

# Quarterly Bulletin as at December 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 delivering a 15.1% return for the first nine months of the year, corporate bonds posted a more modest performance of 0.99% in the final quarter. Nevertheless this asset class led the fixed-income universe while federal, provincial and municipal bonds all turned in more mixed performances. During the period, sustained demand for corporate bonds and signs of an improving economy contributed to their strong performance, which was partially offset by the general increase in bond rates in December.

In Canada, DEX Universe Corporate Index spreads tightened from 136 to 118 basis points from the beginning to the end of the quarter. The pace of new issues increased in October, particularly at the longer end of the yield curve, which somewhat dampened the performance of longer-term securities. Lower-quality issues posted the best performances, as did hybrid bank and insurance company securities further to proposals by the Bank for International Settlements (BIS) to restrict future issues of hybrid securities in their current form.

The DEX Universe Bond Index ended the quarter with a 0.99% return, compared to -0.45% for the DEX Universe Federal Bond Index. 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 a shorter duration than the benchmark proved less lucrative.

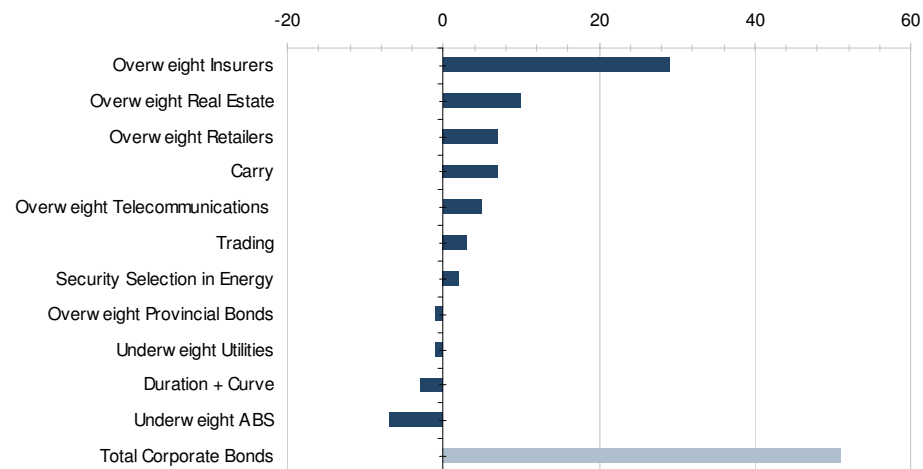
## PERFORMANCE (%)

	3 months	YTD	1 year	4 years	Since Inception (2005-12)
Fund <sup>1</sup>	1.50	19.01	19.01	6.17	6.17
Index <sup>2</sup>	0.99	16.26	16.26	5.49	5.49
Added Value	0.51	2.75	2.75	0.68	0.68

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 December 31, 2009

### OUTLOOK AND STRATEGY

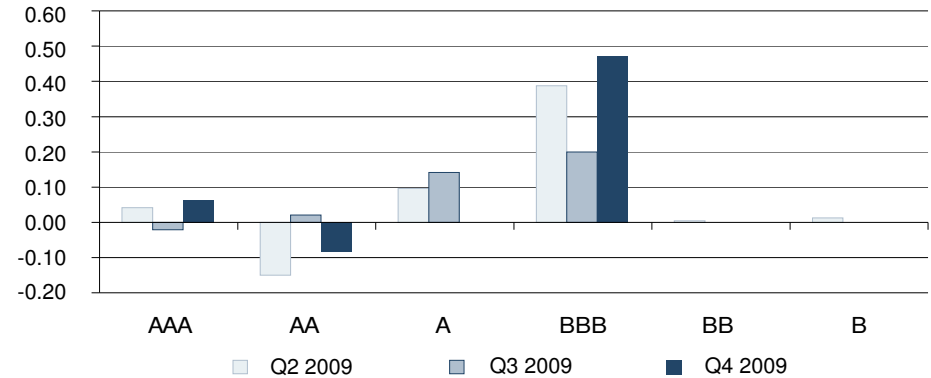
We made several adjustments to the portfolio during the fall. We reduced the weighting in provincial bonds and AA-rated corporate issues, and increased the weighting in BBB-rated corporate bonds due to the greater returns that they offer and their more promising growth potential.

We also increased our underweight in the Energy sector and Infrastructure securities and added to the overweight in Telecommunications and Real Estate. We also initiated an underweight in asset-backed securities by selling foreign bank securities because of their substantial increase in valuation.

The overweight 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. Although the DEX Corporate Index returned 16.3% for 2009, its performance may be more modest in 2010. In these circumstances, we believe that non-financial sectors and BBB-rated securities should allow us to enhance portfolio returns. Although the portfolio remains underweight in bank securities, we recommend an overweight in insurance companies in the medium- to long end of the curve. We also favour provincial bonds over senior bank debt, which is reflected on our slight overweight.

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 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
Citigroup Finance Canada	3.35%	0.71%	2.64%	3.131	2.955	0.084
Ontario	2.09%	0.00%	2.09%	5.341		0.112
Riocan Real Estate Investment Trust	2.16%	0.37%	1.78%	4.123	2.776	0.079
Manulife	4.51%	2.79%	1.71%	6.152	5.339	0.128
First Capital Realty	1.85%	0.24%	1.61%	2.492	2.712	0.040
Canada	1.47%	0.00%	1.47%	4.323		0.064
CI Financial Corp.	1.60%	0.18%	1.42%	3.893	3.520	0.056
CCARAT (ABS car loans)	1.40%	0.00%	1.40%	0.288		0.004
Wells Fargo Finance Canada	3.48%	2.17%	1.31%	3.135	2.994	0.044
Sunlife	1.62%	0.41%	1.21%	2.746	3.572	0.030

Underweights	Natcan	Index	Deviation	Natcan duration	Index duration	DV01
Bank of Montreal	2.58%	5.61%	-3.03%	4.352	4.272	-0.127
TD Bank	4.49%	7.49%	-3.00%	5.993	4.679	-0.081
RBC Royal Bank	3.73%	6.45%	-2.72%	3.523	3.145	-0.071
Hydro One Inc.	0.00%	2.48%	-2.48%		8.375	-0.208
CIBC Bank	2.53%	4.93%	-2.39%	6.456	3.676	-0.018
Scotia Bank	6.10%	7.85%	-1.75%	3.663	3.599	-0.059
Enbridge Inc.	1.13%	2.38%	-1.25%	11.376	8.493	-0.073
CU Inc.	0.00%	1.21%	-1.21%		9.528	-0.115
National Bank	0.00%	1.18%	-1.18%		4.642	-0.055
Spectra Energy	0.46%	1.56%	-1.10%	10.438	7.499	-0.069

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