

NATCAN CORPORATE UNIVERSE 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 Universe reached an all time high at 157 for a widening of 32 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 relative 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 Universe index, which returned 2.11% during the first quarter compared to 3.82% for the DEX Federal Bond index. A reversal of the fourth quarter 2007, the AAA/AA bond index out-performed during the quarter.

PERFORMANCE REVIEW

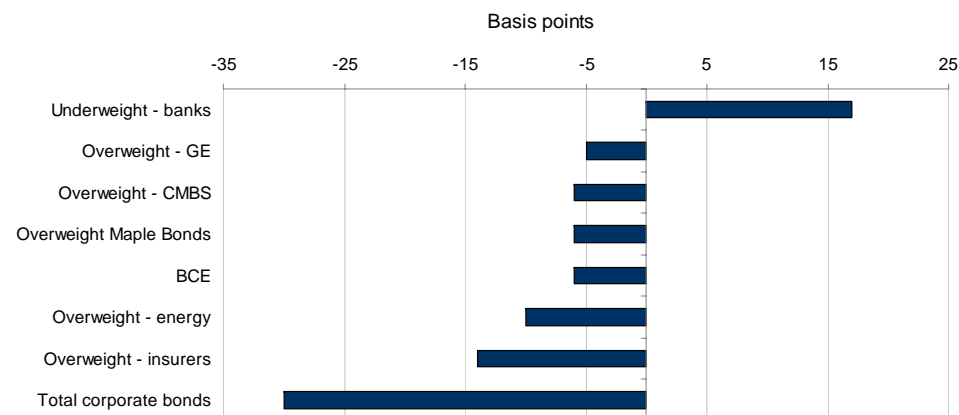
The portfolio generated negative value added for the first quarter of 2008. The only positive contribution came from an underweight in banks. However, our overweight in AAA supranational agencies, in asset-backed securities, and in Energy and insurance harmed our performance for the period.

PERFORMANCE

	3 months	YTD	1 year	4 years	Since inception (2005-12)
Fund ¹	1.80%	1.80%	2.65%	n.a.	3.55%
Index ²	2.11%	2.11%	2.83%	4.56%	3.69%
Added value	-0.31%	-0.31%	-0.18%	n.a.	-0.14%

1 - Everywhere in this bulletin, the "Fund" refers to the Natcan Corporate Universe Bond Fund.
2 - Everywhere in this bulletin, the "Index" refers to the Scotia Capital Universe Corporate Bond Index.

PERFORMANCE ATTRIBUTION VS THE INDEX



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STRATEGY

At the beginning of the quarter, the portfolio had 2% of government bonds and we increased that weight in early January to end the quarter at 7.7%. 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 in 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	92
Yield to maturity	4.88%
Average spread (basis points)	164
Average credit rating	A+

MAIN DEVIATIONS

Overweight	Natcan Weight	Index Weight	Weight Deviation	Natcan Duration	Index Duration	Dollar/duration
Canada Government	7.75%	0.00%	7.75%	7.216	0.000	-0.56
CDN Mortgage Acceptance Corp.	2.36%	0.00%	2.36%	1.089	0.000	-0.03
Toronto Dominion Bank	9.05%	7.00%	2.05%	4.620	4.803	-0.08
XCEED (TACM mortgages CAD)	1.88%	0.05%	1.84%	2.149	0.991	-0.04
Daimler Chrysler AG	2.08%	0.29%	1.79%	1.510	1.510	-0.03
STARTR (TACM receivables)	1.71%	0.00%	1.71%	1.871	0.000	-0.03
Arcelor Mittal	1.40%	0.00%	1.40%	0.903	0.000	-0.01
Brookfield Power	1.76%	0.58%	1.18%	6.265	6.379	-0.07
Morgan Stanley	1.12%	0.00%	1.12%	3.497	0.000	-0.04
CCARAT (TACM auto loans)	1.38%	0.32%	1.06%	1.739	1.391	-0.02

Underweight	Natcan Weight	Index Weight	Weight Deviation	Natcan Duration	Index Duration	Dollar/duration
CIBC	1.76%	4.89%	-3.13%	3.191	3.134	0.10
Bank of Montreal	3.39%	5.61%	-2.22%	4.580	4.562	0.10
General Electric	2.89%	4.48%	-1.59%	6.859	5.688	0.06
HSBC	0.74%	2.28%	-1.53%	4.975	2.814	0.03
Hydro One	1.18%	2.51%	-1.33%	10.676	8.907	0.10
National Bank	0.00%	1.20%	-1.20%	0.000	4.562	0.05
Bank of Nova Scotia	5.52%	6.68%	-1.17%	4.171	3.757	0.02
Spectra Energy	0.08%	1.76%	-0.95%	8.172	7.096	0.06
Yellow Pages	0.00%	94.00%	-0.94%	0.000	5.733	0.05
NAV Canada	0.00%	0.90%	-0.90%	0.000	6.250	0.06

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