

NATCAN COPORATE 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 third quarter started on a negative note due to renewed fear of bankruptcy of financial guarantors and the potential impact on the banking system. The strain eased somewhat in August to come back with vengeance in September.

The credit crunch entered another phase with the failure of government-sponsored entities, notably Lehman Brothers, Washington Mutual, AIG, and Merrill Lynch. The DEX Universe All Corporate Bond Index spreads widened 49 basis points to end the quarter at +211 points. Following the second quarter's new issue concession levels of 10 to 20 points, the latest round of new issuance has required concessions to secondary trading levels of 20 to 40 basis points in order to attract buyers. Even at those concession levels, all new issues performed poorly in the secondary market.

The DEX Universe All Corporate Bond Index registered a negative return of -1.12% in the third quarter against -0.90% for the DEX Federal Bond Index. The BBB Bond Index marginally outperformed this quarter with a return of -0.50% against -1.89% and -0.82% for the A and AAA/AA Bond Indices, respectively.

PERFORMANCE REVIEW

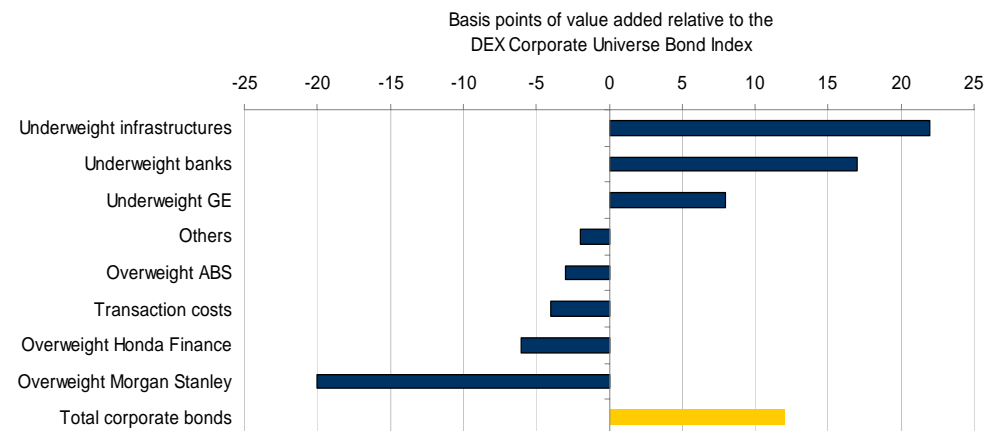
The portfolio cumulated 12 points of value added during the third quarter of 2008. Though transaction costs and overweights in Honda Finance and Morgan Stanley had a negative impact on performance, underweight positions in banks and infrastructures along with our position in General Electric contributed positively to portfolio performance.

PERFORMANCE

	3 months	YTD	1 year	4 years	Since inception (2005-12)
Fund ¹	-1.00%	0.44%	2.39%	n.d.	2.39%
Index ²	-1.12%	0.49%	2.37%	3.96%	2.49%
Added value	0.12%	-0.05%	0.02%	n.d.	-0.10%

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

PERFORMANCE ATTRIBUTION



COPORATE UNIVERSE BOND FUND

OUTLOOK AND STRATEGY

At the beginning of the quarter, 2.4% of the portfolio was invested in government bonds, a weighting that significantly increased at the beginning of August as harsh credit conditions were expected in September. We closed the quarter with an 8.3% weighting in the sector. We will maintain a minimum weight of 4% in government bonds as long as market uncertainty persists.

In spite of widening spreads since the start of the year, the current economic uncertainties and our expectations of a continuation of new issuances at important concession levels will continue to impact credit spreads in the coming months.

We introduced an underweight to our once neutral position in Financial Services, as their future funding needs and their relatively expensive valuations worry us, despite attractive spread levels.

We increased the portfolio's underweight position in banks. Since Lehman Brothers declared bankruptcy, we have been increasingly concerned about ailing banks' impact on creditors. We will wait to see signs of some market stability before considering reducing the underweight in this sector by participating in new issuances. Banks will require financing and additional capital before the end of the year; we believe spreads will therefore remain under pressure until financing is obtained.

We moved to cut the duration of our positions in energy-producing companies in half, and maintain an overweight in asset-backed securities (ABS). These securities are trading at attractive valuation levels in relation to deposit notes, despite the latter's AAA ratings. The performance of the underlying Canadian debt remains in-line with expectations, a situation that differs from that of the U.S.

Finally, we increased the underweight position in infrastructures. This sector outperformed last year, which gives us little hope of attractive returns in the near future.

TECHNICAL CHARACTERISTICS

Characteristics	Fund
Number of issuers	85
Yield to maturity	5.68%
Average spread (basis points)	235
Average credit rating	4.90

MAIN DEVIATIONS

Overweights	Fund weight	Index weight	Weight deviation	Natcan duration	Index duration	Dollar/duration
Government of Canada	8,11%	0,00%	8,11%	5,418	0,000	0,44
Canada Mortgage Acceptance Corp.	2,65%	0,00%	2,65%	0,604	0,000	0,02
Broadway Credit Card Trust	2,63%	0,50%	2,13%	3,506	3,481	0,08
XCEED (CDN mortg. backed securities)	2,13%	0,00%	2,13%	1,707	0,000	0,04
Daimler AG	2,34%	0,28%	2,07%	1,053	1,053	0,02
STARTR (TACM receivables)	1,90%	0,00%	1,90%	1,402	0,000	0,03
Enmax Corporation	1,57%	0,14%	1,43%	7,134	7,134	0,10
CCARAT (Auto loans backed securities)	1,29%	0,10%	1,19%	1,438	1,438	0,02
Honda Canada Finance Corp.	2,16%	1,14%	1,02%	3,462	3,207	0,04
Hypo Real Estate	0,98%	0,00%	0,98%	0,669	0,000	0,01

Underweights	Fund weight	Index weight	Weight deviation	Natcan duration	Index duration	Dollar/duration
CIBC	2,36%	4,70%	-2,34%	4,463	3,154	-0,04
Hydro One	0,00%	2,25%	-2,25%	0,000	8,179	-0,18
Bank of Montreal	4,50%	6,25%	-1,75%	5,348	4,460	-0,04
Scotia Bank	5,51%	7,08%	-1,57%	2,588	3,347	-0,09
Greater Toronto Airport Authority	1,35%	2,89%	-1,54%	7,200	7,732	-0,13
Spectra Energy	0,44%	1,91%	-1,47%	9,669	7,009	-0,09
National Bank	0,00%	1,24%	-1,24%	0,000	5,255	-0,07
HSBC	0,81%	1,76%	-0,95%	4,529	2,902	-0,01
TD Bank	6,31%	7,16%	-0,85%	5,576	4,655	0,02
Glacier Credit Card Trust	0,00%	0,82%	-0,82%	0,000	2,432	-0,02
NAV Canada	0,00%	0,70%	-0,70%	0,000	6,586	-0,05
407 International Inc.	0,53%	1,21%	-0,68%	10,733	7,510	-0,03

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