

# Quarterly Bulletin as at March 31, 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

After a period of increased volatility and a fairly moderate performance in 2008, the first quarter of 2009 saw renewed interest in corporate bonds. In this context, the Canadian corporate sector outperformed its U.S. counterpart, which more closely followed stock market trends.

In Canada, the spreads of the DEX Universe Corporate Index tightened from 364 to 337 basis points from the beginning to the end of the quarter. The pace of new issues has increased in both Canada and the U.S. due to strong demand from retail clients. As a result, the concessions granted for new issues have decreased and corporate bonds performed extremely well on secondary markets in comparison with the fourth quarter of 2008. This situation especially favoured the senior and subordinated debt of banks, but was less favourable for insurance company securities.

The DEX Universe Corporate Index ended the quarter with a return of 3.47%, surpassing the DEX Federal Bond Index, which grew by only 0.88%. In this context, higher-quality medium-term securities (rated AAA/AA) were the most profitable, generating a return of 5.34%.

## PERFORMANCE ANALYSIS

During the first quarter, the Fund posted a positive return, though it underperformed its benchmark because of its more defensive positioning. Although this strategy allowed us to reduce portfolio risk, it did not enable the portfolio to take full advantage of the rise in this asset class. In this context, the positive contribution of the securities selection was partially offset by the negative effect of the underweight position in public sector securities and the overweight positions in asset-backed securities, insurance companies and diversified industrial conglomerates.

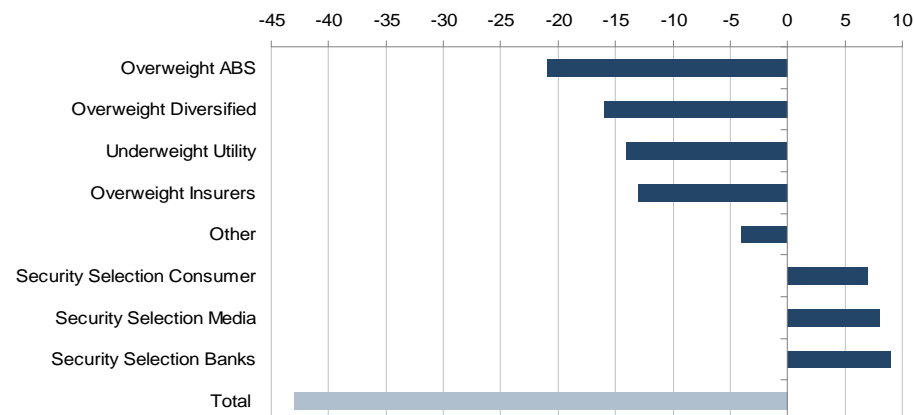
## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	Since Inception (2005-12)
Fund <sup>1</sup>	3.04	3.04	1.71	n.a.	2.98
Index <sup>2</sup>	3.48	3.48	1.58	3.69	3.04
Added value	-0.44	-0.44	0.13	n.a.	-0.06

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 March 31, 2009

### OUTLOOK AND STRATEGY

During the quarter, the overweight position in government bonds was reduced from 11.6% at the beginning of the year to 7.5% at the end of March, justified by the acquisition of hybrid securities and subordinated debt of banks and insurance companies.

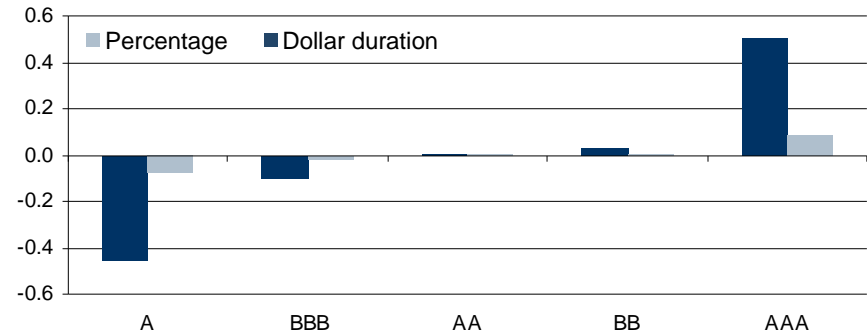
We also decreased the overweight position in asset-backed securities and the energy sector, even though these sectors trade at attractive levels compared to Canadian deposit certificates. However, should the Canadian government decide to follow the US Federal Reserve in purchasing asset-backed securities, it could revive interest in these securities.

Although we acquired some bank subordinated debt this quarter, the portfolio remains underweight in this sector. We would gradually increase the weighting if new issues were offered at attractive terms. Since insurance company securities have historically outperformed bank securities, we have increased the weighting in this sector.

We are maintaining the underweight position in infrastructures because securities in this sector are fairly costly in the current environment.

Although economic uncertainty persists, the many actions of central banks and governments worldwide are setting the stage for a possible improvement in economic conditions. If investor interest in securities considered as higher risk and the volume of new issues does not rise excessively, credit spreads between government and corporate bonds may continue to shrink. We therefore expect to adopt a more proactive approach over the next few weeks by participating in new issues offering advantageous terms. In the current situation, a sound selection of securities remains essential to protect the portfolio against depreciation.

### CREDIT RATING DEVIATIONS



Note: Dollar duration = duration spread x weighting spread

### MAIN DEVIATIONS

Overweights	Natcan	Index	Deviation	Natcan Duration	Index Duration
Government of Canada	7.50%	0.00%	7.50%	3.44	0.00
Brookfield Renewable Power	2.14%	0.39%	1.75%	5.45	5.52
Enmax Corporation	1.88%	0.24%	1.64%	6.70	5.57
Sun Life Financial	4.04%	2.41%	1.63%	4.25	4.37
Thompson	2.83%	1.36%	1.46%	4.74	4.14
CCARAT (ABS car loans)	1.41%	0.09%	1.32%	0.94	0.94
FFAST (ABS car loans)	1.34%	0.11%	1.24%	2.34	2.34
Shoppers Drug Mart	1.65%	0.44%	1.21%	4.18	3.52
Industrial Alliance	1.37%	0.17%	1.20%	4.00	4.13
HypoReal Esatate	1.12%	0.00%	1.12%	0.17	0.00

Underweights	Natcan	Index	Deviation	Natcan Duration	Index Duration
Royal Bank	4.47%	8.05%	-3.58%	4.02	3.19
Hydro One	0.55%	2.77%	-2.22%	13.26	7.51
Bank of Montreal	4.42%	6.40%	-1.98%	4.51	4.52
TD Bank	5.87%	7.45%	-1.57%	5.59	4.64
National Bank of Canada	0.00%	1.17%	-1.17%	-	4.74
CIBC	4.31%	5.43%	-1.12%	4.52	3.43
Spectra Energy	0.78%	1.80%	-1.02%	7.76	6.77
Shaw Communication	0.00%	0.95%	-0.95%	-	4.45
HSBC	0.81%	1.72%	-0.91%	3.75	2.43
Manulife	1.12%	1.99%	-0.87%	7.77	4.86

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