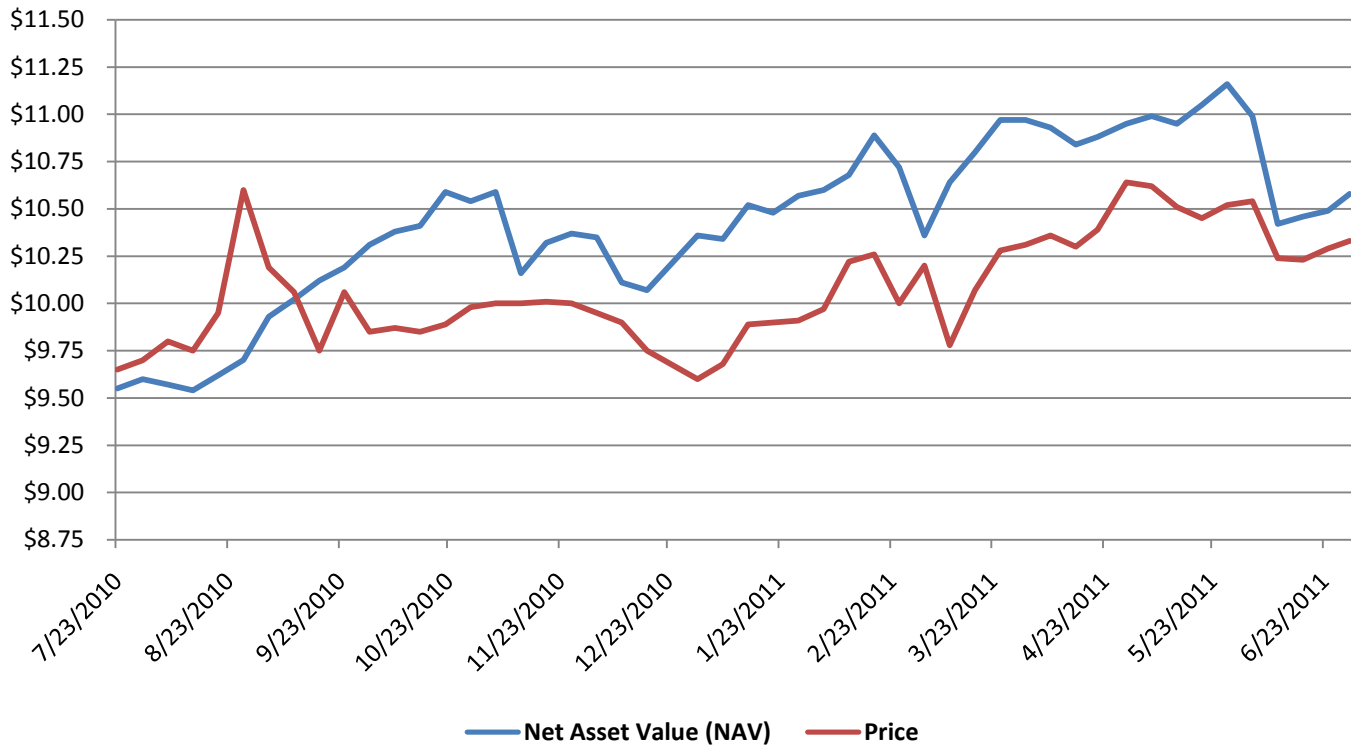


MORGUARD SUNSTONE REAL ESTATE INCOME FUND

MSN.UN Price and NAV



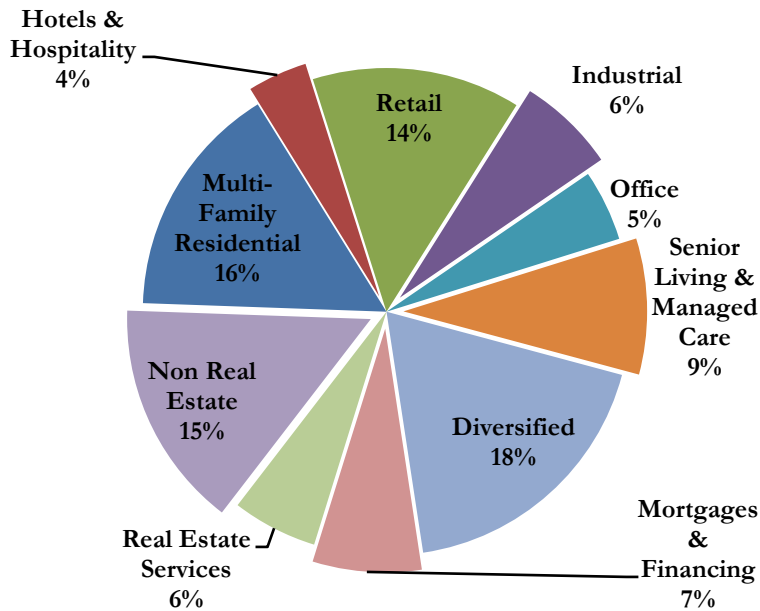
Building on the strong 2010, the Morguard Sunstone Real Estate Income Fund (the “Fund”) continued to perform very well during the first half of 2011. The Fund has continued to be a steady source of income, paying out 65 cents per unit annually, and has held up very well in the face of economic turmoil. Over the first half of the year the total return of the traded units is 11.07% compared to 0.16% for the S&P/TSX Composite and 9.2% for the S&P/TSX Capped Real Estate Index.

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

First Capital Realty Inc.	4.40
Dundee Real Estate Investment Trust	4.34
Pure Industrial Real Estate Trust	3.59
Homburg Canada REIT	3.39
Killam Properties Inc.	3.31
Transglobe Apartment REIT	3.04
Leisureworld Senior Care Corporation	2.90
Extendicare REIT	2.78
Artis Real Estate Investment Trust	2.62
Boardwalk Real Estate Investment Trust	2.58

Since the Fund launch in July of last year, Canadian REITs have been living up to their reputation as sources of long term value. Despite the many global risks that have assailed the markets over the last 6 months, Canadian real estate securities have remained strong. While these have benefitted from the combination of a stable Canadian economy and low interest rates, we have also seen the fruition of the risk reduction strategies put in place by management, namely the staggering and balancing of lease and debt maturities, maintaining the cap-ex requirements of their properties, and the utilization of the strong equity markets as currency in which to improve the overall quality of their portfolios with targeted acquisitions. In the US commercial real estate has also been strong as the risk premium has dissolved for the higher quality names, and apartments in particular have benefitted from the housing crisis.

Diversified Investment Base



Source: Morguard

