



On October 31, 2006 Jim Flaherty, Minister of Finance, announced the introduction of the Tax Fairness Plan for Canadians.

Central to this initiative is a tax on distributions from publicly traded income trusts and limited partnerships. The distribution has been designed to equalize the tax obligations between income trusts and corporations.

The initiative also includes a number of tax concessions to aid pensioners, many of who rely on income trusts for a predictable retirement income stream. Yet it is clearly the closure of the income tax loophole that was central to this initiative.

While the announcement was a surprise to all, it only applies to new income trusts that begin trading after October 31, 2006. For existing income trusts, there is a four-year transition period with the new rules not taking effect until the 2011 tax year.

This change in the way that income trusts are taxed will effectively level the playing field between corporations and income trusts. Moreover, the Government has also announced a reduction in corporate taxation to 18.5% by the 2011 tax year.

### **Oil Sands Sector Fund**

We would first like to note that according to advice received from tax counsel, the Government's announcement will not result in any new taxation at the Fund level.

The Government's announcement has however, negatively impacted the portion of the Fund's portfolio that is invested in income trust securities. As of October 31<sup>st</sup> the Oil Sands Sector Fund had approximately 35% of its portfolio in income trusts, which initially resulted in a two day decline in unit price of approximately 9.0%. The unit price has subsequently recovered and is now down just 3.6%.

We believe this is a one-time event and that the market decline we have seen has effectively discounted the effect of the future tax changes to income trusts. Additionally, the four-year tax holiday on income trusts should ensure that over the short term, the cash flow to the Fund (and therefore its ability to maintain its distributions) should not be materially impacted.

The Fund will continue with its strategy of investing in high quality companies with attractive valuations and significant growth potential, rather than focusing solely on the yield or tax structure of the business.

Charles Oliver, the Portfolio Manager for the fund commented that “The market was obviously caught off guard by the new tax policy announcement on income trusts. Because of the change in tax structure, we have seen a significant drop in the sector as evidenced by the more than 12% decline in the S&P/TSX Capped Income Trust Index.

Prior to market opening, analysts on the street expected the new tax policy would impact income trusts by about 10% to 25%, which is what we have seen many companies within the sector fall in value by today. We expect there will be continued volatility in the income trust space for near term.

Given the events in the market place today, we have made some minor changes to the portfolio to better position the fund going forward. We will continue to closely monitor the market’s reaction to the announcement and expect that further adjustments to the portfolio will be made as opportunities become available.”

*Note/Disclaimer:*

*Certain statements included in this Management Discussion of Fund Performance and Portfolio Manager’s Report constitute forward-looking statements, including those identified by the expressions “anticipate,” “believe,” “plan,” “estimate,” “expect,” “intend” and similar expressions to the extent they relate to the Fund. The forward-looking statements are not historical facts, but reflect the current expectations regarding future results or events of the Fund. These forward-looking statements are subject to a number of risks and uncertainties that could cause actual results or events to differ materially from current expectations. The Fund has no specific intention of updating any forward-looking statements whether as a result of new information, future events or otherwise.*

*Certain research and information about specific holdings in the Fund, including any opinion, is based on various sources believed to be reliable but it cannot be guaranteed to be current, accurate or complete. It is for information only, and is subject to change without notice.*