

# Quarterly Bulletin as of September 30, 2010

Natcan Small Cap Equity Fund

**INVESTMENT APPROACH:** We favour a growth-oriented style, which is particularly appropriate for the management of small caps. Unlike other managers, we pay special attention to the preservation of capital and seek growth opportunities across all sectors so as to diversify value-added sources. We offer a real small-cap Canadian equity product and, as such, we don't hesitate to liquidate stocks where market capitalizations has grown too big. Moreover, we draw on U.S. stocks to enhance diversification in sectors with little or no representation in Canada. Stock selection remains a priority over the selection of individual sectors, the latter being a complementary decision. A natural bias favours industrial products that are particularly conducive to innovation, and consumer products and distribution, that are sectors in expansion. On the other hand, we maintain an unfavourable bias for the resources sectors given that size and economies of scale are predominant factors.

## MARKET OVERVIEW

Investors shrugged off shaky economic data this quarter, which allowed major stock markets to show strong growth despite a bumpy start. In this environment, and propelled by a higher weighting in gold, Canadian small capitalisation outperformed their larger counterparts.

All sectors closed out the quarter in positive territory. Mines and Metals, led by Gold, which now makes up more than 20% of the benchmark index, posted the best performance for the period. Industrials, Information Technology and Financials also performed extremely well.

## PERFORMANCE ANALYSIS

The Fund delivered a positive absolute performance and a relative performance below the S&P/TSX Small Capitalisation Index.

This relative underperformance is mainly due to our underweight exposure to gold, and to our positions in the Industrials and Consumer sectors, which suffered in August as a result of investors fearing that the global economy was slipping back into recession.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	11.84	9.81	21.43	6.24	9.09
Index <sup>2</sup>	14.20	14.27	29.05	2.73	7.73
Added Value	-2.36	-4.46	-7.62	3.51	1.36

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Small Cap Equity Fund.  
2 - Everywhere in this bulletin, "Index" refers to a combined index as calculated by Natcan (BMO Small Cap Index until August 2007, and S&P/TSX SmallCap Index since then).

## PERFORMANCE ATTRIBUTION VS INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	-22	Positive	
Energy	55	Route 1 Inc.	94
Materials	-32	Transglobe Energy	86
Industrials	-43	Eastern Platinum Ltd	64
Consumer Disc.	-94	Transat AT Inc.	58
Consumer Staples	-34	Gran Tierra Energy	57
Health Care	-69	Negative	
Financial Services	-36	Amedisys	-71
Technology	74	UTS Energy Corp	-56
Telecommunications	-41	Quadra FNX Mining	-52
Utilities	7	Hudbay Minerals	-44
<b>Total</b>	<b>235</b>	European Goldfields	-38

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

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### OUTLOOK AND STRATEGY

Stock markets have generated very good returns over the past two months, but a short-term setback is still possible. In an environment where most currencies are weakening, the price of commodities is on the rise, which in turn boosts natural resource stocks. We remain cautious however, because in many cases commodity prices cannot be justified by the current state of the global economy - they could experience a drop just as drastic as their recent run-up.

Canadian small capitalization stocks continued to outperform their larger counterpart. They are simply regaining the ground lost over the last few years and their valuations remain reasonable. In fact, apart from natural resources, Canadian small capitalization stocks are some of the least expensive in the world. As a result of solid balance sheets, many have the means and the intention to pay out dividends in the near future.

The largest underweighting in the Fund remains in Mines and Metals, especially Gold. This sector represents about 22% of most Canadian small capitalisation indexes, and includes a number of speculative stocks. Our weighting in Gold is slightly less than 10%, this difference with the index has affected the Fund's performance and could continue to do so if the current enthusiasm for gold does not ease in the short term.

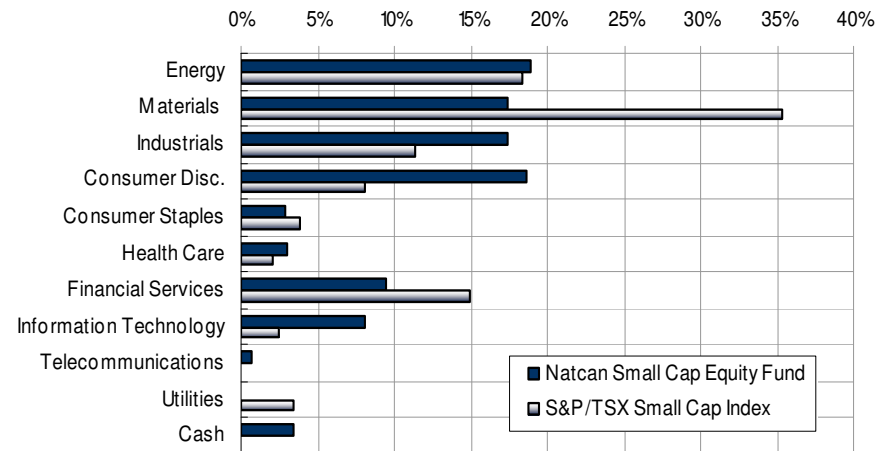
We remain of the opinion that including speculative positions in the fund would dangerously expose its capital. Apart from Gold, our main deviations remain within the Industrials, Consumer Discretionary and Information Technology sectors.

### TOP-5 HOLDINGS

Securities	Weight
Transglobe Energy	4.4%
Garda World Secur	3.7%
Aecon Group	3.5%
Forzani Group	3.4%
Firstservice Group	3.4%

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### SECTOR ALLOCATION



### BUYS AND SELLS

Additions	Sectors
Blue Coat Systems	Technology
Gran Colombia Gold	Materials
Great Basin Gold	Materials
Trinidad Drilling	Energy
Withdrawals	Sectors
Alange Energy	Energy
Amedisys Inc.	Health Care
Cline Mining Corp	Materials
Jaguar Mining Inc.	Materials
Logibec Grp Informat *	Health Care
Storm Explorations *	Energy

\* Privatization

