

# Quarterly Bulletin as at June 30, 2009

Natcan Corporate Universe Bond Fund

**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

Corporate bonds turned in an excellent performance for a second consecutive quarter due to investors' marked interest for this asset class, which held steady over the period. Corporate bonds posted the best performance of the fixed-income universe, particularly among riskier securities. After generating low returns for the past 18 months, the U.S. corporate sector outperformed its Canadian counterpart.

In Canada, spreads for the DEX Universe All Corporate Bond Index tightened from 333 to 200 basis points over the course of the quarter. The frenzied pace of new issues continued both in Canada and in the U.S., fuelled by strong demand from institutional and retail clients. Consequently, the concessions granted for new issues have decreased, and corporate bonds performed extremely well on secondary markets. This situation particularly favoured lower quality securities.

The DEX Universe All Corporate Bond Index ended the period with a return of 6.49%, outperforming the DEX Universe Federal Bond Index (-1.81%). In this context, long-term BBB-rated securities were the period's top performers, posting a return of 16.86%.

## PERFORMANCE ANALYSIS

During the second quarter, the portfolio produced a positive return, outperforming its benchmark mainly due to its proactive approach. To this effect, we increased the portfolio's risk by reducing the weight of federal bonds and increasing the weight of corporate and provincial securities. This strategy allowed us to add value, given the strong performance of these securities. Our sound selection of securities, coupled with an overweight in provincial securities, insurance companies and telecommunications also proved profitable. However, the underweight in bank and infrastructure securities, combined with less lucrative positions in terms of the duration and maturities, partially offset this positive contribution.

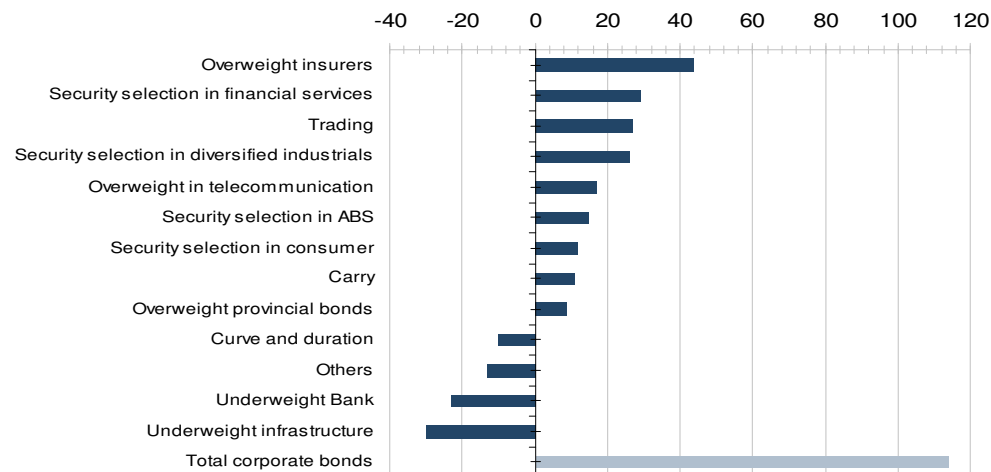
## PERFORMANCE (%)

|                    | 3 months | YTD   | 1 year | 4 years | Since Inception (2005-12) |
|--------------------|----------|-------|--------|---------|---------------------------|
| Fund <sup>1</sup>  | 7.63     | 10.91 | 9.83   | n.a.    | 4.94                      |
| Index <sup>2</sup> | 6.49     | 10.19 | 8.68   | 4.28    | 4.68                      |
| Added Value        | 1.14     | 0.72  | 1.15   | n.a.    | 0.26                      |

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Corporate Universe Bond Fund.

2 - Everywhere in this bulletin, "Index" refers to the DEX Universe Corporate Bond Index.

## PERFORMANCE ATTRIBUTION VS INDEX



## Natcan Corporate Universe Bond Fund as at June 30, 2009

### OUTLOOK AND STRATEGY

The overweight in government bonds was reduced as a result of acquiring corporate securities with very attractive returns. We favoured relatively short durations in order to shield the portfolio against greater volatility.

