

# Quarterly Bulletin as at September 30, 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

International equities continued to rise during the third quarter, on increased expectations of a global recovery. Economic momentum continued to gather, as the leading indicator of the main industrialized countries rose by its largest monthly increase in more than 30 years in July, a month during which the leading indicator for BRIC (Brazil, Russia, India and China) economies was also positive, an occurrence that is perhaps signalling above-trend growth in global GDP (Gross Domestic Product) through early 2010.

Furthermore, equities were guided higher by an improving profits picture, as most companies reported earnings for the second quarter, that either met or exceeded expectations. Notwithstanding, positive equity market performance was somewhat hampered by a strong Canadian dollar, which surged counter the basket of currencies in which the Fund invests. By sector, Financial stocks continued to lead in an environment where value seeking investors bought shares in anticipation of better than expected earnings. On the other hand, rising demand for commodities propelled the Materials sector to a second place finish, while Energy and Technology trailed on valuation concerns.

## PERFORMANCE REVIEW

During the quarter, the Fund outperformed its benchmark, an outperformance that was largely a function of security selection with minimal impacts from allocation. Selection within Financials, Industrials, Consumer Staples and Technology added the most value, but was partly offset by adverse selection in Materials, Telecommunication and Energy.

## PERFORMANCE (% - CAD)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	11.62	5.97	-0.34	-2.52	0.71
Index <sup>2</sup>	10.41	12.12	4.21	-0.32	-0.62
Added Value	1.21	-6.15	-4.55	-2.20	1.33

<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	-26	<b>Positive</b>	
Materials	-46	Banco Santander SA	59
Industrials	44	AXA	45
Consumer Disc.	17	ING Groep NV CVA	44
Consumer Staples	44	Prudential	42
Health Care	-19	Hengan International	38
Financials	156	<b>Negative</b>	
Technology	16	HSBC Holdings	-49
Telecommunications	-30	Cmnwlth Bk of Aust	-19
Utilities	30	Unicredit	-19
Total equities	186	Aust & NZ Bank Grp	-17
Foreign exchange/Liquidity	-56	Westpac Bank Corp.	-17
<b>Total</b>	<b>130</b>		

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

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### OUTLOOK AND STRATEGY

On the heels of the rally of the last six months, markets can become subject to profit taking. However, we believe that such periods will be short in nature, given the high level of cash currently sidelined and that will be reinvested in stocks at any such junctures. Notwithstanding, confirmation in the form of third quarter positive earnings surprises is needed.

Going into earnings season, analysts expect a decline in year-over-year profits, an outlook that was downgraded during the recession. Consequently, we believe that companies have ample room to exceed forecasts within the context of an economic recovery.

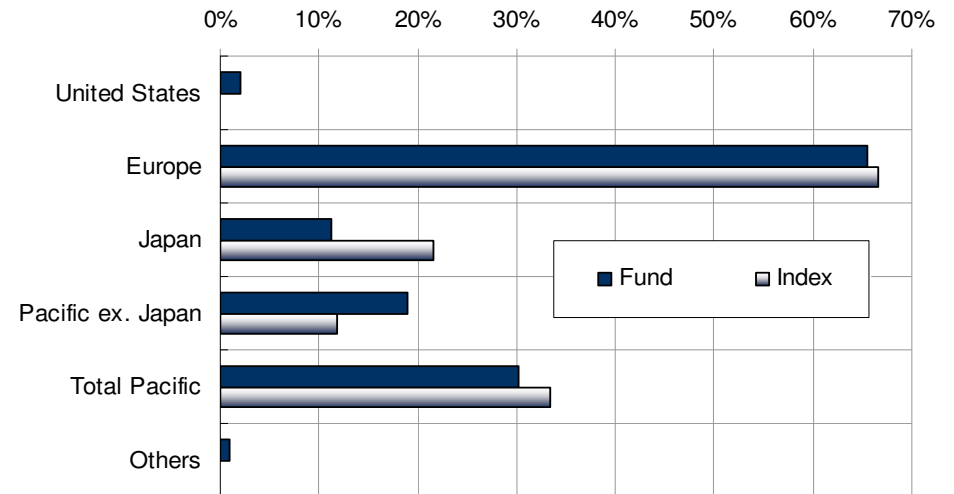
Notwithstanding the economic outlook, our strategy remains focused on holding securities of higher quality companies that are trading at reasonable valuations.

In this context, three new concerns, CNOOC, Fugro and Arcelormitta were added to the portfolio's mix during the quarter. Common to all is the fact that they are leaders in their respective markets, both in terms of market share and returns on invested capital. Furthermore, these companies stand to benefit from the economic recovery and are trading at attractive valuations. On the other hand, we decided to sell positions in CRH, Nintendo and Saipem, given the widening gap between their current valuations and future business prospects.

### TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/Equity
Fund	14.2x	2.6%	8.0%	17.9%	11.2%	37.0%
Index	15.1x	2.7%	4.0%	13.5%	8.1%	47.4%

### GEOGRAPHIC ALLOCATION



### TOP 10 HOLDINGS

Securities	Weight
Banco Santander SA	4.0%
BHP Billiton Ltd	3.5%
Royal Dutch Shell	3.2%
Telefonica SA	2.7%
Roche Holdings AG	2.7%
Nestle SA	2.4%
Novartis AG	2.4%
AXA	2.3%
Barclays	2.2%
Hengan International	2.1%

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