

Quarterly Bulletin as at December 31, 2009

Natcan Canadian Bond Fund

INVESTMENT APPROACH: We are active managers who apply a quantitative approach based on macroeconomic analysis where the emphasis is placed on the management of a reward/risk equation. Our objective is to maintain an asymmetry of expected returns versus the underwritten risks. Our management approach is a three-step process. The first step consists in a strategic replication of the benchmark in order to reduce tracking errors and to control the portfolio's risk. We select specific securities in order to capture liquidity and complexity premiums accessible on the market without adding credit or duration risks. Finally, the third and last step focuses on performing tactical management deviations relative to the benchmark.

MARKET OVERVIEW

Bond markets turned in a more modest performance in Q4 than in previous quarters. This situation is the result of a general rise in bond rates in December, triggered by softer investor demand for the asset class. For the most part, this can be attributed to improving economic conditions and certain prevailing fears about bond performance in 2010 in the event of rising interest rates.

Financial markets also appeared to ignore central bank announcements in November that low bellwether rates would remain a part of the landscape for some time to come, and focused instead on encouraging economic data published in December on home resale figures in the United States and job figures on both sides of the border.

Investors favoured securities offering more upside potential under a scenario of economic recovery, such as stocks, high-yield bonds and corporate bonds over government, federal, provincial and municipal bonds. This resulted in a modest performance by the DEX Universe Bond Index, which ended the quarter in negative territory. The broad index yielded -0.16% for the quarter, with the DEX Corporate Universe Index returning +0.99% compared to -0.45% for the DEX Federal Bond Index .

The interest rate curve also steepened considerably over the quarter, owing to a sharper increase in long-term bond rates compared to those with shorter maturities. The tightening of credit spreads between corporate bonds and federal bonds continued, albeit at a more moderate pace than that seen in previous quarters.

PERFORMANCE ANALYSIS

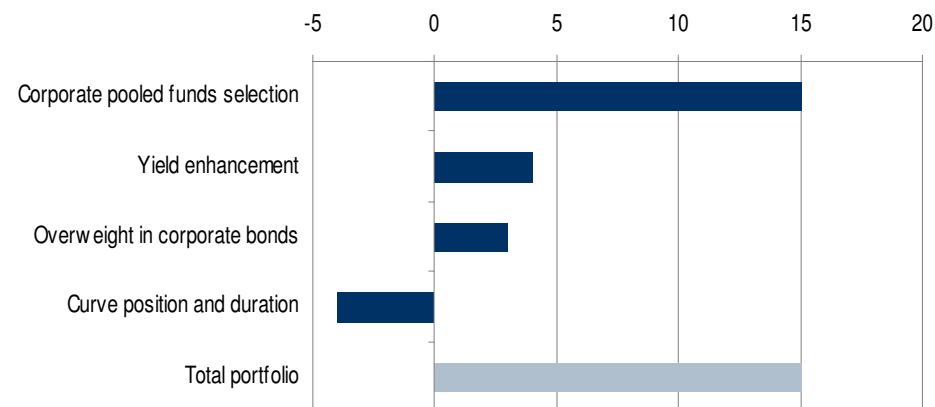
For the quarter, the portfolio outperformed its benchmark. The main sources of added value were allocation and sound corporate security selection. Certain tactical and strategic deviations also bore fruit; however the positioning of securities on the yield curve and duration considerations proved somewhat less lucrative.

PERFORMANCE (%)

	3 months	YTD	1 year	4 years	10 years
Fund ¹	-0.02	6.94	6.94	5.16	6.78
Index ²	-0.16	5.41	5.41	4.88	6.67
Added Value	0.14	1.53	1.53	0.28	0.11

1 - Everywhere in this bulletin, "Fund" refers to the Natcan Canadian Bond Fund.
2 - Everywhere in this bulletin, "Index" refers to the DEX Universe Bond Index.

