

NATCAN SMALL CAP EQUITY FUND

Management Approach We favour a growth-oriented style, which is particularly appropriate for the management of small caps. However, 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 selections remain 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

The second quarter of 2008 was marked by a lack of liquidity and concerns over the probability of a North-American recession. Energy, the only sector to post a positive year-to-date performance as half of the sectors are showing negative figures of more than 10%, dominated the market with a return of 21.4% for the quarter. The capital flight out of small-cap equities propelled the market downward to the benefit of oil companies, which is not unlike the 2005 scenario when the energy bubble reached its paroxysm. Economic and financial uncertainty, fed by inflation, proved to have a negative influence on the small-cap market as investors searched for more liquid vehicles.

Nonetheless, the S&P/TSX SmallCap Index closed the quarter on a positive note (+3.82%), mainly as a result of Energy's excellent performance, advantaged by its significant allocation to the sector (more than 35%). With the exception of Energy, the majority of the sectors ended the quarter in negative territory with Consumer Discretionary (-12.3%) as the main laggard.

The current raw materials market gains its strength from a weak U.S. dollar, and not from the strength of the world's economy. For the quarter, most global stock markets show a significant setback due to economic slowdowns in the U.S. and in Europe. In fact, the major Asian indices have registered the biggest declines since the beginning of 2008, a non-sense considering that these countries are perceived as the central nervous system of the global economy.

PERFORMANCE REVIEW

For the quarter, the portfolio did not fare as well as its benchmark. Our diversification strategy and the portfolio's top positions explain most of the underperformance. Mediagrif, Forzani, Extencicare, and Cangene plummeted during the period, in spite of good results, negating our strong stock picking in Energy and an underweight in Materials .

Since the beginning of the year, some of the portfolio holdings with the smallest market cap such as Mediagrif, Northstar Aerospace, Turnkey, and Amica were severely affected by a liquidity draught. In spite of good results and prospects, these companies' stock price experienced a significant pullback.

PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	0.03%	-9.27%	-23.58%	3.96%	11.04%
Index ²	3.82%	-0.39%	-10.80%	11.41%	9.77%
Added value	-3.79%	-8.88%	-12.78%	-7.45%	1.27%

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 THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	-6	Positive	
Energy	-109	Comstock RES Inc.	93
Materials	15	Iteration Energy	81
Industrials	-12	Duvernay Oil Corp.	77
Consumer Disc.	-150	Grey Wolf Inc.	48
Consumer Staples	6	Cadence Energy	36
Health Care	-18	Negative	
Financials	-67	Mediagrif Interact	-84
Technology	-50	Oceanagold Corp.	-78
Telecommunications	0	Real Resources Inc.	-55
Utilities	5	Forzani Group Ltd.	-50
Total	-386	Amerigo Resources	-46

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

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OUTLOOK AND STRATEGY

The portfolio remains underweight in raw materials as increasing operational costs and capital expenditures continue to inconvenience the sector's companies. We are also maintaining the underweight in Energy as the valuation of many securities in the sector has reached irrational levels. We continue to favour Industrials, Consumer, and Information Technology for the quality of their underlying companies. It is our opinion that these companies' business plans will once again be valued strongly by investors once the energy momentum slows.

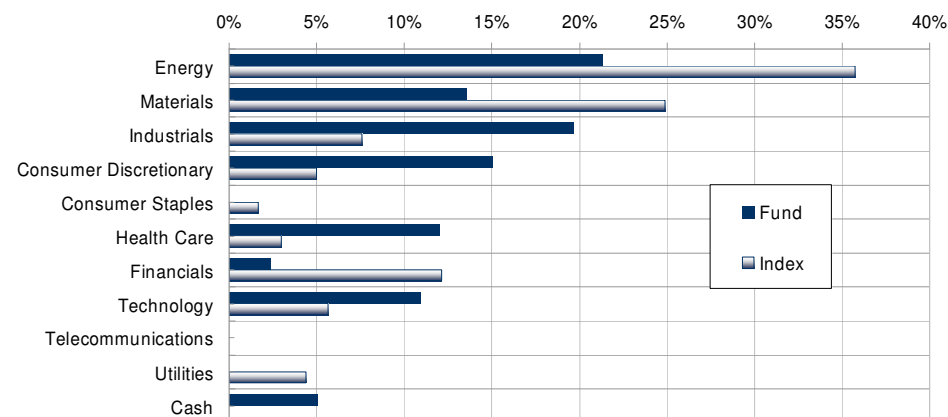
We are steadying the course on our diversification strategy; the greatest error at this time would be to increase exposure to natural resources to the detriment of sound companies whose market value can only rebound and progress going forward. In the coming months, we seek to take profit from energy producers who have done well in the short term, and increase the portfolio's weight in stocks that have been snubbed by investors in spite of constant progress in their results. Moreover, we intend to add stocks we have been monitoring for some time, and whose business plans appear solid, but for which a market disinterest has enabled entry prices that have not been seen in years.

We believe markets will remain volatile for the next couple of months, and that the Canadian small-cap market will experience important fluctuations due to the growing importance they allocate to natural resources. We are however confident that the portfolio will draw level - and exceed - with the benchmark much sooner than later, once the natural resources frenzy subsides and investors have new-found confidence in companies whose fundamental factors show sustainable growth potential over the long term.

TOP 5 HOLDINGS

Securities	Weight
Garda World Secur.	4.3%
Aecon Group	4.3%
Heroux-Devtek Inc.	4.1%
Cangene Corporation	3.7%
Iteration Energy	3.4%

SECTOR ALLOCATION



FUND'S BUY AND SELLS

Additions	Sectors
Angle Energy Inc.	Energy
Cadence Energy	Energy
UEX Corporation	Energy
Capstone Mining	Materials
Eastern Platinum Ltd.	Materials
Allen Vanguard Corp.	Industrials
Lab Research	Health Care
Novatel Wireless Inc.	Technology
Withdrawals	Sectors
Duvernay Oil Corp.	Energy
Kereco Energy	Energy
Comstock RES Inc.	Energy
Hydrogenics Corp.	Industrials
Travelcenters of America	Consumer Discretionary
Draxis Health Inc.	Health Care
UCBH Holdings Inc.	Financials
Vineyard Natl Bancrp	Financials

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