

NATCAN CANADIAN EQUITY FUND

Management Approach Our approach favours in particular undervalued stocks so as to minimize portfolio risk and preserve capital. Although this approach is usually associated with value investing, we also add a growth component to the portfolio by selecting businesses with an attractive profit-boosting catalyst. By not restricting our approach to a single style, we are able to stage a solid performance in all market phases. Moreover, we offer real active management by not hesitating to maintain sharp deviations. We believe that sector rotations are important, regardless of financial conditions. When warranted, we tend to go against market trends by moving into stocks and sectors shunned by investors. We exercise discipline when buying and selling securities, and we are convinced that it is just as important to avoid disaster as it is to hold star performers for generating spirited gains.

MARKET OVERVIEW

To Canadian investors, 2008 was a vertigo-inducing rollercoaster year. The S&P/TSX Index moved up to reach a record high of 15,074 on June 18, yet closed the year with a return of -33.00%. This amounted to the second worst performance on record, and the most difficult year since 1931 (-37%), as well as put an end to a 4-year bull market during which the index value had more than doubled.

The last quarter of the year was particularly difficult with the Index falling 22.71%. All but one sector closed the quarter in negative territory: Financial Services registered the worst performance with a return of -30% while Information Technology and Energy both registered a loss of 27%. Consumer Staples reacted according to textbook, outperforming the Index.

PERFORMANCE REVIEW

In the last quarter, the portfolio succeeded to outperform its benchmark by a considerable margin due to good stock selection.

Many elements contributed to this positive performance: a relatively high cash flow level in the context of a bear market and Financial Services adding several basis points in both sector allocation (the portfolio was underweight in this sector which resulted in the worst quarterly performance) and stock selection. The portfolio also benefited from good selection in Information Technology and Telecommunications. On an individual stock basis, Research in Motion and BCE fell almost 30% during the period.

PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-18.24%	-28.30%	-28.30%	1.74%	9.08%
Index ²	-22.71%	-33.00%	-33.00%	1.73%	5.34%
Added value	4.47%	4.70%	4.70%	0.01%	3.74%

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

2 - Everywhere in this bulletin, "Index" refers to the S&P/TSX Index

PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	29	Positive	
Energy	80	Potash Corp. of Sask.	104
Materials	-57	BCE Inc.	91
Industrials	44	Research in Motion	79
Consumer Disc.	2	CDN Oil Sands Trust	68
Consumer Staples	99	Bank of Montreal	65
Health Care	0	Negative	
Financial Services	141	Astral Media Inc.	-75
Technology	83	Magna Intl Inc.	-61
Telecommunications	54	Kinross Gold Corp.	-55
Utilities	-21	Industrial Alliance & Fncl.	-54
Total	454	Power Financial Corp.	-53

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

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OUTLOOK AND STRATEGY

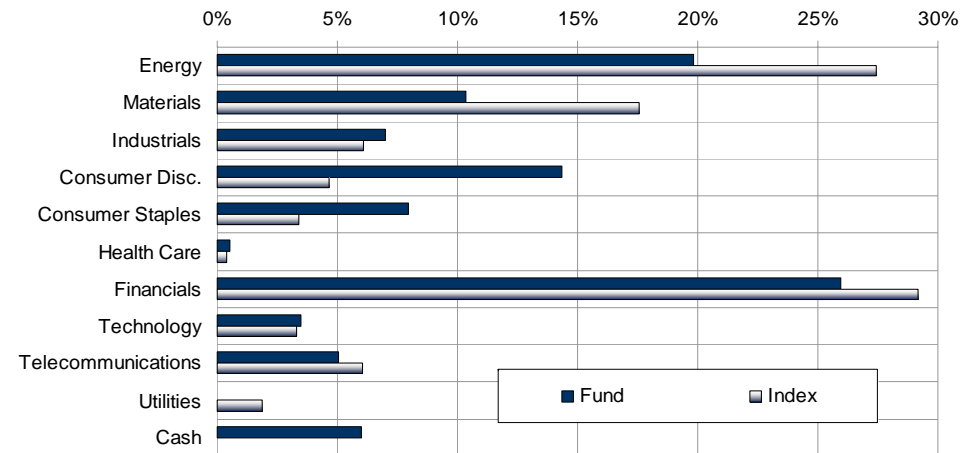
First and foremost, we are thrilled to see attractive valuations reappear after several years of the overall Canadian market benefiting from unique global economic circumstances. Market opportunities often materialize through attractive valuations. While valuation is not a timing indicator, it provides the all-important safety margin required to allow for portfolio positioning to lead to sustained outperformance.

Despite significant risks surrounding the economy and anticipated corporate earnings, we can now view the market from a more positive perspective than in the previous two years. Nonetheless, we remain cautious, and are closely monitoring indicators in order to make the necessary adjustments amid the current environment. We favour early cyclical sectors, those most often associated with consumers.

In recent months, we increased the portfolio's weight in Consumer Staples and Telecommunications. We opportunistically initiated selective purchases in the Energy sector, although the portfolio remains underweight in that sector. Finally, we reduced our exposure to Materials and Financial Services. The largest overweight at this time is to Consumer Discretionary, the sector that tends to register the greatest relative performance in a context of economic recovery.

The recent correction ranks among the three worst in more than a century. Such market conditions provide long-term investors, like us, with an attractive environment filled with arising opportunities.

SECTOR ALLOCATION



TOP FIVE HOLDINGS

Securities	Weight
Barrick Gold Corp.	5.4%
Royal Bank of Canada	5.2%
EnCana Corporation	4.6%
CIBC Bank	4.1%
Sun Life Financial Inc.	3.9%

MAIN DEVIATIONS VS THE INDEX

Overweight		Underweight	
Metro Inc.	3.2%	Potash Corp. of Sask.	-2.9%
George Weston Ltd.	3.0%	Research in Motion Ltd	-2.6%
Astral Media Inc.	2.9%	Toronto Dominion Bank	-2.5%
Magna Intl Inc.	2.8%	Bank of Montreal	-1.8%
Rona Inc.	2.6%	Kinross Gold Corp.	-1.6%

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