

# Morguard Sunstone Real Estate Income Fund

MSN.UN

September 30, 2010

## Investment Objectives:

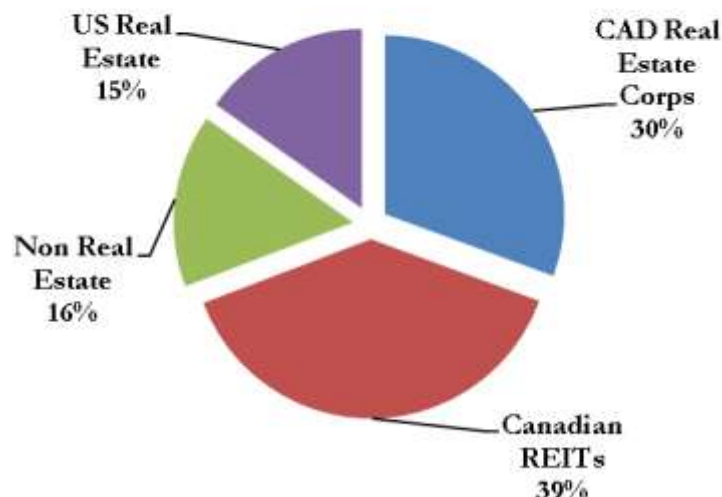
The fund is invested in an actively managed diversified portfolio of publicly traded real estate securities including primarily Canadian and US Real Estate Income Trusts ("REITs") and real estate operating companies and the companies that provide services to them. Morguard and Sunstone are experienced real estate investors, owners and operators with significant investment and operational history in both the public and private real estate markets.

## Quick Facts

<b>Inception:</b>	July 6, 2010.
<b>Investment Manager</b>	Morguard Financial Corp.
<b>Manager</b>	Sunstone Realty Advisors Inc
<b>Total Assets</b> (Sept. 30, 2010)	\$30,497,744
<b>Distributions:</b>	\$0.05417 /share per month
<b>NAV</b> (Sept. 30, 2010)	\$10.30
<b>TSX Symbol/Cusip:</b>	MSN.UN / 61759T101

## Portfolio Composition

(as at September 30, 2010)



## Top 25 Holdings (as at September 30, 2010)

		%
1	Dundee Real Estate Investment Trust	5.99
2	Brookfield Properties	5.27
3	First Capital Realty Inc.	5.08
4	Altus Group Income Fund	5.07
5	RioCan Real Estate Investment Trust	4.28
6	Just Energy Income Fund	4.08
7	Killam Properties Inc.	3.98
8	Artis Real Estate Investment Trust	3.85
9	Pure Industrial Real Estate Trust	3.13
10	Homburg Canada Real Estate Investment Trust	2.96
11	Digital Realty Trust Inc	2.92
12	Canadian Real Estate Investment Trust	2.56
13	Leisureworld Senior Care Corporation	2.52
14	Camden Properties Trust	2.43
15	Transglobe Apartment REIT	2.39
16	Annaly Capital Management Inc.	2.38
17	Calloway Real Estate Investment Trust	2.38
18	Simon Property Group Inc	2.35
19	Apollo Commercial Real Estate Finance	2.17
20	Capital Power Income LP	2.15
21	Cominar Real Estate Investment Trust	2.13
22	Medical Facilities Corp.	2.13
23	Crombie Real Estate Investment Trust	2.10
24	Northland Power Income Fund	2.09
25	Firm Capital Mortgage Investment Trust	1.97

## Commentary:

REITs and real estate operating companies with strong balance sheets, responsible capital structures, good quality assets and management teams continued to perform well over the last quarter. We feel several factors could drive up unit prices in the real estate sector:

First, we expect capitalization rates in Canada will continue to decrease amid increased demand for assets spurred by the vastly improved Canadian credit market.

Second, on January 1, 2011, most business, infrastructure, and oil and gas royalty trusts will become taxable. REITs, however, are largely exempt. We believe REITs and real estate related securities will continue to benefit from a flow of funds away from Income Trusts.

Third, we expect the trend towards income investing to be long-lasting. Canadian real estate is a natural fit for income-seeking investors. REITs provide tax-efficient, recurring monthly income.

On a weighted average basis, TSX-listed REITs are averaging a 6.3% yield. The high yields available in the sector are enticing, particularly if equity markets make little net progress in this low growth environment.