

NATCAN SMALL CAP EQUITY FUND

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

A synchronized global recession coupled with an unprecedented financial crisis characterized 2008, a year that embodied the worst market collapse history has ever known.

Although small-cap equities underperformed their larger peers in 2008 (-45.49% vs -33.00%¹), the year ended on a positive note as December bucked the 25-month trend of underperformance². All sectors ended the year with double-digit losses, but Materials, Energy, Consumer Discretionary, Industrials, and Financial Services endured the biggest setbacks during the period.

PERFORMANCE REVIEW

The portfolio significantly outperformed its benchmark for the quarter, mainly owing to its limited exposure to resources and good stock picking in Health Care. Our Industrials holdings may have cost us several basis points over the past calendar year, but we managed to neutralize part of that setback in the fourth quarter.

Our strategy proved profitable in the current environment, and we are confident it will allow us to benefit from what could likely be an excellent year for the small-cap equity universe.

¹ Returns of the S&P/TSX Small Cap Index and the S&P/TSX Index respectively.

² Source: BMO Nesbitt Burns

PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-15.84%	-41.61%	-41.61%	-7.71%	7.52%
Index ²	-26.79%	-45.49%	-45.49%	-6.36%	5.18%
Added value	10.95%	3.88%	3.88%	-1.35%	2.34%

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

² - Everywhere in this bulletin, "Index" refers to a combined index as calculated by Natcan (BMO Small Cap Index until August 2007, and S&P/TSX SmallCap Index since then).

PERFORMANCE ATTRIBUTION VS THE INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	472	Positive	
Energy	70	Cangene Corporation	251
Materials	320	Labopharm Inc.	164
Industrials	-76	Winpak Ltd.	138
Consumer Disc.	94	SXC Health Solutions	90
Consumer Staples	-119	Timberwest Forest	85
Health Care	370	Negative	
Financial Services	12	Héroux-Devtek Inc.	-310
Technology	32	Lab Research	-255
Telecommunications	-12	Forzani Group Ltd.	-132
Utilities	-72	Le Chateau Inc.	-113
Total	1091	Amerigo Resources	-99

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

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OUTLOOK AND STRATEGY

We continue to believe the current market environment closely resembles the one that followed the burst of the technology bubble at the beginning of the decade, when Canadian small capitalizations began their relative climb. At that time, the upward move had been triggered by low valuation levels and a wave of mergers and acquisitions. We feel history may be about to repeat itself.

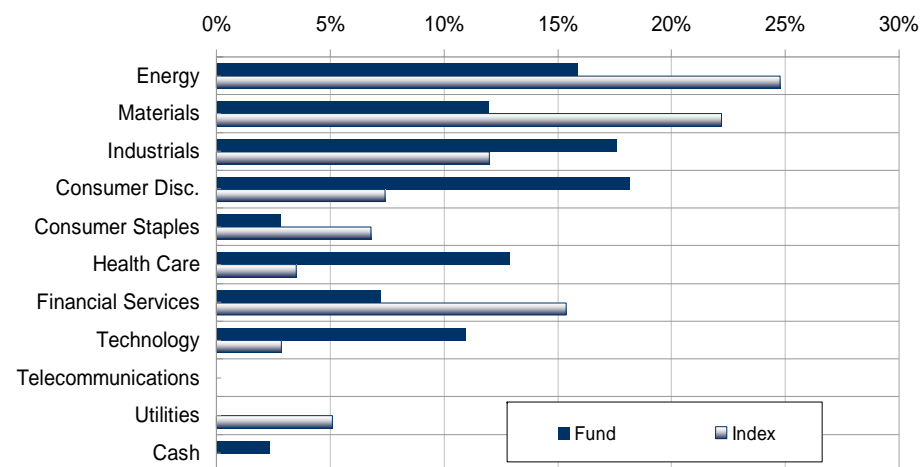
In recent months, we have reduced the level of cash on hand to seize interesting opportunities left behind by the latest market drops. Yet, the fund remains underweight financials, and more specifically banks and insurance companies, as we believe the need for capital injection will be less important for these types of companies amid the current economic climate.

The most significant underweight positions remain in Energy and Materials as energy service providers may have to cut prices, and many trusts, their distributions, in order to subsist. In a similar fashion, the current price of natural resources is jeopardizing several small companies within the Materials space. Conversely, the fund is overweight Industrials, Consumers, and Information Technology where valuation levels have reached historical lows. Over the coming year, the majority of these companies are likely to seek more efficient operating cost management, and we believe several portfolio holdings will take advantage of the situation to improve their competitive stance.

TOP 5 HOLDINGS

Securities	Weight
Cangene Corporation	4.5%
Aecon Group	4.5%
Winpak Ltd	4.2%
Uni Select Inc.	4.2%
Forzani Group Ltd.	3.4%

SECTOR ALLOCATION



QUARTER'S BUYS AND SELLS

Additions	Sectors
Celtic Exploration	Energy
Dundee Wealth Inc.	Financials
Highpine Oil & Gas	Energy
Logibec Groupe Informatique	Health Care
OptionsXpress Holdings	Financials
Sonic Corp.	Consumer Discretionary
Transat A.T. Inc.	Industrials
Transforce Inc.	Industrials
Zoran Corp.	Technology
Withdrawals	Sectors
Allen Vanguard Corp.	Industrials
Angiotech Pharma	Health Care
Monroe Muffler Brake	Consumer Discretionary
New Gold Inc.	Materials
Oceanagold Corp.	Materials
Turnkey E & P	Energy

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