



## REPORT TO UNITHOLDERS

Dear Fellow Unitholders,

In this report, we will provide an overview of the returns for the major global indices and how this compares to the performance of the Canadian income trust sector. In addition, we will look at the current status of the income trust market and our expectations for this sector in the future. Also, we will discuss the Trust's performance for 2008 and share our outlook for 2009.

### MARKET OVERVIEW

In 2008, historic declines took place across equity markets worldwide, including the Canadian income trust sector. As seen from the table below, all major global equity indices (including income trusts) suffered double-digit declines in 2008:

	2008 Returns
S&P/TSX Capped Income Trust Total Return Index	(26.1%)
S&P/TSX Composite	(33.0%)
S&P 500	(37.0%)
Dow Jones Industrial Average	(33.8%)
MSCI EAFE (Europe, Australasia, Far East)	(43.1%)
MSCI World	(40.3%)

The decline from the peak of 2008 to the low of the year for the various major North American indices was even more severe:

	Period	Returns (Peak to Low)
S&P/TSX Capped Income Trust Total Return Index	June 2008 - December 2008	(47.5%)
S&P/TSX Composite	June 2008 - November 2008	(49.5%)
S&P 500	January 2008 - November 2008	(49.7%)
Dow Jones Industrial Average	January 2008 - November 2008	(43.9%)



To put this performance in a historical context, all declines over 20% in U.S. stocks are listed below. We use U.S. data as there are 132 years of available data. Including 2008, declines of over 20% have occurred 15 times over the past 132 years or approximately every 9 years. As well, the only decline in the last 132 years larger than that of 2008 was the decline during the Great Depression, which started in 1929.

Period	Returns (Peak to Low)
March 1876 - June 1877	(33.1%)
September 1882 - June 1884	(20.8%)
January 1893 - May 1893	(25.1%)
September 1902 - October 1903	(25.8%)
September 1906 - November 1907	(34.0%)
November 1916 - December 1917	(28.0%)
October 1919 - August 1920	(22.8%)
August 1929 - May 1932	(83.4%)
November 1947 - May 1948	(21.8%)
June 1962 - December 1962	(22.3%)
December 1968 - July 1970	(31.5%)
January 1973 - October 1974	(43.3%)
September 1987 - December 1987	(30.2%)
September 2000 - October 2002	(43.3%)

Source: *The Globe & Mail*

The income trust sector has not been immune to the worldwide decline in equity values. For the major sectors of the Canadian income trust market, returns in 2008 were as follows:

Sub-sector	2008 Returns
Oil and gas royalty trusts	(22%)
Business trusts	(40%)
Oil & gas services <sup>1</sup>	(44%)
Real estate investment trusts (REITs)	(43%)
Power and pipeline trusts	(21%)

<sup>1</sup> Oil & gas services trusts are classified as business trusts for the Brascan SoundVest Funds

Source: *RBC Capital Markets*

All trust sectors posted negative returns in excess of 20%, with power and pipeline trusts having the strongest returns at negative 21%. According to RBC Capital Markets, only 16 income trusts, or less than 9% of its universe of 194 trusts (the RBC Capital Markets trust universe includes trusts on the S&P/TSX Venture exchange and foreign issuers), had positive returns in 2008.

## INCOME TRUSTS – A SECTOR IN TRANSITION

The Tax Fairness Plan for Canadians is now law and income trusts have less than two years remaining before they will be subject to a Distribution Tax beginning in their 2011 taxation year. Effectively, income trusts are viewed as corporations with a tax holiday until 2011.

Since the announcement of the Tax Fairness Plan for Canadians on October 31, 2006, the overall number of income trusts has continued to decrease.

