# QUARTERLY BULLETIN MARCH 31, 2006

HEXAVEST

## INTERNATIONAL EQUITIES

## Performance (see notes on reverse side)

| As of 03/31/06 (CAD$) | QTR | YTD | 1 year | 3 years | 5 years | 10 years | Since inception |
|---|---|---|---|---|---|---|---|
| **Hexavest Composite** | **8.19%** | **8.19%** | **19.84%** | **22.74%** | **7.48%** | **8.22%** | **10.16%** |
| MSCI EAFE Net | 9.25% | 9.25% | 19.96% | 21.38% | 3.25% | 4.85% | 7.20% |
| **Value added** | **-1.06%** | **-1.06%** | **-0.12%** | **1.36%** | **4.23%** | **3.37%** | **2.96%** |

**Positive contributors (quarter)**

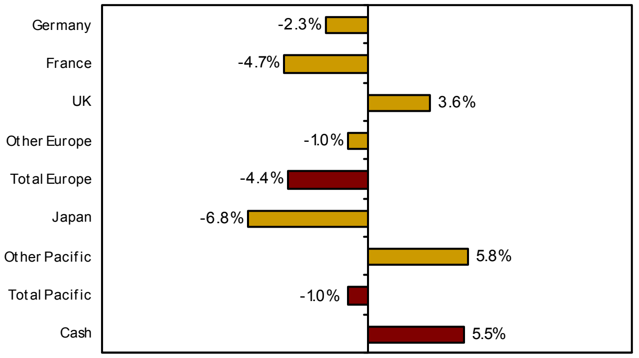
- Regional allocation: Gradual underweighting in Japan in the last quarter and overweighting in Australia.
- Sectoral allocation: Overweighting in Materials, mainly in the gold industry.

**Negative contributors (quarter)**

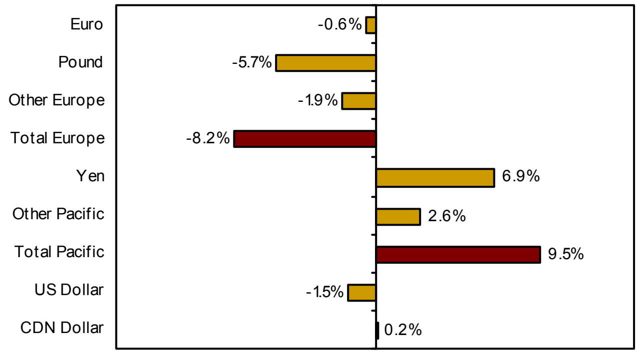
- Regional allocation: Underweighting in France, Germany, and Spain.
- Sector allocation: Overweighting in defensive sectors (Healthcare, Telecoms) and underweighting in Financials and Technology (Europe)
- Cash position in a bull market.

## Model Portfolio

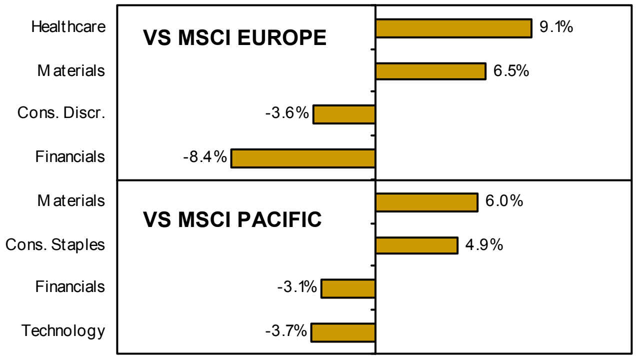
### COUNTRY DEVIATIONS VS MSCI EAFE




### CURRENCY DEVIATIONS VS MSCI EAFE




### MAJOR SECTOR DEVIATIONS




### TOP 10 STOCK HOLDINGS

| Description | Country/Region | % of Portfolio |
|---|---|---|
| Glaxosmithkline | United Kingdom | 2.6% |
| Bendigo Mining | Australia | 2.5% |
| Oxiana Limited | Australia | 2.0% |
| Goodman Fielder | Australia | 1.7% |
| Astrazeneca | United Kingdom | 1.6% |
| Vodafone Group | United Kingdom | 1.6% |
| Mitsubishi UFJ Fin. | Japan | 1.5% |
| Nokia OYJ | Finland | 1.4% |
| ENI | Italy | 1.3% |
| UPM-Kymmene OY | Finland | 1.3% |

