

# Quarterly Bulletin as at September 30, 2009

Natcan Canadian Equity Fund

**INVESTMENT 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

Enthused about the prospects for an economic recovery, investors continued to allocate fresh capital to the equity markets, which culminated in the S&P/TSX Composite Index gaining 10.61% during the third quarter. Sidelined cash, seeking opportunities in stocks drifted towards quality stocks early in the quarter but spilled over into more speculative names late in the session, as appetite for risk returned.

Overall however, investors rotated funds towards sectors that have lagged since the start of the recovery, namely Health Care, which vaulted atop the gainers list. Elsewhere, renewed interest in energy shares, propelled that sector higher, while rallying bullion prices lifted gold shares and in turn the entire Materials sector to a third place finish. On the other hand, financial shares remained strong, as the sector gained an additional 15% during the quarter, however, investors' focus within financials shifted, as banks and insurance companies posted low single digit returns, while real estate and wealth management concerns rallied sharply.

To the downside, the technology sector ended in the red, on the back of a steep decline in the share price of Research in Motion (RIM), which succumbed to selling pressure, following the release of its second quarter earnings. While earnings exceeded analysts expectations, the company's guidance about sales for the upcoming quarter fell short of expectations.

## PERFORMANCE OVERVIEW

During the quarter, the portfolio had a solid positive performance, that did however trail the index marginally. Overall, security selection enhanced performance, while sector allocation hindered.

Specifically, relative performance was negatively impacted by being overweight in the Technology sector, in particular RIM and underweight in the Financials sector, especially the absence from TD Bank, and Brookfield Asset Management. On the other hand, exposure to Consumer and Industrial Stocks, such as Quebecor, Cascades and Rona added value on a relative basis.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	10.19	31.11	7.20	4.56	10.01
Index <sup>2</sup>	10.61	30.04	0.51	3.65	7.27
Added Value	-0.42	1.07	6.69	0.91	2.74

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 INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	-39	<b>Positive</b>	
Energy	50	Quebecor Inc.	41
Materials	0	Cascades Inc.	32
Industrials	6	Rona Inc.	32
Consumer Disc.	30	Celestica Inc.	28
Consumer Staples	-6	Bank of Montreal	26
Health Care	-5	<b>Negative</b>	
Financial Services	-90	Toronto Dominion Bank	-69
Technology	-29	Teck Resources Ltd	-48
Telecommunications	1	Brookfield Asset Mgt	-20
Utilities	12	Manulife Financial	-19
<b>Total</b>	<b>-70</b>	BCE Inc.	-19

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

## Natcan Canadian Equity Fund as at September 30, 2009

### OUTLOOK AND STRATEGY

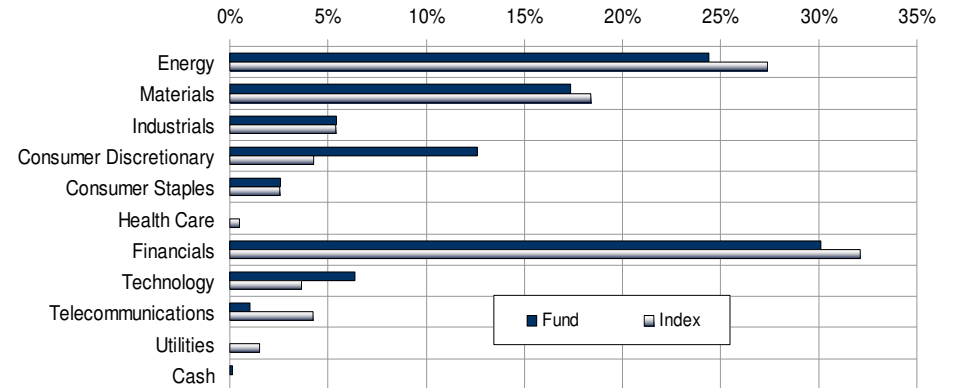
Since the beginning of the year, the rebound in equity prices has been quite substantial, however, markets still have a long way to go before they return to their pre-crisis levels. As such, we are continuing to hold an optimistic view about the equity markets in the medium term. Let us remember that from the peak that preceded last fall's financial crisis, the market pullback exceeded 50%, the most significant drop since the 1930s. Following the trough in March 2009, the Canadian equity market has only regained half of the points lost.

As such, we are keeping the portfolio's positioning somewhat tight versus the index. In general, the portfolio remains underweight defensive sectors and overweight those that stand to benefit from an economic recovery. In particular, exposure to defensive sectors, such as Telecommunications, Utilities and Health Care has been kept at underweight, while that to early cyclical such as Technology and Industrials has been upped to overweight.

Tactically, minor adjustments were carried out late in the quarter, as we increased the weighting of Goldcorp and Yamana, thereby strengthening our stance in the gold sub-sector and in turn the overall Materials sector. These additions were funded through profit taking in some securities and deployment of the cash on hand.

Corporate earnings will undoubtedly be the key aspect to consider in the near term. Results for the second quarter exceeded investor expectations, and early reports for the third quarter have been positive. We however do not believe the market could climb back to its pre-crisis level in the short term.

### SECTOR ALLOCATION



### TOP 5 HOLDINGS

Securities	Weight
Suncor Energy Inc.	7.1%
Royal Bank of Canada	6.3%
Barrick Gold Corp.	5.0%
Bank of Montreal	4.6%
Bank of Nova Scotia	4.3%

### MAIN ACTIVE WEIGHTS

Overweight		Underweight	
Suncor Energy Inc.	2.4%	Toronto Dominion Bank	-4.8%
Bank of Montreal	2.2%	Transcanada Corp.	-1.8%
Magna Intl. Inc.	2.0%	BCE Inc.	-1.6%
Rona Inc.	2.0%	Kinross Gold Corp.	-1.3%
Quebecor Inc.	2.0%	Enbridge Inc.	-1.3%

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