Sub-sector	# of Trusts Dec. 31/06	# of Trusts Dec. 31/07	# of Trusts Dec. 31/08	2006 to 2007 Change	2007 to 2008 Change	2006 to 2008 Change
Oil and gas royalty trusts	31	27	22	(4)	(5)	(9)
Business trusts	168	135	119	(33)	(16)	(49)
REITs <sup>1</sup>	33	27	27	(6)	—	(6)
Power and pipeline trusts	23	19	16	(4)	(3)	(7)
<b>Total</b>	<b>255</b>	<b>208</b>	<b>184</b>	<b>(47)</b>	<b>(24)</b>	<b>(71)</b>

<sup>1</sup> Subject to individual circumstances, REITs are generally not affected by the Tax Fairness Plan for Canadians

The decrease in the number of income trusts has been largely due to the significant number of takeovers, mergers and sales during 2008 as seen in the table below:

	# of Trusts	Market Capitalization Acquired <sup>1</sup>
Takeovers/mergers/sales - Domestic acquirer	(15)	\$ 23.6
Takeovers/mergers/sales - Foreign acquirer	(3)	4.4
Conversions to corporations	(6)	6.7
<b>Total</b>	<b>(24)</b>	<b>\$ 34.7</b>

<sup>1</sup> In billions  
Source: RBC Capital Markets

Domestic acquirers were responsible for the largest number of transactions (15), representing the greatest amount of market capitalization acquired (\$23.6B). According to RBC Capital Markets, the average takeover premium for 2008 was 20% (based on the last close price prior to first offer or announced strategic review).

We anticipate that the number of income trusts will continue to decrease as 2011 approaches. We still expect that many of the businesses will continue to exist as independent entities; however, we expect their legal form to be different. Some trusts may convert back to corporations and retain their cash flow to fund future growth, while others may become high-dividend-paying corporations. As for those trusts that are acquired, these takeovers will likely continue to be done at a premium to their trading price prior to any announcement. We do believe that all income trusts (excluding REITs) will convert to corporations prior to 2013. This is due to the federal government's draft tax legislation released on July 14, 2008, which enables income trusts to convert to corporations on a tax-deferred basis until 2013.

Throughout this ongoing transition in the income trust market, trusts still offer investors some of the highest yields. As seen from the next table, the current income trust market continues to offer investors a diverse group of companies that generate attractive yields. As at December 31, 2008, the average yield for the income trust sector was 14.9%. This is significantly higher than the 4.0% yield offered by the S&P/TSX Composite Index and the 2.7% yield on the 10-year Canada bond. As noted earlier, many of the businesses currently structured as trusts are expected to continue to offer above-average yields both now and beyond 2010.

The income trust market yield profile as at December 31, 2008 was as follows:

Subsector	# of Trusts	Market Capitalization <sup>1</sup>	Average Yield
Oil and gas royalty trusts	22	\$ 43.0	18.1%
Business trusts	119	28.4	14.7%
Real estate investment trusts (REITs)	27	13.8	14.0%
Power and pipeline trusts	16	12.5	13.8%
<b>Total</b>	<b>184</b>	<b>\$ 97.7</b>	<b>14.9%</b>

<sup>1</sup> In billions

Compared to 2007, the number of income trusts decreased by 24 and the overall market capitalization declined by \$78.3 billion. In addition, the average yield has increased to 14.9% from 10.7% in 2007.

Distributions of income trusts are not fixed but tend to vary over time based on the economic performance of the business underlying the income trust and its distribution policy. Though the Tax Fairness Plan will hinder the ability of a trust to maintain its current distribution in 2011, there are approximately two years before the Tax Fairness Plan will be enacted. We believe certain trusts will be able to grow their distributable cash over this period to offset the impact of the new Tax Fairness Plan. From 2004 to 2006, approximately 40% of trusts, each year, have increased their distributions. However, we expect this figure to be lower in the future as trusts continue to adapt to the future Tax Fairness Plan. This can be evidenced by the fact that since the Tax Fairness Plan was announced, less than 22% of trusts increased their distributions during 2007 and only 12% of income trusts increased their distributions during 2008. We would expect that even fewer trusts will increase distributions in 2009 as a result of both a weak economy and the approaching taxation deadline.

