

# Quarterly Bulletin as at December 31, 2009

Natcan Small Cap Equity Fund

**INVESTMENT 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

Small capitalization stocks did well over the last quarter, rising by 12.93% beating medium and large capitalization stock indices. In this context, small caps continue their relative out performance. In 2009, Canadian stock market indices were the best performers compared to other indices across the globe.

All sectors recorded positive returns in the last quarter, with Golds Technology, Industrials and Energy turning in the best performances, and Financial Services, Consumer Discretionary, Health Care and Consumer Staples trailing the pack.

## PERFORMANCE ANALYSIS

The portfolio posted a positive return that lagged its benchmark index (10.62% versus 12.93%). An underweight position in Mines and Metals combined with an overweighting of Consumer Discretionary stocks hindered the fund's relative performance. Security selection in the health care and consumer discretionary sectors failed to compensate for the negative returns of positions in the Energy, Mines and Metals and Technology sectors. Garda World, Crew Energy, Eastern Platinum and Transat were the stocks turning in the best performance, while Iridium, Route1, Galleon Energy, et Mercator Minerals produced the lowest returns

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	10.62	82.73	82.73	4.47	12.12
Index <sup>2</sup>	12.93	62.38	62.38	1.06	8.38
Added Value	-2.31	20.35	20.35	3.41	3.74

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 INDEX

Sectors	Attribution (basis points)	Securities	Attribution (basis points)
Cash	-16	<b>Positive</b>	
Energy	-129	Garda World Secur	108
Materials	-92	Eastern Platinum Ltd	73
Industrials	-14	Mediagrif Interact	55
Consumer Disc.	-13	Telvent Git Sa	52
Consumer Staples	3	Transat A.T. Inc.	46
Health Care	90	<b>Negative</b>	
Financial Services	-21	Harvest Energy	-43
Technology	24	Iridium Communication	-41
Telecommunications	-65	Macdonald Dettwiler	-37
Utilities	1	Peyto Energy Trust	-34
<b>Total</b>	<b>-232</b>	Gabriel Resources	-34

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

## Natcan Small Cap Equity Fund as at December 31, 2009

### OUTLOOK AND STRATEGY

We believe that one of the dominant themes in 2010 will be an earnings rebound for large capitalization stocks. Companies will have to increase their investments and operating expenses or generate incentive bonuses linked to mergers and acquisitions in companies dedicated to very specialized sectors.

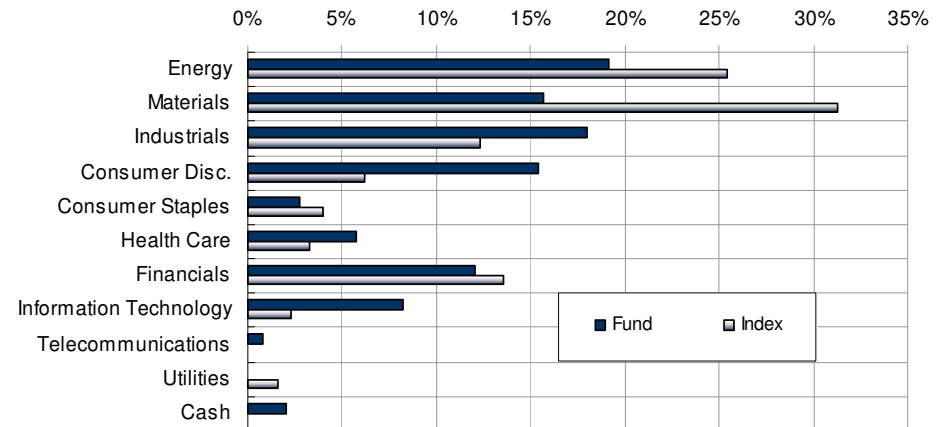
We took advantage of this context by adjusting some of our holdings. More specifically, we increased the weighting of some positions in Commodities, Industrial and Financial Services. We also added some regional US banks to our portfolio: TCF Financials, Wilmington Trust and Zions.

We have reduced our investment in Hudbay Minerals in the because of its particularly large capitalization. We also did the same with some Gold stocks. We are on the look-out for new investment opportunities in this sector, and are have the cash ready to make such a move when we feel the time is right. However we believe that this sector has been driven more by speculative froth than by fundamentals over the last few months.

### TOP-5 HOLDINGS

Securities	Weight
Garda World Secur	3.8%
Forzani Group Ltd	3.4%
Transat A.T. Inc.	2.8%
Transforce Inc.	2.8%
Atrium Innovations	2.7%

### SECTOR ALLOCATION



### BUYS AND SELLS

Additions	Sectors
Daylight Resources	Energy
Forest Oil Corp.	Energy
Mullen Group	Energy
Quadra Mining Ltd	Materials
Radioshack Corp.	Consumer Discretionary
TCF Financial Corp.	Financials
Wilmington Trust Crp	Financials
Zions Bancorporation	Financials
Withdrawals	Sectors
Highpine Oil & Gas	Energy
Hudbay Minerals	Materials
Optionsxpress Hldgs	Financials
Pacific Rubiales Ene	Energy
Progress Energy Res	Energy

*This bulletin is intended for your private information. The information and opinions herein are provided for informational purposes only, and are subject to change based on market and other conditions. The views expressed should not be relied upon as the basis for your investment decisions. The performance returns are calculated gross of management fees, and net of administrative and transaction fees. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation or offering of units of any fund or other security in any jurisdiction. No part of this publication may be reproduced in any manner without the prior written permission of Natcan Investment Management Inc. All market index returns presented in this commentary are expressed in Canadian dollar terms and were provided by Natcan, Thomson Reuters, PC-Bond (a business unit of TSX Inc.), and Standard & Poor's (a division of The McGraw-Hill Companies Inc.), unless otherwise specified.*