

Quarterly Bulletin as of March 31, 2011

INVESTMENT APPROACH: Based on rigorous risk management, our approach focuses on capital preservation. Our experts share a global market perspective, and favour a disciplined investment process rooted in the belief that security and industry selection plays a central role in portfolio performance. The portfolio is actively managed without duration deviations. Our management process begins with the duplication of the index through vigorous security selection. We then proceed to an in-depth analysis of relative values with the help of derivatives in order to increase the yield of the portfolio while avoiding additional credit risk. We then analyse economic, fundamental, and technical factors to try to predict Canada and U.S. credit spreads over a 6-month horizon. Finally, we initiate different tactical deviations, and conclude with the management, in real time, of these deviations by evaluating the risk and expected return of the portfolio.

MARKET OVERVIEW

The overall theme of the quarter was one of credit spread tightening and rising interest rates set to a backdrop of improving economic fundamentals. In addition, a flare-up in European sovereign risk and the impact and subsequent fallout of the Japanese earthquake soured the market’s appetite for risky assets.

Significant issuance came to market over the quarter, particularly in the financial, high yield and telecommunication sectors. Canadian banks looked to get a leg up on their substantial refinancing needs in the first quarter of the year. Also seen in the new issue docket were maple issuers and Public and Private Partnership project financing. The very heavy issuance volumes pushed spreads wider across the board, particularly in sectors such as telecommunication and cable.

The DEX Mid Corporate Index returned 0.56% during the last quarter, which represents an outperformance of 126 basis points over the DEX Mid Federal Index and 104 basis points over the DEX Mid Provincial Index. The medium term A-rated companies, mostly in the Financial sector, were the strongest performers of the quarter.

PERFORMANCE ANALYSIS

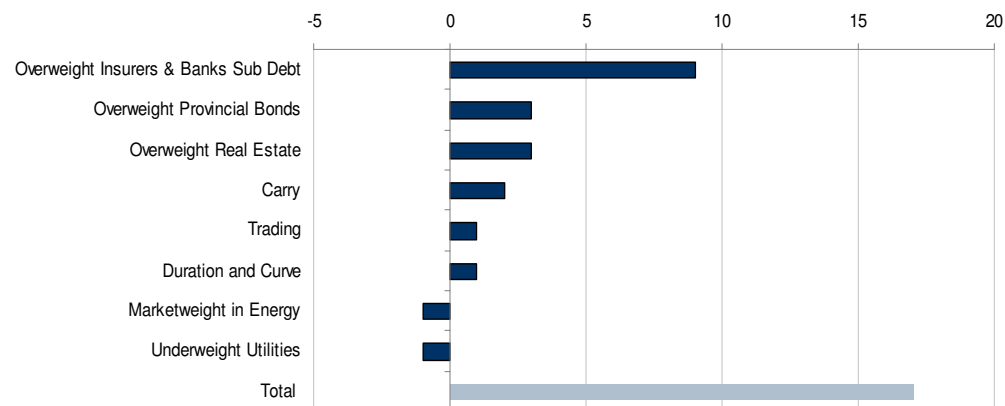
The portfolio outperformed its reference benchmark for the quarter by 0.17%, largely due to its overweight position in Insurers and Bank subordinated debt. The portfolio also benefited from its overweight in provincial bonds and real estate. In contrast, the underweight in Utilities and the market weight in the Energy sector cost the portfolio several basis points of return.

PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund ¹	0.73	0.73	6.22	7.50	7.65
Index ²	0.56	0.56	5.91	6.81	7.35
Added Value	0.17	0.17	0.31	0.69	0.30

1 - Everywhere in this bulletin, “Fund” refers to the Natcan Corporate Bond Fund.
 2 - Everywhere in this bulletin, “Index” refers to the DEX Mid Term Corporate Bond Index.

PERFORMANCE ATTRIBUTION VS INDEX



Natcan Corporate Bond Fund as of March 31, 2011

OUTLOOK AND STRATEGY

During the quarter, we decreased the credit duration of the total portfolio by approximately 0.40 year to bring down the risk to a market neutral position, with some slightly higher beta positions. We participated in new issuances over the quarter, namely in the Energy, Financial, Communication, Infrastructure, Provincial and Municipal sectors.

In the Financial sector, we favor insurance companies and Canadian bank subordinated debt. Following a few adjustments over the quarter, we reduced credit duration in the sector. We participated in the new issuances from Aon Finance Canada, Morgan Stanley Maple bond and GE Canada.

