

NATCAN CORPORATE 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 volatility experienced in the third quarter continued in the fourth quarter of 2008. In Canada, the spreads of the DEX MID Corporate Index widened by 179 basis points in the last three months to end the year at +438. New issuance reignited in the US with Financials corporations issuing under the Government guarantee scheme. High quality non-financial also tapped the market with concessions in the 100 basis points range. In Canada, new issuance was very modest with only some non-financials hitting the market in the five year area of the curve at decent spread concessions. Those new issues performed poorly in the secondary market. In early December, the decision by Deutsche Bank not to redeem one of their upcoming maturities in fix-floater subordinated debt (first large bank to use its option to extend) sent shockwaves throughout the credit markets around the world.

The DEX Mid Corporate Index returned -1,21% during the quarter as opposed as +9,00% for the DEX Mid Federal Bond Index. Most of the negative performance came from the A rated sector with a return of -2,88%, followed by the BBB rated sector with -1,48%. Financials and Infrastructure were responsible for the poor return of the A rated sector.

PERFORMANCE REVIEW

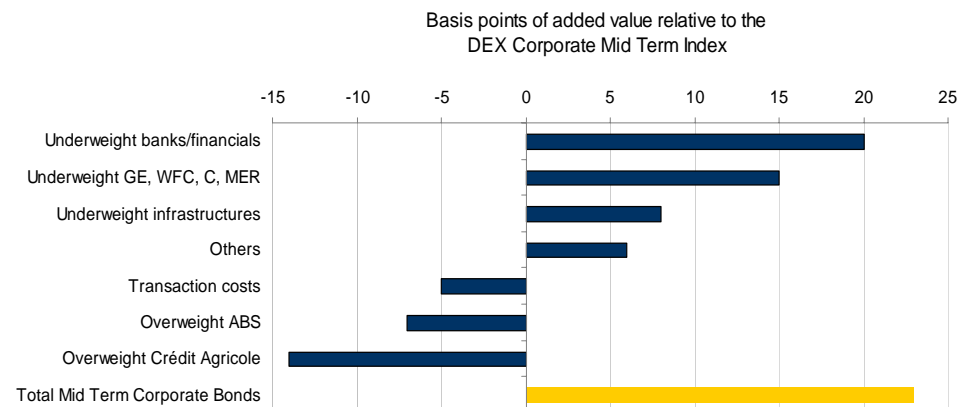
The portfolio cumulated value added versus the index during the last quarter of 2008. Though underweight in communications and overweights in asset back securities (ABS) and provincials had a negative impact on performance, this was largely compensated by underweight positions in banks, Industrials, Energy and infrastructure, which contributed positively to portfolio performance.

PERFORMANCE

	3 months	YTD	1 year	4 years	Since inception (1999-11)
Fund ¹	-0.52%	-0.30%	-0.30%	2.73%	6.48%
Index ²	-1.21%	-1.21%	-1.21%	2.60%	6.85%
Added value	0.69%	0.91%	0.91%	0.13%	-0.37%

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

PERFORMANCE ATTRIBUTION



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OUTLOOK AND STRATEGY

Our overweight in Government bonds was increased by purchasing provincial bonds at their historical wides. Economic uncertainty and new issuances with significant spread concessions continues to bring weakness in the credit markets. With spreads at current levels though, it is now less interesting being that much underweight credit. We will look to reduce this position considerably in the first quarter of 2009 by participating in new issues. We should participate in most new issues that show a considerable spread concession while getting cautious not to become overweight aggressively.

Our underweight in banks was increased, mostly by selling Senior bank papers, which we are now flat compared to the index. Banks around the world need capital to cope with the challenging economic environment. We remain underweight the most subordinated part of the banks capital structure and will increase our weighting on expected new issuance with attractive terms and conditions.

We increased our underweight in infrastructures, mostly by selling Utilities bonds. Infrastructures were expensive throughout the year and became under pressure during the last quarter. The recent new issue concessions re-priced the sector. We also increased our underweight in Industrials by selling BBB bonds. The underweight in industrials. An economy slowdown surely will affect negatively the manufacturing companies and retailers in the first place.

The portfolio became underweight in Communication by selling telecommunication names. We also experienced outflows of 35MM\$ during the quarter, nearly 7% of the total fund which negatively impacted the relative performance of the fund due to the severe illiquidity of the market.

TECHNICAL CHARACTERISTICS

Characteristics	Fund
Number of issuers	47
Yield to maturity	6.28%
Average spread (basis points)	413
Average credit rating	5.76

MAIN DEVIATIONS

Overweights	Fund weight	Index weight	Weight deviation	Fund duration	Index duration	Dollar/duration
Government of Canada	6,57%	0,00%	6,57%	4,414	0,000	0,29
Province of Quebec	3,20%	0,00%	3,20%	7,281	0,000	0,23
Industrial Alliance	1,77%	0,24%	1,53%	4,388	4,671	0,07
Enmax Corporation	1,98%	0,50%	1,48%	6,999	6,999	0,10
TD Bank	12,22%	10,95%	1,27%	6,190	6,185	0,08
CIBC Bank	4,61%	3,43%	1,18%	6,214	5,327	0,10
Teranet	1,10%	0,00%	1,10%	6,244	0,000	0,07
Alliance Pipeline	1,54%	0,58%	0,96%	4,437	2,987	0,05
HSBC Bank	2,12%	1,23%	0,89%	5,862	6,009	0,05
Manulife Financial	3,29%	2,51%	0,78%	6,595	6,217	0,06

Underweights	Fund weight	Index weight	Weight deviation	Fund duration	Index duration	Dollar/duration
Bank of Montreal	9,08%	13,31%	-4,23%	6,310	6,053	-0,23
National Bank	0,00%	2,15%	-2,15%	0,000	5,667	-0,12
Hydro One	0,00%	1,85%	-1,85%	0,000	6,507	-0,12
Molson/Coors	0,00%	1,39%	-1,39%	0,000	5,465	-0,08
Encana	0,00%	1,27%	-1,27%	0,000	6,689	-0,08
Greater Toronto Airport Authority	1,53%	2,71%	-1,19%	7,078	6,336	-0,06
Shaw Communications	0,00%	1,14%	-1,14%	0,000	5,985	-0,07
Royal Bank	5,72%	6,58%	-0,86%	4,931	5,161	-0,06
Fortis Inc	0,73%	1,55%	-0,82%	4,695	5,114	-0,04
Wells Fargo	0,88%	1,59%	-0,70%	5,513	5,513	-0,04

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