

NATCAN CANADIAN BOND FUND

Management 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

The second quarter of 2008 was marked by the comeback of some sense of market stability for fixed-income instruments, and the Federal Reserve's bailout of Bear Stearns in March appears to have been behind this recovery. Credit markets improved and the return of corporate bond issuance ensued, primarily within financial institutions experiencing recapitalization.

The relative stability of financial markets occurs in an environment where economic risk is of utmost importance. The effects of the U.S. housing crisis, reduced access to consumer credit, and the significant surge in the price of raw materials contribute to the acute unpredictability of the economic outlook.

The rise in global inflation has affected bond markets. In fact, the major central banks have again lowered their rates in the past few months, debating a potential increase in official market rates in order to confront the flagrant peak in the prices of oil and other raw materials.

On June 10, the Bank of Canada's decision to leave its official rate unchanged in the wake of inflationary pressures came as a surprise. A stabilization of markets, the surge in inflation, and the central bank's monetary policy help explain the Canadian bond market's negative return this past quarter. However, the year-to-date return remains appealing.

PERFORMANCE REVIEW

For the second quarter, the portfolio increased by 28 basis points, half of which stems from our investments in Supranational Agency and government bonds. These investments suffered greatly in the first quarter, but regained some strength in the second; we believe they are still greatly undervalued. We also generated value with our corporate security selection. With respect to duration, the portfolio is positioned to take advantage of long-term interest rate increases.

PERFORMANCE

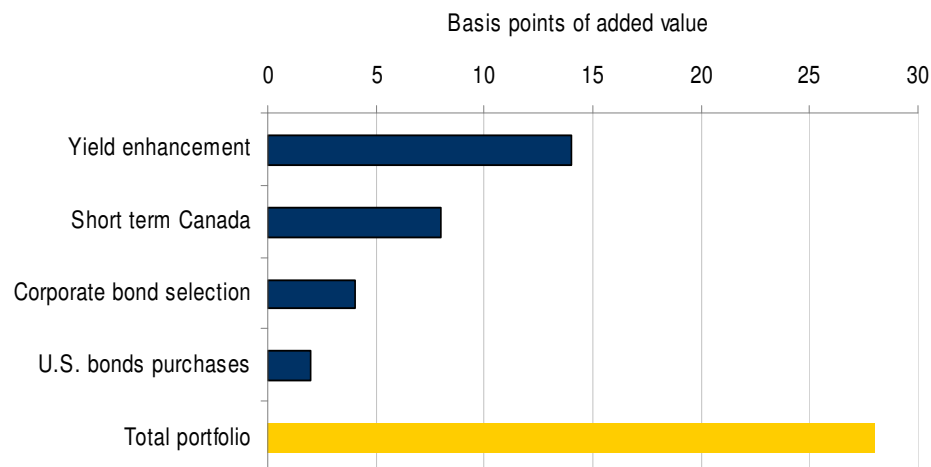
	3 months	YTD	1 year	4 years	10 years
Fund ¹	-0.45%	2.16%	6.81%	5.33%	6.02%
Index ²	-0.72%	2.21%	6.80%	5.63%	6.03%
Added value	0.27%	-0.05%	0.01%	-0.30%	-0.01%

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.

Source: PC-Bond (a business unit of TSX Inc.)

PERFORMANCE ATTRIBUTION VS THE INDEX



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OUTLOOK AND STRATEGY

The portfolio duration is 0.5 year shorter than that of the Index. It is underweight in federal bonds and overweight in U.S. securities (the currency risk is hedged), in banks (Royal Bank, Scotia Bank, and TD Bank's senior debt), and in AAA Supranational Agency bonds (with no currency risk). During the period, we indeed sold some 2010-2013 federal bonds to purchase RBC, Bank of Nova Scotia, and TD's senior debt. The current spreads are making these securities look very profitable. Furthermore, these three banks have shown that they can easily navigate through the current crisis.

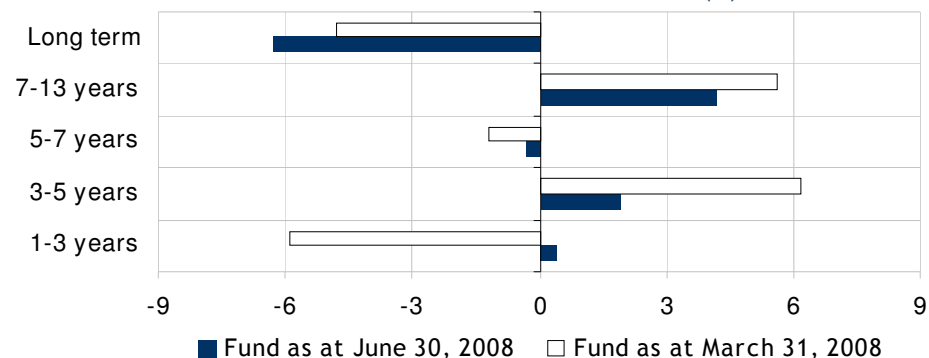
Though the portfolio is exposed to an increase in systemic risk, we believe central banks are monitoring the situation closely so as to avoid a re-enactment of the Bear Stearns episode.

We may need to increase the size of the portfolio deviations if the global economy does not shape up. Given the high level of uncertainty of financial markets at present, we have to be particularly vigilant in the wake of market turnarounds.

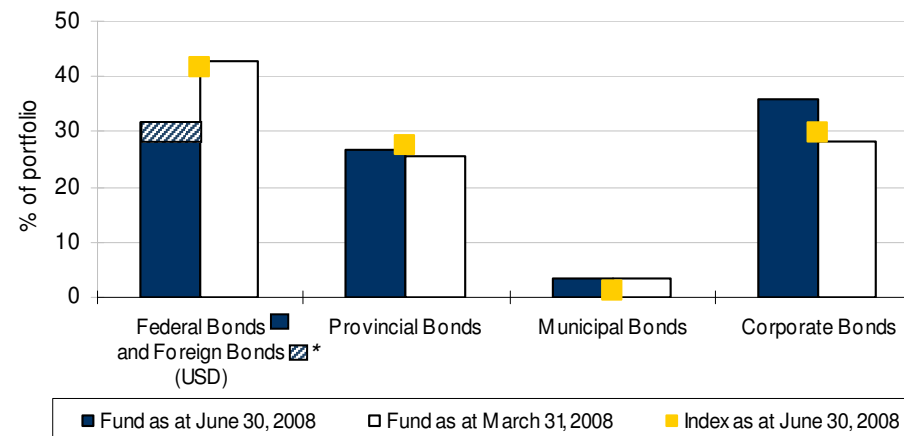
ADJUSTED DURATION

	As at June 30, 2008	As at March 31, 2008
Fund	5.93 years	6.27 years
Index	6.41 years	6.43 years

DURATION DEVIATIONS (%) VS THE INDEX



SECTOR ALLOCATION



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

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