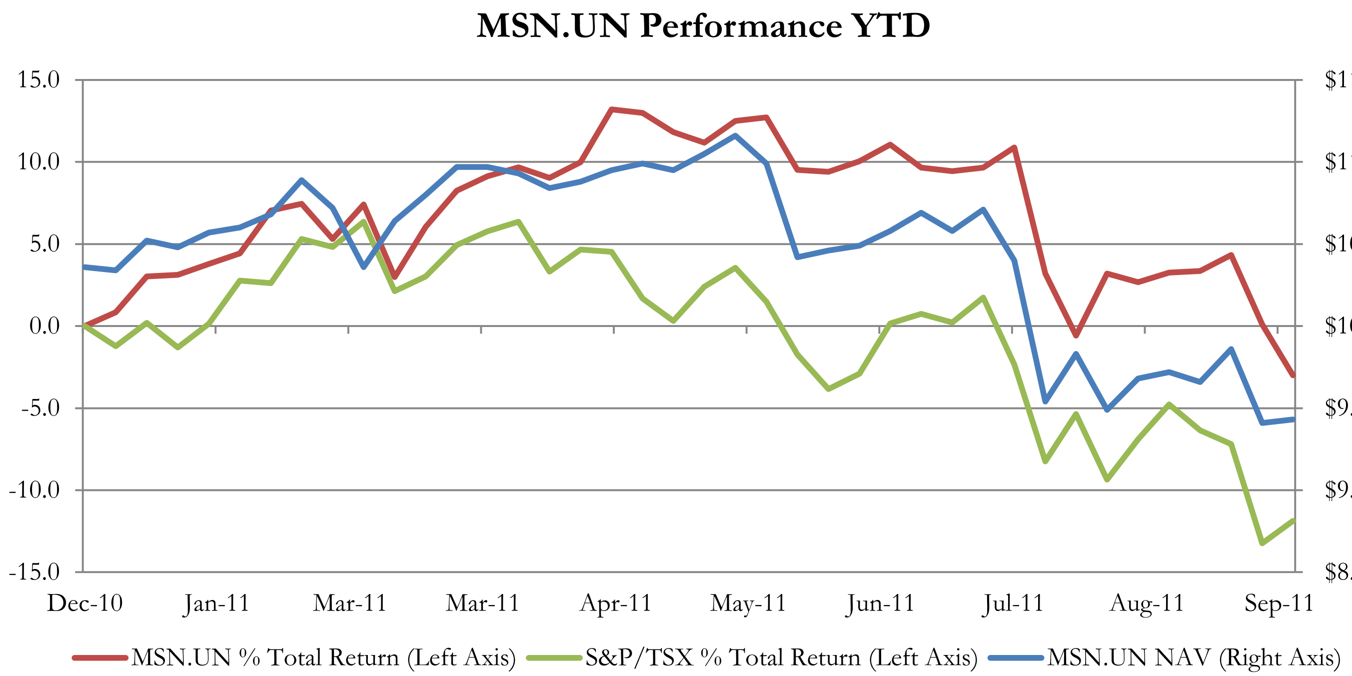
MORGUARD SUNSTONE REAL ESTATE INCOME FUND



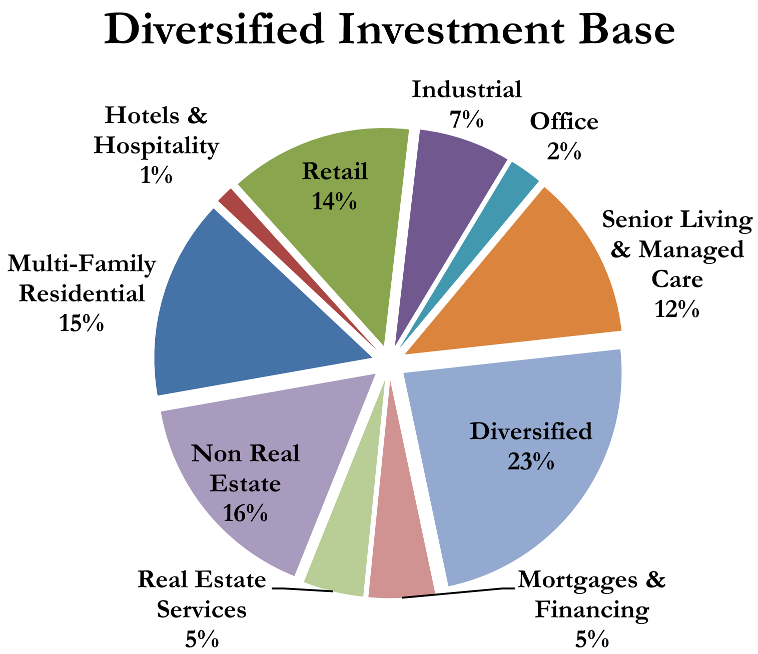
Real Estate has proven to be safe haven during these turbulent economic times. Year to date to September 30, 2011, the fund units have returned -3% compared to -11.88% for the S&P/TSX Composite Index. The Fund has continued to be a steady source of income, paying out 65 cents per unit annually. We remain confident in the overall performance of the fund and feel that especially in light of the global economic turmoil combined with a low interest rate environment, Canadian real estate should perform quite well.

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

Dundee Real Estate Investment Trust	5.78
First Capital Realty Inc.	5.77
CANMARC REIT	4.10
Killam Properties Inc.	4.06
Canadian REIT	3.79
Pure Industrial Real Estate Trust	3.68
Leisureworld Senior Care Corporation	3.47
Transglobe Apartment REIT	3.33
Brookfield Infrastructure Partners	3.10
Boardwalk Real Estate Investment Trust	2.92

Sources: Table: National Bank
Price Graph: Bloomberg

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 9 months, Canadian real estate securities have remained quite stable. 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. During the third quarter there was increased volatility in stocks that had any perceived risk, and this opened up some opportunities as we feel some names were unjustly punished. The U.S. REITs underperformed the Canadian REITs during the quarter.



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. We continued to reduce our office exposure from 5% to 2%, taking some profits and exiting our position in Brookfield Office Properties. We also made a timely exit of the US high yield mortgage REIT market. We deployed the funds into a mix of Canadian diversified REITs, as well as getting back into Chartwell Senior Housing REIT, which as we reported last quarter, we had sold out of at higher prices.

Our top performing REITs in the portfolio on a year to date basis are Boardwalk REIT, CREIT, and Simon Properties. What makes this interesting is that these are very different asset bases namely, Canadian apartments, Canadian diversified, and US Class A malls. What these three names have in common however is best in class balance sheets. Clearly the market is still very risk adverse, as early in Q4 we are seeing these risks premiums become even larger. We are carefully watching for these risk premiums to peak and have identified several names where the equities are trading at a significant discount to net asset value. Historically there have been buying opportunities at the end of October/beginning of November, so we will be watching very carefully for opportunities to add value to the portfolio, particularly in some of the higher yielding REITs which have underperformed over the last quarter.

As of the end of the third quarter the fund is fully hedged against our US dollar position. Leverage as of quarter-end is 15%. The third quarter has seen increased volatility and we see this as an opportunity for investors to add to the fund. We remain cautious bulls on overall returns for Canadian REITs 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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