

NATCAN CANADIAN EQUITY FUND

Management 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

The Canadian market fell 2.84% for the quarter, mainly due to global stock market volatility. In Canada, the pullback was mitigated by the strong quarterly performance of Materials (+7.3%), and most particularly gold stocks (+13.6%). These sectors experienced significant increases over the past three months.

The financial crisis continues to disrupt markets around the world. The ensuing depreciation of the U.S. dollar drove natural resources up. As such, Materials and Energy were the only two sectors to post positive returns for the quarter. The main laggards were Consumer Discretionary and Telecommunications.

PERFORMANCE REVIEW

For the quarter, the portfolio returned -6.22%, thereby underperforming its benchmark by 3.38%. Both sector allocation and stock selection had negative impacts over this period, though the Financials and Utilities sectors, where stock selection and sector weights were favourable, helped lessen this hindrance. An underweight in EnCana along with the absence of Brookfield Asset Management, SRX Uranium, Power Corp. were also positive contributors to portfolio return.

Negative contributions mostly came from Materials and Consumer Discretionary, where several of our holdings lost ground. Being exposed to Quebecor, which regressed nearly 28%, as well as being absent from Potash Corp., which rose by more than 11%, also shed points from our quarterly performance.

PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-6.23%	-6.23%	-3.52%	11.11%	10.68%
Index ²	-2.84%	-2.84%	4.00%	14.11%	7.81%
Added value	-3.39%	-3.39%	-7.52%	-3.00%	2,87 %

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 THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	0	Positive	
Energy	-77	EnCana Corporation	33
Materials	-126	Brookfield Asset Mgt	23
Industrials	-8	SXR Uranium One	19
Consumer Disc.	-110	Power Corp. of Canada	13
Consumer Staples	-11	Telus Corp.	12
Health Care	-8	Negative	
Financial Services	54	Quebecor Inc.	-42
Technology	-46	Potash Corp. of Sask.	-41
Telecommunications	-11	Nortel Networks Corp.	-40
Utilities	4	Shaw Communications	-28
Total	-339	Astral Media Inc.	-26

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

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STRATEGY

We remain cautious toward the outlook of the market in the medium term as we believe the U.S. economy could further deteriorate over the coming months. Since the start of the liquidity crisis in August 2007, consumer-related stocks have been underperforming the market significantly. We believe that several of these names now exhibit attractive risk/reward ratios. We have therefore added new holdings that have been unjustly penalized over the past few months, such as Metro and Rona, so as to take advantage of attractive valuation levels.

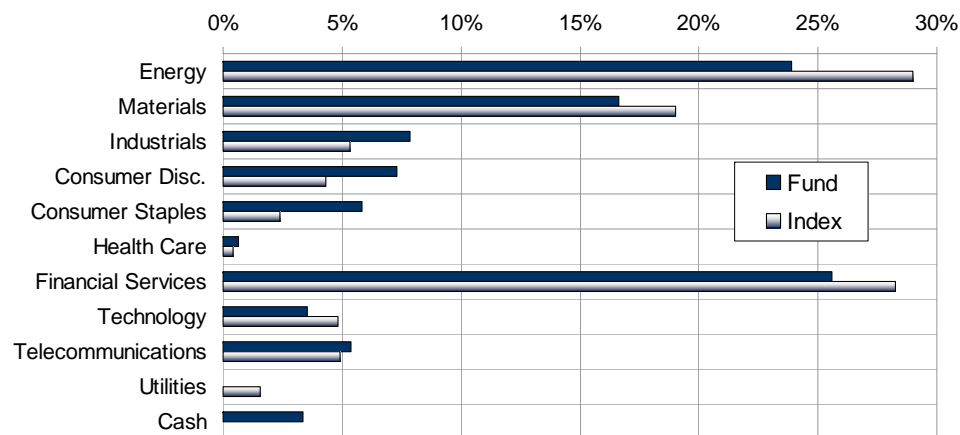
Our main sector overweights remain in Consumer Staples and Consumer Discretionary, though since the beginning of 2008 we have moved to optimize them by trimming our positions in Shaw Communications and Thomson Corp, and selling Canadian Tire and Aeroplan.

The portfolio's most significant underweights are in the Materials and Energy sectors. We reduced this deviation by adding to holdings in Agrium, Fording Coal, and Yamana Gold as well as through new positions in Inmet Mining and First Quantum. We also decreased weights in Teck Cominco and Ivanhoe. In the Energy sector, we added to existing holdings in Canadian Natural Resources and EnCana, and initiated positions in Oilexco and Cameco.

At quarter end, sectors that were in direct correlation with raw materials accounted for 48% of the benchmark while the portfolio allocation nears 40% in those areas. Though these sectors are currently dominating the market, we maintain this positioning as we believe that a global economic slowdown could have a devastating effect on raw materials prices.

We remain true to our style and stand by our convictions. The median capitalization of the portfolio is superior to that of the S&P/TSX Index, its P/E ratio inferior, and every one of the new positions are significantly undervalued relative to their historical average (2001 to 2008). The current economic backdrop allows us to seize discounted opportunities.

SECTOR ALLOCATION



TOP FIVE HOLDINGS

Securities	Weight
EnCana Corporation	7.0%
Manulife Financial Corp.	5.8%
Canadian Natural Resources	3.9%
Royal Bank of Canada	3.7%
Barrick Gold Corp.	3.5%

MAIN DEVIATIONS VS THE INDEX

Overweight		Underweight	
EnCana Corporation	2.1%	Research in Motion Ltd	-3.4%
Agrium Inc.	2.0%	Potash Corp. of Sask.	-3.4%
Great-West Lifeco	1.8%	Canadian Oil Sands Trust	-1.4%
Cognos Incorporated	1.7%	Toronto Dominion Bank	-1.3%
Manulife Financial Corp.	1.5%	Brookfield Asset Mgt	-1.1%

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