

# Quarterly Bulletin as of March 31, 2011

Natcan Canadian Bond Fund

**INVESTMENT APPROACH:** We are active managers who apply a quantitative approach based on macroeconomic analysis where the emphasis is placed on the management of a reward/risk equation. Our objective is to maintain an asymmetry of expected returns versus the underwritten risks. Our management approach is a three-step process. The first step consists in a strategic replication of the benchmark in order to reduce tracking errors and to control the portfolio's risk. We select specific securities in order to capture liquidity and complexity premiums accessible on the market without adding credit or duration risks. Finally, the third and last step focuses on performing tactical management deviations relative to the benchmark.

## MARKET OVERVIEW

The trend of improving economic indicators continued in Q1 2011, especially in the U.S. and Germany. Confidence and production indicators even exceed the high levels seen in 2005. On the job front, indicators remained stable and the 4-week average continues to improve, hinting at sound progress in employment for the coming months.

The launch of the European Financial Stability Facility (EFSF) also gave a positive momentum to developed markets. The second half of the quarter proved particularly volatile, due to geopolitical events and the disaster in Japan. Tensions in the Middle East drove investors to favour caution and reduce the level of risk in their portfolios. These factors cast a shadow on the positive economic news released on both sides of the Atlantic.

## PERFORMANCE ANALYSIS

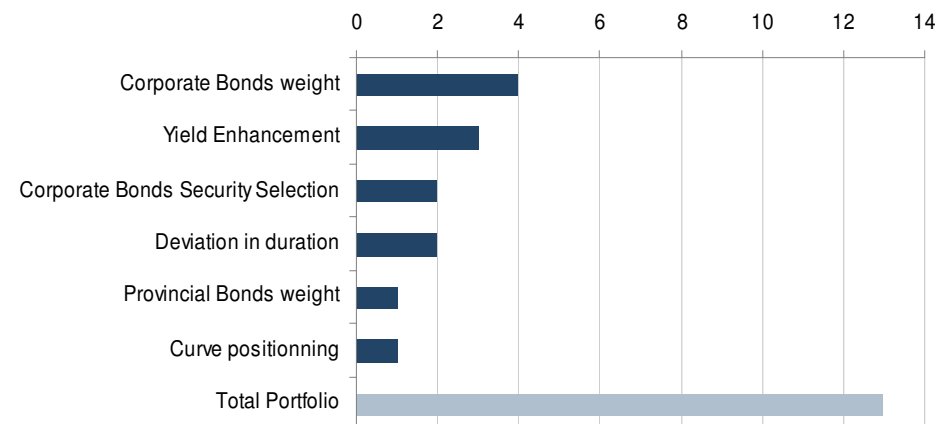
In this context, Canadian bonds finished the first quarter of 2011 in negative territory. Only corporate bonds managed to hoist themselves into the black, with a small gain of 0.33%. The portfolio posted a negative return. Our strategy, however, did allow us to preserve a portion of our capital, as can be seen from the value added over the period, which was primarily due to our overweight in debt securities.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	-0.15	-0.15	4.84	5.59	6.25
Index <sup>2</sup>	-0.27	-0.27	5.13	5.24	6.12
Added Value	0.12	0.12	-0.29	0.35	0.13

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Canadian Bond Fund.  
2 - Everywhere in this bulletin, "Index" refers to the DEX Universe Bond Index.