PERFORMANCE ATTRIBUTION VS INDEX



Natcan Canadian Bond Fund as at December 31, 2009

OUTLOOK AND STRATEGY

Over the quarter, the portfolio's duration, which was slightly longer than its benchmark, was reduced as protection against a potential increase in interest rates. We also capitalized on the stronger demand for Maple bonds to sell our positions at a profit, and also took advantage of the steepening of the yield curve and attractive returns available to buy longer-term BBB-rated corporate securities. Moreover, due to the substantial tightening in credit spreads and significant increase in corporate bond prices, we crystallized profits and partially reduced our overweight in this asset class. In contrast, we increased our weighting in federal bonds, although this may be trimmed back in the coming months should spreads become more attractive in the corporate or provincial areas.

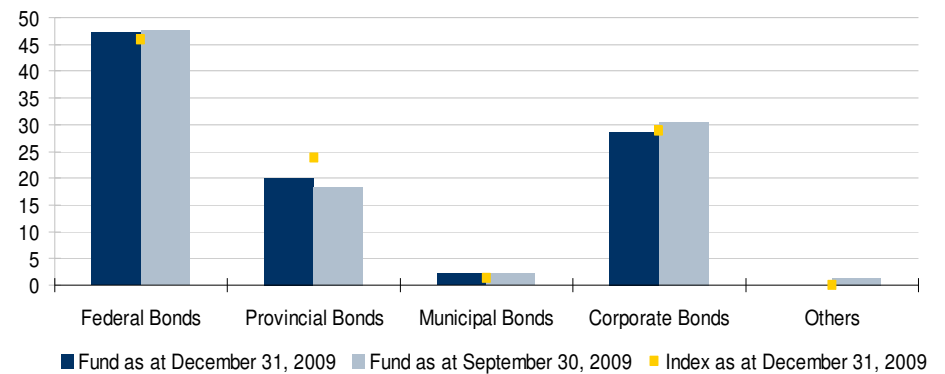
As at December 31, 2009, the portfolio was underweight in the 2-year segment, overweight in the 5-year segment and neutral in the 10- to 30-year segment of the curve. The duration of the portfolio remains similar to the benchmark, but could be modified based on the evolution of interest rates and the yield curve. Due to the steepness of the yield curve, the manager prefers not to reduce the duration too quickly in order to avoid impacting portfolio returns while in the wait for increasing interest rates. For the portfolio's asset allocation, the manager favours an underweight in medium-term provincial bonds, and a slight overweight in long-term corporate bonds due to their more promising appreciation potential.

Lastly, because there are lingering uncertainties regarding the impact of ending various stimulus measures by government authorities in the first half of 2010, as well as future trends in interest rates and economic conditions, we are opting for caution and adopting a defensive stance. The portfolio is currently well-positioned for quick adjustments, if need be.

MODIFIED DURATION

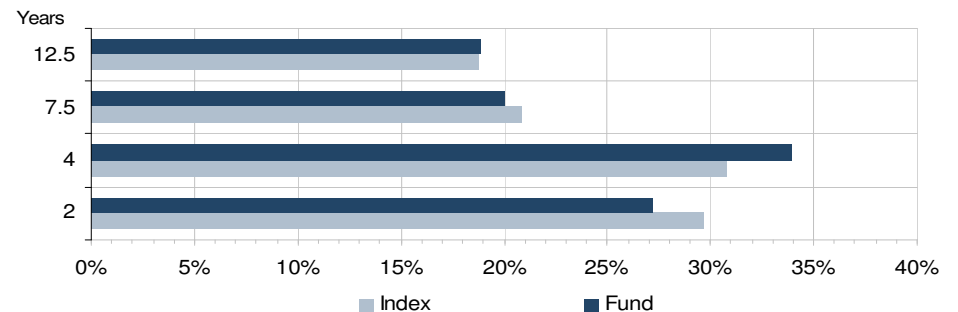
	As at December 31, 2009	As at September 30, 2009
Fund	5.91 years	6.30 years
Index	5.91 years	6.01 years

SECTOR ALLOCATION



Note: Most Supranational Agency bonds issued in Canadian currency are considered under Federal bonds. A small percentage can also be found under Corporate bonds.

DURATION DEVIATION



Note: Duration points are interpolated between these four points. Shorter and longer bonds are placed in the 2 and 12.5 buckets respectively.

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