

# Quarterly Bulletin as at June 30, 2009

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

Buoyed by better-than-expected results and the improved global economic situation, investors showed renewed confidence in the markets and drove the strong surge in stock market activity since the low recorded in March. From March 9 to the end of June, the Canadian stock market gained about 38%, with the highest returns posted by the stocks that were hit the hardest during the crisis, thereby explaining the exceptional 19.97% advance in the S&P/TSX Composite Index in the second quarter – the seventh best quarterly performance in 90 years.

The volatility that reigned throughout the quarter resulted in significant variances in sector returns. Technology, Financials and Energy led the way, while Telecommunications, Materials and Health Care were the main laggards.

After staging an impressive rally since March, the stock market paused in June. There may be a period of consolidation or a moderate correction in the short term, but the consensus among investors is that there will be no economic recovery before the end of the year and that any recovery is expected to be weak. What’s more, the release of first quarter results of many publicly listed companies in the weeks ahead could influence market direction if figures turn out better or worse than anticipated.

## PERFORMANCE OVERVIEW

The Fund outperformed the index in the second quarter, thanks to our underweight positions in Materials, Telecommunications, Utilities and Health Care and to the overweight in Technology.

Although this was mitigated by the strong exposure to the Consumer sectors and the underexposure to Financials and Energy, careful stock picking in these sectors made for a very profitable contribution.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	23.14	18.98	-15.68	4.43	9.13
Index <sup>2</sup>	19.97	17.56	-25.69	3.89	6.15
Added Value	3.17	1.42	10.01	0.54	2.98

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	5	Positive	
Energy	116	Magna International Inc.	112
Materials	82	Research In Motion	108
Industrials	-60	Petro-Canada	106
Consumer Disc.	123	CIBC Bank	63
Consumer Staples	-57	Dorel Industries Inc.	62
Health Care	6	Negative	
Financial Services	-77	Toronto Dominion Bank	-145
Technology	27	Manulife Financial	-107
Telecommunications	86	Teck Resources Ltd	-57
Utilities	10	Potash Corp. of Sask	-35
Total	261	Power Corp. of Canada	-25

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

## Natcan Canadian Equity Fund as at June 30, 2009

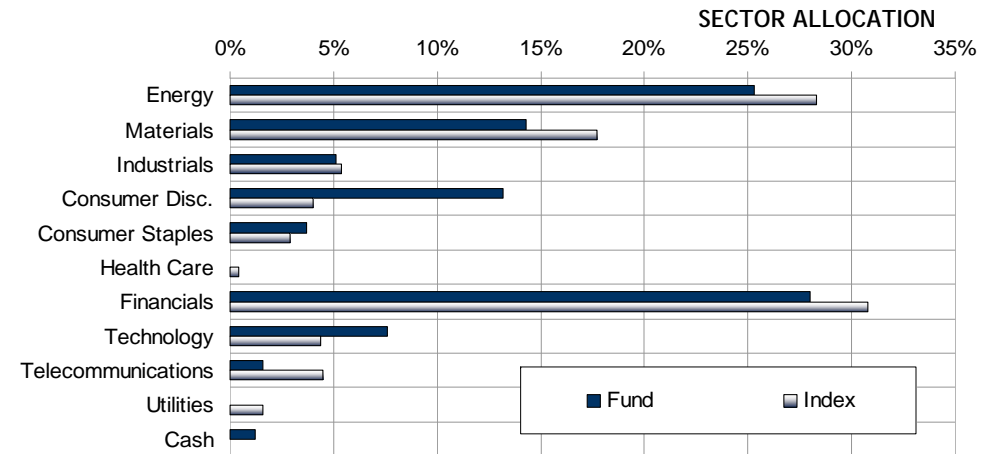
### OUTLOOK AND STRATEGY

We believe that, after rebounding approximately 40% since the low reached in March 2009, activity on the Canadian market could wane somewhat in the short term. We however remain optimistic about potential stock market gains in the medium term. As for the long term, we doubt that the low point in March marked the start of a new market upswing, as we are expecting high cyclical volatility in the North American economy and across stock markets in general.

While it is very difficult to accurately predict when there will be a return to positive growth, the Canadian stock market seems to have already priced in much of the impact that such economic uncertainty could have on the profitability of Canadian companies. In a context where Technology, Financials and Energy accounted for the highest returns in the quarter, we are expecting changes in the top performing sectors over the next few months. Consumer Discretionary could emerge as one of the new leaders in terms of sector performance. This justifies our overweighting of the sector, which was largely based on attractive stock prices and their strong growth potential.

In a move to take advantage of all these opportunities to improve the quality of the portfolio and acquire stocks with a favourable risk/return ratio, we rebalanced the portfolio's sector allocation. More specifically, we increased our exposure to cyclically sensitive sectors, such as Materials (+3.5%) and Energy (+1.0%), and scaled back on more defensive sectors or sectors that are associated with Consumer Discretionary (-2.5%) and Consumer Staples (-1.5%). We therefore invested in Potash, Celestica, PetroBank Energy, Quadra Mining Goldcorp and Barrick Gold and trimmed our holdings in Astral Media, Weston, Metro, Rona, Corus and CGI. Moreover, we reduced the overweight in Research in Motion by approximately 1% after it contributed significantly to the portfolio with a return of 51.7% in the second quarter. Finally, we adjusted our holdings in Financials by reducing our position in Royal Bank and CIBC and increasing our position in Bank of Montreal, BNE, Brookfield Properties and Sunlife.

While these changes have made the portfolio less defensive, we will continue to take a cautious approach. Quality, value, opportunity and concentration will be the watchwords for the weeks to come.



### TOP 5 HOLDINGS

Securities	Weight
Royal Bank of Canada	6.1%
Petro-Canada	5.4%
Bank of Montreal	4.9%
Barrick Gold Corp.	4.9%
Research in Motion	4.6%

### MAIN ACTIVE WEIGHTS

Overweight		Underweight	
Petro-Canada	3.5%	Toronto Dominion Bank	-4.6%
Magna Intl Inc.	3.0%	Manulife Financial	-2.9%
Bank of Montreal	2.6%	Transcanada Corp.	-1.9%
Rona Inc.	2.0%	BCE Inc.	-1.7%
Astral Media Inc.	1.9%	Enbridge Inc.	-1.4%

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