

Quarterly Bulletin as at September 30, 2009

Natcan Small Cap Equity Fund

INVESTMENT APPROACH: We favour a growth-oriented style, which is particularly appropriate for the management of small caps. Unlike other managers, we pay special attention to the preservation of capital and seek growth opportunities across all sectors so as to diversify value-added sources. We offer a real small-cap Canadian equity product and, as such, we don't hesitate to liquidate stocks where market capitalizations has grown too big. Moreover, we draw on U.S. stocks to enhance diversification in sectors with little or no representation in Canada. Stock selection remains a priority over the selection of individual sectors, the latter being a complementary decision. A natural bias favours industrial products that are particularly conducive to innovation, and consumer products and distribution, that are sectors in expansion. On the other hand, we maintain an unfavourable bias for the resources sectors given that size and economies of scale are predominant factors.

MARKET OVERVIEW

Small cap stocks rose sharply during the third quarter, with the S&P/TSX Small Cap Index rising 21.93%, a performance that outpaced that of large cap stocks notably. Increased expectations of an economic recovery, coupled with attractive valuations prompted investors into the space. All ten sectors ended in the black, as Financials, Health Care, Energy and Materials led, while Technology and Consumer Staples lagged.

Enthused about the prospects for an economic recovery, investors continued to allocate fresh capital to the equity markets, leading the Index to its third consecutive monthly gain. Sideline cash, seeking opportunities in stocks drifted towards quality stocks but were not confined to them, as appetite for risk spilled over into more speculative names. For investors at large, the third quarter marked a turning point and the hypothesis of economic recovery was validated and confirmed by a series of key economic releases, including manufacturing data from a number of regions, that seemed to indicate expansion.

PERFORMANCE OVERVIEW

Under these circumstances, the Fund posted a positive return that outperformed its benchmark, in principal as a result of security selection and an overweight position in the Technology sector. Elsewhere, judicious selection within the Energy and Materials area, more than offset the negative effect stemming from underexposure to these same two sectors, while selection within the Health Care proved non-optimal to relative performance.

PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund ¹	23.85	65.19	39.03	3.33	11.72
Index ²	21.93	43.78	5.26	-0.84	7.65
Added Value	1.92	21.41	33.77	4.17	4.07

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Small Cap Equity Fund.

2 - Everywhere in this bulletin, "Index" refers to a combined index as calculated by Natcan (BMO Small Cap Index until August 2007, and S&P/TSX SmallCap Index since then).

PERFORMANCE ATTRIBUTION VS INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	-94	Positive	
Energy	254	Cons Thmpsn Iron Mns	122
Materials	85	Great Cdn Gaming	115
Industrials	168	Garda World Secur	110
Consumer Disc.	-102	Dundeewealth Inc.	90
Consumer Staples	74	Transforce Inc.	89
Health Care	-250	Negative	
Financial Services	78	Red Back Mining	-67
Technology	-51	Bankers Petroleum	-64
Telecommunications	0	Quadra Mining Ltd	-63
Utilities	25	SXC Health Solutions	-50
Total	187	Labopharm Inc.	-45

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

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OUTLOOK AND STRATEGY

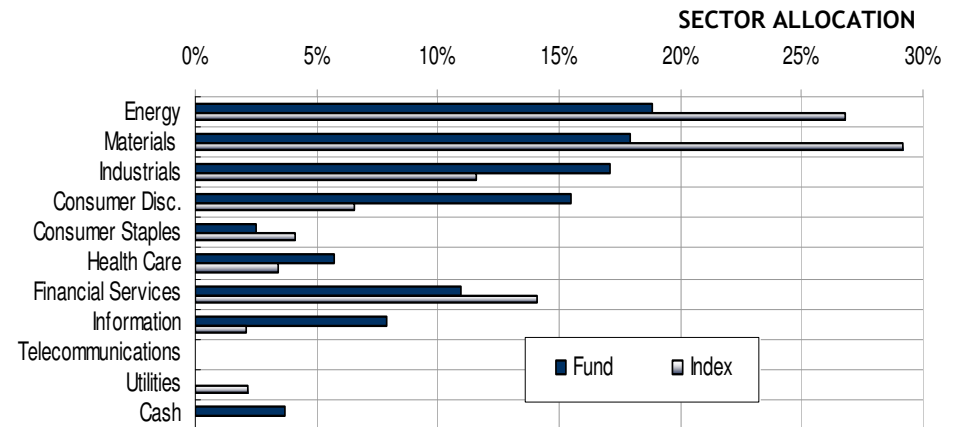
Having increased the Fund's weighting in Energy and Materials, we are now focusing on evaluating companies within the portfolio for their ability to generate top line growth after many months of achieving growth via cost cutting. Overall however, the Fund remains underweight natural resource stocks, with a positive bias towards energy, and metals producers. On the other hand, we are maintaining a somewhat negative bias towards income trusts and gold service companies, given their weak financial standing and a lack of conviction in commodity pricing.

In this context, we have increased our weighting in Energy by initiating positions in Alange Energy, Advantage Oil & Gas and Crew Energy, and enhanced our holdings in Mines and Metals, by adding Mercator Minerals and Farallon Mining. We also took profits on ADC Telecoms and continued to improve the quality of the portfolio by selling Lab Research, Iteration Energy and Prizm Income Fund. We will continue to gradually increase our weighting in Industrials and Consumer Discretionary, in particular those companies that may exceed expectations.

Lastly, we are maintaining a good cash reserve so that we can take advantage of opportunities in securities that will post disappointing short-term results. We could be able to purchase some quality securities at very attractive entry prices by year-end.

TOP-5 HOLDINGS

Securities	Weight
Forzani Group Ltd	3.2%
Garda World Secur	3.1%
Transforce Inc.	3.1%
Northgate Minerals	2.9%
Heroux-Devtek Inc.	2.8%



BUYS AND SELLS

Additions	Sectors
Advantage Oil & Gas	Energy
Alange Energy	Energy
Crew Energy	Energy
CVTech Group Inc.	Industrials
Farallon Mining Ltd	Materials
Golden Star Res	Materials
Iridium Communications	Consumer Discretionary
Mercator Minerals	Materials
Withdrawals	Sectors
ADC Telecommunications	Information Technology
Akita Drilling Ltd	Energy
Alange Corp.	Energy
Iteration Energy	Energy
Lab Research	Health Care
Osisko Mining Corp.	Materials
Prizm Income Fund	Consumer Discretionary
Red Back Mining	Materials
Tristar Oil & Gas	Energy

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