

# Quarterly Bulletin as at June 30, 2009

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

The second quarter ushered in a strong stock market recovery, which made it possible to recoup some of the value lost during the 2008 crisis. Since the economy seems to be regaining strength and corporate earnings are surpassing expectations, investors are continuing to move out of less risky holdings to securities that offer better returns and more growth potential. Analysts have also readjusted their projections, while still maintaining that the economic situation — job numbers in particular — could worsen before improving. Against this backdrop, the S&P/TSX SmallCap Equity Index moved ahead of its large-cap peer, climbing 22.43% over the period. This return is consistent with all global indexes, as the small cap MSCI Index also outperformed large-cap equity indexes for the quarter.

Overall, all Canadian market sectors recorded positive returns. Consumer Discretionary, Industrials, Technology and Financials turned in the best performances, while Health Care and Consumer Staples lagged the most.

## PERFORMANCE OVERVIEW

For the quarter, the Fund outperformed the S&P/TSX SmallCap Equity Index, primarily due to the overweight positions in Industrials and Technology and the underweight in Materials. Overall, our stock picks proved to be lucrative, particularly within the Industrials, Materials and Financial Services sectors. These contributions were however partly offset by our strong exposure to Health Care and our underexposure to Energy and Financials, combined with more tempered selection in the Consumers and Energy sectors.

The most positive contributions to the Fund's return this quarter came from Garda World, Forzani, TransForce and Dundee Wealth, while CDN Western Bank, Cott Corp, Linamar Corporation, FNS Mining and NAL Oil & Gas Trust were a drag on performance.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	28.59	33.37	-14.17	-0.50	9.42
Index <sup>2</sup>	22.43	17.92	-35.47	-3.04	5.82
Added Value	6.16	15.45	21.30	2.54	3.60

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

<sup>2</sup> - 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	-28	<b>Positive</b>	
Energy	-83	Garda World Secur	185
Materials	194	Forzani Group Ltd.	168
Industrials	208	Dundee Wealth Inc.	123
Consumer Disc.	46	Pacific Rubiales ENE	106
Consumer Staples	40	Transforce Inc.	99
Health Care	5	<b>Negative</b>	
Financial Services	103	CDN Western Bank	-57
Technology	107	Cott Corp	-51
Telecommunications	0	Linamar Corporation	-49
Utilities	25	FNX Mining	-41
<b>Total</b>	<b>617</b>	Nal Oil & Gas Trust	-40

Sector attribution includes sector allocation and stock selection.

## Natcan Small Cap Equity Fund as at June 30, 2009

### OUTLOOK AND STRATEGY

During the quarter, we reduced the portfolio's exposure to Energy, Materials and Financials, although we have maintained the underweight in these sectors, by initiating positions in Alange and San Gold. Stocks such as Pacific Rubiales Energy, an international oil producer, and Telvent, a network optimization solutions provider for oil and gas industries and utilities, were also added to the portfolio.

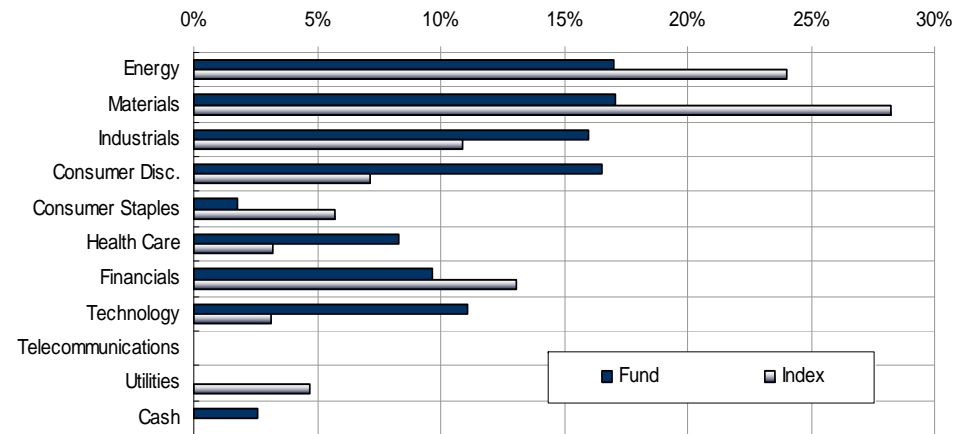
We have positioned the portfolio to benefit from a slight dip in stock markets, more specifically in resources. We will continue to exercise caution, as we expect market volatility to remain high through to the end of the year. The release of corporate results in the coming weeks should dictate market trends and in turn, influence our mid-term strategies. If earnings announcements meet or exceed expectations, stock markets could soar, while the opposite could trigger a downturn. What's more, signs of an economic recovery by the end of the current quarter would prompt us to favour stocks in the Energy, Mining and Metals sectors, as well as companies that generate the bulk of their revenues worldwide.

We believe that small-cap equities should perform well in the medium term. Weak key rates, a renewed appetite for risk, attractive absolute and relative valuations and new merger and acquisition activity are other factors that could benefit this asset class.

### TOP-5 HOLDINGS

Securities	Weight
Forzani Group Ltd	4.4%
Northgate Minerals	3.6%
Mediagrif Interact	3.4%
Uni Select Inc.	3.1%
Cangene Corporation	3.0%

### SECTOR ALLOCATION



### BUYS AND SELLS

Additions	Sectors
Alange Corp.	Energy
Cvtech Group Inc.	Industrials
Martinrea International	Consumer Discretionary
Pacific Rubiales ENE	Energy
San Gold Corp.	Materials
Telvent Git Sa	Information Technology
Withdrawals	Sectors
Calfrac Well Service	Energy
Fifth Third Bancorp	Financials
Manhattan Assocs In	Information Technology
Sonic Corp.	Consumer Discretionary
Tristar Oil & Gas	Energy
Tundra Semiconduct	Information Technology
Vitran Corp Inc.	Industrials
Warnex Inc.	Health Care
Zoran Corp.	Information Technology

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