

## 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 first quarter of 2008 exposed a series of rare events as market volatility reached new heights. The U.S. Federal Reserve was left with no choice but to intervene, lowering its key rate by 125 basis points in less than 8 days. Furthermore, it saw fit to oversee Bear Stearns' acquisition by JP Morgan as a way to protect markets from the turmoil that would have resulted from the collapse of the brokerage firm.

In this environment, government bonds remained the safe haven of choice for investors, as substantiated by the monthly and quarterly returns. Liquidity remains one of the most challenging issues affecting bond markets at this time, a situation that is contributing to record levels of volatility.

For a second consecutive quarter, the DEX Universe Bond Index returned another solid performance with 2.95%. Taking advantage of investors' flight to safety, federal bonds (3.82%) outperformed every other bond category (provincial: 2.52%; corporate: 2.11%). The significant increase in the yield curve produced some very apparent disparities between sectors: the DEX short-term index returned 3.27%, the DEX mid-term, 3.96%, and the DEX long-term ended the period with only 1.71%.

### PERFORMANCE REVIEW

During the first quarter, the portfolio underperformed its benchmark, primarily due to the substantial depreciation of our less liquid holdings. The credit quality of these assets, mainly Supranational Agency bonds, remains high. The current underperformance is merely the result of a great number of investors choosing to abandon riskier markets (equities, credit derivatives, corporate credit) to the benefit of Canada government bonds.

### PERFORMANCE

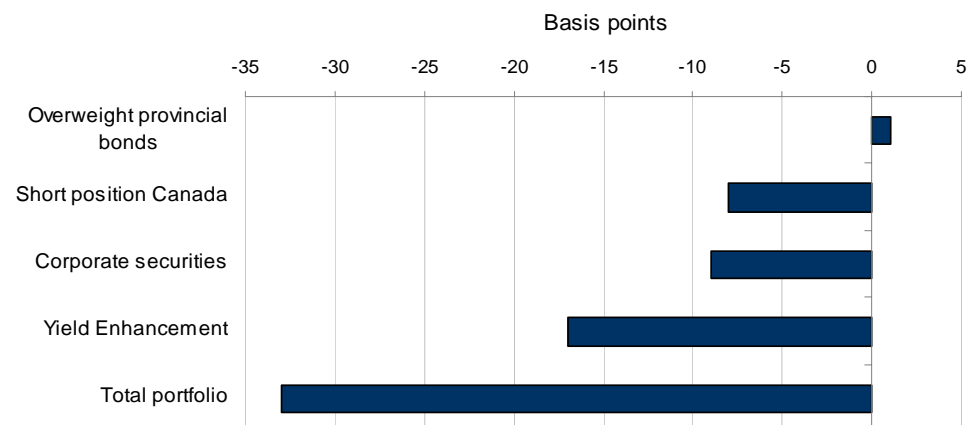
	3 months	YTD	1 year	4 years	10 years
Fund <sup>1</sup>	2.62%	2.62%	5.64%	4.98%	6.26%
Index <sup>2</sup>	2.95%	2.95%	5.78%	5.28%	6.28%
Added value	-0.33%	-0.33%	-0.14%	-0.30%	-0.02%

<sup>1</sup> - Everywhere in this bulletin, the "Fund" refers to the Natcan Canadian Bond Fund.

<sup>2</sup> - Everywhere in this bulletin, the "Index" refers to the Scotia Capital Universe Bond Index.

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

### PERFORMANCE ATTRIBUTION VS THE INDEX



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## STRATEGY

Our key active deviation is a significant overweight in local and foreign government agencies. Denominated in Canadian dollars, these securities are explicitly or implicitly guaranteed by AAA supranational agencies. The credit quality of these assets remains high, and the current underperformance is merely the result of increased return volatility. We are confident that these securities will generate significant value added over time.

The portfolio is neutral on the corporate side. Corporate credit spreads are nearing very attractive levels at present, but we prefer to wait for market liquidity issues to improve before increasing our exposure to that area.

Substantial rate cuts and the extent of the liquidity crisis have driven us to reduce a short-term position that was initiated at the beginning of the year to maintain a fairly neutral sector weight.

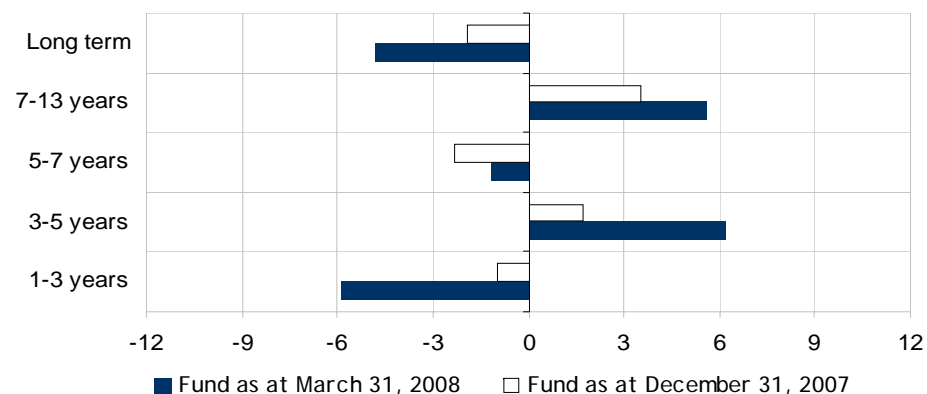
Though the portfolio is exposed to further deterioration of market liquidity, we are confident that the numerous central bank actions will allow markets to gradually recover.

Securities issued by Canadian banks, mainly those that have the highest ranking capital structure, trade at very attractive spreads. Banks' financing needs are increasing, but we are near the point where we will seek to increase our exposure to this sector, gradually increasing the weight of corporate holdings along the way.

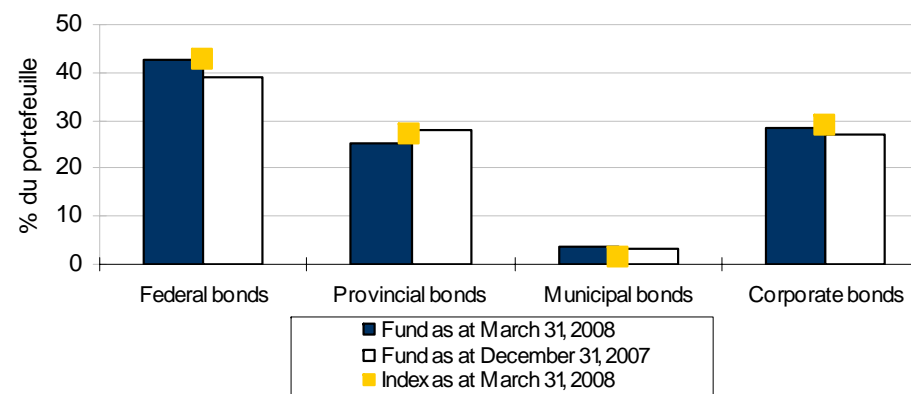
## ADJUSTED DURATION

	As at March 31, 2008	As at December 31, 2007
Fund	6.27 years	6.56 years
Index	6.43 years	6.58 years

## DURATION DEVIATIONS (%) VS THE INDEX



## SECTOR ALLOCATION



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