

# Quarterly Bulletin as at September 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 posted an excellent performance for a third consecutive quarter due to keen investor interest and early indicators of an improving economy. Although the returns generated by this asset class exceeded the fixed-income sector as a whole for the period, they fell short of the returns posted during the second quarter.

In Canada, spreads of the DEX Universe All Corporate Index tightened from 200 to 149 basis points from the beginning to the end of the quarter. The frenzied pace of new issues slackened in both Canada and the U.S. over the summer, which allowed the trend in credit spreads to continue.

The DEX Universe Bond Index ended the quarter with a 4.47% return, compared to 1.19% for the DEX Universe Federal Bond Index. On the whole, A and BBB-rated corporate issues made the strongest positive contribution to the index's return. However, long-term AAA/AA-rated issues were the top performers, generating a return of 6.96% for the quarter.

## PERFORMANCE ANALYSIS

For the quarter, the portfolio turned in a positive performance that outpaced that of its benchmark, mainly as a result of the proactive approach adopted during the previous quarter. To this subject, we recently increased the portfolio's risk by reducing its weighting in federal bonds to increase corporate and provincial securities.

On the whole, our strategy proved fruitful, both in terms of security selection and sector positioning. The largest positive contribution stemmed from being overweight in insurers. However, this positive impact was substantially mitigated, by the less lucrative underweight in infrastructure securities and certain arbitrage decisions.

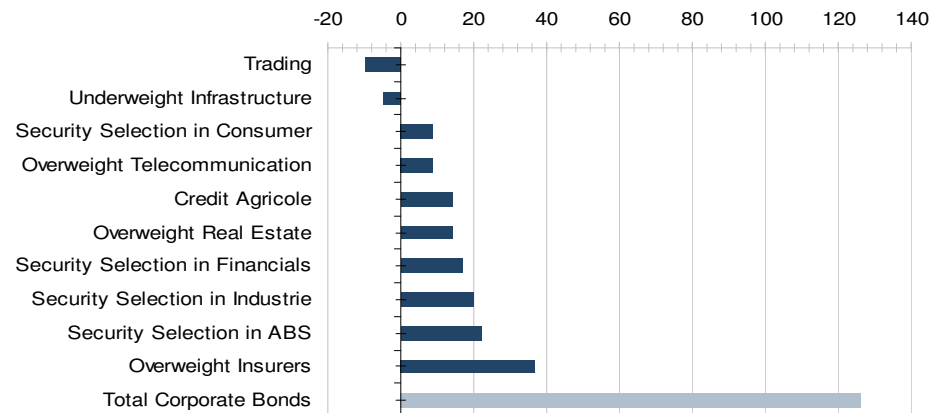
## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	Since Inception (2005-12)
Fund <sup>1</sup>	5.73	17.26	17.30	n/a	6.17
Index <sup>2</sup>	4.47	15.12	14.83	5.35	5.59
Added Value	1.26	2.14	2.47	n/a	0.58

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 September 30, 2009

### OUTLOOK AND STRATEGY

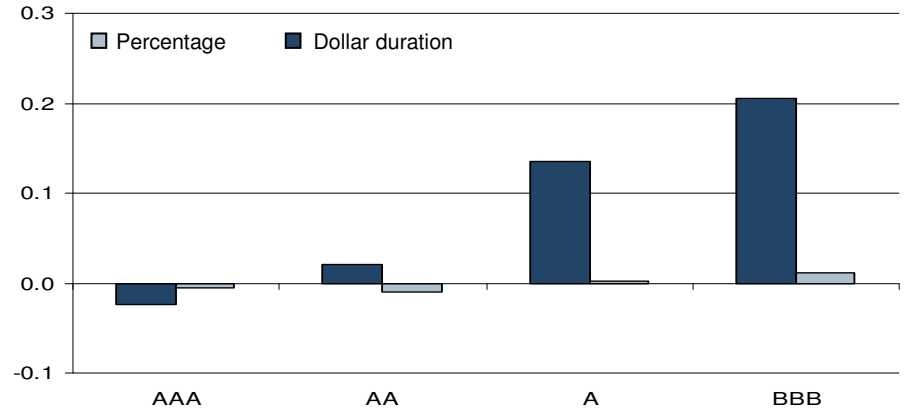
During the summer, we reduced the portfolio's risk and crystallized a portion of the accumulated profits in order to preserve the portfolio's excellent performance until the end of the year, in the event of a market relapse and/or a widening of credit spreads. The portfolio's profile nevertheless remains more aggressive than its benchmark index.