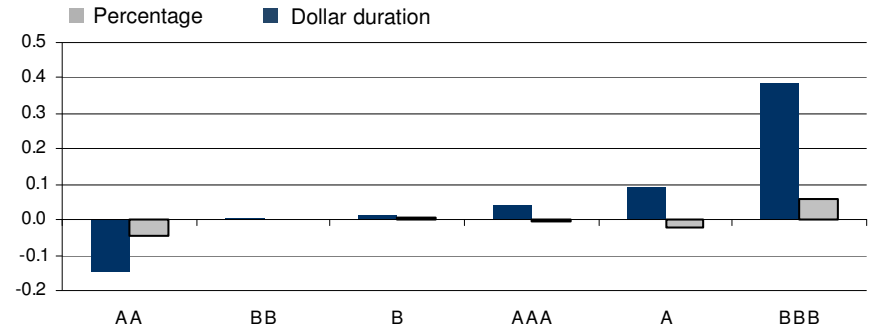
We also increased the weight of provincial bonds because they offered substantial returns compared to bank-issued certificates of deposit.

At the sector level, we are seeking to maintain a weight of close to 2% in federal bonds and a higher weight in provincial bonds, for which returns remain attractive despite their increased price in recent months. Overall, the portfolio has a slight overweight in these sectors, compared to the benchmark.

The portfolio remains underweight in bank securities, in favour of overweight positions in insurance companies, the telecommunications sector and BBB-rated short-term corporate securities, which produce much more attractive returns. We are maintaining the underweight position in infrastructures because securities in this sector are currently quite costly.

While we adopted a cautious position at the start of the year, the strategy used during the second quarter allowed us to enhance returns and exceed the benchmark return. This strategy, which aimed at reducing the portfolio's defensive stance, should remain profitable if investors' appetite for corporate securities holds steady in the coming months. By contrast, a widening of credit spreads between federal and corporate bonds, particularly for BBB-rated issues, could diminish portfolio returns. In this context, a sound selection of securities remains a must to protect the portfolio against depreciation risk. We are also favouring more liquid securities in order to be able to quickly readjust the portfolio if need be. We therefore intend to make certain changes to the portfolio over the summer to prepare it for new potential issuances in September.

### CREDIT RATING DEVIATIONS



Note: Dollar duration = duration spread x weighting spread

### MAIN DEVIATIONS

| Overweights              | Natcan | Index | Deviation | Natcan Duration | Index Duration | Dollar / Duration |
|--------------------------|--------|-------|-----------|-----------------|----------------|-------------------|
| Sun Life                 | 4.92%  | 2.62% | 2.30%     | 4.99            | 4.81           | 0.12              |
| Ontario                  | 1.81%  | 0.00% | 1.81%     | 4.14            | -              | 0.07              |
| Government of Canada     | 1.72%  | 0.00% | 1.72%     | 5.65            | -              | 0.10              |
| Rogers Communications    | 2.23%  | 0.71% | 1.52%     | 4.86            | 4.27           | 0.08              |
| First Capital Realty     | 1.62%  | 0.20% | 1.42%     | 2.85            | 2.71           | 0.04              |
| Quebec                   | 1.41%  | 0.00% | 1.41%     | 7.61            | -              | 0.11              |
| Bell Canada              | 3.14%  | 1.76% | 1.38%     | 6.22            | 7.68           | 0.06              |
| CCARAT (TACM prêts auto) | 1.24%  | 0.00% | 1.24%     | 0.74            | -              | 0.01              |
| Broadway Credit Cards    | 1.67%  | 0.45% | 1.22%     | 3.48            | 2.85           | 0.05              |
| Fortis                   | 2.72%  | 1.57% | 1.15%     | 13.26           | 10.80          | 0.19              |
| Underweights             | Natcan | Index | Deviation | Natcan Duration | Index Duration | Dollar / Duration |
| Royal Bank               | 3.48%  | 7.06% | -3.58%    | 3.92            | 3.25           | -0.09             |
| Bank of Montreal         | 3.44%  | 5.99% | -2.55%    | 4.32            | 4.51           | -0.12             |
| Hydro One                | 0.00%  | 2.48% | -2.48%    | -               | 8.26           | -0.20             |
| TD bank                  | 5.33%  | 7.35% | -2.02%    | 5.57            | 4.77           | -0.05             |
| CIBC                     | 3.22%  | 5.23% | -2.01%    | 4.03            | 3.43           | -0.05             |
| National Bank            | 0.00%  | 1.19% | -1.19%    | -               | 4.88           | -0.06             |
| Master Credit Cards      | 0.00%  | 1.10% | -1.10%    | -               | 2.76           | -0.03             |
| Spectra Energy           | 0.74%  | 1.71% | -0.97%    | 7.98            | 7.35           | -0.07             |
| Shaw Communication       | 0.00%  | 0.93% | -0.93%    | -               | 4.38           | -0.04             |
| Alliance Pipelines       | 0.00%  | 0.80% | -0.80%    | 5.76            | 6.21           | -0.05             |

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