## Strategy

- **We are now underweight in Japan.** Profit momentum in Japan is waning and is likely to undermine investor confidence. Given this environment, we believe the Japanese stock market cannot sustain its 2005 surge. Moreover, Japan is trading at higher valuation levels than Europe or the US and displays similar profit growth.
- Positive economic news in the UK is on the rise. The British Finance Minister's new budget and calls for reform are bolstering corporate and consumer confidence. **We are overweighting UK stocks and favoring large caps.**
- **In Japan,** consumer confidence is expected to increase as interest rates rise. **We are maintaining a bias towards stocks in Retailing. In Europe,** Pharmaceuticals and Telecoms are among the sectors with the lowest indebtedness rate and the best valuation ratios, which gives these companies added leverage when buying back stocks, increasing dividends, or making acquisitions. **We are therefore overweighting both sectors.**

# QUARTERLY BULLETIN

MARCH 31, 2006

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# INTERNATIONAL EQUITIES

## Investment Team

*Vital Proulx, CFA*
Overall Portfolio Strategy

*Marc Veilleux, Ph. D.*
Pacific Rim
Director of Research
Currency Management
Quantitative Models

*Denis Rivest, CFA*
Europe
Risk Management

*Frédéric Imbeault, M.Sc., CFA*
Japan
Quantitative Models

*Marc Lavoie, M.Sc., CA, CFA*
Europe

*Jean-René Adam, M.Sc., CFA*
North America

*Robert Brunelle, ASA, CFA*
Chair of Investment Committee
Client Servicing

## Distinctive Elements

### Exceptional performance and risk/return profile

### Experienced, stable and highly motivated team
- Team built steadily over 15 years
- All portfolio managers are shareholders

### Clearly defined Philosophy and Style
- Consistently applied for over 15 years

### Proprietary process, rigorous and well tested
- Fundamental research supported by proprietary quantitative models
- Continuous risk management
- Internally developed

### Client servicing suited to your needs

## Philosophy ⇨ Style

| Philosophy | Style |
|---|---|
| We believe that by actively managing all drivers of performance we maximize our chances of success and diversify our risks. | **Core portfolio** |
| We strive to protect the capital of our clients. | **Value bias** |
| Our competitive edge lies in our analysis of macro-economic factors and excess management at the security decision level. | **Top-down approach** |
| The vast quantity of economic and financial data requires a structured process. | **Proprietary quantitative models supporting fundamental research** |

## Summary

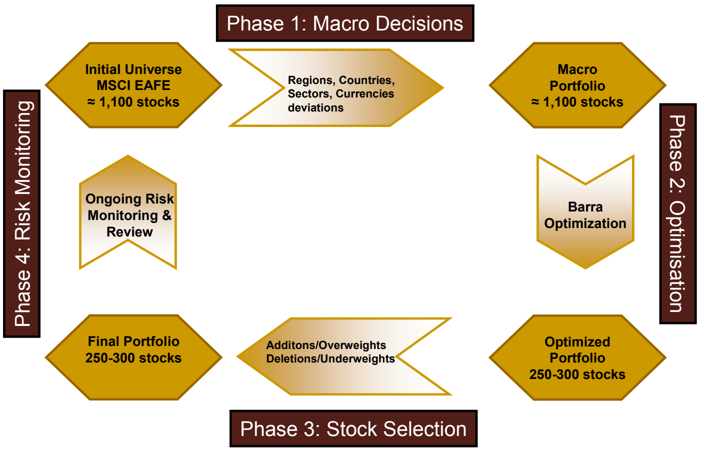
| | |
|---|---|
| Benchmark: | MSCI EAFE |
| Value added objective: | 2% (4-year moving periods) |
| Tracking error: | 3% to 5% |
| # of holdings: | 250 to 300 |
| Derivatives: | 0% to 40% |
| Active currency management: | Yes |
| Cash: | 0% to 10% |

**Deviations vs Benchmark**

| | |
|---|---|
| Regions: | ± 15% |
| Countries: | ± 15% |
| Currencies: | ± 15% |
| Sectors: | ± 10% |

*For more information, please contact Robert Brunelle at (514) 390-1225 or rbrunelle@hexavest.com*

## Process




## Notes on performance

The performance shown is that of a composite of EAFE mandates managed by Mr. Vital Proulx and his team at St. Lawrence Financial Consultants (from 1991 to 1996), Kogeva (from 1997 to 1998), Natcan (1998 to April 2004) and Hexavest (Since May 2004).

The inception date of the composite is May 1, 1991.

Performance results are presented gross of management and custodial fees. Management fees for pooled fund mandates are:

| | |
|---|---|
| 0 to $10 M: | 0.60% |
| $10 M to $40 M: | 0.50% |
| > $40 M: | 0.40% |

As of December 31, 2005, custodial fees were 0.17%.