

## 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

In Canadian dollars, the S&P 500 Index was down 3.7% for the quarter, its first negative fourth quarter since the year 2000. Defensive sectors Utilities and Consumer Staples as well as Energy generated positive performances while Financials and Consumer Discretionary declined double digits in percentage terms.

The Canadian dollar appreciated more than 15% against its U.S. counterpart for the year. The impact of the loonie's appreciation on returns has been so significant in 2007 that a review of returns for the U.S. market can only be performed in U.S. currency if we are to properly isolate trends. To a Canadian dollar-based investor with unhedged currency, exposure to the S&P 500 Index return was -10.27% for the year. The picture changes somewhat when U.S. market returns are expressed in U.S. dollars. For the year, the S&P 500 Index was up 5.49%. Sector return divergences were at extremes in 2007. Energy stocks performed very strongly on the back of a 50% increase in the price of a barrel of crude oil (+34.40% for the year), and ran up in December as the race to \$100 per barrel reached its end point (+7.33%). Materials (22.53%), Utilities (19.38%), Technology (16.31%), Industrials (12.03%) and Telecommunication Services (11.94%) performed very strongly. At the other end of the spectrum, Financials took multiple hits on the back of asset value write-downs, ending the year down 18.63%. Consumer Discretionary stocks also suffered as investors feared the effects of a slowdown. The sector performance was -13.21% for the year.

### PERFORMANCE REVIEW

For the quarter, the portfolio declined 1.6%, thereby outperforming the S&P 500 Index over this period. Good stock selection and underweight positions in Financials and Consumer Discretionary were the biggest contributors to this relative outperformance. Only three sectors harmed performance this quarter: Energy, Materials, and Utilities. Among top contributors were Apple, Altria, and YUM Brands.

### PERFORMANCE

|                    | 3 months | YTD     | 1 year  | 4 years | 10 years |
|--------------------|----------|---------|---------|---------|----------|
| Fund <sup>1</sup>  | -1.61%   | -5.54%  | -5.54%  | 2.58%   | -0.73%   |
| Index <sup>2</sup> | -3.42%   | -10.03% | -10.03% | 2.16%   | 2.12%    |
| Added value        | 1.81%    | 4.49%   | 4.49%   | 0.42%   | -2.85%   |

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

### PERFORMANCE ATTRIBUTION VS THE INDEX

| Sectors            | Attribution (basis points) | Securities           | Attribution (basis points) |
|--------------------|----------------------------|----------------------|----------------------------|
| Cash               | 11                         | <b>Positive</b>      |                            |
| Energy             | -43                        | Apple Inc.           | 62                         |
| Materials          | -28                        | BG Group             | 30                         |
| Industrials        | 6                          | Altria Group Inc.    | 29                         |
| Consumer Disc.     | 69                         | Yum Brands Inc.      | 26                         |
| Consumer Staples   | 39                         | Exelon Corp.         | 21                         |
| Health Care        | 43                         | <b>Negative</b>      |                            |
| Financials         | 75                         | Trimble Navigation   | -47                        |
| Technology         | 6                          | Ameriprise Financial | -31                        |
| Telecommunications | 14                         | Cisco Systems Inc.   | -29                        |
| Utilities          | -6                         | Target Corporation   | -29                        |
| <b>Total</b>       | <b>186</b>                 | <b>Google Inc.</b>   | <b>-22</b>                 |

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

# NATCAN U.S. EQUITY FUND

## STRATEGY

Among the most important changes to take place during the fourth quarter, let us mention the sale of some of our more cyclically exposed stocks such as Texas Instruments, Sun Microsystems, Comcast, Starwood Hotels, and Lululemon Athletica. Proceeds served to increase our exposure to the Energy sector, and add Procter & Gamble and Monsanto to the list of portfolio holdings. Large sector changes included reducing the weight of Industrials and Consumer Discretionary, and adding to Energy, Financials, and Consumer Staples.

Our strategy remains cautious and defensive with overweight positions in high quality, large issues and a focus on economically resilient sectors such as Consumer Staples & Health Care. The portfolio's largest sector underweights are in Financials and Consumer Discretionary.

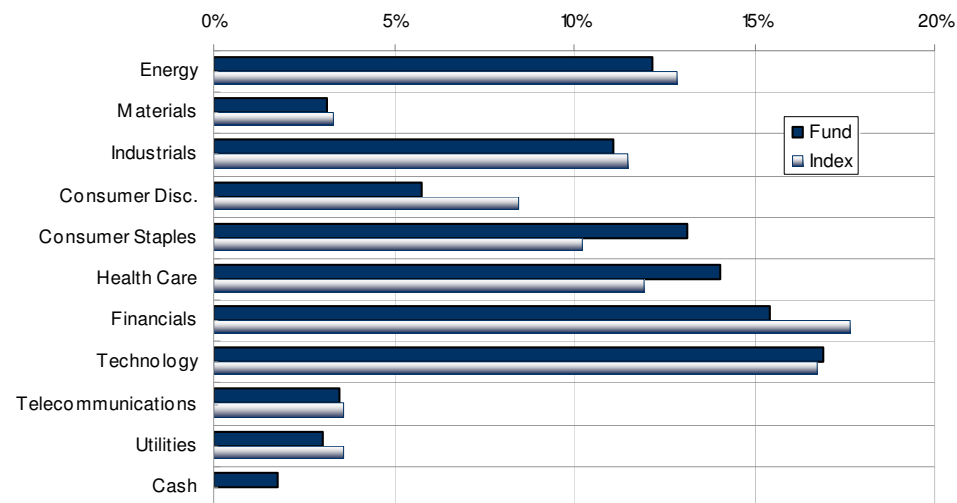
We expect economic growth to remain sub-par through at least the first half of 2008 to the detriment of more cyclically exposed areas and consumer spending. Earnings expectations for 2008 look overly optimistic, and negative revisions are forthcoming. We also expect to see further bad news from the Financials sector, with continued deterioration in housing and related bank exposure.

We are keeping a close eye on the Financials sector as valuations are nearing attractive levels. However, we will not make a commitment prior to receiving clear evidence that fundamentals are stabilizing.

## TECHNICAL CHARACTERISTICS

|                    | P/E   | Div. | Net Margin | ROE   | Growth Pot. | Net Debt/Equity |
|--------------------|-------|------|------------|-------|-------------|-----------------|
| <b>Natcan</b>      | 22.0X | 1.1% | 10.2%      | 22.2% | 19.5%       | 25.0%           |
| <b>S&amp;P 500</b> | 19.4X | 1.5% | 9.1%       | 18.5% | 16.5%       | 36.2%           |

## SECTOR ALLOCATION



## TOP TEN HOLDINGS

| Securities           | Weight |
|----------------------|--------|
| Exxon Mobil          | 6.2%   |
| Altria Group         | 4.3%   |
| Apple                | 4.0%   |
| AT&T                 | 3.5%   |
| Stericycle           | 3.4%   |
| Schlumberger         | 3.1%   |
| Microsoft Corp       | 3.1%   |
| CVS Caremark Corp    | 3.1%   |
| Exelon Corp          | 3.1%   |
| Prudential Financial | 3.1%   |

The performance returns are calculated on a net of fees basis. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation of offering of units of any fund or other security in any jurisdiction. This publication is intended for your private information. The information and opinions herein are provided for informational purposes only, are subject to change based on market and other conditions. The views expressed should not be relied upon as the basis for your investment decisions. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation or offering of units of any fund or other security in any jurisdiction. No part of this publication may be reproduced in any manner without the prior written permission of Natcan Investment Management Inc.

