fees are calculated as a fixed percentage of the Portfolio's daily net asset value, are accrued on a daily basis and are paid monthly. The Portfolio is required to pay Goods and Services Tax (GST) on the management fees.

The breakdown of the main services received in consideration for the management fees, as a percentage of the management fees collected from the Portfolio, is as follows:

Series	Management Fee	Distribution	Others <sup>†</sup>
Advisor Series	2.25%	55.56%	44.44%
		22.22%	77.78%
		22.22%	77.78%
		44.44%	55.56%
F Series*	1.00%	0.00%	100.00%

(\*) For F Series, no trailer commissions are paid. The dealer or broker is paid an annual fee based on the asset value of your account instead of paying a commission for each purchase, switch or redemption.

(\*\*) Excluding sales commissions paid on the Advisor Series with low load and back end fees.

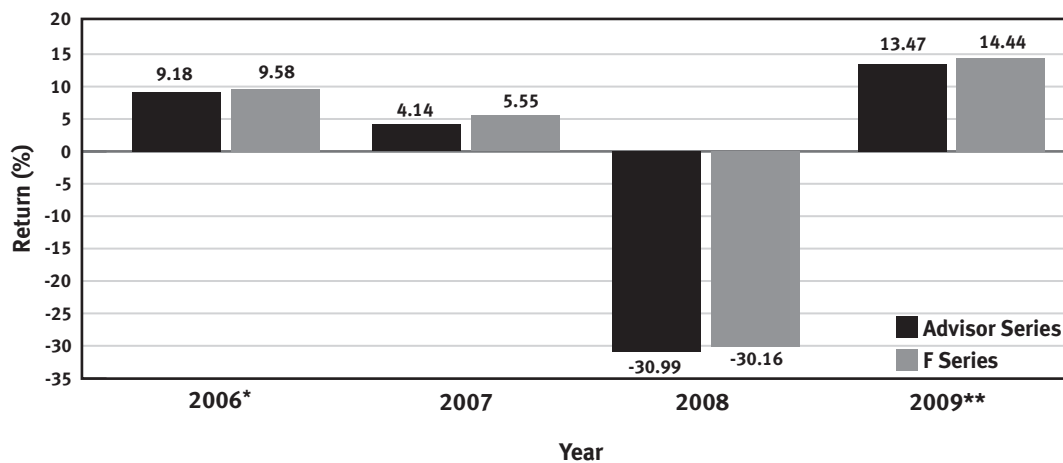
(†) Includes all costs related to management, investment advisory services, general administration and profit.

## Past Performance

The returns of each Portfolio or series of a Portfolio are calculated as of December 31 in each year, assume the reinvestment of all distributions and do not take into account sales, redemption charges, distributions, or optional charges that would have reduced returns. Past performance of a Portfolio or series of a Portfolio does not necessarily indicate how it will perform in the future.

### Year-by-Year Returns

The following bar chart shows the Portfolio's annual performance in each of the years shown and illustrates how the Portfolio's performance has changed from year to year. It shows in percentage terms how an investment made on January 1<sup>st</sup> would have increased or decreased by December 31 for each year and by June 30 of this year.



\* Returns for the period of September 25, 2006 to December 31, 2006.

\*\* Returns for the six-month period ended June 30, 2009.

# Summary of Investment Portfolio

## Top 25 Holdings

	% of Net Asset Value
Fidelity Canadian Disciplined Equity Fund . . . . .	31.1
Beutel Goodman Canadian Equity Fund . . . . .	29.9
TD Canadian Blue Chip Equity Fund . . . . .	29.4
Mackenzie Saxon Small Cap Fund . . . . .	9.6
	100.0

## Asset Mix

	% of Net Asset Value
Canadian Equity Funds . . . . .	100.0

Net asset value . . . . . \$17,611,424

The Summary of Investment Portfolio may change due to ongoing portfolio transactions of the investment fund. A quarterly update is available. For more information, you can write to [infomeritage@nbc.ca](mailto:infomeritage@nbc.ca), call us at 1-866-603-3601, or contact your advisor.

The prospectus and other information about the underlying investment funds are available on the internet at [www.sedar.com](http://www.sedar.com).

### Note on forward-looking statements

This document may contain forward-looking statements concerning the Portfolio, its future performance, its strategies or prospects or about future events or circumstances. Such forward-looking statements include, among others, statements with respect to our beliefs, plans, expectations, estimates and intentions.

By their very nature, forward-looking statements imply the use of assumptions and necessarily involve inherent risks and uncertainties, both general and specific. There is a significant risk that the explicit or implicit forecasts contained in these forward-looking statements might not materialize or that they may not prove to be accurate.

In fact, a number of factors could cause future results, conditions or events to differ materially from the objectives, expectations, expressed in such forward-looking statements. Such differences might be caused by several factors including changes in Canadian and worldwide economic and financial conditions (in particular interest and exchange rates and the prices of other financial instruments), market trends, new regulatory provisions, competition, changes in technology and the potential impact of conflicts and other international events, specifically those related to the war on terrorism, and other risks described in detail in the Portfolio's current simplified prospectus.

The foregoing list of factors is not exhaustive. Before making any investment decision, investors and others relying on our forward-looking statements should carefully consider the foregoing factors and the uncertainties and risks they contain. We caution readers not to place undue reliance on these forward-looking statements.

Forward-looking statements are issued in good faith and may be modified without notice. We assume no obligation to update forward-looking statements in the light of new information, future events or other circumstances unless applicable legislation so provides.

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