

# Quarterly Bulletin as of March 31, 2011

Natcan Canadian Equity Fund

**INVESTMENT APPROACH:** Our approach favours in particular undervalued stocks so as to minimize portfolio risk and preserve capital. Although this approach is usually associated with value investing, we also add a growth component to the portfolio by selecting businesses with an attractive profit-boosting catalyst. By not restricting our approach to a single style, we are able to stage a solid performance in all market phases. Moreover, we offer real active management by not hesitating to maintain sharp deviations. We believe that sector rotations are important, regardless of financial conditions. When warranted, we tend to go against market trends by moving into stocks and sectors shunned by investors. We exercise discipline when buying and selling securities, and we are convinced that it is just as important to avoid disaster as it is to hold star performers for generating spirited gains.

## MARKET OVERVIEW

The S&P/TSX ended out the first quarter of 2011 with an impressive 5.60% gain. Eight out of 10 sectors notched positive performances on the quarter, with the best showings coming from Health Care, Financials, and Industrials. In contrast, Consumer Discretionary and Materials posted the greatest setbacks over the month.

The first quarter was marked by a remarkable return in the Health Care sector in March. Two securities strongly contributed to the monthly return of the sector: Valeant Pharmaceutical (24%) and SXC Health Solutions (10.42%). Let's remind ourselves that this sector is the smallest on the Canadian market, representing only 1.20% of the index as of March 31st 2011.

Small cap stocks regained momentum over their large counterparts in the last month of the quarter. The S&P/TSX Small cap gained 1.16% in March and 4.25% for the quarter.

## PERFORMANCE ANALYSIS

The portfolio underperformed compared to its benchmark, the S&P/TSX. The difference stemmed primarily from stock selection and sector allocation in the Consumer Discretionary, Health Care and Financial Services sectors.

Open Text Corp. and the lack of a position in Cameco Corp. or Kinross Gold Corp. made the strongest contributions to the portfolio's performance over the quarter, while Barrick Gold Corp. and the absence of Valeant Pharmaceuticals and Canadian Oil Sands were the main sources of underperformance.

For more information about Natcan's Funds: 514-871-7600 or info@natcan.com

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	4.76	4.76	16.18	4.99	9.21
Index <sup>2</sup>	5.60	5.60	20.41	4.73	8.85
Added Value	-0.84	-0.84	-4.23	0.26	0.36

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Canadian Equity Fund.  
2 - Everywhere in this bulletin, "Index" refers to the S&P/TSX Index

## PERFORMANCE ATTRIBUTION VS INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	4	<b>Positive</b>	
Energy	5	Open Text Corp	31
Materials	-3	<i>Cameco Corp</i>	<i>27</i>
Industrials	16	<i>Kinross Gold Corp</i>	<i>26</i>
Consumer Disc.	-74	Suncor Energy	23
Consumer Staples	-9	Cons Thompson Iron Mines	23
Health Care	-41	<b>Negative</b>	
Financial Services	-33	<i>Valeant Pharmaceuticals</i>	<i>-39</i>
Technology	0	Barrick Gold Corp	-23
Telecommunications	7	<i>Cdn Oil Sands</i>	<i>-19</i>
Utilities	7	<i>Imperial Oil Ltd</i>	<i>-15</i>
<b>Total</b>	<b>-121</b>	Bank of Montreal	-14

Performance attribution includes sector allocation and stock selection. In green: not a portfolio holding

## Natcan Canadian Equity Fund as of March 31, 2011

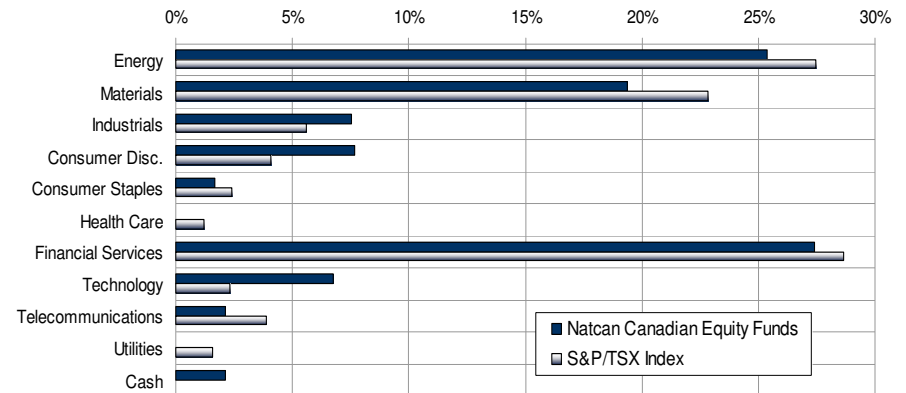
### OUTLOOK AND STRATEGY

Over the quarter, we made several changes to the portfolio. We reduced our position in Sun Life, Barrick Gold and Magna International. We also sold our stake in BMO, as its earnings and Canadian market share are levelling off and because of the dilutive effect of the acquisition of Marshall & Ilsley south of the border. Among Financials, we opened positions in TD and Manulife. The recovering economy below the 49th parallel will have a significant impact on TD's profitability and the acquisition of Chrysler Financial has the potential to substantially change the performance of its U.S. division. Lastly, Manulife improved its capital levels and should benefit from rising stock markets and interest rates.

We continue to believe in a gradual recovery in the world economy, particularly in the United States. We are nevertheless concerned about quickly rising energy costs, given their potential negative impact on the recovery. For Consumer securities, increasing energy prices and inflation in foodstuffs generally resulted in a decline in profitability. We therefore considerably reduced our overweight in the sector, which represented 6% as at December 31, 2010.

We remain positive on market outlook though we must weigh our forecasts. The stock market offers less opportunity than it did 12 months ago and therefore, we will be cautious all the while taking advantage of opportunities as they arise. Job creation in the U.S. can boost the market in the medium term, but current money tightening in China should not be underestimated. We will be attentive on data published by China as this country has a significant impact on global markets and most importantly on the Canadian market.

### SECTOR ALLOCATION



### TOP 5 HOLDINGS

Securities	Weight
Suncor Energy Inc.	6.4%
Toronto Dominion Bank	6.3%
Barrick Gold Corp	5.1%
Royal Bank	4.9%
Canadian Natural Resources	4.4%

### MAIN ACTIVE WEIGHTS

Overweight		Underweight	
Manulife Financial Corp	2.4%	Bank of Montreal	-2.2%
Suncor Energy Inc.	2.3%	Transcanada Corp	-1.7%
CIBC	2.3%	BCE Inc.	-1.6%
Barrick Gold Corp	2.1%	Enbridge Inc.	-1.4%
Toronto Dominion Bank	1.9%	Kinross Gold Corp	-1.1%

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