

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 securities 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

The last quarter of the year proved to be the worst for financial markets. Lehman Brother's bankruptcy in the third quarter caused much anguish within financial markets. Several interventions were initiated by central banks and governments in the fourth quarter to prevent other major financial institutions from succumbing to the same fate. Nevertheless, the global recession is weighing heavily on credit markets, and government bonds – particularly federal bonds – are still considered the safe havens of choice.

In the fourth quarter of 2008, the DEX Universe Bond Index registered a solid return of +4.50%. This performance is made up of a 6.47% performance by government bonds while corporate bonds closed the period on a negative note, with a return of -0.25%. The leading performance vectors were:

- A noticeable decrease in government bond rates, following the aggressive decrease of central bank rates.
- An increasing rate curve; central banks are lowering short-term rates to almost zero, thus increasing the difference between long-term and short-term rates.
- A significant increase of the liquidity premium. All less liquid securities are suffering, regardless of their underlying quality (provincial, municipal, government agency and corporate bonds).
- A significant degradation of economic conditions, thus increasing the credit risk.

PERFORMANCE REVIEW

During the last quarter of 2008, the portfolio underperformed its benchmark due to an overweight in provincial and foreign government agency bonds. Market liquidity has significantly deteriorated in recent months. Balanced mandates were often forced to sell-off a large number of bonds to compensate for the sharp decline in stock markets. Overall, less-liquid securities underperformed their most liquid peers, being federal government bonds.

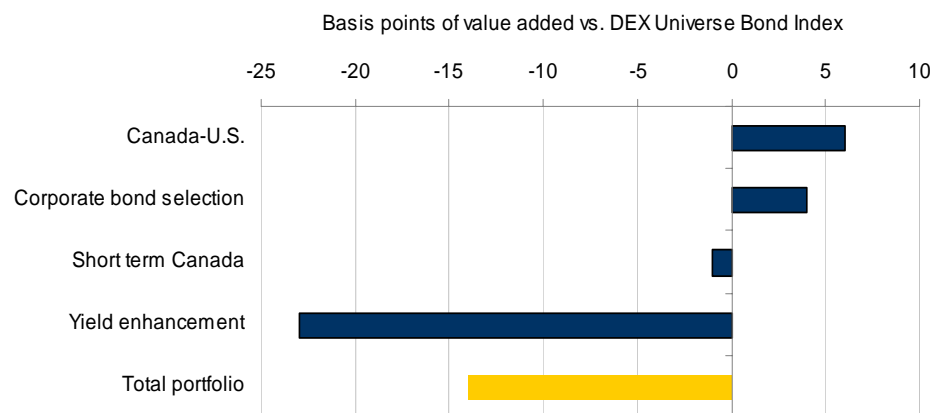
PERFORMANCE

	3 months	YTD	1 year	4 years	10 years
Fund ¹	4.36%	6.07%	6.07%	4.96%	5.92%
Index ²	4.50%	6.41%	6.41%	5.14%	5.99%
Added value	-0.14%	-0.34%	-0.34%	-0.18%	-0.07%

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

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

PERFORMANCE ATTRIBUTION



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OUTLOOK AND STRATEGY

We have started to increase our exposure to provincial bonds. We believe that the degradation of these securities, caused by the massive sell-off currently underway, created an interesting investment opportunity. Short-term bonds are trading for 120 basis points more than federal bonds. Holding term securities have become an attractive option and we intend on adding to this position in the coming months.

We are maintaining an overweight in Maple Bonds written in Canadian dollars. These securities are explicitly guaranteed or guaranteed by G7 governments. Moreover, Canadian securities are often trading at more than 100 basis points above comparable securities from the same issuer written in US dollars, sterling pounds or euros.

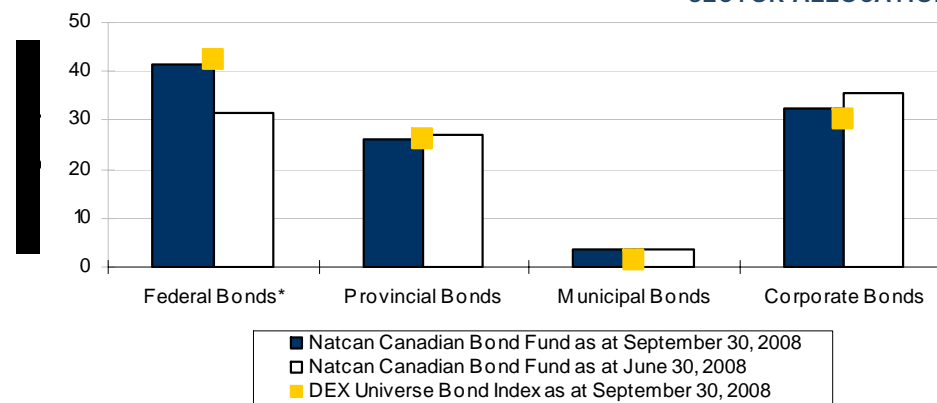
We are also maintaining an overweight in short-term Canadian bank deposit notes (Toronto Dominion Bank, Royal Bank, and Scotia Bank). The federal government has instituted many measures to maintain the Canadian banking system, including the buyback of more than 75 billion dollars worth of guaranteed mortgages which enabled the injection of a substantial quantity of liquidities. This mean solidifies the system and paints an optimistic picture of the highest ranked securities within the banks' capital structure.

Lastly, we initiated a new position to benefit from the flatter rate curve. While the recent rate decrease in the US was accompanied by an important flattening of the rate curve, the Canadian curve remains rather steep. Since mid-November, the 5-30 year US curve flattened by 85 basis points. During the same period, the Canadian curve climbed 32 basis points. In our opinion, this behaviour variation is unjustified and we thus positioned the portfolio accordingly.

ADJUSTED DURATION

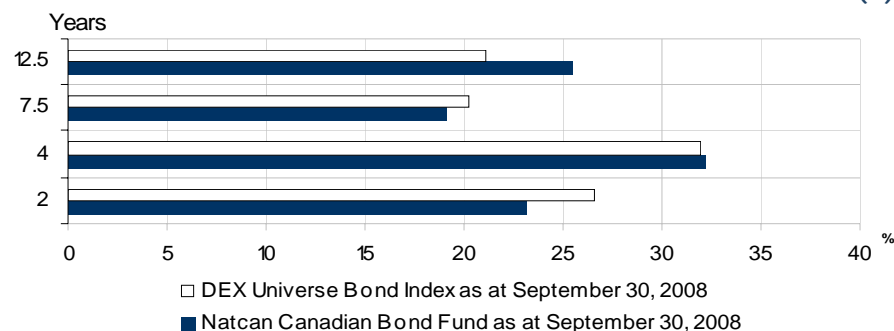
	As at December 31, 2008	As at September 30, 2008
Fund	6.14 years	6.74 years
Index	6.18 years	6.16 years

SECTOR ALLOCATION



Note: Most Supranational Agency bonds issued in Canadian currency are considered under Federal bonds. A small percentage can also be found under Corporate bonds.

DURATION DEVIATIONS (%)



* Duration points are interpolated between these four points. Shorter and longer bonds are placed in the 2 and 12.5 buckets respectively.

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