

NATCAN INTERNATIONAL EQUITY FUND

Management Approach We are bottom up stock pickers, searching for secular growth opportunities that are reasonably priced. Preference is given to sectors offering sustainable growth and low volatility. The managers seek out and invest in the best business models globally: companies generating stable and persistent earnings growth, expanding and above-average profit margins, and high returns on capital. This combination of attractive characteristics provides a margin of safety and a cushion against a host of inevitable economic and business uncertainties.

MARKET OVERVIEW

For the fourth quarter of 2008, international markets declined by 7.1%, but increased by 5.5% during its last month only. The quarter was characterized by the worst financial crisis in recent history as governments across the world had to step in and bail out numerous financial institutions to avoid a complete collapse of the financial system. As a consequence, Financials registered the worst performance with a 21.4% decline, followed by Materials (-14.8%) and Consumer Discretionary (-8.5%). The main positive returns were posted by Telecommunications (+12.4), Health Care (+6.8) and Utilities (+6.2%).

The last quarter of the year was the most turbulent one in recent stock market history. Many main events stood out, such as the world wide bailout/nationalization of the banking system and extension of government loan guarantees, as well as worldwide interest rate cuts with short term rates converging to close to zero and a decline in commodity and crude prices by more than 50%. At the beginning of the quarter, inflation seemed to be the major threat, but at the end, deflation turned out to be the main menace.

PERFORMANCE REVIEW

The fund outperformed its benchmark. Our sector allocation (overweight in Consumer Staples and Health Care, as well as underweight in Financials and Industrials) and the fund's cash level account for most of the outperformance.

On a stock-specific basis, the main contributors to positive performance were KDDI, Kurita Water Industries, Hengan International, BNP Paribas and Experian, while Alcon, ING Groep, Singapore Telecomm, E.ON and Techtronic Industries detracted from performance.

PERFORMANCE (\$CAD)

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-5.95%	-31.18%	-31.18%	-2.94%	0.83%
Index ²	-7.06%	-29.18%	-29.18%	-1.79%	-1.38%
Added value	1.11%	-2.00%	-2.00%	-1.15%	2.21%

¹ - Everywhere in this bulletin, "Fund" refers to the Natcan International Equity Fund.
² - Everywhere in this bulletin, "Index" refers to the MSCI EAFE Index.

PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Energy	-131	Positive	
Materials	18	KDDI Corp.	63
Industrials	99	Kurita Water Inds	37
Consumer Disc.	56	Hengan International	36
Consumer Staples	16	BNP Paribas	29
Health Care	-121	Experian	29
Financials	130	Negative	
Technology	0	Alcon Inc.	-107
Telecommunications	-33	ING Groep NV CVA	-51
Utilities	-109	Singapore Telecomm	-45
Total equities	-75	E.ON AG	-42
Foreign exchange/Liquidity	186	Techtronic Industr	-42
Total	111		

Sector attribution includes sector allocation and stock selection.

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OUTLOOK AND STRATEGY

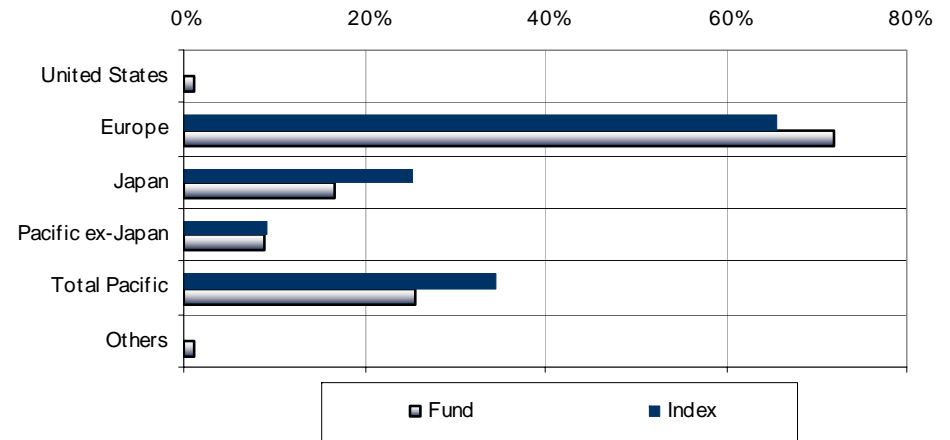
The fund remains defensively positioned with its strongest overweights in Health Care and Consumer Staples. The world is going through its worst recession in recent history and so far, there are no signs of recovery anytime soon. As consumer confidence is setting new record lows, corporations are slashing investments and continue to reduce headcounts. The silver lining on the horizon is the strong government/central bank response with numerous economic stimulus packages and record low interest rates. However, it will take time for these measures to make an impact.

We continue to believe that the credit crunch is not over yet and Financials remain one of our biggest underweights. We recently saw some preliminary signs of healing in the credit markets. While far from conclusive, we would stand ready to decrease our underweight in Financials if there is further evidence of normalization of credit extension.

TECHNICAL CHARACTERISTICS

	P/E	Div.	Net Margin	ROE	Growth Pot.	Net Debt/Equity
Fund	13.7x	3.7%	10.9%	21.6%	10.6%	22.7%
Index	12.0 x	4.4 %	7.7 %	16.3 %	7.7 %	43.0 %

GEOGRAPHICAL ALLOCATION



TOP TEN HOLDINGS

Securities	Weight
Nestle SA	4.7%
Roche Holdings AG	3.3%
Nintendo Co	3.2%
Novartis AG	3.0%
Telefonica SA	2.8%
KDDI Corp.	2.7%
Royal Dutch Shell	2.7%
BG Group	2.4%
British American Tobacco	2.2%
QBE Insurance Group	2.2%

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