

## NATCAN CORPORATE BOND FUND

**Management 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

The corporate market experienced extreme volatility during the first quarter of 2008, driven by a severe lack of confidence in the financial system and evidence of slowing economic activity. The spreads of the DEX Corporate Mid reached all time high at 193 for a widening of 54 basis points during the period. The current credit crunch was one of the most severe of the past 30 years, driven by reduced leverage and forced selling. The increased capital need of banks led to significant new issuance at significant concessions to secondary trading levels. Less liquid securities significantly under-performed during the period.

The continuation of the credit crunch resulted in the underperformance of the DEX Corporate MID index, which returned 2.40% during the first quarter compared to 5.33% for the DEX Federal Bond MID index. The AAA/AA bond index returned 2.04% during the quarter compared to 2.96% and 2.41% for the A and BBB bond indices respectively.

### PERFORMANCE REVIEW

The portfolio advanced 17 basis points for the first quarter of 2008. Its underweight positions in banks and insurers had a positive impact, contributing 48 basis points of value added. However, overweight positions in AAA Supranational agencies and Telecommunications took back 31 points.

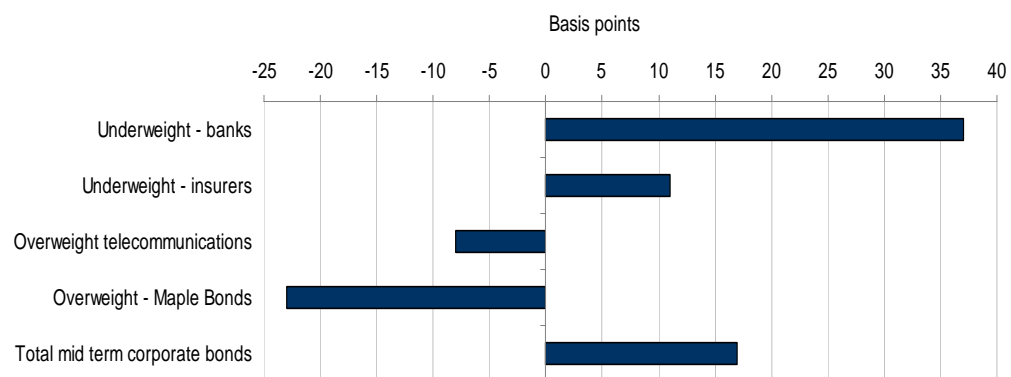
### PERFORMANCE

	3 months	YTD	1 year	4 years	Since inception (1999-11)
Fund <sup>1</sup>	2.58%	2.58%	2.41%	4.55%	7.45%
Index <sup>2</sup>	2.40%	2.40%	2.17%	4.60%	7.31%
Added value	0.18%	0.18%	0.24%	-0.05%	0.14%

*1 - Everywhere in this bulletin, the "Fund" refers to the Natcan Corporate Bond Fund.*

*2 - Everywhere in this bulletin, the "Index" refers to the Scotia Capital Mid Term Corporate Bond Index.*

### PERFORMANCE ATTRIBUTION VS THE INDEX



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## STRATEGY

At the beginning of the quarter, the portfolio had 2.8% of Government bonds and we increased that weight in early January to end the quarter at 4.5%. With the nervousness of investors and the continuous threat of new issuance at steep discount, we have reduced all our overweights during the quarter (Energy and Securitization). Notwithstanding the significant widening in spreads that occurred during the first quarter, we believe the current economic uncertainty combined with our expectation of an increase in new issuance activity leading to further spread concessions should keep pressure on credit spreads over the coming months.

We are concerned about BMO and CIBC's exposure to the U.S. sub-prime crisis, and await further clarification to reduce our portfolio's underweight in this sector. Additionally, the risk/reward trade-off of hybrid securities appears less attractive than that of deposit notes. Canadian hybrid securities are now trading at narrower spreads than their U.S. and European counterparts.

We will reduce the portfolio's underweight to the credit market over the coming months by participating in new issues at favorable pricing relative to secondary trading levels. Financial spreads, especially deposit and subordinated notes, are trading at historically attractive levels, and we could become overweight in this area over the next quarter, once the current liquidity crisis shows signs of stabilization.

## TECHNICAL CHARACTERISTICS

Characteristics	Fund
Number of issuers	55
Yield to maturity	5.24%
Average spread (basis points)	174
Average credit rating	A+

## MAIN DEVIATIONS

Overweight	Natcan Weight	Index Weight	Weight Deviation	Natcan Duration	Index Duration	Dollar/Duration
Canada Government	4.48%	0.00%	4.48%	7.576	0.000	-0.34
Royal Bank of Scotland	1.10%	0.00%	1.10%	6.248	0.000	-0.07
JP Morgan	0.99%	0.00%	0.99%	6.341	0.000	-0.06
Credit Agricole	0.95%	0.00%	0.95%	6.367	0.000	-0.06
Alliance Pipeline	1.45%	0.49%	0.96%	4.835	3.426	-0.05
Industrial Alliance	1.65%	0.57%	1.09%	4.939	5.024	-0.05
Manulife Financial	2.00%	1.28%	0.73%	6.577	6.555	-0.05
Telebec	1.00%	0.00%	1.00%	4.635	0.000	-0.05
Toronto Hydro	1.57%	0.94%	0.63%	6.399	5.921	-0.05
France Telecom	0.66%	0.00%	0.66%	6.507	0.000	-0.04

Underweight	Natcan Weight	Index Weight	Weight Deviation	Natcan Duration	Index Duration	Dollar/Duration
Bank of Montreal	6.88%	9.59%	-2.70%	6.310	6.581	0.20
Great West Life	0.00%	2.15%	-2.15%	0.000	7.019	0.15
National Bank of Canada	0.00%	1.89%	-1.89%	0.000	6.006	0.11
Encana	0.00%	1.42%	-1.42%	0.000	7.370	0.11
Molson Coors	0.00%	1.58%	-1.58%	0.000	6.167	0.10
Royal Bank	8.68%	9.52%	-0.84%	5.034	5.284	0.07
Toronto Dominion Bank	89.00%	11.05%	-1.16%	6.542	6.407	0.06
Hydro One	1.20%	2.00%	-0.80%	6.794	7.035	0.06
Sun Life	2.88%	3.57%	-0.69%	6.368	6.634	0.05
BCIMC Realty	0.00%	0.65%	-0.65%	0.000	6.578	0.04

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