

# Quarterly Bulletin as at June 30, 2009

**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 Mid Term Corporate Bond Index tightened by 9 basis points, to close the quarter at +216 basis points. The frenzied pace of new issues continued both in Canada and in the U.S., fuelled by demand from institutional and retail clients. As a result, 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 Mid Term Corporate Index Bond ended the quarter with a return of +8.31% compared to -3.07% for the DEX Mid Term Federal Index Bond. In this context, higher-quality medium-term securities (rated A and BBB) were the most profitable, generating returns of 9.37% and 7.94% respectively.

## PERFORMANCE ANALYSIS

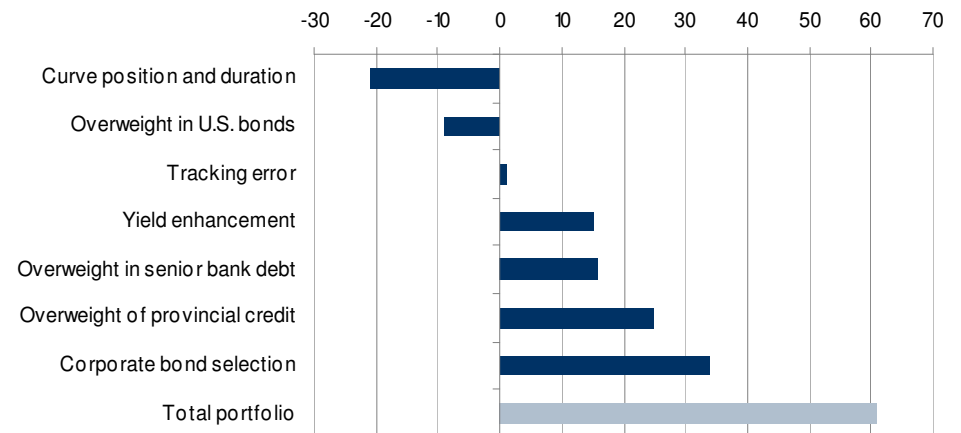
During the quarter, the portfolio returned a positive performance, outperforming its benchmark. We increased the portfolio's risk by reducing the weight of federal bonds and increasing the weight of corporate and provincial securities. This strategy enhanced the portfolio's return due to the strength of these two asset classes. Wise security selection, combined with the overweight in provincial securities, insurance companies and the telecommunications sector, also proved lucrative. However, the underweight in bank and exploration securities partially offset this positive contribution.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	Since Inception (1999-11)
Fund <sup>1</sup>	8.72	13.25	10.91	4.51	7.52
Index <sup>2</sup>	8.31	13.35	9.98	4.36	7.32
Added Value	0.41	-0.10	0.93	0.15	0.20

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 at June 30, 2009

### OUTLOOK AND STRATEGY

The overweight in federal and provincial bonds was reduced from 6.5% in March to 1.2% at the end of June, due to the acquisition of corporate bonds with attractive yields. We also increased the weight of provincial bonds, as they offered attractive returns compared to bank-issued certificates of deposit.

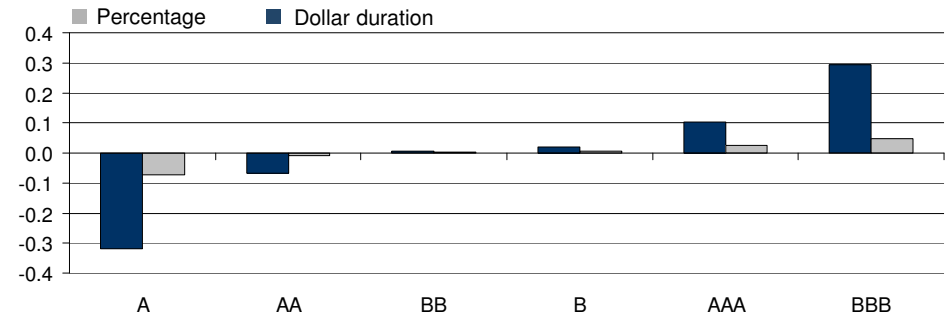
At the sector level, we are seeking to maintain a weight of close to 2% in federal bonds and an even higher weight in provincial bonds, for which returns remain attractive despite their increased price in recent months. Overall, the portfolio has a slight overweight in these sectors compared to the benchmark.

The portfolio remains underweight in bank securities, in favour of an overweight in insurance companies, the telecommunications sector and BBB-rated short-term corporate securities, which produce much more attractive returns. We did however favour a short duration for BBB-rated securities, even though longer-term issues offered higher returns, in order not to excessively increase the portfolio's risk.

The wave of government interventions set in motion to mitigate the liquidity crisis, improved economic prospects and demand for corporate securities that is outstripping supply are behind this robust performance.

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 outperform the benchmark. This strategy that 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 if need be. We therefore intend to make certain changes to the portfolio over the summer to improve liquidity and 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
Quebec	2.14%	0.00%	2.14%	7.61	0.00	0.16
Scotia Bank	4.90%	2.85%	2.05%	5.59	5.92	0.11
Sun Life	4.94%	2.96%	1.98%	6.00	5.83	0.12
Brookfield Renewable Power	2.29%	0.59%	1.70%	6.72	6.45	0.12
SNC Lavalin	1.31%	0.00%	1.31%	7.46	0.00	0.10
Investors Group	2.16%	0.91%	1.26%	6.99	6.86	0.09
SCORE Trust	1.25%	0.00%	1.25%	3.95	0.00	0.05
Broadway Credit Card	1.22%	0.00%	1.22%	4.04	0.00	0.05
Government of Canada	1.22%	0.00%	1.22%	5.65	0.00	0.07
TD Bank	13.49%	12.37%	1.13%	6.16	6.20	0.07

Underweights	Natcan	Index	Deviation	Natcan Duration	Index Duration	Dollar / Duration
Bank of Montreal	7.85%	12.16%	-4.31%	6.30	6.00	-0.24
CIBC	0.80%	4.59%	-3.79%	6.67	6.16	-0.23
National Bank	0.00%	2.25%	-2.25%	0.00	5.60	-0.13
Royal Bank	1.60%	3.39%	-1.79%	4.50	5.61	-0.12
Hydro One	0.00%	1.72%	-1.72%	0.00	6.25	-0.11
Enbridge	0.60%	2.30%	-1.70%	7.09	6.04	-0.10
Encana	0.00%	1.25%	-1.25%	0.00	6.59	-0.08
Molson-Coors	0.17%	1.36%	-1.19%	5.23	5.23	-0.06
Shaw Communication	0.00%	1.11%	-1.11%	0.00	5.81	-0.06
Caisse Desjardins	0.00%	0.80%	-0.80%	0.00	5.69	-0.05

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