

## NATCAN SOCIAL VALUE CANADIAN EQUITY FUND

**Management Approach** Our goal is to drive the social rating of our fund beyond that of the S&P/TSX. To do so, we rely on three strategies. The first one consists in excluding companies whose primary mission is linked to arms production, tobacco, alcohol, nuclear energy, pornography, or gambling. The second one calls on social value criteria to determine the ethical strengths and weaknesses of companies in different areas, such as community involvement, diversity, employee relations, environment, and commercial practices and products. The third strategy aims at utilizing our shareholder rights through proxy voting. Guidelines are based on the policies developed by certain shareholder groups with ethical and social focus.

### 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 OVERVIEW

For the quarter, the portfolio returned -6.06%, thereby underperforming its benchmark by 3.22%. 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 | Since inception (2004-02) |
|--------------------|----------|--------|--------|---------|---------------------------|
| Fund <sup>1</sup>  | -6.08%   | -6.08% | -3.27% | 11.00%  | 9.95%                     |
| Index <sup>2</sup> | -2.84%   | -2.84% | 4.00%  | 14.11%  | 13.21%                    |
| Added value        | -3.24%   | -3.24% | -7.27% | -3.11%  | -3.26%                    |

1 - Everywhere in this bulletin, the "Fund" refers to the Natcan Social Value Canadian Equity Fund.

2 - Everywhere in this bulletin, the "Index" refers to the S&P/TSX Index.

### PERFORMANCE ATTRIBUTION VS THE INDEX

| Sectors            | Attribution (basis points) | Securities            | Attribution (basis points) |
|--------------------|----------------------------|-----------------------|----------------------------|
| Cash               | -4                         | <b>Positive</b>       |                            |
| Energy             | -68                        | EnCana Corporation    | 29                         |
| Materials          | -124                       | Brookfield Asset Mgt  | 23                         |
| Industrials        | -9                         | SXR Uranium One       | 19                         |
| Consumer Disc.     | -109                       | Cameco Corp.          | 14                         |
| Consumer Staples   | -9                         | Power Corp. of Canada | 13                         |
| Health Care        | -7                         | <b>Negative</b>       |                            |
| Financial Services | 55                         | Quebecor Inc.         | -43                        |
| Technology         | -43                        | Potash Corp. of Sask. | -41                        |
| Telecommunications | -8                         | Nortel Networks Corp. | -37                        |
| Utilities          | 4                          | Shaw Communications   | -27                        |
| <b>Total</b>       | <b>-322</b>                | Astral Media Inc.     | -26                        |

Sector attribution includes sector allocation and stock selection. In green: not a portfolio holding. \*This number includes a negative currency contribution of 28 basis points further to a transaction on Alcan.

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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.

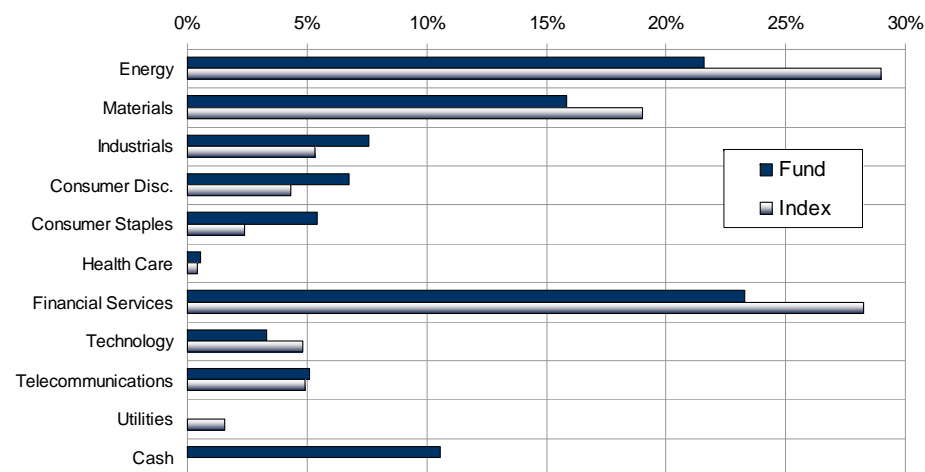
We remain true to our style and stand by our convictions. The median capitalization of the portfolio is superior to that of the S&P/TSX Index, its P/E ratio inferior, and every one of the new positions are significantly undervalued relative to their historical average (2001 to 2008). The current economic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

## SOCIAL VALUE INDEX

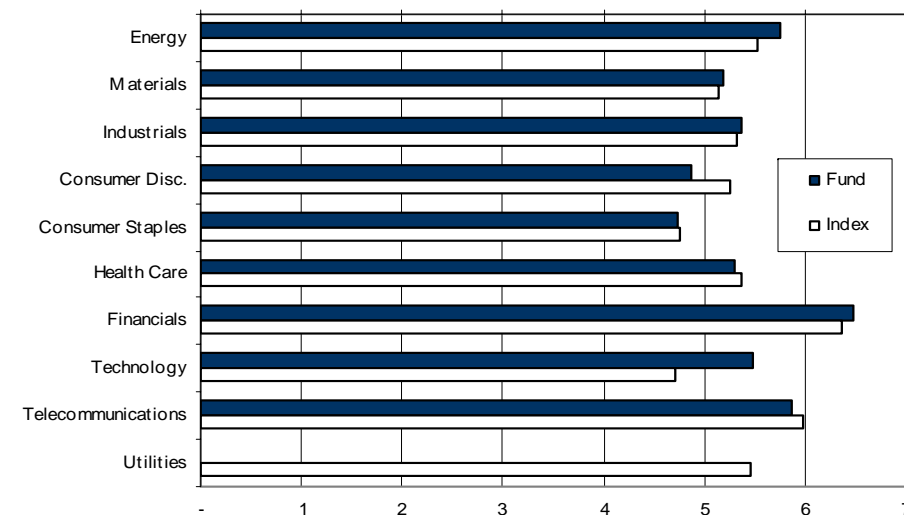
As at March 31, 2008, the Fund's weighted ESG score was superior to that of its index: 5.71 against 5.63 for the S&P/TSX Index. From a contribution standpoint, Financial Services still constitute the most dominant sector as it is the largest weight in both the Index and the Fund. Nonetheless, let us mention the important contribution of the Energy sector which, despite its underweight, helped generate value.

In terms of average ESG score, the Fund outperformed its index in the Financials, Health Care, Energy and Technology sectors. This relative ESG outperformance is the result of individual stock selection rather than sector allocation.

## SECTOR ALLOCATION



## AVERAGE OF ESG PERFORMANCE PER SECTOR



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