

## 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

Over the last quarter of 2007, financial markets continued to experience high levels of stress and volatility triggered by a series of multi-billion write-downs of credit exposure by blue-chip banks like of UBS, Deutsche Bank, and Citigroup. Further headwinds emerged in the form of increasing energy prices and the euro reaching a record high against the USD. Action taken so far by central banks did not succeed in calming the market worries about the negative repercussion of a possible U.S. recession.

International markets declined 2.4% for the quarter. Given the above-mentioned uncertainty, safe havens performed best with Utilities, Telecommunications, and Consumer Staples delivering positive returns in the 3 to 7% range. Laggards included Information Technology, Financials, and Industrials with declines in the 5 to 8% range over the past three months. In an environment where the ability to generate free cash flow is in decline and the access to credit is more and more restricted, the market is clearly re-rating companies that can continue to deliver free cash flow.

### PERFORMANCE REVIEW

The portfolio ended the fourth quarter with 192 basis points of value added over its benchmark on the back of good stock selection in Materials (Rio Tinto), Energy (BG Group), and Technology (Nintendo). Consumer Discretionary and Financial Services however harmed performance.

### PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	-0.51%	-2.63%	-2.63%	9.34%	7.28%
Index <sup>2</sup>	-2.42%	-5.72%	-5.72%	10.01%	4.70%
Added value	1.91%	3.09%	3.09%	-0.67%	2.58%

1 - Everywhere in this bulletin, the “Fund” refers to the Natcan International Equity Fund.  
2 - Everywhere in this bulletin, the “Index” refers to the MSCI World Index.

### PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Energy	43	<b>Positive</b>	
Materials	98	BG Group	74
Industrials	-17	Rio Tinto PLC	54
Consumer Disc.	-19	Nintendo Co.	36
Consumer Staples	38	Syngenta	31
Health Care	6	Siemens AG	23
Financials	7	<b>Negative</b>	
Technology	42	Sandvik	-64
Telecommunications	9	Kurita Water Inds.	-46
Utilities	-10	Novozymes A/S	-39
Total equities	197	Arm Holdings PLC	-39
Foreign exchange/Liquidity	-5	ING Groep NV CVA	-36
<b>Total</b>	<b>192</b>		

Sector attribution includes sector allocation and stock selection. Please note MSCI EAFE data is gross and estimated

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## STRATEGY

Headwinds emerging from the declining U.S. housing market, sub-prime mortgage default rates, drying up of liquidity in the commercial paper and CDO/CLO markets, and the rapid decline in private equity M&A activity continue to spook investors. We continue to prefer companies that generate above-average levels of free cash flow and shareholder-friendly deployment of the generated cash.

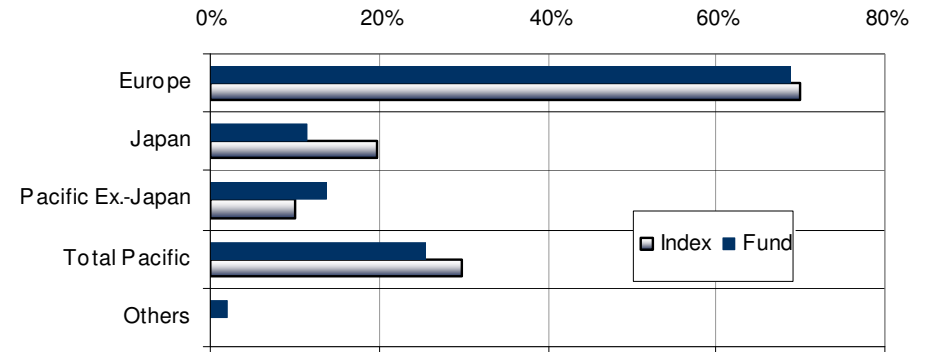
Financials remain the portfolio's most important underweight position as we believe many of the sector's revenue sources have disappeared or dried out for the foreseeable future while cost of funding is increasing with competition. Should the current trouble in the credit markets defuse faster than expected, we would move to reduce the underweight position in Financials.

During the period, we initiated positions in Nokia and E.ON. Furthermore, we slightly reduced the underweight in Financials by adding Standard Chartered to the list of portfolio holdings. Conversely, we took some profit from Rio Tinto further to the announcement of an attempted buyout from BHP. Finally, we sold our positions in Honda and Canon due to their strong exposure to the U.S. market.

## TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/Equity
<b>Natcan</b>	19.8X	1.9%	10.4%	21.7%	13.1%	26.9%
<b>MSCI EAFE</b>	19.0X	2.1%	7.3%	17.0%	11.8%	38.7%

## GEOGRAPHICAL ALLOCATION



## TOP TEN HOLDINGS

Securities	Weight
BG Group	3.6%
Nintendo	3.4%
Veolia Environnement	3.3%
Esprit Holdings	2.8%
Rio Tinto	2.7%
Saipem	2.7%
Syngenta	2.6%
Siemens AG	2.6%
Novo-Nordisk AS	2.5%
Vodafone Group	2.4%

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