

## NATCAN U.S. EQUITY FUND

**Management Approach** Our approach is premised on the belief that wealth is created through long-term ownership of great companies. The team focuses its efforts on identifying secular themes and those companies poised to best take advantage of these opportunities. The portfolio maintains reasonable valuation ranges with a predominantly GARP (growth at a reasonable price) focus. However, consideration is given to both qualitative and quantitative attributes. We will implement positions that deviate from the benchmark, within prudent risk control guidelines. We believe sector rotation to be important, regardless of market conditions, but will always maintain holdings in at least eight of the ten S&P 500 sectors. The end result of our management style and commitment to reducing overall risk is a high quality portfolio of growth oriented U.S. equities.

### MARKET OVERVIEW

U.S. equity markets experienced one of their most volatile quarters in history, as investor sentiment swung between optimism and pessimism while global monetary authorities attempted to ease credit pressures.

The Financial Services sector surprised everyone by ranking among the top three positive contributors of the period, in spite of the greatest credit-market seizure since the Great Depression. Defensive sectors, notably Consumer Staples and Health Care, also outperformed the market.

The list of institutions that failed or had to be saved is as impressive as it is long. Fannie Mae and Freddie Mac, Lehman Brothers, Merrill Lynch, AIG, Washington Mutual, and Wachovia fell in the U.S. Goldman Sachs and Morgan Stanley converted to regulated bank holding companies as the U.S. shadow (as in unregulated) banking system came to its final demise.

Yet, the most persistent theme throughout the quarter was a rotation away from cyclical stocks, as commodities fell sharply across the board. Indeed, Energy (-21.36%) and Materials (-19.09%) sunk to new lows in the quarter, and ranked among the worst sector performers in the Index. The price of crude oil shrank 31% from its all time high of \$145.29 on July 3, as investors anticipated the financial markets crisis would drive down the demand for petroleum while the US dollar strengthened.

The S&P 500 Index closed the quarter down 4.37% in Canadian dollars (-8.37% in local currency). The appreciation of the US dollar had a considerable impact on the period return in Canadian dollar terms.

### PERFORMANCE REVIEW

The portfolio ended the quarter in negative territory with a return of -4.98%, mainly due to the poor performance of our Consumer Staples, Materials, and Utilities holdings. We managed to offset part of this negative impact through good stock picking in Industrials, Financials, and Technology.

### PERFORMANCE (\$CAD)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	-4.98%	-14.98%	-16.35%	-1.65%	-2.29%
Index <sup>2</sup>	-4.37%	-13.58%	-16.53%	-1.20%	-0.62%
Added value	-0.61%	-1.40%	0.18%	-0.45%	-1.67%

<sup>1</sup> - Everywhere in this bulletin, "Fund" refers to the Natcan U.S. Equity Fund.  
<sup>2</sup> - Everywhere in this bulletin, "Index" refers to the S&P 500 Index.

### PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Stocks	Attribution (basis points)
Energy	40	<b>Positive</b>	
Materials	-53	JPMorgan Chase & Co.	54
Industrials	78	Amern Intl Group Inc.	52
Consumer Disc.	-21	Prudential Financial	51
Consumer Staples	-72	Lockheed Martin Corp.	40
Health Care	3	Stericycle Inc.	38
Financials	14	<b>Negative</b>	
Technology	28	Exelon Corp.	-72
Telecommunications	-2	Petroleo Brasileiro	-54
Utilities	-41	Wells Fargo & Co.	-52
Total Equities	-26	Apple Inc.	-50
Foreign Exchange/Liquidity	-35	XTO Energy Inc.	-44
<b>Total</b>	<b>-61</b>		

Sector attribution includes sector allocation and stock selection.

For more information about Natcan's Funds: 514-871-7600 or info@natcan.com



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## OUTLOOK AND STRATEGY

The portfolio remains defensively positioned with a large overweight in Health Care and Consumer Staples. It is also overweight Technology where cash balances are very high, and the need for external financing low.

The main underweight positions are in the Industrials, Materials, and Utilities sectors. We will move to narrow the underweight in Consumer Discretionary and Financials when opportunities arise.

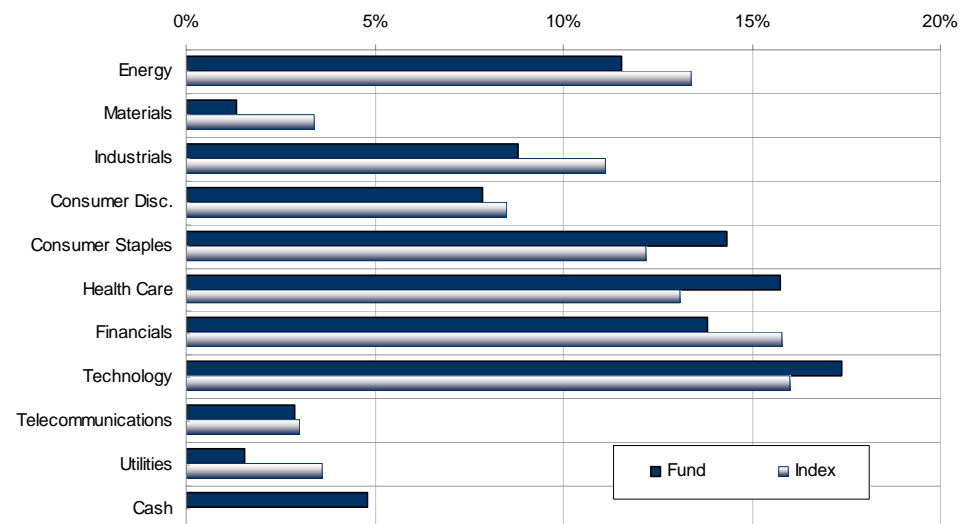
During the quarter, the portfolio experienced an above-average turnover. Notably, we initiated new positions in Time Warner, the second largest cable provider in the country with earnings of US\$18.5 billion, and in Genzyme, a diversified biotechnology company. Conversely, we sold our positions in Air Products, Bunge, BHP, Arcelor, Expeditors, Jacobs, and Trimble.

This stock rotation is a result of our defensive strategy; we thus increase the portfolio's weight in Consumer Staples and Health Care, and reduce its exposure to cyclical sectors.

## TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/Equity
Fund	19.3X	1.7%	11.2%	21.7%	14.4%	23.2%
Index	16.9X	2.3%	7.6%	18.7%	11.6%	40.3%

## SECTOR ALLOCATION



## TOP TEN HOLDINGS

Securities	Weight
Exxon Mobil Corp.	5.6%
Johnson & Johnson	3.8%
JPMorgan Chase & Co	3.4%
Microsoft Corp.	3.4%
Philip Morris Intl	3.1%
Procter & Gamble Co.	2.9%
AT&T Inc.	2.9%
Pepsico Inc.	2.8%
Bank of America Corp.	2.6%
Lockeed Martin Corp.	2.5%

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