	2008	2007	2006	2005	2004
Increased distributions <sup>1</sup>	12.0%	21.2%	39.2%	44.9%	38.3%
Maintained distributions <sup>1</sup>	57.6%	57.7%	45.1%	46.6%	52.0%
Decreased/omitted/no distribution <sup>1</sup>	30.4%	21.2%	15.7%	8.5%	9.7%

<sup>1</sup> Based on announcement date

A number of income trusts are strong businesses, are run by experienced management, and possess attractive economics. Many have managed to grow their distributable cash and have increased their distributions in the past. We are confident that the strongest trusts will continue to perform well in the future and will provide attractive long-term investment opportunities if purchased at reasonable prices.

## TRUST PERFORMANCE

The Trust was formed to actively manage a diversified portfolio of selected income trust securities from four primary sectors: business trusts, power generation and pipeline trusts, oil and gas royalty trusts, and REITs. We invest in trusts in each of these four sectors that we believe are capable of generating high-quality cash flows with minimal sustaining capital requirements and that have the potential to appreciate in value.

For the year ended December 31, 2008, the Trust's published net asset value per unit of the capital units, which is used for purchases and redemptions, was \$0.00, resulting in a total return for the capital units, including distributions, of negative 89.0%. The combined net asset value (the "Combined Net Asset Value"), which refers to the value of a capital unit and a preferred security of the Trust, was \$16.76 at December 31, 2007 and decreased by 49.7% during the year to \$8.43 at December 31, 2008. During the same time frame, the S&P/TSX Capped Income Trust Total Return Index lost 26.1%. The decrease in the Combined Net Asset Value of the Trust was greater than the decline in the Index largely due to the Trust's overweight position in business trusts, which comprised approximately 33% of the Trust's total portfolio at December 31, 2008 compared to 20% for the Index. Business trusts and REITs were among the worst-performing sectors for 2008 with returns of negative 40% and negative 43%, respectively, according to RBC Capital Markets trust sector returns.

The Trust's split-share structure results in structural leverage for the capital units. The amount of structural leverage of the capital units is based on the ratio of the Trust's total portfolio over the net asset value of the capital units. At December 31, 2007, the structural leverage of the capital units was 2.6 times. The result was that every 1% change in the Trust's total portfolio would change the value of the capital units by 2.6%. The magnitude of this structural leverage increases exponentially as the net asset value of the capital units decreases. As at September 30, 2008, the leverage of the capital units was 4.1 times. The result was that every 1% change in the Trust's total portfolio would change the value of the capital units by 4.1%. Therefore, the negative 49.7% return for the Trust's total portfolio, combined with the structural leverage of the Trust, resulted in the net asset value per unit of the capital units being reduced to \$0.00.

We have taken steps aimed at restoring value for the capital units. On February 9, 2009, we announced that the Toronto Stock Exchange had accepted our Notice of Intention to make a normal course issuer bid. The Trust will have the right under the bid to purchase for cancellation up to 284,127 capital units and 284,127 preferred securities of the Trust, representing 5% of the 5,682,543 capital units and 5,682,543 preferred securities issued and outstanding as at January 29, 2009.

In accordance with the Trust's declaration of trust and trust indenture, any capital units purchased for cancellation will be accompanied by the Trust repurchasing an equal number of preferred securities, and vice versa. Purchases may commence on February 11, 2009, and will terminate on February 10, 2010. The Trust will not purchase in any given 30-day period, in the aggregate, more than 113,651 capital units and 113,651 preferred securities, being 2% of the issued and outstanding capital units and preferred securities as of the date hereof. Purchases made pursuant to the normal course issuer bid will be made in the open market through the facilities of the Toronto Stock Exchange. The price that the Trust will pay for any such shares will be the market price of such shares at the time of acquisition.

We are of the opinion that capital units and preferred securities of the Trust may become available during the proposed purchase period at prices that would make such purchases in the best interests of the Trust and its securityholders. As at March 24, 2009, 8,400 capital units and 8,400 preferred securities had been purchased under the bid. The Trust has not previously purchased its capital units or preferred securities under a normal course issuer bid.

