

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 stocks 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

Capital markets said goodbye to 2007 amidst a turbulent environment as the prevailing liquidity crisis caused credit conditions to worsen. The anticipated slowdown of the Canadian and U.S. economies, along with central banks' attempts at preventing a contagion, allowed the DEX Universe Bond Index to return 2.74% for the quarter.

Though federal bond rates remained stable throughout the past 12 months, the significant deterioration in corporate bonds caused the Index to underperform the average security with a return of 3.68%.

Government bonds outperformed corporate bonds; the credit market deterioration caused spreads to widen significantly, namely with respect to financial institutions.

PERFORMANCE REVIEW

The portfolio ended the year ahead of its benchmark. This relative outperformance mostly took its lead during the last quarter, due to an increase in portfolio duration.

During the year, our Maple Bonds cost us a few points as they fell victim to a considerable drop in market liquidity and a widening of swap spreads, to which they are often compared. It is however important to mention there is no reason to question the quality of their underlying credit.

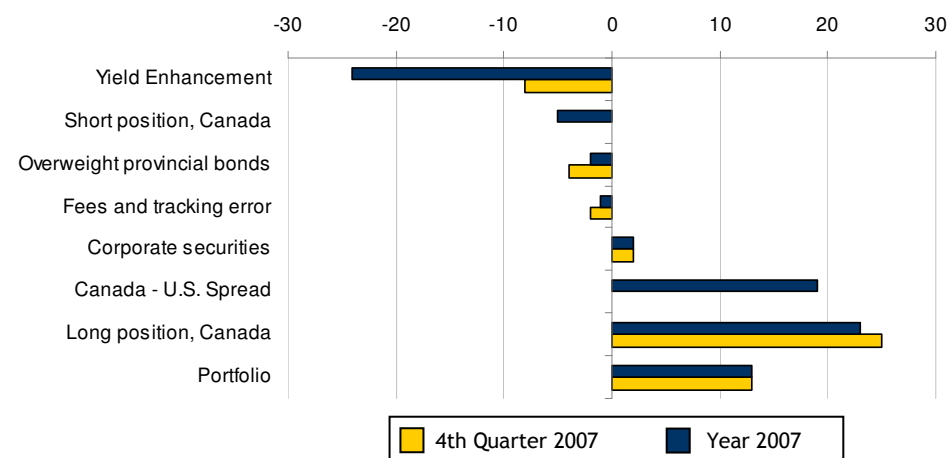
PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	2.87%	3.81%	3.81%	5.06%	6.29%
Index ²	2.74%	3.68%	3.68%	5.33%	6.26%
Added value	0.13%	0.13%	0.13%	-0.27%	0.03%

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

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

PERFORMANCE ATTRIBUTION VS THE INDEX



NATCAN CANADIAN BOND FUND

STRATEGY

By the end of the year, the portfolio duration and sector allocation had been brought back to neutral. The portfolio remains overweight AAA Supranational Agency bonds. These securities are implicitly or explicitly guaranteed by G7 or EU members, and while the current liquidity crisis has led to a considerable widening of these holdings' spreads, there is no reason to question the quality of their underlying credit. As such, we feel they constitute very attractive investments.

We are constantly seeking new deviations for the portfolio. Among the numerous opportunities created by recent market volatility, two types emerge:

- 1) Current level of credit spreads and issuer differentiation.
- 2) Level of federal bonds given the possibility of an economic slowdown and anticipated rate cuts.

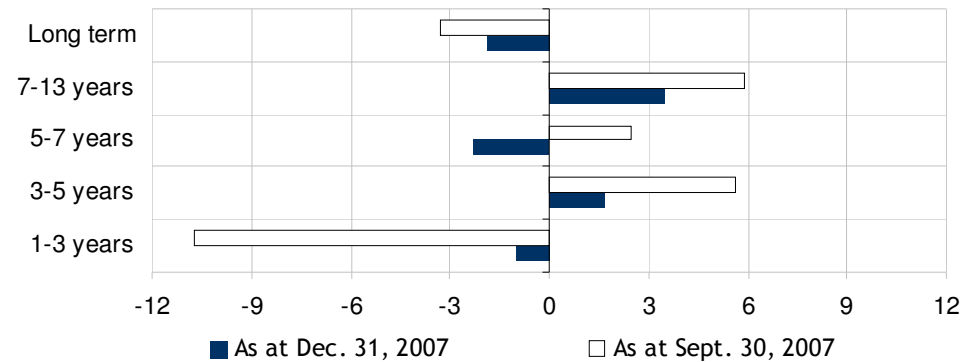
It is clear that should the economy stabilize, corporate bonds - at their current level - will become very attractive. In this context, a federal bond rate increase is also likely. A considerable deceleration would have the opposite effect.

Let us mention that we always factor in the correlation between rate and credit movements in our management process.

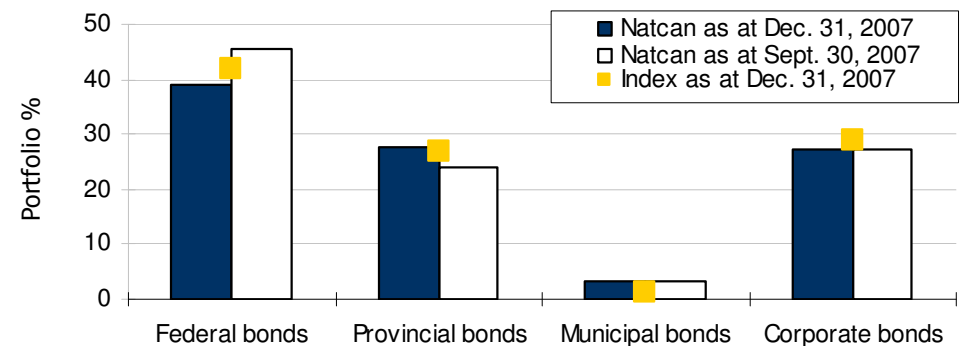
ADJUSTED DURATION

	As at December 31, 2007	As at September 30, 2007
Fund	6.56 years	6.38 years
Index	6.58 years	6.36 years

DURATION DEVIATIONS (%) VS THE INDEX



SECTOR ALLOCATION



The performance returns are calculated on a net of fees basis. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation of offering of units of any fund or other security in any jurisdiction. This publication is intended for your private information. The information and opinions herein are provided for informational purposes only, are subject to change based on market and other conditions. The views expressed should not be relied upon as the basis for your investment decisions. Past performance is not necessarily indicative of future performance. This document is not and should not be construed as a solicitation or offering of units of any fund or other security in any jurisdiction. No part of this publication may be reproduced in any manner without the prior written permission of Natcan Investment Management Inc.