

# Quarterly Bulletin as at March 31, 2009

Natcan International Equity Fund

**INVESTMENT APPROACH:** We are bottom up stock pickers, searching for secular growth opportunities that are reasonably priced. Preference is given to sectors offering sustainable growth and low volatility. The managers seek out and invest in the best business models globally: companies generating stable and persistent earnings growth, expanding and above-average profit margins, and high returns on capital. This combination of attractive characteristics provides a margin of safety and a cushion against a host of inevitable economic and business uncertainties.

## MARKET OVERVIEW

Volatility was one of the main characteristics of the first quarter of 2009, as investors moved from one extreme to the next. In retrospect, the period can be broadly divided into two parts. During the first part, spanning January and February, markets continued to decline, as ongoing fears over the stability of the financial system and economic prospects dominated. However, early in the month of March, equity markets staged one of the strongest rallies on record, as some economic indicators turned less negative, encouraging a tempered return to more risky assets. That said, the financial crises sweeping through the globe deepened further during the past three months, as many economic indicators turned negative. The state of the global economy, which has been stuck in reverse for months, has taken a great toll on global trade, leaving world trade volume almost 20% below last year's level. Governments rushed to bail out ailing financial institutions and major central banks were incited to respond with hitherto unseen action.

For its part, the MSCI EAFE Index declined by 12.2% during the first quarter, despite a 5.5% gain in March. Though this was largely a function of local currency returns being negative, the decline was modestly accentuated by the relative strength of the Canadian dollar. By sector, Utilities led all decliners with a retreat of just over 19%, while Financials followed a close second with an 18.2% decline. Conversely, Energy and Materials outperformed, on decreased economic pessimism, as well as the inflation hedge that raw materials represent.

## PERFORMANCE REVIEW

The Fund performed fairly in line with its benchmark during the months of January and February, but failed to keep pace during the sharp rally in March, given its defensive positioning. As a result, it underperformed for the quarter, mainly due to its exposure within the Financial Services sectors, with AXA, Aflac and Sumitomo Trust being the largest negative contributors. This setback was slightly mitigated by positive selection contributions stemming from 6 of the nine remaining sectors. Allocation also contributed positively to overall performance, mainly as a result of the large underweight in Utilities.

## PERFORMANCE (% - CAD)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	-13.77	-13.77	-37.17	-6.81	-0.86
Index <sup>2</sup>	-12.29	-12.29	-34.41	-5.15	-2.65
Added value	-1.48	-1.48	-2.77	-1.66	1.79

<sup>1</sup> - Everywhere in this bulletin, "Fund" refers to the Natcan International Equity Fund.  
<sup>2</sup> - Everywhere in this bulletin, "Index" refers to the MSCI EAFE Index.

## PERFORMANCE ATTRIBUTION VS INDEX

Sectors	Attribution (basis points)	Securities	Contribution (basis points)
Energy	22	<b>Positive</b>	
Materials	7	HSBC Holdings	43
Industrials	28	Hengan International	42
Consumer Disc.	-9	Intertek Group	27
Consumer Staples	54	BG Group	24
Health Care	24	Taiwan Semiconductor	20
Financials	-208	<b>Negative</b>	
Technology	20	Aflac Inc.	-76
Telecommunications	-17	KDDI Corp.	-70
Utilities	5	AXA	-62
Total equities	-74	Sumitomo Trust & Bkg	-58
Foreign exchange/Liquidity	-74	Nintendo Co.	-53
<b>Total</b>	<b>-148</b>		

Note: Attribution includes sector allocation and stock selection.

## Natcan International Equity Fund as at March 31, 2009

### OUTLOOK AND STRATEGY

The portfolio remains defensively positioned, though a gradual process of reducing the magnitude of this stance has begun. This is being largely implemented via a rotation of holdings within sectors, rather than overall changes to sector weights, with preference given to high-quality companies trading at low valuations. Examples of this shift include Saipem, China Mobile and Heineken. Nonetheless, the portfolio's largest overweight positions remain in Health Care and Information Technology and its largest underweights in Financials and Utilities.

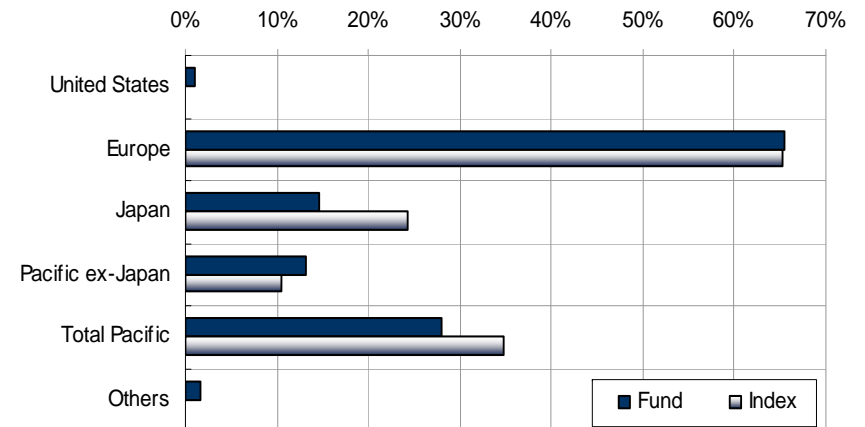
During the quarter, positions in Nokia, Inditex and Danone were sold on concerns over weak consumer spending. The position in Aflac was eliminated on increased concern over the strength of the company's balance sheet, and in order to take advantage of the sharp rally in the Aviva shares during March, the position in the company was liquidated in its entirety. Conversely, several new positions were initiated during the period, namely in Toyota Motor, BAE Systems, SAP, Heineken, Saipem, China Mobile, Insurance Australia Group and Petroleo Brasileiro.

It is our view that the recent rally has been too sharp and does not fully reflect the current global economic outlook. Yet, we will continue to gradually increase our exposure to raw materials, as the outlook for rising inflation expectations shifted upwards in recent weeks, given the dramatic level of easing that has been applied to the global economy.

### TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/Equity
Fund	11.3x	3.6%	9.1%	19.2%	11.5%	29.3%
Index	11.2x	4.0%	6.2%	14.5%	8.0%	46.0%

### GEOGRAPHIC ALLOCATION



### TOP 10 HOLDINGS

Securities	Weight
Nestle SA	4.0%
Roche Holdings AG	3.2%
BG Group	2.9%
Telefonica SA	2.8%
Nintendo Co	2.7%
BHP Billiton Ltd	2.7%
Royal Dutch Shell	2.6%
Novartis AG	2.5%
British American Tobacco	2.2%
Experian	2.2%

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