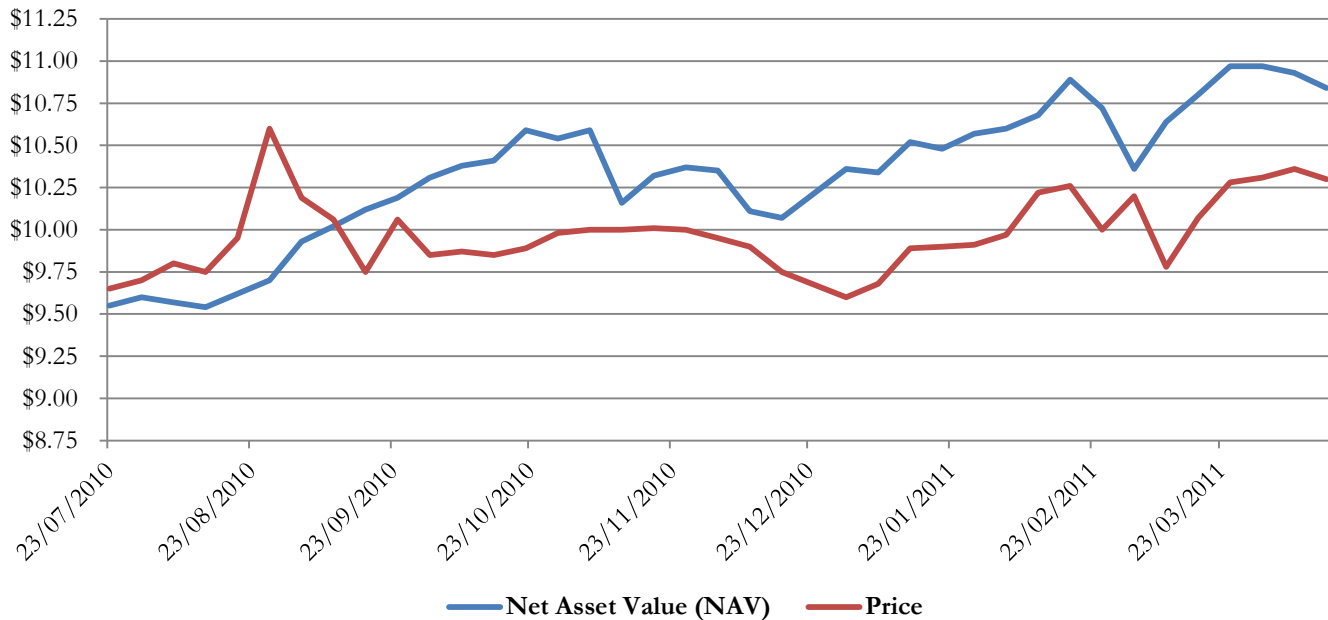


MORGUARD SUNSTONE REAL ESTATE INCOME FUND

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 quarter of 2011. The Fund has continued to be a steady source of income, paying out 65 cents per unit annually, and also seeing a steady increase in the NAV of the fund to \$10.97 by year end, rising on the back of strengthening Canadian real estate fundamentals.

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

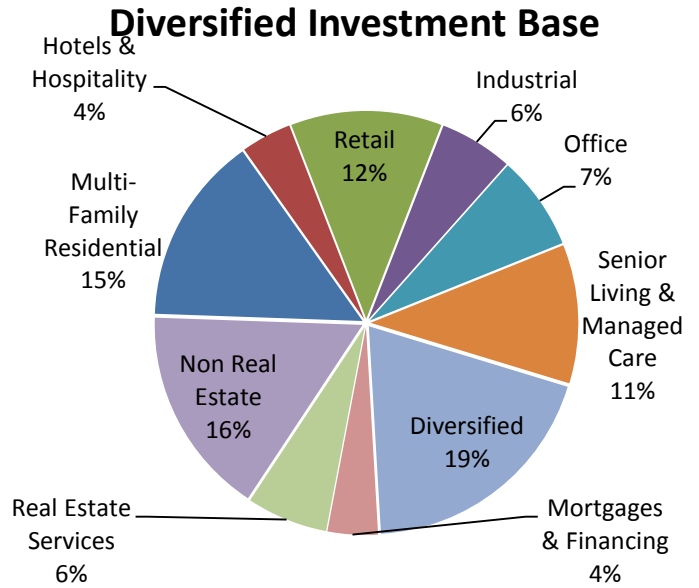
Brookfield Properties	5.24
Dundee REIT	5.05
First Capital Realty Inc.	4.90
Extendicare REIT	3.88
Homburg Canada REIT	3.72
Killam Properties Inc.	3.65
Altus Group Limited	3.63
Pure Industrial Real Estate Trust	3.39
Transglobe Apartment REIT	3.39
Just Energy Group Inc.	3.07

Since the Fund launch in July, Canadian REITs have been living up to their reputation as sources of long term value. The confidence in the sector has certainly returned, with over \$1.3 Billion being raised in the first quarter by the Canadian REITs and real estate operating companies. The REITs are using their strong balance sheets to focus 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. As the overall economy improves, we are starting to see rent growth again, especially in the office and industrial sectors, which illustrates the strength of the income streams in this asset class. Going forward we see the Fund continuing to benefit both from the solid cash flow generated from the portfolio, as well as possible upside as commercial real estate continues to increase in value.

Sources: Table: National Bank
Price Graph: Bloomberg

Top 5 Gainers as at March 31, 2011	\$ Gains
Artis Real Estate Investment Trust	397,752.15
Dundee Real Estate Investment Trust	344,922.31
Mid America Apartments	320,469.78
Medical Facilities	280,500.00
Extendicare REIT	265,788.00

Sources: Table: National Bank
Pie Chart: Morguard



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. 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. For example, over the recent quarter we were net sellers of retail REITs, as news of an increased number of US retailers moving into Canada brought new investors into the area and prices were pushed higher. We however believe that this growth will be tempered by a Canadian consumer pullback, thus while not bearish on these entities, we have taken some gains and are looking to come back in at more reasonable levels. As of quarter end the fund is fully hedged against our US dollar position. Leverage as of quarter-end is 17%.

Real estate securities remain an excellent source of high, sustainable, tax-advantaged income. The portfolio has performed well, fuelled by strengthening economic fundamentals. With this growth of course comes the potential challenge of rising interest rates. With this in mind we continue to give a higher weighting to growth opportunities/sectors while emphasizing REITs and REOCs with very responsible debt policies. At some point in the future there will be an interest rate move or concern that will likely have a short term negative effect on this sector, 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 income-producing, hard asset class. We remain bullish on the real estate sector as a whole.



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