## PERFORMANCE ATTRIBUTION VS INDEX



## Natcan Canadian Bond Fund as of March 31, 2011

### OUTLOOK AND STRATEGY

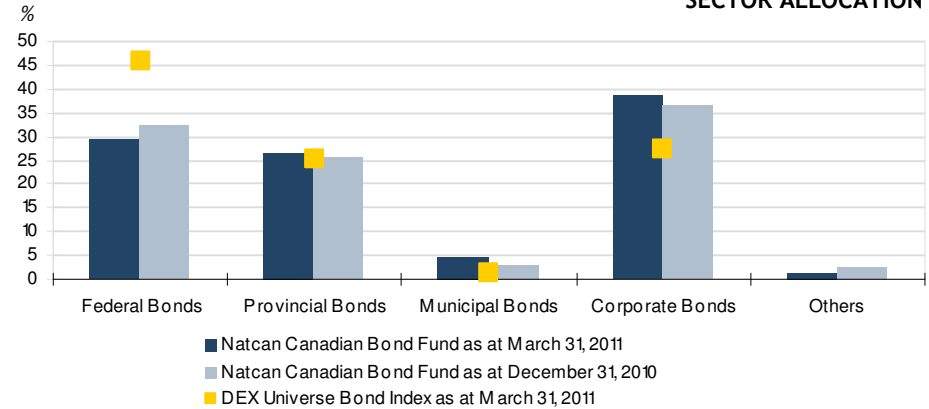
The portfolio's duration was reduced toward the end of the quarter, owing to the wave of panic resulting from the earthquake in Japan and geopolitical tensions in North Africa. We also increased the weighting in provincial issues slightly. We still believe that provincials remain affordable in the 10-year segment, but from a strategic point of view, we opted not to overly increase the weighting in them, as the portfolio already has a substantial exposure in corporate issues. We still favour the 10-year segment to the 5- and 30-year segments, and our positioning vis-à-vis corporate bonds slightly increased.

Our perspectives lead us to believe that rates will remain stable or rise slightly over the short term. In the event of a substantial decline in rates, we would take the opportunity to further shorten the duration. Should rates go up, we would likely stay the course with our current duration strategy. Provincials remain a sound value from a historical perspective. However, financing programs are beginning anew. While budget deficits are certainly lower than projected, numerous issues are still anticipated in the coming weeks. We are therefore comfortable with maintaining the portfolio's slight overweight. However, we believe that a downturn is in the cards, which would allow us to add to our position. Lastly, we continue to have a favourable bias toward corporate bonds. While spreads are not as attractive as they were before, their fundamentals are encouraging nonetheless. We will be more selective for this category of issuers and will favour low-cost issues, such as short-term bank debt.

### MODIFIED DURATION

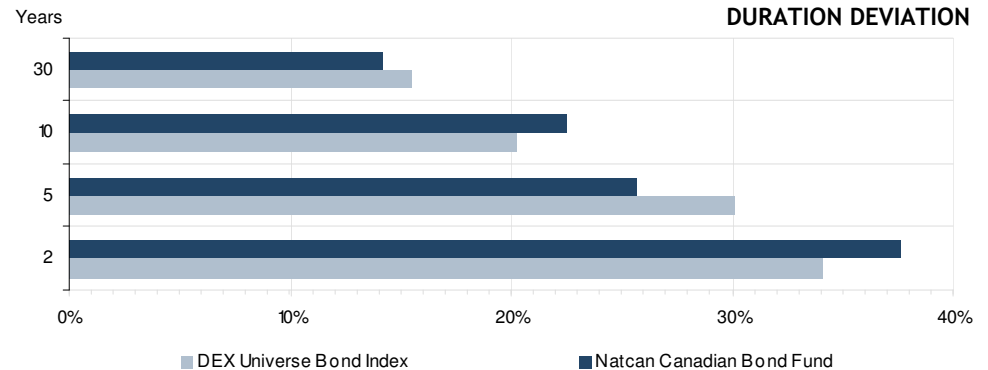
	As at March 31, 2011	As at December 31, 2010
Natcan Canadian Bond Fund	5.84 years	6.28 years
DEX Universe Bond Index	6.08 years	6.26 years

### SECTOR ALLOCATION



Note: Most Supranational Agency bonds issued in Canadian currency are considered under Federal bonds. A small percentage can also be found under Corporate bonds.

### DURATION DEVIATION



Note: Duration points are interpolated between these four points. Shorter and longer bonds are placed in the 2 and 12.5 buckets respectively.

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