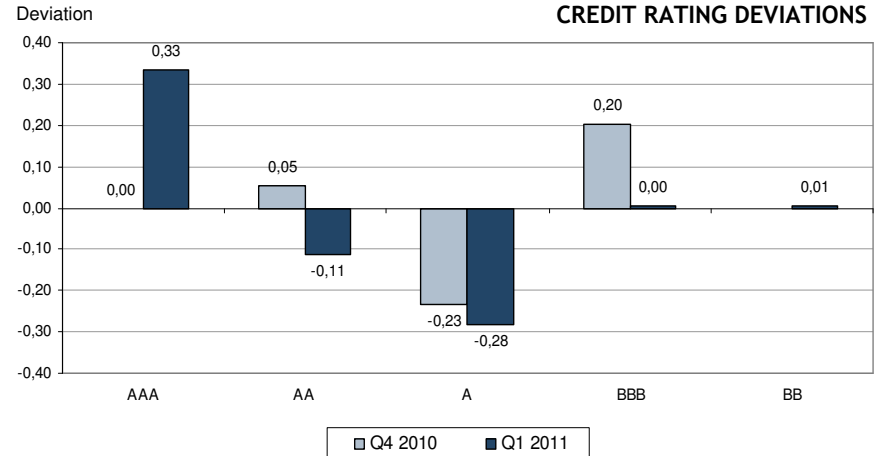
We are underweight in Energy as this sector has very few different names available and is expensive compared to other markets, such as the United States. A few changes were made in the sector where we remained flat in terms of credit duration. We participated in two new issues during the quarter: Inter Pipeline Fund 2021 and Pembina Pipeline Corp 2021.

Our outlook remains positive for the Real Estate sector as this higher beta sector is comprised of shorter term companies rated BBB and valuation remains attractive. Therefore, we kept our overweight position in the sector. We are largely underweight in Infrastructure bonds as this is one of the most expensive sectors in Canada, with its bonds often trading at their Canada call yield.

We continue to hold Provincial bonds for liquidity purposes without sacrificing carry, and as a substitute for Canadian bank deposit notes. We use the Government of Canada bonds as a cash substitute for the potential financing of attractive new corporate issues.

In the coming weeks, we will monitor how the new issuances of 2011 will build up. We have considerably increased our cash position in the last quarter to be able to participate freely in new issuances. Going forward, we expect corporate bonds to continue outperforming and experience continuous inflows, given the positive outlook for rates across the curve, solid corporate fundamentals, and investors' appetite for yield.

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Note: Dollar duration = duration spread x weighting spread

MAIN DEVIATIONS

Overweights	Natcan	Index	Deviation	Natcan Duration	Index Duration	DV01
Government of Canada	3.91%	0.00%	3.91%	5.3		0.21
Bank of Nova Scotia	5.75%	2.51%	3.23%	5.2	5.7	0.16
Cadillac Fairview Finance	1.90%	0.00%	1.90%	7.9		0.15
First Capital Realty Inc	2.33%	0.60%	1.73%	5.4	6.1	0.09
Manulife Financial	4.85%	3.50%	1.35%	5.5	5.9	0.06
Great-West Lifeco	4.17%	2.87%	1.30%	5.9	5.8	0.08
General Electric Cap Canada	5.78%	4.73%	1.05%	5.3	5.4	0.05
Intact Financial Corp	1.36%	0.32%	1.04%	6.7	6.7	0.07
Capital Power LP	1.35%	0.36%	0.99%	7.3	7.3	0.07
Rogers Communications	5.73%	4.79%	0.94%	6.8	6.6	0.07

Underweights	Natcan	Index	Deviation	Natcan Duration	Index Duration	DV01
Royal Bank	1.13%	4.17%	-3.04%	4.4	5.6	-0.18
Enbridge Inc	1.37%	4.04%	-2.67%	6.5	6.4	-0.17
Sun Life Financial	0.82%	2.76%	-1.94%	6.5	5.5	-0.10
Capital Desjardins Inc	0.00%	1.83%	-1.83%		6.1	-0.11
National Bank	0.00%	1.35%	-1.35%		5.8	-0.08
Hydro One Inc	0.00%	1.18%	-1.18%		6.1	-0.07
Canadian Utilities Inc	0.00%	1.08%	-1.08%		6.3	-0.07
Encana Corp	0.00%	1.00%	-1.00%		5.6	-0.06
Fairfax Financial Holdings Ltd	0.00%	0.90%	-0.90%		6.4	-0.06
Nav Canada	0.00%	0.78%	-0.78%		7.0	-0.06

