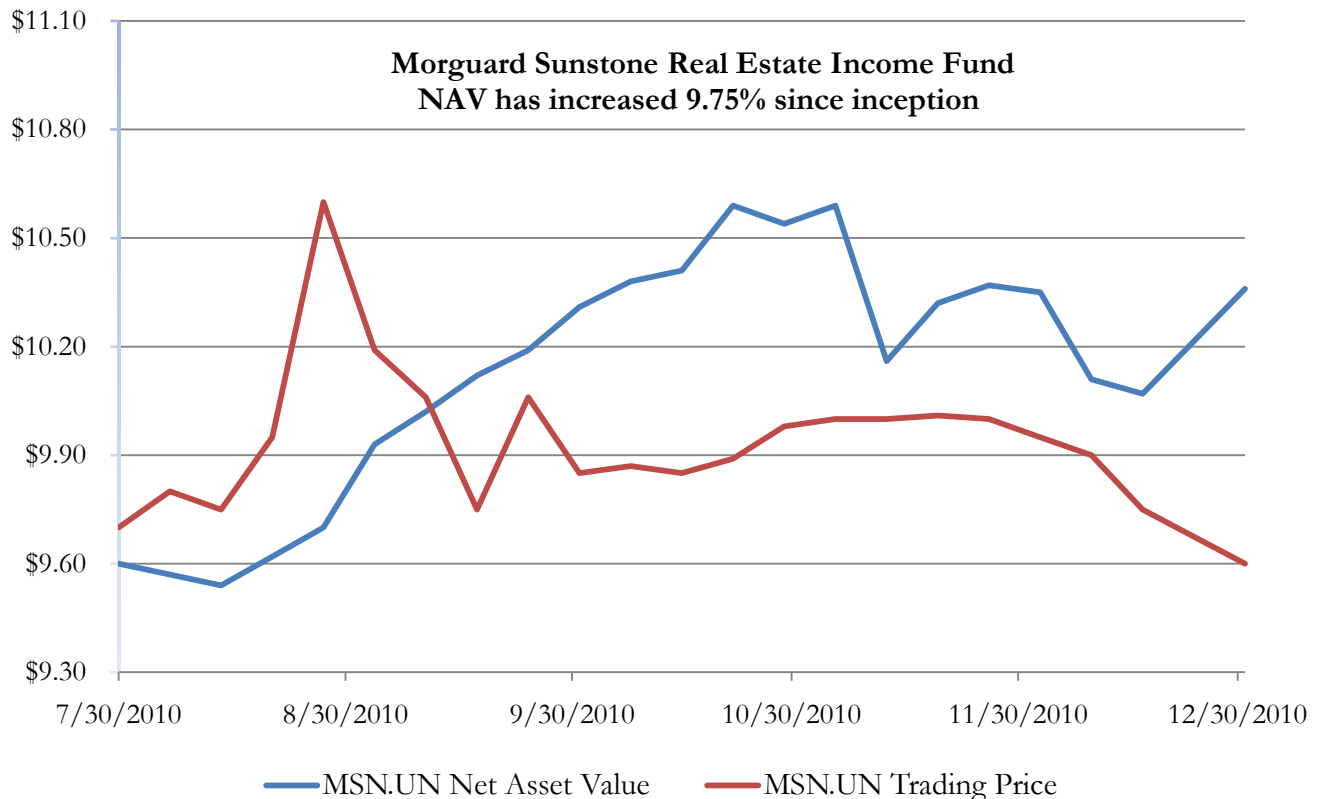


## Canadian REITs Continue to Shine

Investors in the Morguard Sunstone Real Estate Income Fund had a great 2010, as Canadian real estate had another year of strong positive returns. Not only has the fund been a great source of income, paying out 65 cents per unit annually, but investors also saw the NAV of the fund increase to \$10.36 by year end.