The core holdings of the portfolio have performed well, though there were still some slight strategic shifts that were undertaken in the first half of the year. Most notably, we reduced our office exposure from 9% to 5%, taking some profits and also exiting our position in Corporate Office Properties, a US REIT whose main tenant is the US government. We in turn added to our multifamily and retail positions. The changes in multifamily were buys of Northern Properties REIT and TransGlobe REIT, while our retail additions were a combination of Primaris REIT as well as some smaller deep value positions in the US and Canada that we feel will play out quite well over the long term. While our percentages in seniors housing did not change, we did make some changes out of Chartwell REIT and into Leisureworld and Amica Mature Lifestyles, which we believe to have lower risk.

Of our top 5 performing holdings, 3 were US REITs, namely Camden Property, Digital Realty, and Simon Properties, each with returns ranging from 18% to 22% for the 6 month period. On the negative side, the fund suffered from exposure to Armtec Infrastructure Inc., which was down sharply on a covenant breach surprise and subsequent dividend suspension, and from Altus Group, which was down after announcing a transaction that the market apparently did not approve of. While any losses are of course disappointing, our strong overall numbers and market beat point to the advantage of a diversified portfolio that focuses on core assets, while still open to growth opportunities. For the 6 months ended June 30th our trading strategies booked over \$550,000 in realized gains. As of the end of the second quarter the fund is essentially fully hedged against our US dollar position. Leverage as of quarter-end is 18.6%. While REITs have had a great run, we remain bullish on overall returns and believe that our focus on strong risk adjusted income backed by high quality real estate will continue to benefit our end investors. We expect this fund to do well in an extended environment of slow but positive economic results.



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