

# Quarterly Bulletin as at June 30, 2009

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 wave of government interventions set in motion to mitigate the liquidity crisis began to bear fruit during the second quarter: economic indicators started to show signs of stabilization and the impressive upsurge in stock and credit markets has revived consumer confidence.

In this context, federal bonds have been left by the wayside in favour of securities and sectors that offer superior returns and greater growth potential such as stocks, income trusts, high-yield bonds, corporate bonds and provincial bonds. The rates for federal bonds, which are considered less risky, have risen substantially and their value has depreciated, particularly for medium- and long-term segments of the curve. As a result, these bonds recorded the lowest returns of the fixed-income universe for the quarter. At the other end of the spectrum, corporate bonds, which were hit particularly hard in the liquidity crisis last fall, turned in an exceptional performance, especially lower quality BBB-rated issues, over the long-term segment of the curve.

## PERFORMANCE ANALYSIS

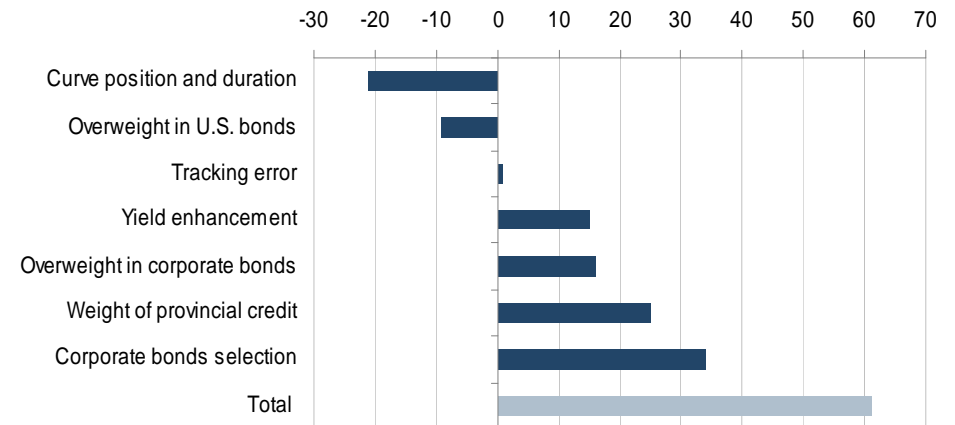
For the quarter, the portfolio outperformed its benchmark, mainly due to our exposure to corporate securities and the overweight in provincial securities. The positive return generated by bonds from supranational agencies and governments denominated in Canadian dollars also added value. These positive contributions were however slightly offset by the overweight in US government 30-year bonds as well as certain less lucrative curve positions and duration.

## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	1.86	3.50	7.46	4.52	6.33
Index <sup>2</sup>	1.25	2.79	7.02	4.44	6.30
Added Value	0.61	0.71	0.44	0.08	0.03

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 at June 30, 2009

### OUTLOOK AND STRATEGY

During the quarter, we maintained a strong overweight in provincial securities due to the credit spreads and the fact that they did not increase as much as corporate securities. In late May, further to a significant tightening in spreads, we moved to a neutral position in this asset class and took profits through the partial sale of certain provincial securities. We also increased our exposure to US government 30-year securities, by selling Canadian 30-year bonds. This strategy should prove lucrative if the U.S. government bond buyback program continues in the coming months. We also gradually increased the weighting of corporate securities, achieving an overweight of 3% at the end of May.

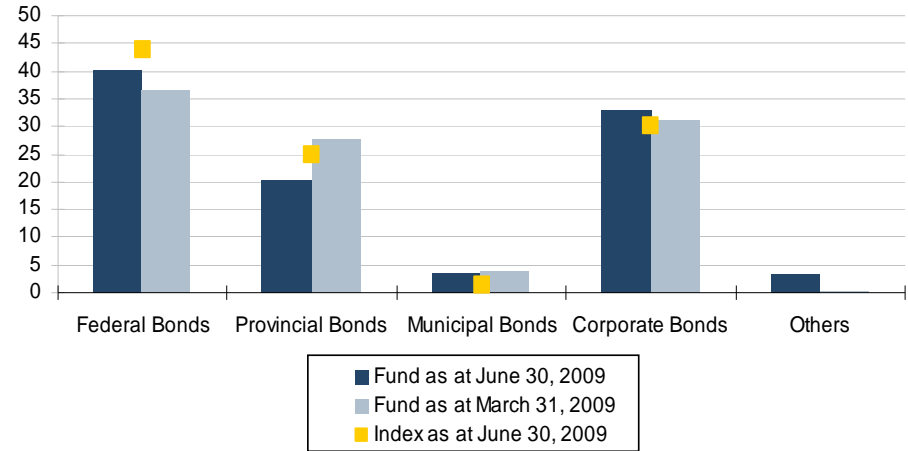
As at June 30, 2009, the portfolio was underweight in the 2-year sector, overweight in the 5 to 10-year sector and neutral for the 30-year segment of the curve. This positioning should allow us to take advantage of market increases, in a context in which central banks will not be able to increase their key rates for several quarters to come. Overall, the portfolio duration was slightly greater than that of the index at the end of the quarter, but it may be modified depending on the economic situation and interest rates.

Because it is still unclear what direction interest rates and the economy will take, we are opting for caution and adopting a defensive stance to reduce the inherent risk of depreciation. We believe that the recovery will be very slow, which should support the bond market, but we prefer to be patient and maintain the overweight in corporate bonds due to the attractive returns they provide. This positioning should remain profitable if investor demand for corporate bonds persists. Conversely, a reversal in trends could hinder the potential of corporate bonds. Our sound selection of negotiable securities should however allow us to readjust the portfolio quickly and neutralize the negative impact, if necessary.

### MODIFIED DURATION

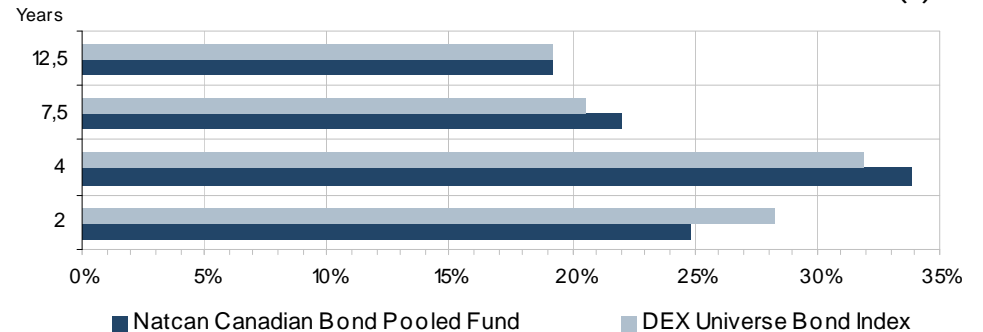
	As at June 30, 2009	As at March 31, 2009
Fund	6.08 years	6.18 years
Index	5.98 years	5.99 years

### 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 DEVIATIONS (%)



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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