

Quarterly Bulletin as at December 31, 2009

Natcan Corporate 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 an exceptional 20% return for the first nine months of the year, medium-term corporate bonds posted a more modest performance of 1.12% 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 Mid Term Corporate Index spreads tightened by 22 basis points to close the quarter at +144 basis points. 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 Mid Term Corporate Index ended the quarter with a return of 1.12% compared to -1.16% for the DEX Mid Term Federal Index. In this context, mid-term issues rated BBB and A had the best performance, returning 1.01% and 1.33% respectively.

PERFORMANCE ANALYSIS

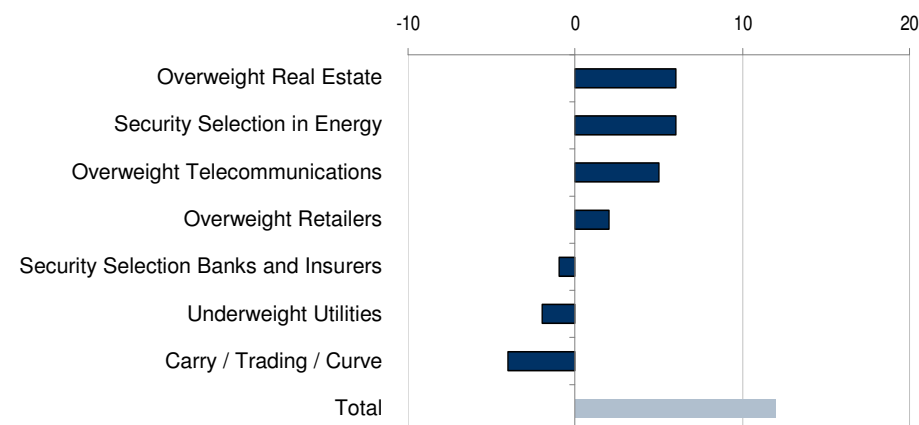
For the quarter, the portfolio posted positive returns, outperforming the benchmark, sound security selection and sector positioning. The strongest contribution was from the overweight in Energy and Real Estate sector issues. In contrast, the underweight in Infrastructure and Utilities and certain arbitrage strategies proved less lucrative.

PERFORMANCE (%)

	3 months	YTD	1 year	4 years	Since Inception (1999-11)
Fund ¹	1.24	22.35	22.35	6.47	7.95
Index ²	1.12	21.30	21.30	6.03	7.67
Added Value	0.12	1.05	1.05	0.44	0.28

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 December 31, 2009

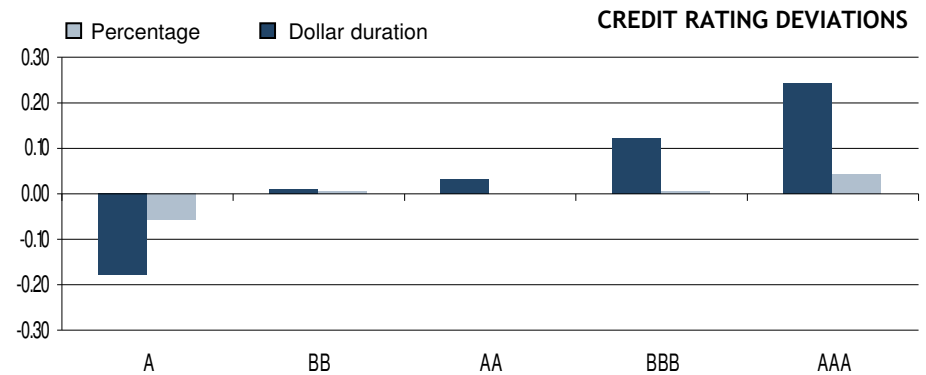
OUTLOOK AND STRATEGY

We made several adjustments to the portfolio during the fall. We increased our underweight in Infrastructure, Energy and Financial Services to add to the overweight in Telecommunications. Moreover, the positioning in federal and provincial securities was increased further to a major capital inflow to the portfolio at the end of the year.

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 and corporate bonds remain attractive in certain sectors, despite their substantial tightening since the beginning of the year.

Although the DEX Corporate Index returned 21.3% for 2009, its performance may be more modest in 2010. In these circumstances, we believe that non-financial sectors and BBB-rated bonds should allow us to enhance portfolio returns. Although the portfolio remains underweight in bank securities, we favour an overweight in insurance companies in the medium-term segment of the curve. We also recommend provincial securities over senior bank debt, which is reflected in 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 protecting the portfolio against losses. We favour more liquid securities to ensure we are able to respond quickly and make any required adjustments.



Note: Dollar duration = duration spread x weighting spread

MAIN DEVIATIONS

Overweights	Natcan	Index	Deviations	Natcan duration	Index duration	DV01
Canada	3.73%	0.00%	3.73%	4.944		0.184
Ontario	3.10%	0.00%	3.10%	5.923		0.183
Telus	4.75%	3.19%	1.55%	7.113	6.237	0.139
Great-West	3.84%	2.36%	1.49%	6.406	6.180	0.101
Manitoba Telecom	2.06%	0.63%	1.43%	6.270	6.143	0.090
First Capital Realty	1.47%	0.14%	1.33%	3.957	4.536	0.052
Brookfield Renewable Power	2.18%	0.97%	1.20%	6.544	5.979	0.084
Rona	1.62%	0.52%	1.09%	5.445	5.445	0.060
Sunlife	4.76%	3.80%	0.96%	5.681	6.035	0.041
CIBC	3.92%	2.99%	0.92%	6.577	6.596	0.060
Underweights	Natcan	Index	Deviations	Natcan duration	Index duration	DV01
National Bank	0.00%	1.60%	-1.60%		5.646	-0.090
Scotia Bank	0.98%	2.57%	-1.59%	6.928	5.725	-0.080
Hydro One	0.00%	1.51%	-1.51%		5.912	-0.089
RBC Royal Bank	0.91%	2.39%	-1.48%	3.922	5.593	-0.098
Enbridge Inc.	1.38%	2.71%	-1.33%	7.259	6.586	-0.078
TD Bank	10.03%	11.25%	-1.22%	6.378	5.996	-0.035
EnCana	0.00%	1.10%	-1.10%		6.293	-0.069
Manulife	3.61%	4.69%	-1.08%	6.057	6.410	-0.082
Molson Coors	0.17%	1.22%	-1.05%	4.893	4.893	-0.052
Greater Toronto Airport	2.34%	3.21%	-0.88%	6.927	6.273	-0.040

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