

## NATCAN U.S. EQUITY FUND

**Management Approach** Our approach is premised on the belief that wealth is created through long-term ownership of great companies. The team focuses its efforts on identifying secular themes and those companies poised to best take advantage of these opportunities. The portfolio maintains reasonable valuation ranges with a predominantly GARP (growth at a reasonable price) focus. However, consideration is given to both qualitative and quantitative attributes. We will implement positions that deviate from the benchmark, within prudent risk control guidelines. We believe sector rotation to be important, regardless of market conditions, but will always maintain holdings in at least eight of the ten S&P 500 sectors. The end result of our management style and commitment to reducing overall risk is a high quality portfolio of growth oriented U.S. equities.

### MARKET OVERVIEW

Global equity markets had another negative quarter as continued strength in Energy and Materials stocks was not enough to offset weakness in other sectors. Economic sentiment continued to weaken through the quarter, while investors speculated that record oil prices and higher borrowing costs will erode earnings and consumer spending, and analysts said that banks will need more capital.

The S&P 500 Index was down 3.4% in the second quarter, bringing the first half performance to -9.6%. The Energy sector was again the top performer, increasing 16.5% during the quarter. The second best performing sector was Utilities (+7.3%). The worst performance during the quarter was posted by Financial Services (-18.9%), Industrials (-10.7%), and Consumer Discretionary (-8.4%).

### PERFORMANCE REVIEW

During the quarter, the portfolio outperformed the benchmark. Negative relative contribution from our Telecommunications, Financials, and Health Care holdings was more than offset by positive contribution from Materials, Consumer Staples, Energy, Industrials, and Consumer Discretionary.

The top three best performing stocks were Petroleo Brasileiro (+37.8%), Cameron (+32.3%), and Schlumberger (+22.8%). The worst performances were posted by Prudential (-24.1%), Ameriprise (-22.0%), and JPMorgan Chase (-20.2%).

### PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	-2.47%	-10.53%	-12.44%	-1.76%	-3.22%
Index <sup>2</sup>	-3.37%	-9.63%	-16.85%	-1.91%	-0.80%
Added value	0.90%	-0.90%	4.41%	0.15%	-2.42%

<sup>1</sup> - Everywhere in this bulletin, "Fund" refers to the Natcan U.S. Equity Fund.

<sup>2</sup> - Everywhere in this bulletin, "Index" refers to the S&P 500 Index.

### PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Stocks	Attribution (basis points)
Energy	-37	<b>Positive</b>	
Materials	58	Arcelor Mittal	38
Industrials	29	Petroleo Brasileiro	33
Consumer Disc.	26	BG Group	31
Consumer Staples	23	Syngenta	25
Health Care	-26	Saipem	23
Financials	25	<b>Negative</b>	
Technology	-7	Dexia	-83
Telecommunications	-23	Prudential Financial	-35
Utilities	8	Veolia Environnement	-32
Total Equities	78	Aviva	-31
Foreign Exchange/Liquidity	13	UBS AG	-31
<b>Total</b>	<b>91</b>		

Sector attribution includes sector allocation and stock selection.

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## OUTLOOK AND STRATEGY

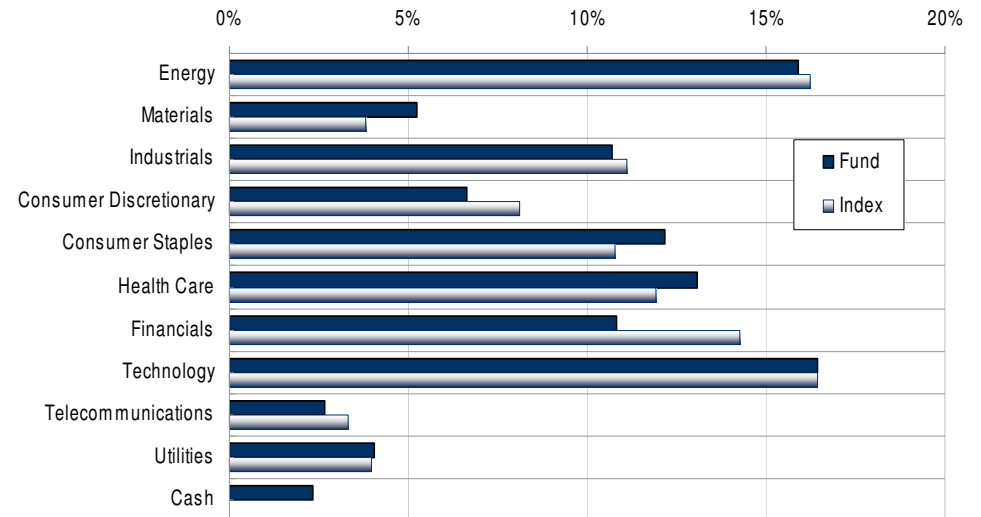
The portfolio's largest sector bet is currently in Financials where it is underweight. Outside of Financials, the portfolio oscillates between -1% and +2% of the Index in all sectors. We continue to be selective in the Financial space. Although the credit crisis is well known, we foresee continued headwinds such as weakening consumer credit, increased regulation, and decreased leverage and securitization opportunities continuing to impact the sector. As such, we prefer to remain underweight banks and overweight insurers.

During the quarter, we sold our positions in American International Group, Liberty Global, Merk, Millicom, and Nokia, and reduced our exposure to Ameriprise, Bank of America, Becton Dickinson, General Electric, Pepsico, Prudential, Stericycle, and United Technologies. We used the proceeds of these transactions to initiate positions in Expeditors, Flir Systems, Hewlett Packard, Jacobs Engineering, Nvidia, Roper, and State Street, as well as to increase exposure to Arcelor Mittal, Apple, XTO Energy, Bunge, Cameron, Goldman Sachs, Schlumberger, and Oracle.

## TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/ Equity
Fund	19.3X	1.7%	11.2%	21.7%	14.4%	23.2%
Index	16.9X	2.3%	7.6%	18.7%	11.6%	40.3%

## SECTOR ALLOCATION



## TOP TEN HOLDINGS

Securities	Weight
Exxon Mobil Corp.	5.9%
Exelon Corp.	4.0%
Apple Inc.	3.6%
CVS Caremark Corp.	3.3%
Johnson & Johnson	3.2%
Microsoft Corp.	3.1%
Schlumberger Ltd.	3.0%
Philip Morris Intl	2.9%
Goldman Sachs Group	2.8%
AT&T Inc.	2.7%

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