

NATCAN CORPORATE BOND FUND

Management Approach We are partial to diversification based on sector and issuers so offset volatility and lessen the potential impact of losses caused by defaults. We also have a positive bias for companies with a BBB credit rating, which we consider to be solid issuers. This strategy stems from our definite preference for quality issues with a competitive advantage and our ongoing focus on capital preservation. We therefore avoid mediocre issuers, even if they have reasonable debt levels. We have a preference for sectors and companies that are structurally stable, and we place as much importance on monitoring securities, as on selecting them. We prefer not to introduce any deviations with respect to duration and we favour bonds with maturities that vary from 5 to 10 years.

MARKET OVERVIEW

The fourth quarter of 2007 was just as difficult its predecessor. The liquidity crisis triggered by the U.S. sub-prime market and furthered by increasing signs of a recession in the U.S. have motivated investors to trim their riskier positions. As such, the period saw mid-term corporate spreads widen by an average of 0.38% (to 1.46%), compared to 0.34% during the third quarter. The bulk of this movement took place in November. As in the previous quarter, the widening is not correlated with credit ratings but with activity sectors. Thus, the average spread increased 0.43% (to 1.36%) for AAA/AA, 0.32% (to 1.35%) for A, and 0.33% (to 1.86%) for BBB.

Due to this retrenchment in spreads, the corporate sector underperformed the DEX Mid-Term Corporate Bond Index by 0.73%. AAA/AA securities underperformed A's, which in turn underperformed BBB's. Asset-backed securities posted the worst sector performance with 0.76%. Let us mention that this sector is made up of AAA securities. The best performances came from communication securities with 2.81% and infrastructure holdings with 2.50%. After posting a decent return in October, the Financial Services sector lost ground to close the quarter with a return of 1.41%. Brokers also underperformed in the fourth quarter because of sub-prime management issues and asset write-offs. However, since most issuers are foreign, their performance did not have a big impact on the index.

PERFORMANCE REVIEW

The portfolio's fourth quarter underperformance is essentially a result of an overweight position in asset-backed securities. The portfolio carried 4.45% of CBMS, non-index components, which shed 7.4 basis points from performance. A slight overweight in ABS also cost us 0.9 basis points. We benefited from an underweight in Financials, but it was neutralized by the portfolio's underweight position in GE Capital (4.9% in the portfolio and 7.4% in the Index). Finally, let us mention that 1 basis point came from the portfolio's overweight in infrastructures, and 0.7 basis point was taken by an underweight position in communications.

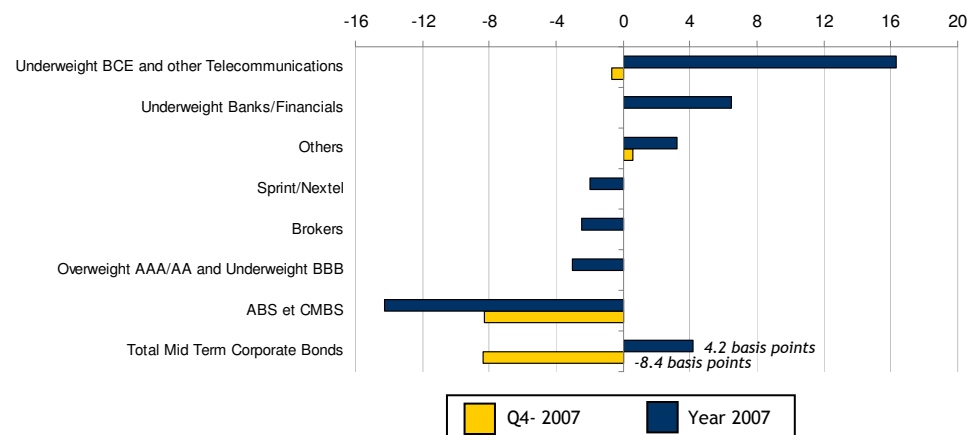
PERFORMANCE

	3 months	YTD	1 year	4 years	Since inception (1999-11)
Fund ¹	1.54%	1.03%	1.03%	4.84%	7.35%
Index ²	1.63%	0.99%	0.99%	4.96%	7.23%
Added value	-0.09%	0.04%	0.04%	-0.12%	0.12%

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

We increased the portfolio's underweight in banks, from -9.5% to -12.7%. This remains the largest underweight position in the portfolio. We are concerned about BMO and CIBC's exposure to the U.S. sub-prime crisis, and await further clarification to reduce this underweight. In light of this, the underweight position in Financials increased accordingly, from -6.6% to -8.7%, which was beneficial in the fourth quarter. The underweight in Tier-1 banks (junior debt) increased as well, from -0.7% to -2.4%. Conversely, we increased the overweight in infrastructures (+0.3% to 3.0%), a very defensive sub-sector at this time.

The portfolio remains overweight government bonds; despite the significant widening of spreads during the fourth quarter, we believe the current economic uncertainty, combined with our expectation of an increase in new issuance activity at spread concession, should keep some pressure on credit spreads over the coming months.

Over the coming months, we will reduce our underweight in credit instruments by participating in new issues at favorable pricing relative to secondary trading levels. Financial spreads, especially deposit and subordinated notes, are attractive, which could motivate us to overweight them over the next quarter once the current liquidity crisis shows signs of stabilizing.

TECHNICAL CHARACTERISTICS

Characteristics	Fund
Number of issuers	63
Yield to maturity	5.24%
Average spread (basis points)	136
Average credit rating	A+

MAIN DEVIATIONS

Overweight	Fund Weight	Index Weight	Weight Deviation	Fund Duration	Index Duration	Dollar/Duration
DaimlerChrysler AG	3,37%	0,55%	2,82%	1,431	1,485	0,04
CMACI (TACM mortgages CAD)	2,44%	0,00%	2,44%	1,316	0,000	0,03
REALT (CMBS)	2,43%	0,00%	2,43%	5,963	0,000	0,14
XCEED (TACM mortgages CAD)	2,00%	0,05%	1,95%	2,327	1,223	0,05
STARTR (TACM receivables)	1,81%	0,00%	1,81%	2,062	0,000	0,04
Morgan Stanley	1,78%	0,00%	1,78%	3,644	0,000	0,06
Government of Canada	1,69%	0,00%	1,69%	13,164	0,000	0,22
FFAST (TACM auto)	1,96%	0,42%	1,54%	2,730	2,251	0,04
GMAC	1,51%	0,00%	1,51%	0,158	0,000	0,00
Arcelor Mittal	1,41%	0,00%	1,41%	1,144	0,000	0,02

Underweight	Fund Weight	Index Weight	Weight Deviation	Fund Duration	Index Duration	Dollar/Duration
Bank of Montreal	3,28%	5,83%	-2,56%	4,489	4,376	-0,11
Royal Bank	5,51%	7,97%	-2,46%	4,038	3,750	-0,08
CIBC	2,12%	4,48%	-2,36%	2,520	3,399	-0,10
Hydro One	0,37%	2,55%	-2,18%	7,575	8,954	-0,20
Bank of Nova-Scotia	3,14%	5,14%	-2,00%	5,443	4,083	-0,04
HSBC	0,47%	2,21%	-1,75%	6,648	3,055	-0,04
National Bank	0,00%	1,02%	-1,02%	0,000	4,242	-0,04
Yellow Pages	0,00%	1,00%	-1,00%	0,000	5,923	-0,06
Spectra Energy	0,85%	1,84%	-0,99%	8,238	7,252	-0,06
GENSIS Trust	0,00%	0,95%	-0,95%	0,000	2,565	-0,02

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