

NATCAN SMALL CAP EQUITY FUND

Management Approach We favour a growth-oriented style, which is particularly appropriate for the management of small caps. However, 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 selections remain 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

Markets experienced a setback in the fourth quarter. Small cap equities did not perform as well as their larger counterparts.

Investors' quest for more liquid vehicles led the S&P/TSX Small Cap Index a down. Very few sectors posted positive returns. Energy, raw materials, and Industrials were among those hardest hit by the setback.

The year had started quite strongly, and returns kept progressing until their peak in July when increasingly bad economic news driven by a quickly deteriorating real estate market in the U.S. and a liquidity crisis in ABCP in Canada weighed on markets until the end of the year. Less liquid, small cap markets underperformed their larger counterparts for the first time in seven years in the U.S., and for the second consecutive year in Canada.

PERFORMANCE REVIEW

For the fourth quarter, portfolio performance is inferior to that of its benchmark. This relative underperformance is mainly due to our Health Care (ex.: Angiotech) and Financials (Security Capital) stock selection. The Consumer Discretionary and Materials sectors contributed negatively to the fourth quarter return. Conversely, the Industrials sector was positive as Aecon Group climbed 50% over the period, thereby strongly contributing to the value added.

PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-10.51%	-1.44%	-1.44%	8.39%	12.60%
Index ²	-4.89%	1.02%	1.02%	12.63%	9.57%
Added value	-5.62%	-2.46%	-2.46%	-4.24%	3.03%

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

2 - The index data in the table on the back of this bulletin are those of a combined index as calculated by Natcan (BMO Small Cap Index until August 2007 and S&P/TSX Small Cap Index from August to December 2007).

PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	34	Positive	
Energy	95	Aecon Group	163
Materials	-209	Quebecor World Inc.	50
Industrials	215	Cinram International	50
Consumer Disc.	-127	First Calgary Pete	36
Consumer Staples	-8	Gammon Lake Res.	33
Health Care	-164	Negative	
Financials	-277	Security Capital ASR	-183
Technology	-99	North AM Palladium	-131
Telecommunications	-2	Angiotech Pharma.	-108
Utilities	-27	Vineyard National Bancorp	-85
Total	-569	Fozani Group Ltd	-76

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

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STRATEGY

We are being cautious in light of the current environment. There is a risk of recession in the U.S., with the housing sector in a downward spiral and existing and new home inventories on the rise. A marked slowdown is also expected in Europe and in Canada. What's more, emerging markets are feeling the pressure of inflation, particularly in food products, and ABCP and sub-prime woes are still weighing heavily on markets.

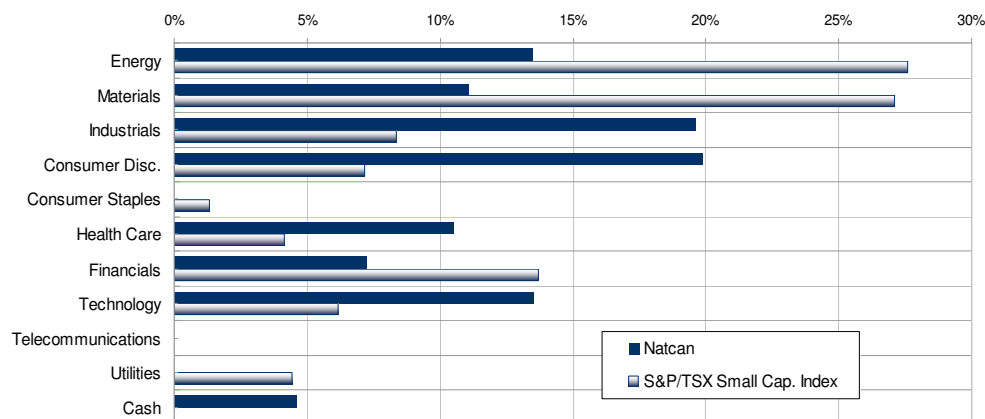
As such, we are maintaining a defensive stance through well-established companies. The portfolio remains underweight in the more speculative sectors of the market. Instead, we favour Health Care, Industrials, Consumer Discretionary and Technology, four sectors in which there is still some value to be found.

We initiated new positions in Energy (Duvernay Oil Corp., Verenex Energy, and Turnkey E&P) and Technology (Celestica Inc., and March Networks Corp.). We liquidated our positions in North AM Palladium and Alamos Gold IN (Materials) as well as in Husky Injection and Curtiss Wright Corp. (Industrials).

TOP 5 HOLDINGS

Securities	Weight
Heroux-Devtek Inc.	4.5%
Cangene Corporation	4.5%
Aecon Group	4.3%
Monro Muffler Brake	3.5%
Forzani Group Ltd	3.2%

SECTOR ALLOCATION



FUND'S BUY AND SELLS

Additions	Sectors
Duvernay Oil Corp.	Energy
Verenex Energy	Energy
Turnkey E&P	Energy
High River Gold MNS	Materials
Celestica Inc.	Technology
March Networks Corp.	Technology
Ethan Allen Interior	Consumer Disc.
Travelcenters of America	Consumer Disc.
Withdrawals	Sectors
North AM Palladium	Materials
Alamos Gold IN	Materials
Husky Injection	Industrials
Curtiss Wright Corp.	Industrials
Mega Brands Inc.	Consumer Disc.
Montreal Stock Exchange	Financials
Emergis Inc.	Technology
Berry Petroleum CO	Energy
Verasun Energy Corp.	Energy
Great Atlantic & Pacific	Consumer Staples

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