We maintained an overweight in government bonds of approximately 1.5% during the quarter. This weighting could eventually be reduced in order to purchase newly-issued corporate securities. We continue to monitor appealing investment opportunities, as credit spreads are still attractive despite the significant narrowing that has occurred since the start of the year. However, we favour non-financial sectors and BBB-rated securities, given their potential for higher returns. We also favour provincial securities over senior bank debt securities, a class of which the portfolio is currently slightly overweight.

The portfolio remains underweight in bank securities in favour of an overweight in insurance companies, the real estate sector, telecommunications and BBB-rated corporate securities, in view of their more attractive returns. Furthermore, an underweight in infrastructure issues is also being maintained, on rich valuations.

If interest for corporate issues is sustained in the coming months, the portfolio should generate a positive performance. In contrast, a widening in credit spreads between federal and corporate bonds and a major wave of new issues could limit its progress. In this context, sound security selection remains essential to guard the portfolio against the risk of depreciation, leading us to favour more liquid securities to ensure a quick response in the case it is needed.

### CREDIT RATING DEVIATIONS



Note: Dollar duration = duration spread x weighting spread

### MAIN DEVIATIONS

Overweights	Natcan	Index	Deviations	Natcan duration	Index duration	DV01
Ontario	2.63%	0.00%	2.63%	5.170	0.000	0.136
First Capital Realty	1.72%	0.20%	1.52%	2.671	2.530	0.041
Citigroup	2.08%	0.63%	1.45%	3.567	2.946	0.055
Broadway Credit Cards	1.87%	0.46%	1.40%	3.297	2.705	0.049
Manulife	4.32%	2.92%	1.40%	6.239	5.316	0.114
Quebec	1.35%	0.00%	1.35%	0.527	0.000	0.007
CCARAT (ABS car loans)	1.33%	0.00%	1.33%	1.613	0.000	0.022
American Express	1.69%	0.57%	1.12%	4.173	1.960	0.059
Toyota Credit	1.27%	0.21%	1.06%	2.606	2.606	0.028
Sun Life	3.67%	2.62%	1.06%	5.297	4.752	0.070
Underweights	Natcan	Index	Deviations	Natcan duration	Index duration	DV01
Royal Bank	3.59%	6.27%	-2.68%	3.716	3.271	-0.072
Bank of Montreal	3.30%	5.90%	-2.60%	4.292	4.375	-0.117
Hydro One	0.00%	2.58%	-2.58%	0.000	8.648	-0.223
TD Bank	6.10%	7.63%	-1.53%	5.367	4.812	-0.040
National Bank	0.00%	1.21%	-1.21%	0.000	4.735	-0.057
Master Credit Cards	0.00%	1.06%	-1.06%	0.000	2.553	-0.027
CIBC	3.55%	4.61%	-1.06%	4.213	3.780	-0.025
Spectra Energy	0.76%	1.68%	-0.92%	8.118	7.401	-0.063
Enbridge Inc.	1.47%	2.31%	-0.84%	11.611	8.320	-0.021
Alliance Pipelines	0.00%	0.78%	-0.78%	0.000	5.975	-0.047

This bulletin is intended for your private information. The information and opinions herein are provided for informational purposes only, and are subject to change based on market and other conditions. The views expressed should not be relied upon as the basis for your investment decisions. The performance returns are calculated gross of management fees, and net of administrative and transaction fees. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation or offering of units of any fund or other security in any jurisdiction. No part of this publication may be reproduced in any manner without the prior written permission of Natcan Investment Management Inc. All market index returns presented in this commentary are expressed in Canadian dollar terms and were provided by Natcan, Thomson Reuters, PC-Bond (a business unit of TSX Inc.), and Standard & Poor's (a division of The McGraw-Hill Companies Inc.), unless otherwise specified.

**N A T C A N**