For the twelve months ended December 31, 2008, the Trust generated net realized losses of approximately \$13.0 million. This was largely due to liquidating the Trust's positions in Newport Partners Income Fund, Petrowest Energy Services Trust, XS Cargo Income Fund, and BTB REIT for losses of \$7.5 million, \$3.4 million, \$1.1 million, and \$0.9 million, respectively. All positions were liquidated due to the deteriorating business prospects of these entities.

#### **Distributions**

The Trust declared and paid monthly distributions in 2008 at its targeted monthly rate of \$0.084 per unit for the first nine months of the year for its capital units. On October 23, 2008, the Trust announced that it had suspended its distribution on its capital units for the month of October in accordance with its Declaration of Trust, as the Trust's net asset value was below the required 1.4 times coverage ratio. The Trust also subsequently suspended its distribution on its capital units for each of the months of November and December 2008, as the Trust's net asset value continued to be below the required 1.4 times coverage ratio. The Trust has been unable to make distributions on its capital units to date in 2009 and will continue to monitor its net asset value per capital unit to determine if it will be able to make monthly distributions in the future.

#### **Redemptions**

On October 23, 2008, the Trust also announced that it was temporarily suspending the annual redemption rights that would have arisen in November 2008 for both its capital units and preferred securities. The Declaration of Trust provides for the suspension of redemptions when the 1.4 times coverage ratio cannot be maintained. The Trust is continuing to monitor its net asset value to determine if and when it will be able to resume redemptions.

## **OUTLOOK**

---

We expect the income trust sector to continue to transition until 2013. Until the income trust sector becomes taxable starting in 2011, we believe the high level of acquisitions and strategic-review activity will continue. Income trusts will continue to convert to corporations, and the overall number of income trusts is expected to continue to decrease. By 2011, we expect most income trusts (with the exception of REITs) to convert to

corporations, with the balance converting by the end of 2013. We continue to evaluate the Trust's investment strategy in light of the changes in the income trust sector.

In the meantime, we believe that income trusts offer an attractive opportunity for investors searching for yield and value. Not only does the sector offer a significantly higher yield at 14.9% versus the TSX Composite at 4.0% or the 10-year Canada bond at 2.7%, but specific company valuations have become more attractive over the past year as a result of the large decline in equity prices.

We continue to believe that the Trust's holdings of income trusts are run by quality management and possess attractive business economics. Over the long term, for any equity investment – whether it is legally constituted as a corporation, a trust, or another legal form – we believe it is the business performance of the entity that will determine the success of the investment. We will continue to monitor the business performance of the Trust's investments and will continue to adapt to the changing income trust environment.

Thank you for your continued support of our Trust.



George E. Myhal  
*On behalf of the Manager*



Kevin Charlebois  
*On behalf of the Investment Advisor*

March 24, 2009

**Caution Regarding Forward-Looking Statements**

*The Report to Unitholders and Management Report of Fund Performance contain forward-looking information within the meaning of Canadian provincial securities laws and other "forward-looking statements" and information. The words "anticipate," "expect," "continue," "likely," "believe," "may," "plan," "expect," "aim," "will," "potential," "should," "seek," and other expressions which are predictions of or indicate future events, trends or prospects and which do not relate to historical matters, identify forward-looking statements. These forward-looking statements include, among others, statements with respect to the future performance of the income trust sector and particular trusts, the likelihood of income trust conversions to corporate structures, the ability of certain trusts to increase their distributable cash, acquisition trends in the income trust sector, Trust annual distribution targets and portfolio weightings, future performance of Oil and Gas Royalty Trusts, future positioning of the Trust, income trust yields and distribution levels in the future, and other statements with respect to our beliefs, outlooks, plans, expectations and intentions. Although the Manager and Investment Advisor believe that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Trust to differ materially from anticipated future results, performance or achievement expressed or implied by such forward-looking statements and information. Factors that could cause actual results to differ materially from those set forward in the forward-looking statements or information include: general economic conditions; changes in interest and exchange rates; changes in legislation or practices governing the income trust sector; and other risks and factors described from time to time in the Trust's Prospectus, Annual Information Form and other documents filed by the Manager with the securities regulators in Canada. Except as required by law, the Manager undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise.*