

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

Fixed income assets are off to a good start for the year despite uncertainty related to European Sovereign risks. Canada outperforms other developed countries. Interest rates moved higher in March alongside strength in economic data. The yield curve flattened throughout the period. The DEX Universe Bond Index ended the quarter with a 1.26% return, compared to 0.72% for the DEX Universe Federal Bond Index.

Corporate bonds outperformed on the back of an improving economy. Riskier issues were the strongest performers during the period. Corporate securities rated A and BBB on the short- and medium-term segments of the curve made the greatest contributions to improving the index's return.

PERFORMANCE ANALYSIS

For the quarter, the portfolio returned positive performance and outperformed its benchmark, thanks to the sound strategy used for both security selection and sector positioning. The strongest contribution came from the overweight in insurers and real estate. In contrast, the underweight in asset-backed securities and utilities proved less lucrative.

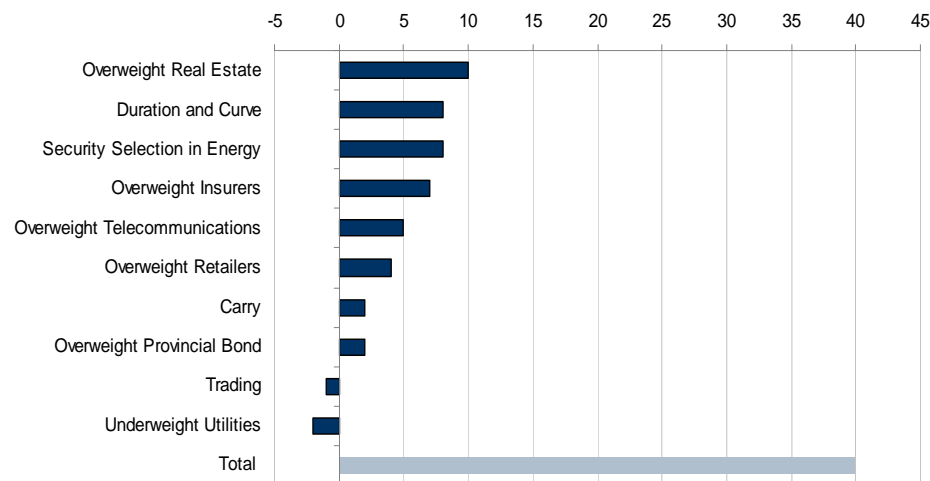
PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund ¹	3.17	3.17	21.16	7.47	8.11
Index ²	2.77	2.77	19.11	6.92	7.72
Added Value	0.40	0.40	2.05	0.55	0.39

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 March 31, 2010

OUTLOOK AND STRATEGY

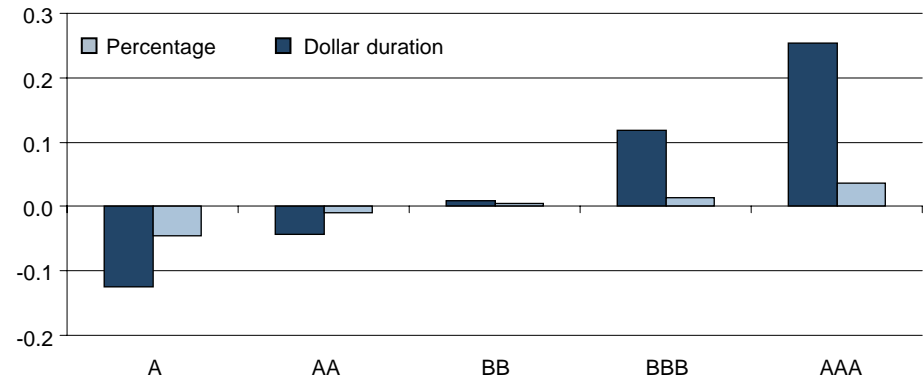
We made several adjustments to the portfolio. We reduced the weighting in AA and BBB-rated corporate issues and increased our weighting to AAA and A rated corporate bonds.

At the end of the quarter, we realigned our position in communications to market weight, this higher beta sector may experience more volatility if investor appetite for risk diminishes. We increased our exposure to the real-estate sector due to the improving economy combined with the strong financial health of Canadian REITS, holdings in this sector consist of BBB names with shorter maturities.

The position in federal bonds and cash may be changed quickly, should investment opportunities materialize in new corporate issues. We believe that the credit spreads between federal bonds and corporate bonds remain attractive in certain sectors, despite their substantial tightening since the beginning of the year.

If interest in corporate issues is sustained in coming months, the portfolio should generate a positive performance. In contrast, a widening of credit spreads between federal and corporate bonds and a major wave of new issues could limit its upside. In this context, sound security selection remains essential to safeguarding the portfolio against losses. We favour more liquid securities to ensure that we are able to respond quickly and make any required adjustments.

CREDIT RATING DEVIATIONS



Note: Dollar duration = duration spread x weighting spread

MAIN DEVIATIONS

Overweights	Natcan	Index	Deviation	Natcan Duration	Index Duration	DV01
Province of Ontario	2.97%	0.00%	2.97%	5.774		0.17
First Capital Realty	2.17%	0.30%	1.87%	5.186	4.984	0.10
Government of Canada	1.78%	0.00%	1.78%	6.250		0.11
Husky Energy Inc.	1.92%	0.52%	1.40%	7.750	7.750	0.11
Bank of Montreal	9.98%	8.59%	1.39%	5.889	5.711	0.10
CDP Financial	1.35%	0.00%	1.35%	7.819		0.11
Brookfield Renewable Power	2.26%	1.00%	1.27%	6.379	5.800	0.09
Great-West Lifeco	3.59%	2.38%	1.22%	6.216	6.002	0.08
Rona Inc.	1.58%	0.53%	1.05%	5.419	5.419	0.06
CIBC	3.96%	3.00%	0.96%	6.393	6.401	0.06

Underweights	Natcan	Index	Deviation	Natcan Duration	Index Duration	DV01
Royal Bank	0.89%	4.62%	-3.72%	3.685	5.648	-0.23
Enbridge Inc.	1.35%	3.29%	-1.94%	7.130	6.702	-0.12
National Bank	0.00%	1.58%	-1.58%		5.414	-0.09
Hydro One Inc.	0.00%	1.47%	-1.47%		5.731	-0.08
Toronto Dominion Bank	9.95%	11.11%	-1.16%	6.180	5.791	-0.03
Manulife	3.61%	4.70%	-1.09%	5.840	6.219	-0.08
EnCana Corp.	0.00%	1.04%	-1.04%		6.248	-0.07
Molson Coors Capital Finance	0.16%	1.19%	-1.03%	4.778	4.778	-0.05
Greater Toronto Airport Authority	2.32%	3.16%	-0.84%	6.706	6.072	-0.04
Capital Desjardins Inc.	0.00%	0.71%	-0.71%		5.157	-0.04

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