### Morguard Sunstone Real Estate Income Fund Top 10 Holdings (%)

Dundee Real Estate Investment Trust	5.77
Brookfield Properties	4.79
First Capital Realty Inc.	4.12
Altus Group Limited	3.74
Killam Properties Inc.	3.56
Just Energy Group Inc.	3.47
Pure Industrial Real Estate Trust	3.09
Artis Real Estate Investment Trust	3.06
Homburg Canada Real Estate Investment Trust	2.72
RioCan Real Estate Investment Trust	2.52

Since the Fund launch in July, Canadian REITs have been living up to their reputation as sources of long term value. The underlying valuation of the properties has been increasing as confidence has returned to the real estate markets. The REITs have benefited from their strong balance sheets, and have focused on accretive acquisitions. The low interest rate environment has also allowed them to improve their debt schedules, locking in rates for longer periods of time, while still maintaining responsible overall debt levels. The result is both increased visibility and higher quality of the overall earnings stream from these companies, combined with an underlying asset base that has appreciated significantly. The Fund remains focused on quality assets with long term stability of income as it maintains its diversified approach to the real estate markets.

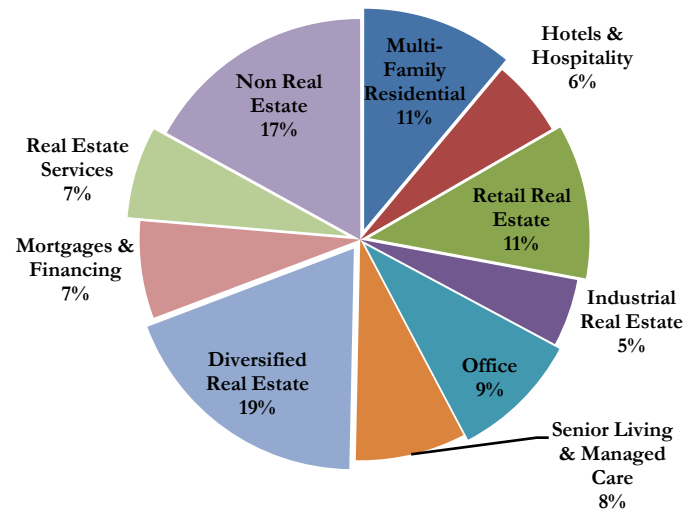
Sources: Table: National Bank  
Pie Chart: Morguard  
Price Graph: Bloomberg

Top 5 Gainers as at December 31, 2010	\$ Gains
Artis Real Estate Investment Trust	397,480.45
Dundee Real Estate Investment Trust	279,891.23
Killam Properties Inc.	225,757.60
Brookfield Properties Corp.	208,070.00
Pure Industrial Real Estate Investment Trust	196,274.81

Sources: Table: National Bank

Pie Chart: Morguard

## Diversified Investment Base



As has been the case for the last two years at least, real estate securities are benefiting from the current market's search for yield. This process has been aided by both the perceived security of the real estate sector and the elimination of most other trusts by year end 2010. This conversion process is now complete and while many of the old trusts still provide a very good source of yield, many REITs and REOCs on a risk/reward basis are still the best source of high income coupled with prospects for moderate growth. While our main focus of this year was establishing a strong base of income producing securities, we also took advantage of market movements to lock in gains when the opportunities arose. Since inception, the Fund has booked over \$600,000 in realized gains. As of year end the fund is just over 82% hedged against our US Dollar position. Leverage as of year-end is 18%.

We are expecting continued economic growth and with that some potential challenges with interest rates. With this in mind we are and will be giving a higher weighting to growth opportunities/sectors and emphasizing REITs and REOCs with very responsible debt policies. At some point there will be an interest rate move or concern that will cause a downside shock, but the benefit of growth will predominate and any such weakness will be perceived by us to be a chance to buy into a very attractive sector. Early in Q1 of 2011 have already begun to posture the fund for such moves and will be looking at any price weakness as an opportunity to buy quality cash flow streams at a discount. In conclusion this sector deserves and will get ever more attention.



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