NATCAN INTERNATIONAL EQUITY FUND

Management Approach Company evaluation is at the core of our strategy as this is the source of our value added. Not all companies are created equal. We only buy the best business models, firms with a lasting competitive edge that will surpass their peers over the long run (3-5 years). We believe that the best strategy is to buy quality and avoid speculative issues. We favor sectors that display consistent growth and lower volatility over time. We do not speculate and as such, we avoid highly volatile sectors or stocks. Part of our investment process consists of creating a universe of companies that meet our criteria for investment. This pre-selected universe is the cornerstone of our "bottom-up" approach and is indicative of the emphasis we put on security selection (what we believe is our source of value added). Our typical investment horizon is 4 to 5 years.

MARKET OVERVIEW

Financial markets are going through the most severe credit crunch since the Great Depression. Banks are running into funding problems as wholesale funding has all but dried up, and the possibility to shed assets is prohibitively expensive given the lack of liquidity for these kinds of financial products. As a result, the flow of credit is paralyzed, and we are beginning to see some impact on the real economy. Europe and Japan are on their way into recession, and some emerging markets are showing signs of a marked slowdown. So far, individual bailout packages for various banks failed to inspire new confidence. It remains to be seen if the proposed US$700 billion sponsored rescue package will be able to stop the ongoing de-leveraging process.

The quarter was marked by a further increase in the severity of the worldwide credit crunch as the wholesale funding market grinded to a halt, and several banks had to be saved through bailout packages or takeovers.

Traditional safe havens such as Health Care, Consumer Staples, and Consumer Discretionary performed best in this environment while cyclical sectors (Materials, Energy, and Industrials) lagged.

PERFORMANCE REVIEW

The portfolio ended the quarter down 18.28% (in Canadian currency) against -16.75% for the benchmark. Adverse stock picking accounts for most of the shortcoming.

We managed to offset part of the setback through our financial holdings, an overweight in Health Care, and our exposure to the Materials sector.

PERFORMANCE ($CAD)

	3 months	YTD	1 year	4 years	10 years
Fund[1]	-18.28%	-26.83%	-27.20%	0.40%	3.29%
Index[2]	-16.75%	-23.80%	-25.64%	2.24%	1.29%
Added value	-1.53%	-3.03%	-1.56%	-1.84%	2.00%

1 – Everywhere in this bulletin, "Fund" refers to the Natcan International Equity Fund.
2 – Everywhere in this bulletin, "Index" refers to the MSCI EAFE Index.

PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Energy	-35	**Positive**	
Materials	22	BP PLC	45
Industrials	-152	Anglo American	39
Consumer Disc.	-39	Royal Dutch Shell	31
Consumer Staples	9	BHP Billiton PLC	26
Health Care	-7	Xstrata	26
Financials	68	**Negative**	
Technology	-43	Nintendo Co.	-79
Telecommunications	-2	Syngenta	-79
Utilities	-42	BG Group	-76
Total equities	-221	Saipem	-66
Foreign exchange/Liquidity	68	Kurita Water Inds.	-62
Total	-153		

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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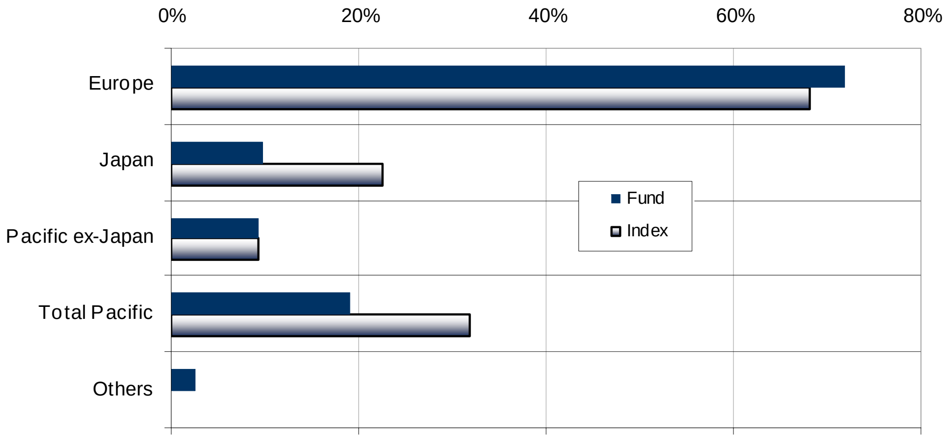
OUTLOOK AND STRATEGY

The portfolio remains defensively positioned with its strongest overweights in Health Care and Consumer Staples, two sectors that generate enough free cash flow to not depend on bank financing. We are also keeping a considerable cash level on hand.

Headwinds further increased during the quarter as activity in wholesale financial markets grinded to a virtual halt in September. This brought many banks to the verge of collapse and a result, there is an increasing list of countries that are approaching recessionary levels. Ripple effects in the form of reduced lending should be expected. We continue to believe we have not yet seen the peak of the credit crunch and as such, maintain a considerable underweight in Financials. We would reduce this underweight if currently paralyzed debt markets showed signs of unfreezing following the proposed US$700 billion rescue package.

On the geographical front, the portfolio is currently 12% underweight Japan as we do not find enough Japanese companies that meet our investment criteria.

GEOGRAPHICAL ALLOCATION



TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/ Equity
Fund	15.5x	3.4%	10.9%	21.1%	10.2%	28.5%
Index	14.2x	3.7%	7.8 %	16.5%	7.9 %	42.0 %

TOP TEN HOLDINGS

Securities	Weight
Nestle SA	5.4%
Nintendo Co	3.5%
E. ON AG	3.1%
British American Tobacco	2.8%
BG Group	2.7%
Telefonica SA	2.7%
Roche Hldgs AG	2.6%
Luxottica Group	2.3%
Alcon Inc.	2.2%
AXA	2.2%

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